



SECTOR CONCEPTS

Dreams of the next big thing

Here are three speculative stocks that could change the world ... or not

During older bull markets, such as the one we have recently experienced, there are inevitably investors who are frustrated that they haven't participated fully. Like a cheer squad they urge their brokers to find the next big thing. This enthusiasm is eventually transmitted into share prices and if momentum can be generated it can feed on itself.

Towards the final stages of a bull market some very strange behaviours can be observed. Witness, for example, the recent surge in the share price of a New York company, Long Island Iced Tea. The only thing it did to trigger exuberance was to change its name to Long Blockchain.

And when Kodak announced that it was creating a cryptocurrency, its shares also surged.

More recently in the UK, the special purpose acquisition company AIQ raised £3.6 million (\$6.4 million) by issuing 50 million shares at 8 pence each on the London Stock Exchange, giving it a market capitalisation of £4 million. Just two days later AIQ was trading at 125p. In this case there was no announcement at all.

Swift Networks Grp share price



Afterpay Touch share price



PushPay share price



Australia is not immune to the migration of sentiment from enthusiasm to irrational exuberance. Companies with very little profit, and in some cases very little revenue, have been trading at market valuations approaching \$1 billion.

It is true that new technology can and does change the world but, as history has demonstrated repeatedly, not every company succeeds – in fact, not many do. Indeed, it is the case that sometimes only the consumer benefits and the industry

struggles without ever making high returns. With these three listed “concepts” you can decide whether, first, they are going to change the world and beat all competition and, second, whether they are still cheap. We think they're too speculative and “early stage” to value even remotely appropriately.

Roger Montgomery is the founder and CIO at the Montgomery Fund. For his book, Value.able, see rogermontgomery.com.

1 Swift Networks Group

Swift Networks is a content solutions provider delivering in-room experiences to guests, which is a euphemism for supplying the movies and digital TV in hotel rooms and aged-care facilities.

It recently announced operating profits of \$1 million for the first half of the 2018 financial year, which compares favourably with full-year earnings of \$1 million in 2017. But with competitors such as Comcast, Bulk TV, Enseo and LG, does it compare favourably with a growth multiple of 19 times and market capitalisation of \$37 million?

ASX code SW1

Price 43.5¢
52wk ▲ 59¢
52wk ▼ 20.5¢
Mkt cap \$33m
Dividend -
Dividend yield -
PE ratio -27

■ SPECULATIVE

2 Afterpay Touch

Afterpay touch is “revolutionising” consumer financing by offering a payment plan on purchases of four instalments and no interest unless a payment is missed. It's like layby in reverse.

Retailers are excited because it is increasing their basket size and their overall volumes. Saturation, however, will render retailers less excited and inevitable competition could significantly increase acquisition costs for Afterpay. It will have to produce eye-watering loan book growth to justify its current market capitalisation and asset multiple.

ASX code APT

Price \$6.60
52wk ▲ \$8.16
52wk ▼ \$2.65
Mkt cap \$1.09bn
Dividend -
Dividend yield -
PE ratio 0

■ SPECULATIVE

3 Pushpay

Pushpay has created an awarded app that allows users to conveniently set up regular payments to charities, schools and churches after inputting credit card details just once, and software for those institutions to reconcile the donations.

As a Christian man, I am all for ideas that might encourage individuals to give more generously and more regularly. I am also a value investor and with the company still generating a loss I suspect its \$900 million market valuation is factoring in exponential growth in revenue per customer and transaction volumes.

ASX code PPH

Price \$3.58
52wk ▲ \$4.07
52wk ▼ \$1.48
Mkt cap \$983m
Dividend -
Dividend yield -
PE ratio -56

■ SPECULATIVE BUY

Prices as at close of business, 9-Feb-18.