Rare earths, biotech and small caps: Fundies' uncut gems

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Rare earth explorers, biotech companies and small-time lenders were the undiscovered stocks that made investors the richest in 2024, vying for investor attention in a year dominated by the big four banks trade.

The Australian Financial Review's Fundie Q&A column featured 50 portfolio managers last year and while much of the sharemarket's gains were powered by the ASX's largest stocks, some more speculative ideas also proved capable of huge returns.

Firetrail Investments' Matthew Fist was the most-read Q&A last year; he tipped ASX-listed energy company LGI as his under-the-radar stock to watch.

From left: Firetrail Investments' Matthew Fist, Antipodes' Vihari Ross, Wilson Asset Management's Oscar Oberg and Prime Value's Leanne Pan. ***Eamon Gallagher, Louise Kennerely, Louie Douvis***

He told this column that he expected LGI to triple the size of its business in the next few years based on the company's contracted pipeline and its entrance into adjacent energy markets.

"As Australia decarbonises, a huge build-out of storage capacity is required to provide system stability, and only a fraction of this is under construction, such as Snowy 2.0," Mr Fist said. "We estimate a gap of about 50 gigawatts that will require over $100 billion of investment, much of which will come in the way of batteries. LGI is particularly well-placed to capitalise on this," he said.

The stock surged almost 49 per cent to $2.98 on the last day of trading in 2024.

NAOS Asset Management's chief investment officer, Sebastian Evans, pitched Urbanise.com, a strata management software business with a market capitalisation of just $27 million. Mr Evans said Urbanise's revenue was "highly recurring" with very little churn.

"If revenue growth rates increase, we believe it can lead to a significant re-rating as the market begins to understand the opportunity in strata management and the disruption that may occur," he said.

So far, so good. Urbanise jumped 46.7 per cent to finish the year at 44¢ apiece.

Electrification megatrend

Rare earths fell out of favour with the slowdown in demand for electric vehicles and the commodity's strong ties to China amid a softening outlook for the world's second-largest economy.

Even so, Pengana's Jeremy Bendeich was bullish enough to bet on a pickup in the minerals required for EVs, wind turbines and robotics. He said ASX-listed Brazilian Rare Earths had the potential to be [the largest and richest rare earth reserve globally]. The lithium play rallied 24.9 per cent to $2.36.

The electrification megatrend was also behind Antipodes portfolio manager Vihari Ross' pick, Shanghai-listed Nari Technology, a maker of grid components fetching an attractive valuation.

"As renewables and the build-out in ultra-high voltage infrastructure grows, Nari's solutions will be in high demand. Its earnings can grow mid-high teens per annum, and it's priced at 20 times forward earnings – an attractive multiple given the resilience of the business and its long-duration growth profile," she said.

Nari Technology rose 14.1 per cent to RMB25.22 ($5.56).

Child's play

In Wilson Asset Management Capital's esoteric portfolio of stocks, Oscar Oberg tipped childcare operator G8 Education to have 50 per cent upside in its shares within the next two years.

He said under the direction of chief executive Pejman Okhovat and the company's renewed focus on occupancy, G8 could achieve 10 to 15 per cent organic earnings per share growth annually over the next five years.

"G8's valuation of 12 times on a 12-month forward price to earnings multiple is cheap, and we think this strong level of organic growth can allow the share price to rerate higher," Mr Oberg said.

Antares Equities' Andrew Hamilton.

G8 shares had a 10.6 per cent annual return finishing at $1.30.

Antares Equities' Andrew Hamilton named ASX-listed biotech stock Immutep as a probable M&A target. He said the company's drug Efti had "enormous" potential.

Immutep rose 7.4 per cent to 36¢ apiece.

Resources fund manager Guy Keller liked uranium producer Boss Energy, despite elevated short interest in the sector having dragged ASX uranium names lower.

"When those shorts move on to another commodity thematic, all the ASX-uranium stocks will play catch-up to their US peers," he said. "Trading on a price to net asset value multiple of roughly 0.50 times when it should be closer to one times, it sits alongside advanced development projects on greenfield sites, which means it is undervalued," Mr Keller said.

The shorts had their feed and Boss shares plunged 43 per cent to $2.43.

'Sweet spot'

K2 Asset Management's David Poppenbeek said alternative asset manager MA Financial had taken advantage of growth prospects in the non-bank lending sector.

"The strength of the company's operational momentum should be evident at the release of the 2024 full-year profit result … and a higher level of investor interest may well follow," he said.

MA Financial returned 9.7 per cent last year to $6.12.

Prime Value Asset Management's Leanne Pan was bullish on Cedar Woods Properties.

Ms Pan said the company was in a "sweet spot" where demand for housing remains high, and the key drivers – population growth, stable economic conditions and shortages – persist.

After posting full-year results that beat expectations, she said that management was "confident in providing an earnings growth guidance of 10 per cent due to high visibility of numbers for the 2025 financial year".

Cedar Woods rose 10.4 per cent to $5.50.

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