

5 under 50 cents



By [James Dunn](#) 27 March | 2017

Once again, the *Switzer Super Report* has trawled through the region of the stock market that has share prices below 50 cents, looking for potentially lucrative opportunities. It's a region populated mainly by micro-caps, with dividends – let alone fully franked dividends – conspicuous by their absence. But for that small part of your portfolio that is reserved for speculation looking for a good capital-growth opportunity, there are plenty of promising stories.

Compumedics Limited (CMP, 49.5 cents)

Market capitalisation: \$88 million

Still in the medical device field, **Compumedics** develops, makes and markets diagnostics technology for the sleep, brain and ultrasonic blood-flow monitoring applications.

Compumedics started off focusing on the sleep medicine market, monitoring and diagnosing conditions that affect sleep. The company has since moved into monitoring neurological disorders, including long-term epilepsy monitoring (LTEM), through its NeuroScan brain analysis software; ultrasonic monitoring of blood flow through the brain, and brain research.

The company's brain blood-flow Doppler sonography division, based in Germany, is known as DWL. Compumedics has also developed the Somfit, a sleep monitoring device that measures brainwaves, muscle movement, and sleep conditions and then sends detailed information to the user's smartphone via an app.

In February 2016, Compumedics signed a deal to gain access to state-of-the-art magnetoencephalography (MEG) imaging technology from South Korea's Korean Research Institute of Standards and Science (KRISS). While similar to MRI (magnetic resonance imaging) or PET (positron emission tomography) scans, the MEG system provides 50% greater spatial resolutions, meaning that the MEG system gives clinicians a better visual view of the brain, enabling early detection of neurological disorders.

In February, Compumedics' December 2016 half-year report left a bit to be desired, with US sales down 11% and sales delays reported at DWL – although the Asia and China businesses delivered a 45% lift in sales, while Latin America revenue surged by 80%.

The hit to revenue from the US business and DWL saw half-year revenue fall by 7%, to \$16.2 million, while net profit slumped 88%, although this reflected the fact that the previous year contained once-off favourable adjustment of \$500,000, relating to booking of a deferred tax asset.

Nevertheless, Compumedics had to cut its full-year FY17 guidance from revenue in the range of \$41 million–\$43 million and net profit in the range of \$4 million–\$6 million, to revenue of \$38 million–\$42 million and net profit of \$2.5 million–\$5.5 million. An unforgiving market stripped 34% from the share price.

But that haircut has opened up a bit of value. At 49.5 cents, Compumedics is trading at well under half the analysts' consensus price target, at \$1.11. According to Thomson Reuters, analysts expect earnings per share (EPS) of 3.6 cents in FY17, up from 1.94 cents in FY16, and they expect a big lift in FY18, to 6.5 cents a share. FY18 is also the year that analysts expect the first dividend from Compumedics, at 1.6 cents a share. The company is a global technological leader, and there will be a lot of “medtech” investors prepared to back it at these levels.

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