Forty One Years of Independent Information and Investment Experience on the Australian and NZ Stockmarkets

Market Analysis

Issue No. 624-Update www.stockmarket.co.nz June 17, 2024

June 2024 Australian Tax Loss Selling Update

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

This can offer both a short term trading opportunity (i.e. buy depressed shares in June and sell in August) and depressed June prices could also be a good time to buy attractive shares as long term investments.

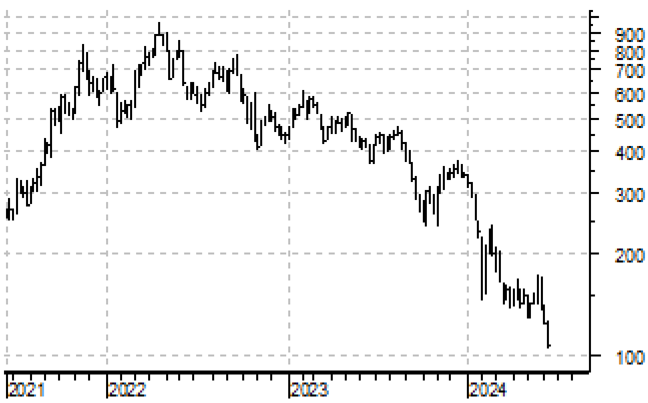
We ran a scan of all listed Australian shares using the following criteria: (1) the shares have fallen at least 60% from their annual highs (i.e. investors may have large unrealised capital losses, making these "tax loss" selling candidates), (2) a market capitalisation less than $1000 million (although many are much smaller) and (3) no net *insider* Sell trades over the last year (i.e. either net buyers or no trades).

The list of shares that had fallen the most (i.e. down more than 80% from their annual highs) was dominated by Lithium companies. On the positive side the whole Lithium sector may be depressed in value but *insiders* are still positive. On the negative side (1) there a LOT of Lithium exploration companies (i.e. potential future supply growth), (2) mainly early stage explorers with little cash (that will need to keep raising capital) and (3) Lithium seems doomed to boom/bust pricing cycles (as we have discussed perviously). So that didn't leave us very excited and we have included no Lithium exploration companies in our selection.

Another 70 or so shares meeting the above criteria were down 60-80% from their annual highs. That list included more Lithium explorers, other mineral explorers, medical research businesses in need of "critical care" to stop their cash bleed, high debt companies and micro-cap companies with little or no assets and little or no businesses.

We finally selected just five companies, small to mid-cap (i.e. $79-421 million capitalistion) companies, whose shares are actively traded: Two energy companies, two technology companies and a labour hire company.

Calix Ltd (code CXL)



Your Editor cannot understand why climate activists are so obsessed with replacing ICE vehicles with EVs. Cars create 10% of CO_2 emissions . . . but from 1.5 *billion* individual vehicles worldwide. That is *thousands* of dollars per "upgrade" multiplied by 1.5 billion units to change the whole vehicle fleet. Then you need to invest a few more dollars in EV charging networks and upgrading the electricity grid to bring more power to everyone's home. If you charge vehicles with electricity from coal fired power stations then CO_2 emissions don't decline, just move. And this is a *slow* solution, taking at least 30 years. It also requires a massive quantity of critical materials.

On the other hand, 8% of global CO_2 emissions come from just 3500 lime and cement factories . . . and 7% of CO_2 emissions come from only 550 steel plants. So just one green steel mill is equivalent to three *million* EVs!

Tackling these industrial processes should be a "better, faster, cheaper" way to reduce emissions. This is what Calix Ltd is seeking to do!

Heating limestone to produce lime or cement gives off CO_2 as part of the chemical reaction . . . but this could be captured at the plants. Heating is usually produced by burning coal or gas (with further CO_2 emissions) but could be replaced by clean electricity. Calix's 93% owned **Leilac** subsidiaries are seeking to commercialise this type of technology. It has licenced its technology to **Heidelberg Materials** which is building its first plant. It has announced three full-scale projects for **CEMEX** in Germany, Poland and the US.

Steel making converts iron oxide and carbon to iron and CO_2 - which again could be captured at the small number of plants - or the carbon can be replaced with hydrogen (produced from clean electricity) through "Direct Iron Reduction". Coal is traditionally burnt to provide heat but again that could be replaced with clean electricity. Calix has developed a *Zero Emissions Steel Technology* (ZESTY) and will build a small 30,000 tonnes per annum demonstration plant.

The company is also involved in many partnerships, including the production of Methanol (from captured CO_2) and a value-adding (and emission reducing) Lithium processing JV with **Pilbara Minerals** (45% owned by Calix, which is providing only 20% of the funding). Many of these ventures are receiving government grants.

The company would prefer to licence its technologies in return for on-going licence fees (and no up-front capital investment) but several projects are JVs where the company needs to finance part of the initial capital investment (and the JV partner may buy them out later when the technology is proven).

The company listed after an IPO in July 2018 and recently raised a further $81.6 million (i.e. $60.0 million in a share placement and $21.6 million in a *Share Purchase Plan*) at 455 cents per share in October 2022.

It currently has cash of $47.8 million (26.4 cents per share) and just $0.8 million of debt. The issued capital is 181.2 million shares, giving a market capitalisation of $195 million.

The company is still unprofitable, with revenues of $18.6 million in the year to June 2023 and a *loss* of $23.2 million. This is mainly owing to a large $14.5 million expenditure on Research & Development. The cash operating *deficit* was $17.2 million.

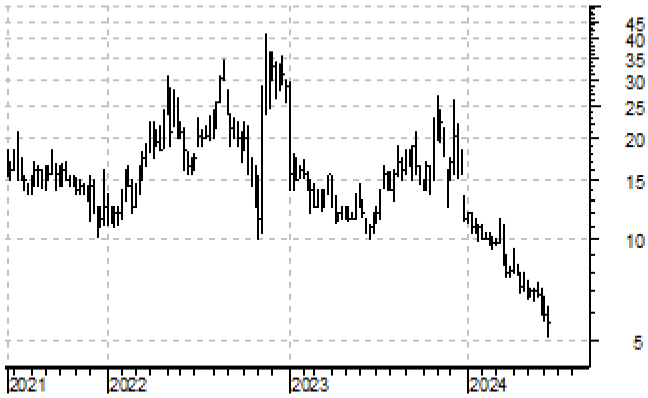
The shares peaked at 965 cents in April 2022 and have since fallen 89% in value.

The directors own 7.2% of the company and there have been three *insider* Buys over the last year - all very recently. A director bought 50,000 shares at 173 cents in March 2024 and a second director bought 10,000 shares at 149-150 cents in April and 10,000 shares at 135 cents in May.

This company potentially meets our "better, faster, cheaper" Buy criteria so could be considered for long term investment, although it is currently unprofitable with cash deficits. It has significant cash in the bank and ultimately seeks a capital-light business model (i.e. where clients finance the capital expenditure) with recurring licencing revenues.

Short term the shares hit a new low last Friday and could remain depressed over the next two weeks with a bounce in late July and early August.

Invictus Energy Ltd (code IVZ)



Invictus Energy has discovered (and has an 80% interest in) one of the largest untested gas basins in Southern Africa.

There is a significant energy shortage in the region and the most likely markets will include on-site gas to electricity generation (via a 500-1000MW gas to power agreement with **Tatanga Energy**), Petrochemical and Fertiliser feedstock, Industrial power and small scale LNG or CNG deliveries to mining operators (i.e. replacing off-grid diesel, with a 40% cost saving and lower emissions).

Invictus Energy is seeking upstream JV project partners to help develop this project as well as "offtake pre-payments" from downstrean customers seeking "secure preferential supply".

The company will undertake further appraisal and exploration (with refinements expected to lower well costs by 40%), then a Phase One Pilot Development (to gather flow rate and reservoir data) with gas to power generation and early cashflows. Phase 2 will expand gas-to-power to supply anchor customers. Phase 3 will expand to pipe gas to downstream markets.

Phase 1 pilot gas production will supply gas to produce 12MW of power (increasing to 50MW) on-site which will be supplied to the **Eureka Gold Mine** in Zimbabwe. This will "deliver early cashflow" and "reduces the need for dilutionary capital raising and facilitates senior debt procurement" while providing a "proof-of-concept" and "gathers long term dynamic reservoir information" plus "allows time for large scale infrastructure build out to deliver gas to end users".

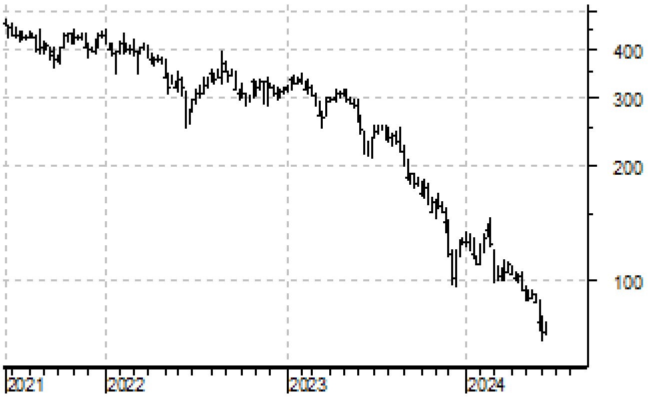
The issued capital is 1417.9 million shares, which at 5.6 cents gives a market capitalisation of $79 million.

A 1 for 13 cash issue at 13 cents in January 2024 raised $15.2 million. Cash in the bank is currently $8.5 million (0.6 cent per share). Clearly the company will need more capital, but likely has a very large gas resource and a staged development strategy aimed at minimising dilution.

Directors own about 6% of the company (and a further 2.7% as "performance shares"). There was one *insider* Buy, with 444,444 shares bought in July 2023 at 12 cents.

The shares peaked at 41 cents in November 2022 and at 5.6 cents are down 86% - perhaps driven by year end tax loss selling? This could be a good long term investment *and* will likely bounce up in value in late July/early August.

PeopleIN Ltd (code PPE)



As investors, the one thing we can't resist is a boring company, with a depressed business, whose shares are trading at a low valuation. So let's talk about PeopleIN Ltd.

This is a labour hire company in the areas of Healthcare (i.e. nurses and personal carers), Professional (i.e. permanent recruitment and advisory/consulting services in technology, accounting, finance, business and IT) and Industrial & Specialist Services (construction, manufacturing, food, etc).

The year to June 2023 saw revenues up a not so boring 73.8% to $1,186.4 million - 92% of which goes on employee benefits. The net profit was up 7.2% at $18.9 million (18.8 cents per share). The annual dividend was 14.0 cents.

Cash was $39.9 million and trade receivables $120.3 million. Interest bearing debts were $113.1 million and trade payables $66.6 million. Intangible assets - mainly goodwill on businesses acquired - was $203 million. That exceeds Shareholder Equity of $156.6 million so there is a <u>negative</u> net assets of $46.6 million.

That is all mildly concerning - but not uncommon for this type of business.

The current year is more difficult. Half year revenues to December 2023 were up 1.0% at $602.7 million but in lower margin work resulting in a 61.8% drop in net profits to $5.3 million (5.2 cents per share). The interim dividend was cut 57.1% to 3.0 cents per share.

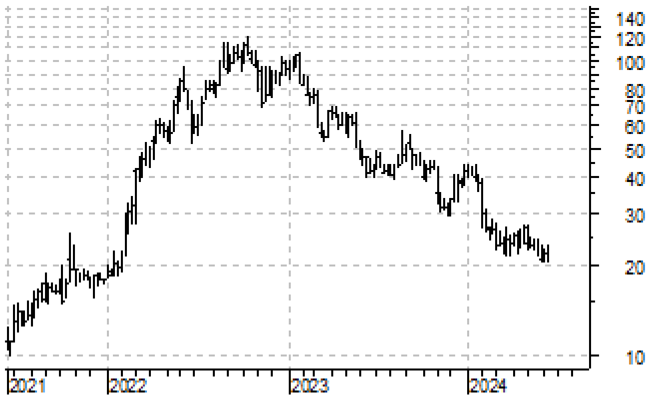
Issued capital is 104.5 million shares which at 78 cents gives a market capitalisation of $79 million. Directors own 7.9% of the shares. There were five *insider* Buys over the last year, July 2023 at 217-233 cents, September at 202 cents, December at 95-96 cents and at 106 cents and in April at 102 cents.

The shares trade on a historical Price/Earnings ratio of just 4.1 and a Dividend Yield of 17.9%. Even if profits and dividends are 60% *lower* this year that is a P/E of 10 and Yield of 7.2%. The company believes this is just a normal cyclical downturn and that the business will recover next year.

Mr Market is discounting the share price for the current downturn. That is normal but often cyclical shares get priced to extremes of over- or under-valuation. PeopleIN shares were removed from the All Ordinaries Index in March, which can contribute to further down-rating of the share price.

Tax loss selling may also be contributing in June, but this *may* be the low in the cycle with a bounce possible in July/August.

Terracom Ltd (code TER)



Terracom Ltd is a debt-free coal mining company distributing most of its earnings as dividends.

Earnings - and dividends - have, of course, been volatile with fluctuations in the price of coal.

For the year to June 2023 the company paid quarterly dividends totalling 23.5 cents (72% of net profits). That was more than the current share price of 21 cents.

Profits are lower in the current financial year, with no dividend being paid for the September 2023, December 2023 or March 2024 quarters so far this year! Cashflows have been used to pay outstanding 2023 income taxes.

The half year to 31 December 2023 shows revenues down 67% at $141.3 million - mainly owing to lower coal prices - and net profits down 82% at $31.7 million (4.0 cents per share). There was a net operating cash *deficit* of $3.9 million, but that was after paying $24.0

million income tax relating to the 2023 result (with a further $48.4 million payable, of which $9.2 million relates to the half year).

It may take another 6-12 months to pay down the income tax liability, but even at today's low coal prices the company can produce earnings of around 8 cents per share. That low coal price would support a long term dividend payout of 6-8 cents per share, yielding 30-40% and potential upside in dividends (and the share price) if the coal price recovers.

The company owns 100% of the *Blair Athol* mine in Australia and 49% of three South African mines, *New Clydesdale Colliery*, *North Block Complex* and *Ubuntu Colliery*. These each have at least a five year mine life.

The issued capital is 800,966,235 shares, so a share price of 21 cents gives a market capitalisation of $168 million.

The directors own 2% of the company and there was one large *insider* Buy in March 2024 when the Non-Executive Chairman purchased 1,500,000 shares at 23-24 cents to lift his holding to 10.5 million shares.

This is a potential medium term *Contrarian* investment (i.e. buy when the commodity price and share prices are low and, of course, *everyone* hates coal miners) but it also looks over-sold and could bounce higher when potential June tax loss selling ends.

Weebit Nano Ltd (code WBT)

Founded in 2015 - based on research in Israel and France - Weebit Nano is an Australian company developing *Weebit ReRAM* "Advanced Non-Volatile Memory" (NVM) which is now about to enter production and start earning initial licence fees and on-going royalty income from chip foundries and integrated device manufacturers.

Since October 2023 two foundries have been licensed and will be able to start offering *ReRAM* on chips to their customers.

Embedded NVM is a new memory technology that "can be scaled beyond the present limits of SRAM and FLASH". Flash memory has reached the limits of its development. Weebit Nano claims *ReRam* is 100 times more energy efficient, 100 times faster and will last 100 times longer than flash memory. It will also be cheaper, use less materials, use "ultra-low power" and can be made smaller (i.e. proven at 28nm and 22nm, although the first mass production will be 130nm - or 130 billionth of a metre).

This technology will be very useful for the *Internet of Things*, *Artificial Intelligence* and in the *Automotive* industry, plus just about everything else. The company expects the emerging "embedded NVM market to reach US$2.7 billion by 2028" and for "ReRAM to represent a 37%" market share.

The company raised a further $60 million in April 2023 from a share placement and *Share Purchase Plan* at 500 cents per share.

For the year to June 2023 the company had no revenues and a net *loss* of $39.0 million, with a net operating cash *deficit* of $20.3 million.

In the half year to December 2023 the company recognised its first small licencing revenue of $153,258. A second licence fee of $293,055 will be recorded as revenue once it has completed its performance obligations. Most revenues are expected to come from royalties on sales of chip incorporating the *ReRAM*. The *loss* was $25.2 million with a cash operating *deficit* of $16.4 million.

The March quarter shows a much lower cash operating *deficit* of $3.5 million and cash in the bank of $67.8 million (35.9 cents per share). There is no debt.

The issued capital is 188,786,129 shares which at 223 cents gives a market capitalisation of $421 million.

Directors own 1.3% of the company, with one *insider* Sell in April at 340 cents and one Buy this month at 246 cents.

Weebit Nano still has no meaningful revenues but has reached the commercialisation milestone of licencing its technology to chip manufacturers who will be able to offer this technology to their customers. This will now start to build a recurring royalty stream.

Existing cash should fund this business through to it becoming cashflow positive.

So why are the shares trading at a two-year low? We know better than to ask *Mr Market* that question! Perhaps tax loss selling - from investors who bought in the April 2023 capital raising at 500 cents - has contributed to recent weakness. Perhaps we should just quietly load up on Weebit Nano shares at a two year low before someone points out this is an AI enabling technology business (i.e. like **NVIDIA**).