9 HOT TECH STOCKS

The best time to buy is during sharemarket corrections and investors comfortable with a bit of risk may want to snap up some outstanding tech companies. Report: Tony Featherstone

Ignored: Even those with the most promising technology are fighting for attention

The second coming of US tech stocks unleashed the bulls this year. The Nasdaq Composite Index cracked 3000 points – the first time in 12 years – and Apple shares in April had their biggest one-day gain in four years after another set of jaw-dropping earnings. Although the Nasdaq fell last month amid heavy falls in global equity markets, interest in US tech stocks remains high.

The float in May of social media giant Facebook, which valued it at $US104 billion, was the largest US internet stock offering yet and attracted huge global attention, not least for its early share-price weakness and controversy over the listing. Not to be outdone, photo-sharing app Instagram, which grew from nothing to 30 million users in 18 months, was bought by Facebook for $US1 billion.

The contrast between the US and Australian technology sectors could scarcely be different. Local tech companies are lucky to be heard in a mining investment boom and some are considering moving offshore. Many information technology and clean-tech stocks, and to a lesser extent life science companies, are badly out of favour with investors and are struggling to compete with speculative resource stocks for funds.

Even those with the most promising technology are fighting to attract attention. Nowhere is sentiment worse than the initial public offerings (IPOs) market, a crucial source of capital for emerging technology companies. Only a dozen life science, clean-tech and IT companies, out of more than 200 IPOs, have listed on the Australian Securities Exchange in the past three years.

Australia's listed clean-technology sector has done even worse. The ACT Australian CleanTech Index, which weights more than 70 ASX-listed clean-tech stocks by market capitalisation, has slumped by more than two-thirds from its peak in mid-2007. These stocks collectively have lost more than $8 billion in market capitalisation since 2007, although are up slightly in the past six months.

The combined valuation of ASX-listed life science companies fell 8 per cent to $35 billion in the year to March 2012, the latest PriceWaterhouseCoopers quarterly *BioForum*report shows. The Nasdaq Biotech index rose 23 per cent over that period.

The S&P/ASX 200 Information Technolo index has dropped 23 per cent from its 201 peak and underperformed the broader sharemarket for a decade.

Yet beneath this gloom are some stunnin ASX-listed tech companies with world-class inventions. Do not judge them by their shar price only: some emerging technology stock have fallen sharply in since the global finan crisis in 2008, despite solid progress. Risk-a investors have little interest in small or mic cap companies that need years to develop a commercialise technology.

Contrarian investors who are comfortabl speculative stocks might see it differently: s price weakness in outstanding tech compar may offer excellent long-term opportunitie that the best time to buy is during sharema corrections.

With that in mind, *BRW* asked nine smal investment experts to nominate their top emerging company from the IT, life science clean-tech sectors. Here are their selections

1. Starpharma Holding

SECTOR: Life sciences
SHARE PRICE: $1.60
MARKET CAPITALISATION: $447 millior
3-YEAR AVERAGE ANNUAL TOTAL RETU 68 per cent
X FACTOR: Key product VivaGel substan expands global market

The Melbourne-based company is leading a of promising biotechs either in, or approac phase III trials for US Food and Drug Administration approval. Starpharma's lea product, VivaGel, is being developed to tre bacterial vaginosis, where the normal bala bacteria in the vagina is disrupted by an overgrowth of certain bacteria. If approved VivaGel, a prescription product, would be applied daily to treat bacteria vaginosis an it reoccurring.

Starpharma is targeting a huge market. $US350 million is spent each year globally topical treatments for bacterial vaginosis. T condition affected an estimated 29 per cen American women aged 14-49 in 2001-200 spurred an estimated 2 million doctor visit the US and created 4 million scripts. "Ther potential that the product can ultimately g into a billion dollar best-seller as awarenes bacterial vaginosis fuels uptake of the proc Bell Potter analyst Stuart Roberts says.

The well-run Starpharma has begun two concurrent phase III trials for VivaGel, wit completion likely by the end of 2012. Anse VivaGel coated condom, expected to be on in the second half of this year, has strong commercial potential, Roberts says. His 12

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Hot stock: Ceramic Fuel Cells test fans for high-efficiency, low-emission power cells

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mobile credit, gives it a formidable network that taps into the expansion in pre-paid mobile phone usage, which represents about 75 per cent of total mobile phone users.

Hemming says eServeGlobal should earn about $35 million in revenue this financial year but it is still producing losses. Indonesian financial services company mCoin's announcement in January that it would use eServeGlobal's technology, is step in the right direction, he says.

The market has its doubters. eServeGlobal's shares have fallen from 52¢ to 22¢ since November in a terrible market for small-tech companies.

"There are massive hurdles for the company to overcome, such as educating millions [of consumers] on how to use its technology," Hemming says.

But share price weakness may be an opportunity for true believers.

A study by the industry body CGAP (Consultative Group to Assist the Poor) found international payment remittance was a significant form of money transfer in developing nations and has grown strongly over the past decade. "The hub model of HomeSend is one of the most intriguing innovations in the mobile international remittance market currently," it says.

7. Universal Biosensors

SECTOR: Life sciences
SHARE PRICE: 61¢
MARKET CAPITALISATION: $97 million
3-YEAR AVERAGE ANNUAL TOTAL RETURN: -19 per cent
X FACTOR: Universal gets take over by a global healthcare giant

Universal Biosensors is developing materials for point-of-care tests to monitor diabetes and other diseases. It wants to make more than a billion strips each year for blood-glucose meters that diabetics use to test their levels and has a distribution deal with LifeScan, a Johnson & Johnson company.

Bioshares' Mark Pachacz believes Universal has developed the next generation of electronic diagnostic instruments and re-engineered how a conventional electrochemical cell works. "The outcome is a device that is more accurate and easier to use, and consumables that are considerably less expensive to manufacture," he says.

Universal's first product, a glucose diagnostic meter, is sold by Lifescan, and its second, a diagnostic meter, will be used to analyse the correct levels of Warfarin (used to treat blood clots) for patients. This product is still in development and is being partnered with Siemens Healthcare Diagnostics.

Universal is more like a manufacturer than a biotech researcher. Unlike most medical-device makers, its products are low-margin goods that can be mass produced.

Unversal's technology is thought to give it an important cost advantage over rival manufacturers, which is a huge advantage in a commoditised market. Pachacz says Tissue Therapies is another emerging life sc company to watch.

It wants to launch VitroGro, a nove healing technology, in Europe in com months.

The technology uses a combination naturally occurring proteins to promo repair and was discovered at the Que University of Technology. "The appro products [of Tissue and Universal] co more different but they are two qualit Australian biotechs commercialising l global technologies," Pachacz says.

8. Dyesol

SECTOR: Clean technology
SHARE PRICE: 13¢
MARKET CAPITALISATION: $26 mil
3-YEAR AVERAGE ANNUAL TOTAL R -46 per cent
X FACTOR: Larger solar company ta Dyesol for its valuable technology

Australian CleanTech managing direct O'Brien nominates solar dye researcher one of the country's most promising em clean-tech companies.

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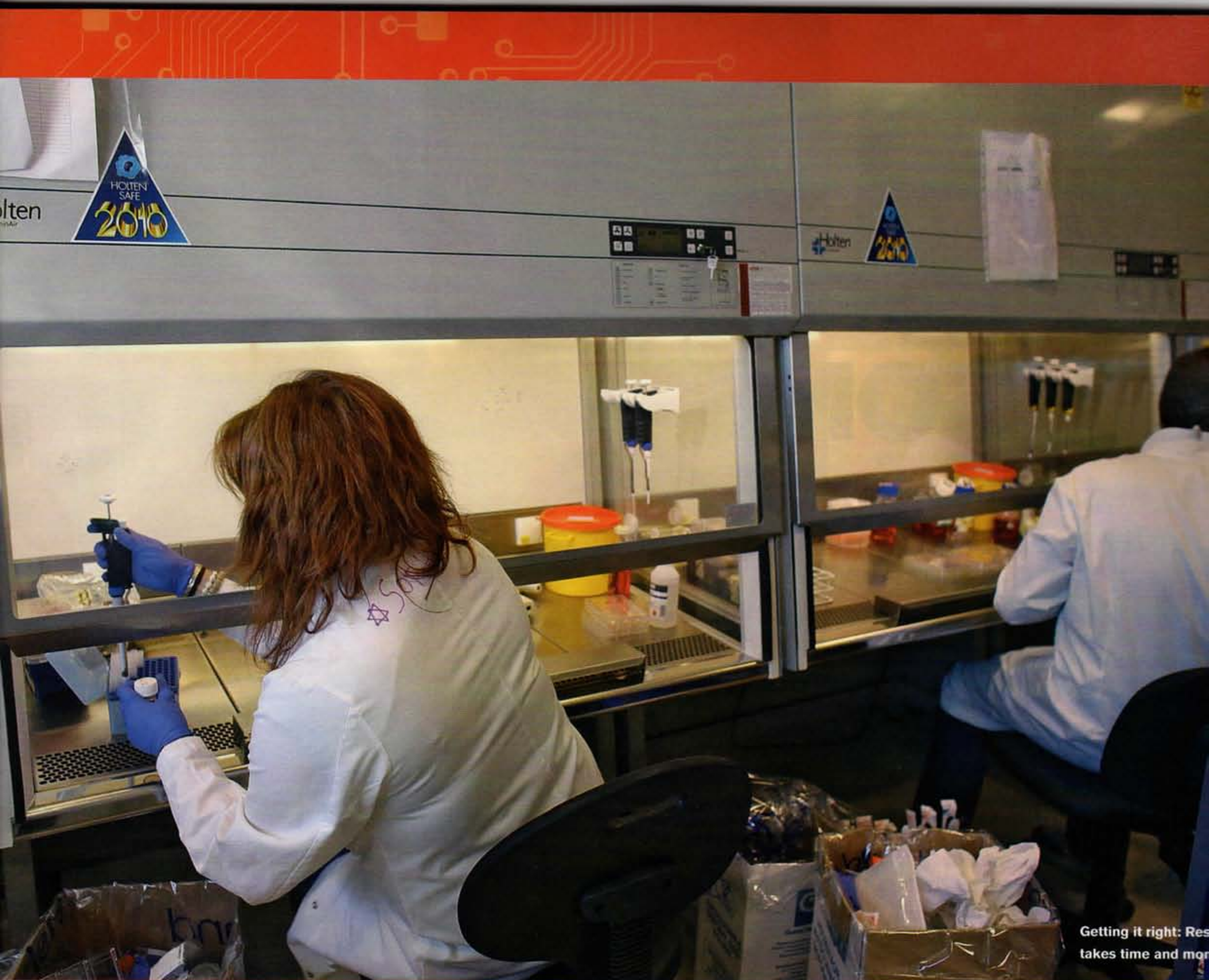
"Dyesol has made good progress over few years but is yet to reach its potential says.

Dyesol is commercialising dye solar ce technology, which draws together concep nanotechnology and biomimicracy, whic mimics the biological process of photosy in plants to turn light into energy.

Dyesol's dye, paste and electrolyte mat are used by companies for solar module glass, mobile phones and laptops, as well defence force applications.

O'Brien says Dyesol is building integrat photovoltaic and portable power product can replace disposable batteries.

Dyesol is also developing a roofing ma product with India's Tata Steel in Europe, worked with Pilkington Glass on solar gla products and in March opened a solar gla



Getting it right: Res
takes time and mon

project for the Seoul City Government in South Korea. Despite these milestones, Dyesol's shares have fallen from 64¢ a year ago to 13¢ in an awful market for small clean-tech stocks.

Another clean-tech company O'Brien nominates, Bluglass, has also been thumped by investors in the past few years.

Bluglass is commercialising breakthrough technology to grow semiconductor materials, such as those that can be used as alternative material to silicon in devices such as light emitting diodes (LEDs).

"The technology has the potential to help semiconductor manufacturers reduce both pollution costs and toxic waste products," O'Brien says.

Bluglass shares soared from 5¢ to 15¢ in March after a favourable tax ruling boosted its cash position and on significant operational progress but they are still well down on prices above 70¢ achieved in 2007.

9. ThinkSmart

SECTOR: Diversified financials
SHARE PRICE: 21¢
MARKET CAPITALISATION: $33 million
3-YEAR AVERAGE ANNUAL TOTAL RETURN: -23 per cent
X FACTOR: A larger financial services companies takes over ThinkSmart for its technology.

Shares in the finance technology and leasing company have slumped from a 52 week high of 70¢ to 21¢. ThinkSmart has exclusive agreements with major international retailing groups and processes high volumes of low value consumer and small business transactions.

News that its warranty services contract with Dick Smith and the Warranty Group will not be extended beyond April 2012, and a profit downgrade in late May, dampened already fragile sentiment towards ThinkSmart.

The contract's non-renewal will wipe about $1.2 million from net profit this year. Fat Prophets chief executive Angus Geddes believes investors overreacted to the news and are undervaluing ThinkSmart's innovative finance technology.

"ThinkSmart investors have endured a rocky road over the past year and it seems that sentiment towards the point-of-sale financier is so fragile that any whiff of negative news result in a sell-off," he says.

Geddes says ThinkSmart has a genuine competitive edge and reasonable capital returns through investment in partnerships, distribution and leading-edge technology here and overseas.

"The key risk is the retail and small-business environment but ThinkSmart is laying a platform for earnings growth when market conditions in Australia recover."

Geddes believes ThinkSmart's current price is too low, with the stock on a prospective price-earnings multiple of less than six times. BRW