Movers & Shakers - ASX Small & Micro Cap Industrials

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ASX small and micro cap stocks had a positive month with the S&P/ASX Small Ordinaries Accumulation Index and the S&P/ASX Emerging Companies Index up 3.5% and 4.0%, respectively, outperforming large cap stocks. Industrials performed particularly well in July with the S&P/ASX Small Industrials Accumulation Index up 4.8%.

In this addition of Movers & Shakers we take a look at six ASX small and micro cap industrial stocks that experienced significant share price moves during the month.

Keypath Education International Inc. (ASX: KED)

Keypath's share price continued its positive momentum from the prior month, with the share price rising as much as 62% throughout the month before finishing up 36%.

During the month the company reported its 4Q results. The Company reported revenue of A$32 million during the quarter, 6% higher than the pcp, and 9.6% higher on a constant currency basis. FY23 revenue increased 5% and was higher by 9% on a constant currency basis. During the June quarter, 3 new partners and 8 new programs were added, with continued expansion into Malaysia and Australia. Adjusted EBITDA came in at -$8.4 million with the company targeting profitability by 2H'FY24. The cash position remains strong with total cash of $46 million and a cash burn of $8 million for the fiscal year, after adjusting for a one-time cost of $4.2 million.

In its quarterly report, Keypath stated it had signed 48 programs for their future vintages, out of which 37 were in Healthcare. Keypath's Founder and CEO, Steve Fireng, said "We are proud to have achieved our FY23 revenue and adjusted EBITDA guidance in a challenging operating environment which gives us confidence in our ability to continue to drive revenue growth into the future and achieve breakeven adjusted EBITDA from 2H'Y24."

Notably during the month, Regal Funds Management was a seller of the stock, with Regal ceasing to be a substantial holder. Shares in the company are tightly held with AVI Mezz Co LP, a limited partnership held by sterling funds and other investors, owning over 60% of the shares on issue.

Pentanet Limited (ASX: 5GG)

Pentanet shares were on the move in July with the market reacting positively to the June quarter results release. Pentanet is a Perth-based telecommunications company that delivers high-speed internet to subscribers. This is achieved through Pentanet's private fixed-wireless network, the largest in Perth, as well as reselling fixed-line services such as NBN, where its wireless is not yet available. The company provides a range of plans for both home and business, depending on subscriber needs. The stock was up 41% for the month.

The company has two main segments, telecommunications and cloud gaming. In its quarterly results, the company reported that consolidated revenue had grown by 17% in FY23 to $19.7 million, with gross profit increasing 15% to $8.5 million.

Net subscriber revenue grew by 10%, and the Managing Director, Stephen Cornish stated: "The telecommunications business is now in the best position it has ever been, reaching operating breakeven in the lead up to significant additional capacity turning on to drive new subscriber growth in 1H'FY24."

Cloud gaming revenue grew by 126%, although this is from a low base. The MD stated the following about the segment: "With the upcoming launch of Gen 3 performance plans, the Optus SubHub integration, and more Microsoft content coming to the platform this year, we aim to continue the momentum with paid subscriber growth and profitability." Adding to the potential for revenue, in collaboration with Samsung, the company launched GeForce Now, which is an all-in-one, gaming discovery platform, with over 1500 games accessible to users.

Hubify Limited (ASX: HFY)

Hubify is a leading provider of ICT-managed services and cyber security to Australian businesses. The company has five segments: (1) Mobility - mobile & voice data solutions; (2) Voice - cloud access for phone systems which enable innovative features and functionality; (3) Internet & Networks - high-speed fiber and NBN solutions to Australian businesses; (4) Managed services - managing and monitoring technology for businesses; and (5) Cyber security - military-grade cyber security.

In a trading update, Hubify reported that consolidated revenue grew 8% in FY23 to $25.7 million, meanwhile underlying EBITDA grew 342% to $4.42 million. Operational efficiencies on past acquisitions have been fully implemented with the current cost base providing operational leverage to continue growth, both organic and through acquisition. Recurring revenue grew to 82% of total customer revenue. The result included the contract termination payment of $2.28 million, with the company's exit from the Optus Small Business Program and new Optus Enterprise Program. The company is well placed to drive growth with cash on hand and no debt.

Cyber security is a fast-growing industry. The Australian market is projected to grow at around 18%p.a. to USD$13.95 billion from 2023 to 2028, according to Mordor Intelligence.

Archtis Limited (ASX: AR9)

Archtis is a global provider of data-centric software solutions for the secure collaboration of sensitive information. Shares of Archtis rallied throughout the month closing up 22%. The share price rallied after the company announced it had received a contract from The Bank of Finland. The contract includes the implementation of the company's NC Protect and NC Encrypt products. NC Protect provides dynamic access and data protection for Microsoft 365 allowing users to access SharePoint servers and file sharing securely, while NC Encrypt allows for SharePoint & file-sharing encryption key management. The total contract value was A$235,291, of which $51,787 will be recurring revenue, across four years.

Kurt Mueffelmann, Global COO & US President, said: "We welcome the Bank of Finland as the newest NC Protect and NC Encrypt customer. Organizations, particularly across Europe, are increasingly looking for independent encryption key management for their Microsoft 365 applications and SharePoint on-premises environments to maintain digital sovereignty and add data-centric protection to combat insider threats. This is the driving requirement for both Bank of Finland and DHL, as well as other current opportunities in international markets."

Archtis also reported its 4Q results in July. Revenue for the quarter increased 65% on the pcp to $2.2 million, with annual recurring revenue increasing to $3.6 million, up 11% on the pcp. This takes FY23 revenue to $6.4 million, up 37% on FY22 with cash outflow of $5.2 million, a 50% decrease on the FY22 outflow. The increase in revenue stems from higher licensing and service revenue, and a new revenue segment of equipment revenue (where the company leases out server equipment).

Carbon Revolution Limited (ASX: CBR)

Carbon Revolution is a Tier-1 OEM supplier that primarily deals in carbon-fiber wheels. Shares of Carbon Revolution were rallying through to the month ending up 58%. The company's clients include the likes of Ferrari, General Motors, and Jaguar Land Rover, and it produces some of the most advanced wheels globally and has some 90 patents under its name.

Carbon Revolution provided a transaction update in July regarding its merger with Twin Ridge Acquisition Corp (NYSE: TRCA), a special purpose acquisition company (SPAC). The company announced the merger in November 2022 and in its update stated that it expects completion of the transaction in October 2023. Under the agreement, a newly formed Irish company to be named Carbon Revolution Plc ("MergeCo") will acquire both CBR and the SPAC. Upon closing of the transaction, the shares and warrants of MergeCo are expected to trade on the New York Stock Exchange or NASDAQ and CBR's shares will cease to be quoted on the ASX. The transaction requires CBR shareholder approval with a vote expected to occur in late September or early October.

In July, the company provided cash flow projections for the 12 month period from 1 August 2023. Transaction costs are expected to be A$35.8 million, of which $5.2 million is expected to be payable prior to implementation. The company also forecast net cash outflows unrelated to the transaction of A$79.1 million. The MergeCo will be seeking to raise US$60 million by December 2023 to maintain sufficient cash on hand to comply with the liquidity covenants under the recently completed $60 million IP-backed loan ("New Dent Program") and to cover the forecast net cash outflows. If the Transaction is delayed and Carbon Revolution does not raise additional funds, Carbon Revolution is likely to breach the liquidity covenants in the New Debt Program and be reliant on the servicer waiving such default in order to avoid the consequences of a default. Separately, Carbon Revolution is seeking to obtain a structured equity facility, which would involve the issue of preference shares and Warrants by MergeCo in exchange for up to US$100 million.

On 31 July, the company provided its June quarter update in which it reported revenue of $13 million, up 84% on the previous quarter. The Company's backlog had grown to $970 million, almost 50% of which is for electric vehicles.

In June the company revised down the CY23 revenue expectations from US$50.3 million to US$47.4 million, but further added that revenue was forecast to increase to US$90.1 million in CY24 and a positive EBITDA is also forecast.

Damstra Holdings Limited (ASX: DTC)

Damstra Holdings, a workplace management solutions company, share price was up 47% for the month as multiple sources of news flow came through. The main product the company offers is Workforce Management, which allows for tracking of all workers including contractors, and vendors, which are compliant and allowed to be onsite. The company has an access control and solo application, which allows for biometric entry and protects, locates, and communicates with workers to maximise safety onsite. The company also offers inventory and asset management software, in which assets can tracked, and service/maintenance and equipment calibration scheduled so workers can ensure equipment is always working properly and is well maintained to promote workplace safety.

Damstra's stock initially popped on the news of it generating positive free cash flow of $0.5 million for the 4Q'FY23. This is an improvement from the cash outflow of $1.6 million for the pcp. In the 4Q'FY23, the company reported operating cash flow of $3 million, up from $1.3 million in the pcp. Revenue was in line with the previous quarter at $7.4 million. EBITDA continued to improve with an EBITDA of $2.7 million for the quarter, an 8% increase on the prior quarter and a 300% increase on the 4Q'FY22. During the month, the company announced it had refinanced its debt facilities, the structure of which takes into account the improved financial performance of the company.

During the month, the company signed agreements with Foxleigh and Mine and Stanwell Corporation. The clients will use the EPP (enterprise protection platform) for their employees and contractor management, with the agreement covering ~3,000 users on an annual recurring basis with an annual contract value of $375,000.

The company also signed a three-year agreement with Barrick Gold, which covers 3,500 users for a total contract value of USD$1.8 million, and a three year extension to the agreement with Coronado Global Resources. The company reiterated it had a strong pipeline of opportunities, including an agreement for a trial with an Australian Iron Ore Company for 500 workers. The trial will run for a six month period with the potential to move to cover a complete workforce of >20,000 if the trial is successful.

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