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HEADS IN CLOUDS AND READY TO LIFT OFF AGAIN

JOHN BEVERIDGE

CAN a souffle rise twice?

It was a question most famously asked by Paul Keating of Andrew Peacock but it could just as well apply to domain registry Melbourne IT.

One of the great local symbols of the tech boom and bust, chief executive Martin Mercer told the Australian Microcap Investment Conference that the fabled company was getting a second wind after swallowing local rival NetRegistry.

While that acquisition cost a hefty $50.4 million, already it is bedding down nicely with synergy savings rising from a predicted $5 million to a much better $7.5 million a year by 2016.

However, the really big opportunity lies in using its now very large coverage of small and medium businesses to sell extra internet services such as search engine optimisation, website design, social media and online advertising.

At the moment, these sort of services are provided in a fragmented way by a range of small companies but Mr Mercer is confident Melbourne IT is in a good position to become the biggest local player in this space.

Domain and web hosting, which have been Melbourne IT's bread and butter, for small businesses are only 20 per cent of their estimated online spend, with these extra services making up the vast bulk of a billion-dollar-a-year market.

Similarly, the enterprise services provided to larger businesses such as ANZ, Coles, Foxtel and Energy Australia is moving toward a managed services model, with the ability to greatly expand the number of companies covered and provide extra services such as e-commerce, web applications, cloud storage and internet security.

Combined with greater automation and the benefits of scale, the plan is to accelerate growth for Melbourne IT's enterprise services arm.

Obviously, not all of these runs are on the board as yet.

In the small and medium business side, revenue and margins are rising but for enterprise services, higher revenues have met with lower margins.

So there is an element of faith involved but that is the price you must pay for getting in before the share price really rallies. Melbourne IT is a **speculative buy**, on the basis that this tech souffle has another rise left in it.

Many of the other companies presenting at the conference I have covered before, including Viralytics, Phylogica, Imugene and Atlas Pearls and Perfumes.

One that caught my eye was CML Group, a payroll, finance and employment solutions company.

While the share price has been as flat as a freeway cat, the fundamentals of the company have improved quite sharply with revenue up 38 per cent, net profit 45 per cent and — a rarity at this end of the market — fully franked dividends up 10 per cent to 1.1c a share.

A first quarter update showed even faster growth.

The key has been expanding the financing side of the business, mainly through taking over invoicing for companies and providing instant payment of up to 80 per cent of the invoice.

There are two reasons small companies have rushed this sort of "factoring" invoice service.

They can worry about keeping a good relationship with their client without billing issues getting in the way and can expand more quickly by providing labour and services immediately without the long wait to be paid.

Current chief executive Daniel Riley is staying on the board but is in the process of being replaced and CML is hoping to improve margins by moving to wholesale funding of its loan book.

A **speculative buy**.

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Newcrest tightens belt

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