PFAS Legislation passed in US

Last week the Environmental Protection Agency (EPA) announced the long overdue drinking water standards in the US for six types of per- and polyfluoroalkyl substances, known as PFAS. PFAS chemicals are synthetic chemicals that don't break down naturally, ever, and have been linked to any number of different ailments such as cancer, heart and liver problems, developmental damage, and other health issues. I explored PFAS in detail last year. For a refresher click here.

Under the new rule, the EPA is setting limits for five individual PFAS: PFOA, PFOS, PFNA, PFHxS, and HFPO-DA (known as GenX Chemicals) and setting a Hazard Index level for two or more of four PFAS as a mixture: PFNA, PFHxS, HFPO-DA, and PFBS. Drinking water concentrations of PFOA and PFOS will be capped at the lowest limit that the EPA believes is technologically possible, about 4 parts per trillion. These are the two most thoroughly studied and prevalent PFAS chemicals and are found in everything from cookware and paper food packaging to personal care products, carpeting and firefighting foam. This is despite the fact that there is believed to be no level that can be considered safe exposure whatsoever.

Three other common PFAS will be limited to 10 parts per trillion, either measured on their own, in combination with each other, or with one otherwise unregulated chemical.

Chemical	Maximum Contaminant Level Goal (MCLG)	Maximum Contaminant Level (MCL)
PFOA	0	4.0 ppt
PFOS	0	4.0 ppt
PFNA	10 ppt	10 ppt
PFHxS	10 ppt	10 ppt
HFPO-DA (GenX chemicals)	10 ppt	10 ppt
Mixture of two or more: PFNA, PFHxS, HFPO-DA, and PFBS	Hazard Index of 1	Hazard Index of 1
Maximum Contaminant Level Goal (MCLG): The level of a contaminant in drinking water below which there is no known or expected risk to health. MCLGs allow for a margin of safety and are non-enforceable public health goals.		

This regulation is significant for ASX tiddler Carbonxt (CG1), which is constructing a facility in Kentucky that will produce Activated Carbon (AC) to be used in the removal of PFAS chemicals from US drinking water, and this new regulation provides a tantalising opportunity for CG1.

It is also worth noting that the US Government funding mentioned above adds to the US$21 billion that Congress already made available through the legislation to improve drinking water systems, US$9 billion of which had been earmarked specifically for cleaning up PFAS chemicals.

Unsurprisingly, each individual state has five years to comply with the new drinking water standards, which if history serves, may well be further extended. This gives CG1, plenty of time to pick up the early adopting states and be in the position to bid for further agreements in the future.

To date, CG1 has struggled to gain the market's affection, thanks to persistent capital raising, unreliable customer orders and boardroom shenanigans, but this finalised regulatory framework, in concert with US$1 billion in additional funding through the Bipartisan Infrastructure Law to help states and private well owners test for and clean up any contamination, puts this opportunity on steroids.

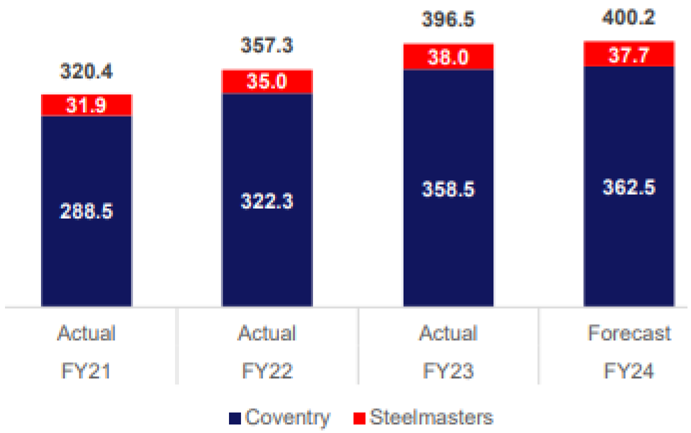
CG1 is on the cusp of completing the Kentucky Facility (KCP) which should enable the production of up to 10,000 tonnes per annum by the end of calendar year 2024, and 20,000 by the end of 2025. Once the company beds down their finances and production it can really take advantage of this company making situation, upon which, market confidence will return to the stock.

Coventry Group (CYG)

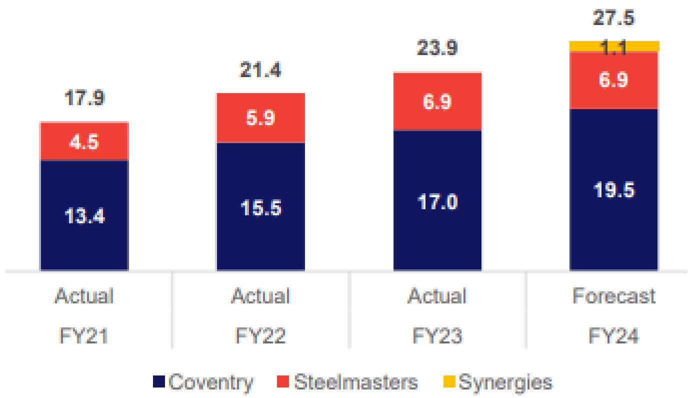
On Monday this week, CYG announced the acquisition of NZ based Steelmasters Group which will be funded via a combination of up to $25m in debt and $32m in equity. The line of debt will only be drawn to $18.4m initially. $2.0 million of the equity raise will be via a non-underwritten Share Purchase Plan ("SPP"), eligible to all shareholders. The initial offer was to raise $25m via a fully underwritten placement, but due to overwhelming demand, was upgraded to $30m.

- Steelmasters Group is a leading Australasian supplier and manufacturer of industrial and speciality fasteners through its network of 12 branches.
- Steelmasters achieved sales revenue in FY23 of NZ$40.6 million and EBITDA of NZ$7.35 million.
- The acquisition will result in pro forma FY24F EPS accretion of approximately 31% (including synergies).

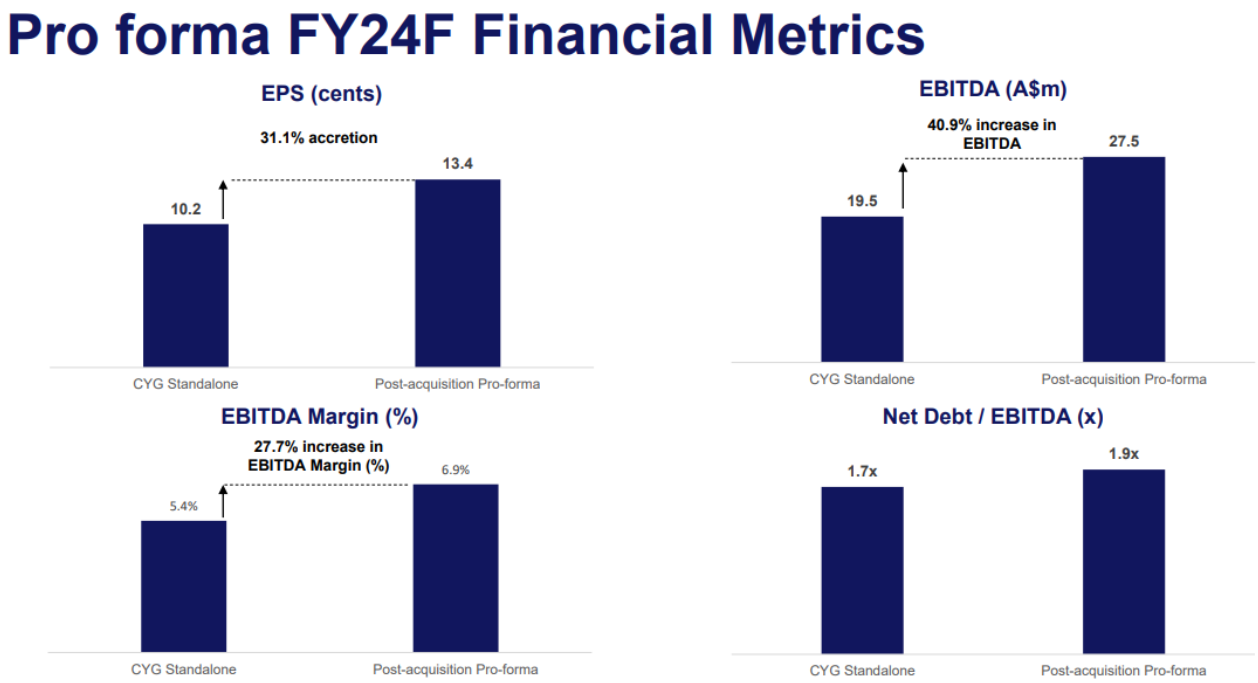
- The combined CYG and Steelmasters business is forecast to deliver a pro forma FY24F revenue of A$400.22 million and a FY24F EBITDA of A$27.5 million (including A$1.1 million of synergies)



Pro-forma Combined EBITDA (A$m)[1,2,3]



- The exciting component of this deal from my perspective is the expansion of the pro forma EBITDA margin from 5.4% to 6.9%. This is what the market is watching and will respond to positively, noting the company had previously stated a LT target of a 10% EBITDA margin.



- Another excellent acquisition by CYG management. It is worth noting the acquisition was so well received by institutions that the price of the new shares is $1.45; a $0.02 discount to the last traded price, and since reopening the stock has risen to $1.65.

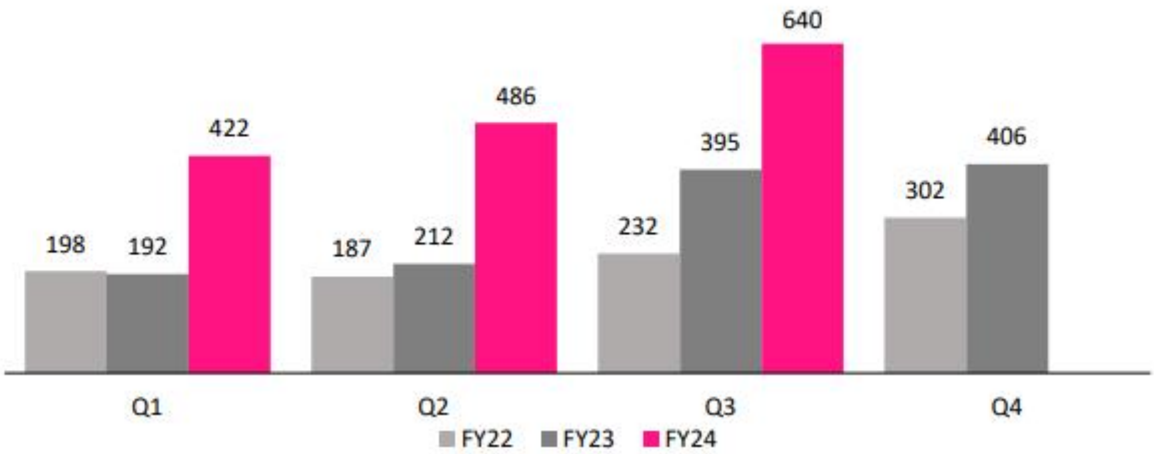
IODM Ltd (IOD)

Q3 FY24 highlights:

- Cash receipts of $640k, +65% versus previous corresponding period (‘pcp’).
- UK cash receipts of $311k, +130% versus pcp, driven by new commercial agreement with Convera (formerly Western Union Business Solutions).
- Domestic cash receipts of $329k, +27% versus pcp.
- UK revenue of $335k, +196% versus pcp.

- First client signed in the US, and a strong pipeline of opportunities.

Figure 1: IODM Quarterly Cash Receipts (A$'000)



UK Education Business. The new agreement requires Convera to pay IOD monthly (in arrears), noting the Q3 FY24 cash receipts only contain two months contribution from this new agreement (February & March 2024). This smooths cashflow to IOD and removes potentially lumpy seasonality issues.

Domestic Business Five new enterprise clients were onboarded in Q3 FY24, including businesses within the pharmaceutical and professional services sectors.

IOD expects to see the domestic signings continue at an elevated rate in the coming quarters.

US Business IOD signed its first client during Q3 24 and will be generating revenue during the current quarter.

IOD is undergoing a massive transformation from a small Australia centric accounts receivable business to an international offering covering education, healthcare and industry. The coming quarters are likely to continue to exhibit rapid increases in revenue and earnings.

The market's lukewarm response to the recent quarterly result ignores the rate of earnings acceleration. Given this growth, I do not anticipate IOD to require further funding and will in fact be profitable within a fairly short space of time.

17th April 2024

Financial Planning Weekly

ShawandPartners Morrissey Group

Planning for EOFY – part 2

"Every new beginning comes from some other beginning's end."

Click on the link to read

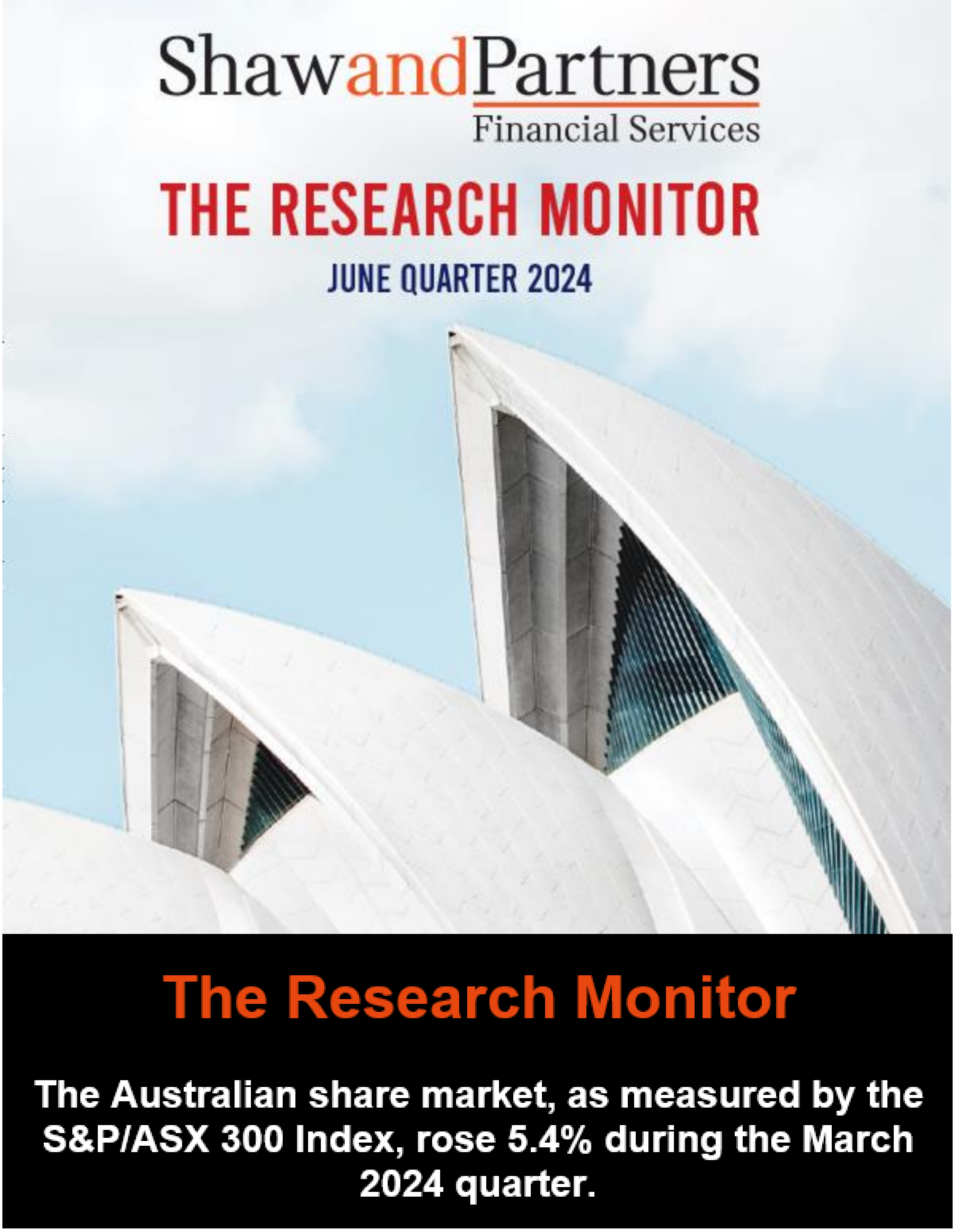
https://www.morrisseygroup.net/news-1/financialplanningweekly190424

Quarterly Research Monitor

Shaw and Partners has this week published the June Quarter 2024 edition of its flagship research product, the Research Monitor.

In this quarter's edition we have articles on:

- **Q1 2024 Performance**. The best performing Australian equity sector was Software and Services, up 24.5% including dividends.
- **China's Property Pile Up**. China is building 2.9 times as many houses today than there are in Australia right now.
- **Cautious Outlook for Iron Ore**. Iron ore is Australia's largest resource export at A$124b value in 2023, ahead of LNG at A$92b.
- **Talkin' about an AI Revolution**. Microsoft (MSFT) is benefitting from its early lead in AI to upsell its security suite.
- **Copper: the Missing Ingredient of the Energy Transition**. S&P Global recently estimated demand for refined copper will double by 2035.
- **Offshore Wind**. There are over 2,000 GW of coal-fired power stations that need to be replaced.
- **Gold Price and Gold Share Price Divergence**. Since 2010 the gold price has increased +250%, recently maintaining levels above A$3,000/oz.
- **Come fly with me**, let's fly, let's fly away. Aussie Travel Bounces Back.
- **Sleep Well at Night with Travel Sector Tailwinds**. WebBeds is growing faster than their peer group.



Click on the link below to read

The Research Monitor – June Quarter 2024 - 15 Apr 2024

Enjoy your weekend,

Ben and the team.

This report has been prepared by Ben Morrissey
Shaw and Partners, Morrissey Wealth Management
Level 36, 120 Collins Street
Melbourne VIC 3000