Switzer Super Report
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5 floats to watch

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The float pipeline at the Australian Securities Exchange (ASX) continues to swell, presenting investors with new opportunities all the time.

While there is an unavoidable level of risk in new initial public offerings (IPOs), as evidenced by recent floats such as dried fruit producer Murray River Organics – which is down 52% on its issue price after revealing that it will miss its prospectus forecasts – and auto parts company Automotive Solutions Group, which has lost 63% of its value in its first five months on the ASX, having posted a major earnings downgrade and seen its CEO depart, investors like the opportunity of getting into potential good performers at the ground floor.

Here are five interesting non-resources float opportunities in the market at present.

Oliver's Real Foods

Oliver's Real Foods is a fast-food chain with a difference: it describes itself as the world's first certified organic fast food chain. At its 21 stores on Australia's major eastern seaboard highways, Oliver's Real Food serves fresh, steamed or grilled food, which is free of additives, preservatives and artificial ingredients, to more than two million customers a year.

Founder Jason Gunn was inspired to deliver healthier roadside fast food choices, along with nutritional information. The organic range has been extended to gluten-free, dairy-free and vegan options. Oliver's supports its restaurants through has three distribution centres at Wyong, Brisbane and Melbourne, dedicated central kitchens, loyal suppliers and its own proprietary OliVerse technology system. The company says it has 5% of the $1 billion arterial highway service centre fast-food market.

Oliver's aims to have 60 company-owned stores running along the nation's highways, from Adelaide to Cairns, over the next four years. Sales have been growing at an impressive double-digit rate for five years, with revenue tipped to reach more than $28 million this financial year, yielding normalised operating earnings of $823,000.

Proceeds from the share offer will be used to fund the acquisition or development of new stores already identified along the New South Wales, Victorian, Queensland and South Australian highways. Oliver's is looking for up to $15 million, but says its store roll-out plan is achievable with the minimum $9 million subscription. The company is also looking to buy back its remaining seven franchised stores.

Oliver's Real Foods is raising up to $15 million through the issues of shares at 30 cents, and would be valued at listing at up to $49.7 million. Oliver's does not intend to pay dividends immediately, but says it will pay dividends when its board decides that the company is sufficiently profitable and cash-flow positive, after taking into account the capital required for the continued expansion of the Oliver's store network.

Oliver's Real Foods is expected to list by mid-June. Veritas Securities is acting as lead manager. The company looks to have good growth prospects, standing out in its market segment as the healthiest alternative, and riding the growing popularity of healthier eating.

Eagle Health Holdings

Chinese company Eagle Health Holdings makes a range of health and nutrition products including protein powder, throat lozenges and vitamins at its manufacturing base in Xiamen in south-east China, selling into most of the country's provinces. It wants to source Australian products to add to its range, looking to capitalise on the same "clean and green" perceptions of Australia that helped to drive growth in China of Australian vitamins brands Blackmores and Swisse.

Eagle Health, which is chaired by former Federal Sports and Tourism Minister Andrew Thomson, is looking to raise up to $30 million in fresh capital and list on the ASX, where it would be capitalised at $130 million at its maximum raise. The company is offering up to 75 million shares to new investors at 40 cents.

Eagle Health operates from a 28,000 square-metre manufacturing and warehousing facility in Xiamen. It sells its products through pharmacies and trading companies, and has a large presence on online platforms such as Tmall, Alibaba and JD.com. The company has 18 patents and 50 trade marks in China.

Eagle Health makes 24% of its annual sales from amino acid liquids, which Chinese people take to enhance their immune systems, and 23% from its range of protein powders. Throat lozenges account for 19% of sales, with vitamins and minerals supplements representing about 5%. A range of other products including ginseng, dietary fibre, herbal teas and edible bird's nests make up the balance.

According to the prospectus, Eagle Health generated revenue of $84.2 million in calendar 2016, up from $72.5 million in 2015. From that it earned net profit after tax of $15.9 million, up from $14.0 million in 2015. Its net profit margin was 18.8% in 2016, down from 19.3% a year earlier.

Eagle Health offers investors exposure to the strong long-term fundamentals of the health supplements and nutrition sector in China, through a powerful distribution platform. China's growing consumer wealth is being accompanies by a greater awareness of overall wellness, and this should lead to ongoing growth for Eagle Health. The company has a long and solid earnings track record, and expects to pay a minimum of 10% of its net profit as a dividend. The offer closes on 31 May and the shares are expected to list on the ASX on 14 June. The lead manager is Melbourne corporate finance firm Beer & Company, and corporate adviser is IDC Capital.

CyberGym

There has been a rush of Israeli companies on to the ASX in the last couple of years, and a mini-rush of cyber security companies to list – and CyberGym is involved in both.

CyberGym bills itself as the global leader in cyber-defence solutions and training for financial organisations, critical and sensitive governmental, infrastructure and production companies. The company offers clients comprehensive IT security services and real-world cyber defence training, on the basis that an organisation's personnel are, if not trained this way, the weakest link in its cyber-defences: CyberGym places staff in simulated cyber-attack situations and coaches them on how to respond.

The company has impressive credentials: its founder and chief executive, Ofir Hason, was formerly the head of the Israel Shin Bet security agency's cyber unit. CyberGym is a joint venture of Israel Electric Corporation and CyberControl, Israel's leading cyber-security consultancy, established by ex-NISA (Israel's National Security Authority) operatives and security experts.

CyberGym is forecasting gross profit of $10.1 million for 2017, rising to $14.3 million for 2018. EBITDA (earnings before interest, tax, depreciation and amortisation) is estimated at $3.1 million this year, and $5.8 million next year.

CyberGym is targeting a $30 million raising, and an initial ASX market capitalisation of $80 million. The company will also move its global headquarters to Melbourne. Bell Potter is lead manager on the initial public offering.

Quick Service Restaurant Holdings

Also in the fast food market – and in fact a competitor of Oliver's Real Foods – is Quick Service Restaurant (QSR), the largest Australian owned quick service restaurant operator. QSR operates three brands: Red Rooster (360-plus restaurants), Oporto (160-plus restaurants) and Chicken Treat (60-plus restaurants). The company backs this with a central corporate operation handling intellectual property, restaurant operations, supply chain, franchising, IT, marketing, store design and construction, food innovation, and customer satisfaction.

QSR is owned by private equity firm Archer Capital, which bought it from Quadrant Private Equity for $450 million in 2011. Archer could be floating the company for $500 million, but is considered likely to keep an equity stake: investors buying floats from private equity are very keen to see this, as some private equity floats – think Dick Smith, Spotless and Myer – have proven very disappointing for retail investors in recent memory.

Just under two-thirds of QSR's sales come from Red Rooster, which generated $477 million in revenue in the 2015-16 financial year. The company believes home delivery – which currently represents 10% of Red Rooster's sales – is its major growth area: it reckons it can boost that proportion to the kind of levels that Domino's Pizza has, at about 50%.

Goldman Sachs and Morgan Stanley are handling the share sale, which is being marketed to institutional investors at the moment: plans for the retail component of the sale have not yet been revealed.

Freestyle Technology Limited

Macquarie Group-backed Freestyle Technology works in specific technology for the Internet of Things (IoT), the term used to describe the increasing connectedness of machines and devices, monitoring each other, swapping and processing information in real time – and generating 'big data' for humans to analyse. This mega-network of devices and machines, which can be controlled by apps from anywhere in the world, is only just getting started, but is increasingly spoken of as nothing short of the next industrial revolution.

Even diluting the hype accordingly, it seems fairly clear that the IoT will start to pervade our lives in the near future. Freestyle Technology is in the thick of it already, deploying IoT solutions in the water, gas, electricity markets, street lighting, waste management, healthcare, agriculture and markets, particularly in the Asia-Pacific region.

The company holds 32 patents with another 50 pending. It has already secured major contracts in Taiwan and China for utility services including data collection, remote automated meter management, billing, pressure management and leak detection.

Last month, Freestyle signed a $5.8 million contract with the South Korean province of Gochang for smart water meters and a management platform. The contract will cover 24,000 households by the end of the year. Freestyle's machine-to-machine technology will allow the smart water meters in Gochang province not only to detect a water leak, but determine how to fix it based on the external environment and temperature. The meters will also alert council workers of any unexpected occurrences in the system, for example if an elderly person has not used their water for two days, they will receive an alert and someone will go and check on them.

The precise timing, valuation and size of Freestyle's capital raising is not yet known, but it is likely to be in the second half of the year, with the funds to be used to accelerate its growth across Asia-Pacific and in particular, to launch into the Indian market.

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