

Microcap sector attracting serious investors

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Publicly listed companies sitting outside the ASX 200 may see more institutional investors buying up shares.

Transcript

TICKY FULLERTON, PRESENTER: It can be a tough world for publicly-listed companies that sit outside the ASX 200.

Convincing investors to buy up shares, sourcing funding and attracting the interests of analysts can be a constant and sometimes fruitless battle.

This so-called "microcap" sector has traditionally been the domain of retail or mum and dad investors, but there are signs more institutional investors are jumping on board.

Frances Bell reports.

FRANCES BELL, REPORTER: Australian biotech company Circadian Technologies is in the business of developing new treatments for cancer.

Its antibody therapies have attracted plenty of interest in the medical world, but generating excitement among investors has been a much more difficult task.

ROBERT KLUPACS, MD, CIRCADIAN: People get the story of curing cancer, but they say, "Well, you're 10 or 12 years away before I make any money." And there is a lack of understanding that there are value points in companies like mine that people can get into and make some money out of and getting that message through to the market has been somewhat difficult.

FRANCES BELL: Circadian is one of more than 1,700 so-called "microcap" companies listed on the ASX. It has cash holdings of more than \$30 million, but a market value of just \$26 million. At least one US analyst believes the stock is worth about three times that much, but managing director Robert Klupacs says it's a tough story to sell to investors.

ROBERT KLUPACS: There's some criticism that our industry is full of mums and dads investors, and that's probably - they're probably the wrong investors, but they are the only

investment class that's willing to invest at this point.

FRANCES BELL: In an effort to generate more interest among institutional investors, a range of microcap companies came together to spruik their wares at a conference in Melbourne.

ADRIAN BALLANTINE, CEO, NEWSAT LIMITED: New and innovative technology will ultimately win, and sometimes it's not easy to make it work straight away. And we have always said to the people that we are talking to, "This will take some time. This technology is not just instantaneous."

FRANCES BELL: Conference organiser Craig Dunstan says interest in the sector is small, but growing.

CRAIG DUNSTAN, D H FLINDERS LIMITED: There are a number of fund managers now that have microcap funds - Acorn Capital does, Contango does, BT does. So, more and more institutional fund managers are thinking, "Well, in terms of getting our performance over a long period of time, we actually need to invest in the smaller companies, not just the bigger companies."

FRANCES BELL: He says microcap companies have taken longer to recover from the global downturn than their bigger counterparts, with many investors reluctant to take risks with non-blue chip stocks. Sourcing funding in debt markets is also still a challenge.

CRAIG DUNSTAN: Smaller companies, debt raising is an issue, and as a result, these companies rely very much upon equity raising. The founders have equity, the managers, the directors have equity, you know, people they know, etc. So, the equity base is a lot tighter than a larger company.

FRANCES BELL: For Robert Klupacs, the key to gaining the trust of investors is establishing credibility by setting targets and delivering on them.