

5 small caps that could be the blue-chips of tomorrow

By [Matt Brazier](#) - August 20, 2016

I'm an avid small-caps investor and thought I'd share some of the favourites on my radar right now.

3P Learning Ltd (ASX: 3PL) sells online education games to parents and schools. Its main product is Mathletics which helps students with maths, but it also sells Spellodrome, Reading Eggs and IntoScience covering spelling, reading and science respectively.

It has been a tumultuous year for the company featuring a change of leadership and culminating in a disappointing market update at the beginning of June. However, in my opinion the stock is now oversold having fallen almost 60% in the last 12 months. Schroder Investment Management and Viburnum Funds seem to agree as both have become substantial holders in recent weeks.

The company has guided for underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of between \$11.5 million and \$12.5 million for 2016. I think 3P Learning has huge potential given the progress it is making in the giant US and European markets, which is not reflected in its current \$108.4 million market capitalisation.

Orbital Corporation Ltd. (ASX: OEC) is an industrial technology company with two core divisions. Remsafe sells remote isolation safety systems for global mining and industrial applications and Orbital UAVE provides engine and propulsion systems for drones.

The uptake of Remsafe's products has been delayed by the slump in the resource industry, but Orbital believes the division could generate \$100 million in annualised revenue over time. Management reckons that Orbital UAVE could produce a similar level of sales and last year the segment received an initial \$12 million order from Insitu Inc., a **Boeing Cosubsidiary**.

Depending on results for the second half of 2016, I estimate that Orbital has around \$20 million in cash after adjusting for debt. The company has a market capitalisation of just \$70 million which seems on the low side given both Remsafe and Orbital UAVE are already profitable and have exciting prospects.

Compumedics Limited ([ASX: CMP](#)) manufactures diagnostic devices used to monitor the brain, sleep and blood-flow. The stock is currently priced at 44.5 cents and so I made a [major blunder](#) when I sold my shares for 29 cents last year.

Compumedics has guided for net profit after tax (NPAT) of between \$2.8 million and \$3.2 million for 2016 up from \$2 million last year. The company is targeting continued growth over future years as its recently developed eHealth product gathers momentum.

Compumedics has developed an impressive business in China where sales jumped from \$3.8 million in 2014 to \$7.8 million in 2015. The company has no debt and a market capitalisation of \$76 million.

National Veterinary Care Ltd ([ASX: NVL](#)) owns a network of veterinary clinics in New Zealand and Australia. Since listing in August 2015, the company has acquired several clinics and now has 39 businesses primarily in East coast states. It currently has just a 1.5% market share in a highly fragmented market where **Greencross Limited** ([ASX: GXL](#)) is the largest player with 130 clinics and a 5.2% share.

National Veterinary Care has a relatively clean balance sheet with \$12.4 million of net debt at 31 December 2015. The company has a market capitalisation of \$75.9 million and so I estimate it is trading on an enterprise value-to-earnings (EV/E) of 14.7 based on pro forma forecasts and contributions from recent acquisitions.

Emefcy Group Ltd (ASX: EMC) has developed wastewater treatment technology that it is hoping to commercialise through a “**Water-as-a-Service**” (WaaS) model. The company has recently signed a couple of key deals that will accelerate its ambitious Chinese expansion plans.

On 15 August 2016 it announced its first Chinese sales distribution partnership with the well-respected Wuxi Municipal Design Institute. The parent of Wuxi Municipal Design Institute is Wuxi Guolian Environmental & Energy Group Co. Ltd, a leading state owned enterprise and provider of environmental services in Jiangsu province. The Chinese government could build new rural wastewater plants servicing 22 million people in Jiangsu over the next five years representing a \$1 billion sales opportunity for Emefcy.

Then on 17 August 2016 Emefcy announced it has signed three agreements significantly increasing the company’s production capacity through a proposed new production facility in Jiangsu. The company aims to be able to support \$100 million of annual sales by mid-2017 rising to \$400 million once the facility is fully implemented.

Emefcy has a market capitalisation of \$174.6 million and has recorded little revenue to date. Therefore, it is the most speculative of these five stocks but may also have the most exciting growth potential.

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