

# Market Analysis

Issue No. 322

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April 13, 1999.

## Inside Market Analysis

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Editor and Research Director: James R Cornell (B.Com.)

## Summary and Recommended Investment Strategy.

The New Zealand stockmarket remains weak with large share issues draining funds from the market. Nevertheless, conditions are favourable and both the NZ and Australian stockmarkets should make good gains over the next 6-12 months. Remain fully invested in shares - especially *smaller, under-valued* companies

## Investment Outlook.

NZ's Gross Domestic Product *contracted* by 0.3% over the last year (although it has expanded in each of the last two quarters). Industrial Production for the December quarter *fell* 5.6% compared with the same period a year earlier.

As subscribers probably know by now, we rate such *bad* economic news as *good* for the stockmarket. The time to buy shares is when the economy is depressed, when company sales, profits and dividends - and, of course, share prices - are low. When the economy is booming, as it did in the mid-1980's, it is time to get out!

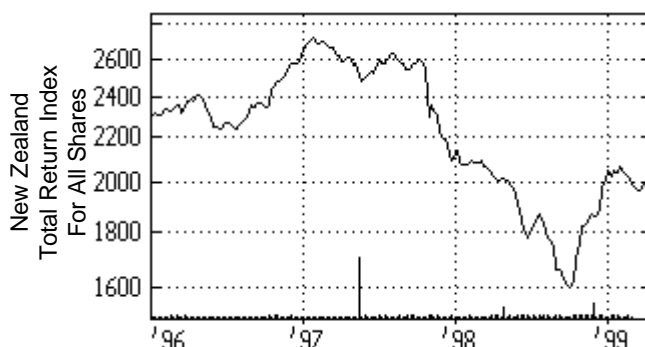
We continue to believe that the recent period of weakness on the NZ stockmarket relates directly to the huge cash demands on investors to pay the final Telecom instalment, initial Sky City instalment and the Contact Energy float.

Overall this offers a buying opportunity in other shares that offer better *value* and therefore hold the potential to yield superior investment gains.

Our **Primary Trend Model** of the NZ stockmarket is **Bullish** at **81.0%**, while "International Investor" predicts a **Bullish 66%** probability that the Australian stockmarket will rise over the next year.

Our **Short Term Trend Model** is also **Bullish** at **68.4%**.

The most attractive investments are mainly in the *medium sized* and *smaller* company shares. These businesses will benefit from the upturn in NZ's economic activity. While larger company shares - with high levels of foreign ownership - have been inflated by buoyant stockmarkets in the United States and Europe, medium sized and smaller shares have been neglected and are relatively under-valued.





# Recommended Investments

**Designer Textiles'** share price has suffered after a major, foreign based institutional shareholder sold 1,600,000 shares at prices down as low as 26 cents.

As soon as that selling ended the share price returned to around 38 cents. However, many of the buyers at lower prices will not be long term shareholders and, having bought in cheaply will sell for a quick profit. That will place the shares under selling pressure for at least the next several months!

We downgraded the shares to a "Hold+" and now rate them a "Hold" as the shares *may* weaken to a very undervalued 24-28 cents before again strengthening in value later this year.

**Colonial Motor Company** experienced a 4.8% drop in revenue to \$161.9 million and a 28.3% decline in profits to \$3,250,000 (10.5 cents per share) for the six months to 31 December 1998.

A steady interim dividend of 8.0 cents (plus full imputation tax credits) was paid at the beginning of

this month.

*Trading* profits (from the motor vehicle business) actually improved 3.5% to \$2,617,000 while the surplus on the sale of properties fell from \$2,006,000 to just \$633,000. Colonial Motors has sold off most of its property portfolio (and distributed the money to shareholders) over the last few years.

The company's dividend policy is to pay out 75% of trading profits - which would give a 6.25 cents dividend - but is paying a higher amount as the company has a strong balance sheet with little debt and surplus cash in the bank.

**Fernz Corporation** is to acquire the European phenoxy herbicide business of **Rhone-Poulenc Agro** at an undisclosed price.

Fernz Corporation also plans to change its balance date from June 30 to July 31, change its name to Fernz Nufarm, move its Head Office to Melbourne and become an Australian company. *(Continued on Page 4)*

## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Recommendation		Perform- ance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %	
		Code	- Date - Price										
<b>NZ Shares</b>													
HOLD+	Air New Zealand "A"	AIRVA	08/10/96	257*	A	566.8	0.9	0.51	11	7.1	280	54.0	+30%
HOLD	Apple Fields Limited	APF	10/03/92	237	C	29.2	2.7	1.31	NE	Nil	10	10.0	-92%
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	169.5	1.9	1.89	12	11.1	27	Nil	+8%
BUY	Cavalier Corporation	CAV	05/12/95	312	B	36.0	0.9	0.64	12	10.8	347	79.0	+37%
BUY	Colonial Motor Company	CMO	10/11/92	150	A	30.9	0.9	0.21	9	9.4	215	179.8	+163%
HOLD	Designer Textiles Ltd	DTL	12/01/99	47	B	29.7	2.0	0.26	8	14.0	32	1.0	-30%
BUY	Fernz Corporation Ltd	FER	11/02/97	505	C	145.7	0.8	0.62	17	4.6	585	42.0	+24%
BUY	Fruited Supplies Ltd	FSL	09/02/93	210	B	12.1	1.2	0.21	11	11.4	92	51.0	-32%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.6	0.9	0.82	16	4.7	300	45.5	+651%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	B	54.6	1.0	0.95	24	5.2	304	16.0	-9%
BUY	Owens Group Limited	OWN	12/03/91	47*	C	56.3	1.1	0.17	9	12.1	123	59.3	+288%
BUY	PDL Holdings Ltd	PDL	13/02/96	810	B	13.4	0.9	0.20	7	12.2	490	113.0	-26%
BUY	Radio Otago Limited	ROT	12/03/91	111*	B	4.4	0.5	1.49	18	3.9	380	74.0	+309%
BUY	Radio Pacific Limited	RPA	08/12/92	205	B	8.7	0.6	2.00	19	4.3	520	105.0	+205%
HOLD	Renaissance Corp	RNS	13/08/96	96	C	23.5	2.1	0.06	8	Nil	30	5.0	-64%
HOLD-	Richina Pacific	RCH	03/11/95	119*	E	72.2	1.7	0.07	NE	Nil	50	11.9	-48%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	32.4	1.1	0.85	10	9.1	86	29.8	-4%
BUY	Tourism Holdings Ltd	THL	14/07/92	179*	C	56.6	1.0	0.79	23	Nil	180	51.7	+29%
HOLD	Wrightson Limited	WRI	13/01/98	83	C	139.7	1.9	0.08	7	14.5	34	6.3	-51%
<b>Australian Shares (in Aust cents)</b>													
BUY	Abigroup Limited	ABG	09/03/99	265	B	47.0	0.5	0.19	6	5.4	224	6.0	-13%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	D	49.4	2.0	7.21	NE	Nil	15	Nil	-79%
HOLD+	Biron Corporation Ltd	BIC	12/04/94	178	C	21.6	1.6	1.12	14	8.0	25	9.0	-81%
BUY	Central Equity Ltd	CEQ	09/02/94	154	B	81.7	0.5	0.77	8	6.8	190	51.0	+56%
BUY	Data#3 Limited	DTL	09/02/99	285	A	12.9	0.9	0.42	14	4.0	289	Nil	+1%
HOLD	E.R.G. Limited	ERL	10/10/95	152*	A	200.6	0.5	1.91	31	0.5	218	6.0	+47%
HOLD+	Flight Centre	FLT	11/08/98	308	A	79.1	0.3	0.31	27	1.8	600	13.0	+99%
HOLD+	Hancock & Gore	HNG	15/07/97	125*	B	46.5	0.6	0.63	11	5.3	145	7.8	+22%
BUY	PMP Communications	PMP	09/02/99	309	B	252.5	0.4	0.72	14	6.3	324	10.4	+8%
BUY	Thakral Holdings	THG	10/11/98	65	C	489.6	1.0	1.51	11	8.4	62	2.6	-1%
BUY	Toll Holdings	TOL	08/09/98	240	A	45.3	0.3	0.26	17	2.7	512	18.0	+121%
BUY	Vision Systems	VSS	10/11/98	690	B	11.7	0.3	0.80	8	3.4	755	14.0	+11%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +51.0%. This is equal to an average annual rate of +21.2%, based upon the length of time each position has been held.

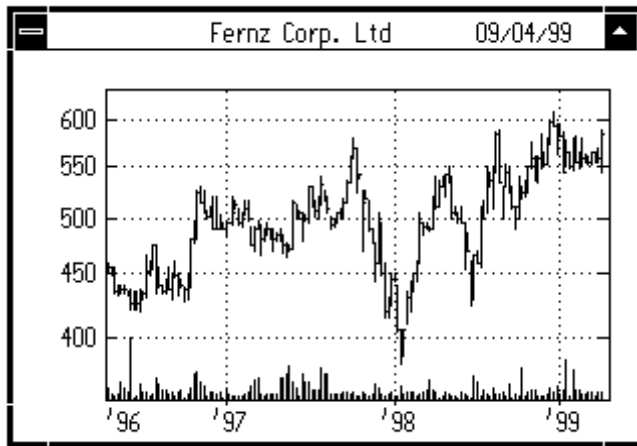
The average annual rate of gain of ALL recommendations (both the 31 current and 99 closed out) is +33.7%, compared with a market gain of +14.5% (by the SRC Total Return Index).

CURRENT ADVICE is either Buy, Hold+, Hold, Hold- or Sell. Hold+ indicates the most attractive shares not rated as Buy. Hold- indicates relatively less attractive issues.

\* Initial Recommendation Prices adjusted for Share Splits, Bonus and Cash Issues.

**Recommended Investments** (Continued from Page 3)

The move is designed to improve the company's share price and allow it to raise additional equity to partially fund larger acquisitions in the future.



**Owens Group** has sold its lime and coal mining operations in Canterbury for an undisclosed sum. This business was acquired in the early 1970's as part of **Burnett Transport**.

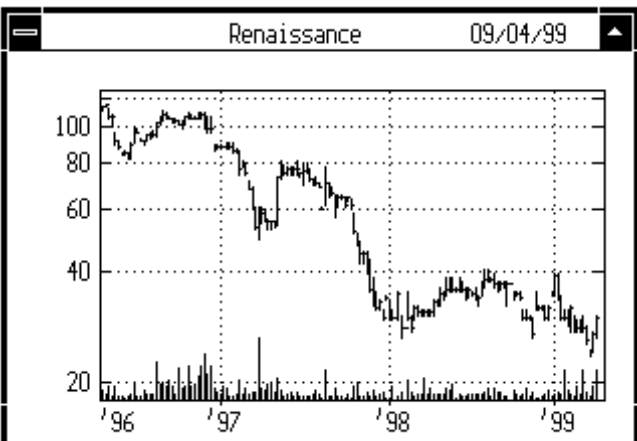
**Renaissance Corporation** has recorded a trading profit of \$891,000 (3.8 cents per share) before the amortisation of goodwill, compared with a loss last year. Revenue for the period increased 6.1% to \$110.0 million.

The company reported its profit as \$249,000 but that was after goodwill amortisation of \$642,000. Goodwill is purely an accounting item, being the cost of a past acquisition above book value of the net assets purchased. Renaissance will also completely write off the balance of goodwill over the next 3½ years - at which time reported profits would rise.

The net cash surplus from operations was a very healthy \$3.4 million. No dividend will be paid, with the money being used to reduce debt and to fund its new management information and electronic commerce system.

The company has made good progress reducing its operating costs - in part through the use of an internet site to allow customers to enquire about stock levels and prices, and to place orders. This part of the business is expected to become profitable this year.

While this is a low profit margin business, Renaissance Corporation has the potential to earn significantly higher margins than 0.8% on its \$110 million of sales! Directors expect the company "to report improved results" for the current financial year.



At 32 cents, Renaissance Corporation shares are trading at a Price/Sales ratio of just 0.07 - while many unprofitable companies involved in e-commerce trade at P/S ratios one hundred times greater! While we obviously believe that a P/S ratio of 7 would be ridiculous, a P/S ratio of 0.15-0.25 (i.e. a share price of 70-115 cents) is not an unreasonable expectation with a return to reasonable levels of profitability. The Price/Earnings ratio is also a low 8.4.

**Richina Pacific** has reported a 10.1% increase in revenue to \$497.3 million but a loss of \$28,802,000 (39.9 cents per share). Adjustments to "minority interests" - relating to the company increasing its share in **Shanghai Richina Leather** from 55% to 95% - resulted in a total decline in ordinary Shareholders' Equity of \$40.3 million - which is in line with the \$41 million total trading loss and asset write-downs predicted by the company in January.

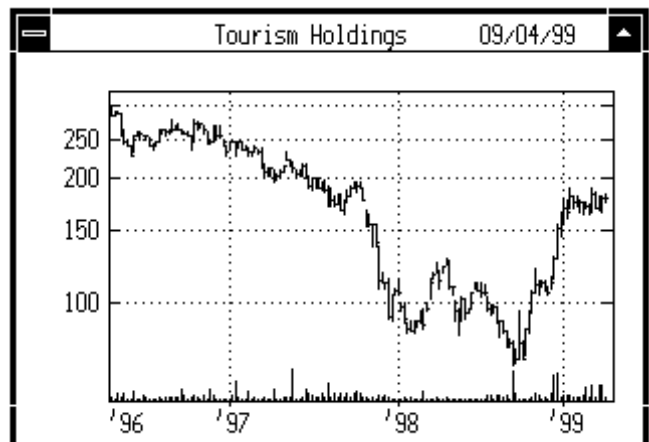
The directors state that the company has "made measurable progress" towards returning the company to a profitable future and increasing shareholder wealth. The company now expects to trade profitably during the current financial year.

**Tourism Holdings** has reported a 49.5% recovery in the half year profit (to 31 December 1998) of \$3,854,000 (6.8 cents per share). Revenues were up 36.2% to \$84.7 million.

In fact, the half year result was even better than these figures suggest. During the period the company has made a provision of \$1,340,000 (pre-tax) for unrealised foreign exchange losses, and incurred \$1,575,000 (pre-tax) in "one-off" restructuring costs.

The company is now forecasting an annual profit to June 30 of \$6.0 million - after deducting total (pre-tax) abnormal costs of about \$4.9 million. That will give earnings per share of 10.6 cents (or about 15 cents before abnormal costs) and directors are promising a dividend of "not less than" 5.0 cents (plus full imputation tax credits).

The current review of operations is designed to "increase shareholder value" by increasing profitability, reducing costs, lowering debt, selling some non-core assets and simplifying the company structure.

**Australian Shares**

**Abigroup** is one of three companies that have been short-listed to tender for the design, construction and maintenance of the 28½km by-pass from Yelgun to Chinderah on the Pacific Highway. The project is expected to be worth A\$240-280 million.

**Hills Motorway** (in which Abigroup owns 15,000,000 shares) continues to experience steady increases in traffic volumes on its toll road. Average daily usage was 62,415 vehicles in February (up 12.1% on the same month a year earlier) and 64,329 vehicles in March (up 14.0%).

Hills Motorway shares increased by 19 cents to A\$4.69 over the last month. Every one cent increase in the Hills Motorway price adds 0.32 cents to Abigroup's net asset value - so that 19 cent rise *should* raise the value of Abigroup shares by 6.1 cents.

Despite that, Abigroup's share price has declined by 41 cents to A\$2.24. Abigroup holds cash of \$1.43 per share, Hills Motorway shares worth A\$1.50 per share - plus a profitable construction business which the stockmarket is effectively valuing at *negative* A\$0.69 per share!

Will the value of Abigroup's cash, shares and construction businesses ever be reflected in its share price? Yes - especially as directors own 50.9% of this company. However, as discussed last month, the company may need to separate its low income producing, high value liquid assets from its high income earning, low asset value business (e.g sell the Hills Motorway shares, make large capital repayments) to help bring about that realisation.

An announcement on the sale of shares, a large "special" dividend, capital repayment or share buy-back would happen without further warning - and could result in an immediate sharp increase in the share price, probably followed by further appreciation.

Therefore we continue to rate asset rich Abigroup as a "strong Buy".

**Atlas Pacific** experienced a 72.9% drop in revenue to A\$1,026,825 for the year to December 1998, resulting in an operating loss of A\$861,000 (1.7 cents), compared with a trading profit of \$1,029,000 last year.

As expected Atlas Pacific harvested only 2543 saleable pearls last year, but will harvest about 18,000 this year and 35,000 in the year to December 2000 from its Waigeo Island site. In addition, 100,000 shells are now held in joint venture sites, which should contribute to pearl sales in the year 2000.

Two technicians from **Arrow Group** (an Australian pearling company) are at Waigeo to nucleate 40,000 shells and to train Atlas Pacific's local staff.

Atlas Pacific shareholders subscribed for only 12,555,549 notes - or just 50.9% - of the recent cash issue. The remaining shares were placed with the underwriter, **Biron Corporation**, which has retained about 7.0 million notes (at a cost of just over A\$1 million) with 5.0 million notes being placed with sub-underwriters.

As we mentioned in February, the Atlas Pacific 12½% convertible notes should trade at a 10-20% premium above the ordinary shares. The notes pay interest of 1.875 cents while the shares pay no dividend at present, the notes can be converted to ordinary shares at any time (so, via conversion, will receive any higher dividend rate that may be paid on the ordinary shares in the future) and note holders may choose to be repaid in cash (at A\$0.15) in three years (i.e. if the company performs poorly and the share price drops).

In fact, the shares and notes have been trading at

around the same prices - so selling the ordinary shares and re-investing in a similar number of notes will increase the income and reduce the risk from an investment in Atlas Pacific. However, check the number of shares sought at the bid price and the number of notes on offer before making a trade as the volumes are sometimes small.

As an example, last week the ordinary shares were quoted with buyers at 15 cents, and the notes were offered by sellers at 15½ cents. We therefore sold about one-third of our holding in Atlas Pacific ordinary shares at the bid price (15 cents) and immediately purchased a similar number of notes at the offer price (15½ cents). The half cent extra cost of the notes will be repaid 3½ times over by the first annual interest payment - while the option of a cash redemption makes these a relatively riskless investment.

**Biron Corporation** experienced a 24.6% drop in revenue to A\$2,003,000 for the six months to December 31 and a loss of A\$242,000 (1.1 cent per share).

Biron has invested half of its A\$2,165,000 surplus cash holding in Atlas Pacific convertible notes. The company has earned an A\$100,000 fee from underwriting that issue (which will be included in the second half result) and will earn A\$131,000 per year in interest on this investment.

Director GN Snow has recently purchased 724,809 Biron shares at around A\$0.24 - increasing his shareholding in the company to 6,235,288 shares (28.9% of the capital).

Two **Data#3** directors have taken advantage of the recent surge in the share price towards A\$4.00 - selling around A\$2.5-2.9 million worth of their shares.

MJE White sold 275,000 shares (raising about a million dollars in cash, while reducing his shareholding to 928,600 shares (7.2% of the capital). GR Clark sold 450,000 shares, reducing his shareholding to 574,600 shares (4.5% of the capital).

Data#3 shares have fallen back close to our original recommendation price (and will be ex-entitlement to a 5.5 cents dividend by the time you read this newsletter). At that level they are fundamentally under-valued (i.e. trade on a low P/S ratio and low P/E ratio - which will be considerably improved with the inclusion of **CICtechnology's** business this financial year) and are still one of the *strongest* shares listed on the Australian stockmarket (ranked in the top 3% by our long term Relative Strength rating). Buy.

**ERG's** Melbourne automated ticketing project has finally been commissioned - backdated to December 7. ERG has received A\$32 million and will receive the remaining A\$70 million (plus interest from December 7) between the end of April and the end of May.

ERG (and its global partner, **Motorola**) have also won two other major ATP projects.

An integrated contactless smart card fare collection system is to be installed on all five of Singapore's public transport operators, including 3750 buses, the MRT and LRT rail systems. There will be 22,000 card readers and initially five million smart cards. This will be the largest system in the world - similar in *size* to Hong Kong - but with a contract price of S\$134.6 million is approximately double the *value* of the original Hong Kong system. (Continued on Page 6)

**Recommended Investments** (Continued from Page 5)

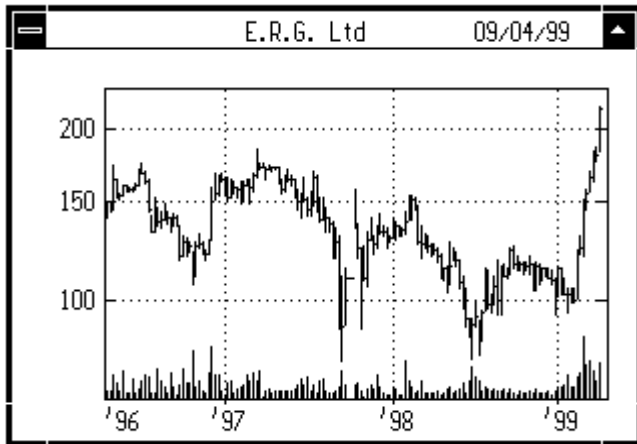
The Singapore "Enhanced Integrated Fare System" (EIFS) will use ERG technology and ERG will provide all processing infrastructure. The system will process transactions within 100 milliseconds, compared with 250 milliseconds on the current fare system.

Pilot trials of the EIFS will begin in early 2000, with the whole system completed by 2002. The system will also be designed so that use of the smart cards can be expanded to cover pay phones, car parking fees, tourist attraction entrance fees and retail purchases.

ERG/Motorola have also won a contract to conduct field trials of a smart card ticketing system in Berlin (Germany) and the surrounding Brandenburg area. The Transport Authority of Berlin then intends to roll out the full system by the year 2002.

The trials will begin in October lasting 3-6 months, cover two subway lines, two bus routes and one tram line with an expected 150,000 transactions per day.

The present transport system uses a paper based, flat fare ticketing system - while the proposed smart card system will use a time/distance based fare structure.



Four **Flight Centre** directors have sold a total of 5.0 million shares. This reduces their combined shareholding from about 76.2% to 69.9% of the company - a shareholding worth around A\$330 million!

**Hancock & Gore** has now re-purchased a further 179,607 shares over the last two months, bringing to 266,693 the number of shares acquired in its current on-market buyback.

**Vision Systems** is seeking to re-purchase some or all of its 300,000 converting preference shares. For each A\$100 preference share, the company will offer either one (non-convertible) medium term unsecured

note (MTN) with a par value of A\$118 or 14.9 ordinary shares (i.e. issued at a price of A\$7.92).

The A\$100 preference shares currently pay an A\$11.50 *dividend* per annum and convert to ordinary shares at a 10% discount to the market price on 30 June 2001. The A\$118 MTNs will pay A\$11.50 *interest* annually until June 2001, then A\$9.15 interest annually until maturity in June 2004 or December 2005.

The major advantages to Vision Systems are that interest on the notes will be tax deductible (the current preference dividend is not tax deductible) and the removal of a convertible security will reduce the potential dilution impact on the earnings of the ordinary shares.

Vision Systems has also announced its intention to raise A\$7-8 million in additional equity capital this year - either through a share placement and/or a renounceable rights issue to existing shareholders.

Vision Systems is also to raise cash through a technology sale to **Leica Microsystems Nussloch GmbH**. The contract is valued at A\$19 million, with **Vision Instruments** receiving cash (plus a minimum level of orders for its existing histopathology products over the next 15-24 months) while Leica acquires the rights to manufacture the next generation of an instrument currently under development by **Invetech** (another Vision Systems subsidiary).

A\$19 million is a major sale for a smaller company like Vision Systems - equal to about A\$1.65 per share!

Vision Instruments and Leica have operated a strategic alliance since 1991 to manufacture and market pathology laboratory instruments (used to automate the processing and preparation of human tissue and blood samples). Vision Instruments will be prevented from re-entering this specific product market for four years.

The directors state that this sale is "a small portion of the company's intellectual property portfolio" and is an example of the "expanded strategy to accelerate the returns in our automated instrument business".

Vision Instruments will soon be releasing a haematology instrument for worldwide marketing and is developing a clinical chemistry analyser. Both projects involve joint ventures with multinational diagnostic instrument companies.

When Vision Systems' share price rose to A\$8.50 in February we downgraded them to a "Hold+", but with the price dipping back to A\$7.55 we are upgrading them to a "Buy".

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## *"Market Analysis" and "International Investor" on the Internet*

From this month we have changed the way we publish "Market Analysis" and "International Investor" on our Internet site.

The electronic versions of our newsletters are now published as **Adobe Portable Document Files** - which are quicker for us to produce, quicker for you to

download, and have all the page formatting and graphics that are contained in the print version.

Using Adobe Acrobat Reader - which is available free of charge from Adobe ([www.adobe.com](http://www.adobe.com)) - you can read the electronic version of the newsletters on your computer or print out a copy on your computer printer.

**How to Install Adobe Acrobat Reader**

For those subscribers not already using Adobe Acrobat Reader, downloading and installing this free software is relatively simple (but time consuming).

Go to our internet site ([www.stockmarket.co.nz](http://www.stockmarket.co.nz)) and click on the "Get Acrobat" logo at the bottom of the page. That will take you directly to the page of the Adobe site where the software can be downloaded. Choose the language (English) and your computer operating system (probably Win95), enter your e-mail address and click on "download". You will go to another page at the Adobe site, and then a "Save as . . ." box will open prompting you to save the software somewhere on your hard drive as a file called "ar40eng.exe". That file is 5456 kilobytes, so may take as long as 45-60 minutes to download with a 33.6k modem, so fortunately you will only have to do this once!

When that file has been downloaded, you can go off-line and install Adobe Acrobat Reader on your computer. Find the "ar40eng.exe" file (in Windows 95 or 98 you can click on "Start", "Find", "Files and Folders") and then double click on the file name. This will run the program and install Adobe Acrobat Reader.

[Editor's Note: If you have any problems phone me on 09-4199 427 - but remember that just five minutes per subscriber will take a whole month of my time!]

**How to Read the Electronic Version of "Market Analysis"**

The electronic version of "Market Analysis" (and "International Investor") is currently published in the password protected area of our internet site on the Wednesday morning that NZ Post *should* be delivering the print version.

To download and read the electronic version, go to our internet site ([www.stockmarket.co.nz](http://www.stockmarket.co.nz)) and click on "current issue", enter the User Name and Password (from the back page of the previous month's print edition) and then click on "Download Entire Newsletter in Adode.pdf format". This will prompt you to open or save the file. We suggest you save the file (with a name like "ma322.pdf") and read it off-line. "Market Analysis" is about 200-250 kilobytes (depending upon the number of pages, and graphics), so will take just 2-3 minutes to download.

You can then go off-line to read the newsletter. Find the file (i.e. "ma322.pdf" for this month's "Market Analysis" Issue No. 322) using "Start", "Find", "Files and Folders" and double click on the file name "ma322.pdf". This will run Adobe Acrobat and open the newsletter on your screen. You can page through the newsletter and read it on your computer screen, or print out a copy to your computer printer.

## *Internet Sites:*

### *NZ Internet Brokers, Australian Company Profiles*

**NZ Internet Brokers**

New Zealand now has two Internet brokers - with a third, **E\*Trade Australia**, considering entry into the market.

**Direct Broking** ([www.direct-broking.co.nz](http://www.direct-broking.co.nz)) has started an internet service under the name **Trade Direct** ([www.directtrade.co.nz](http://www.directtrade.co.nz)).

The internet service charges the same brokerage rates (i.e. 1.25% on the first \$8000, with a minimum \$20 brokerage and \$4 trade fee, or 0.8% for larger investors and more active traders) but you do need to operate a cash management account and have funds with the broker before making a purchase.

**DF Mainland** ([www.dfmainland.co.nz](http://www.dfmainland.co.nz)) has operated an internet service since 1996, but now has more competitive charges (1.0%, with a minimum of \$30 - or "negotiable with reference to your existing arrangements and expected trading activity").

In line with other internet brokerage services, you must have funds on deposit with the broker before making a purchase.

**Summary and Recommendation**

Internet brokers are an excellent way to access the Australian, United Kingdom and United States stockmarkets - avoiding international toll charges, overcoming time differences, simplifying settlement and giving access to the very lowest brokerage rates.

In NZ, most of those problems do not exist. NZ brokers have yet to lower fees for internet trading - passing on the substantial cost savings possible from

efficient utilisation of this technology. These services are probably great for overseas investors in the NZ stockmarket, but most NZ investors will probably find it easier and faster to use the broker's toll-free telephone number.

**Australian Company Profiles**

Investors can now obtain Australian company profiles, brief financial information and end of day quotes from a new service from **Yahoo! Australian and NZ Finance** ([quote.yahoo.com.au/finance/profiles](http://quote.yahoo.com.au/finance/profiles)).

The service covers all listed Australian companies - but gives only a brief description of the company and the financial information is a little out of date.

For example, the profile of our recent recommendation, **Abigroup**, tells us that "The company is principally engaged in civil engineering, building, project management and a broad range of specialist construction services throughout New South Wales, Victoria and Queensland" but makes no mention of its significant investment in Hills Motorway.

The site also gives brief summaries of the June 1997 and 1998 financial year results, and the December 1996 and 1997 interim reports. The profile has not yet been updated for the December 1998 interim - released on March 5.

This site probably isn't suitable for the *serious* investor who wants up-to-date news and live share prices, but most investors will probably find that it gives a brief description of a company's business and share price quotes from the end of the previous day.





# Computer Selections of Australian Shares based upon our Comprehensive Share Selection Criteria

See "Market Analysis" issues 298-301 or the Reprint sent to all new subscribers for details. These shares are not formal "buy" and "sell" recommendations, but the "Under-Valued", "Best Performing", "Income" and "Insider Buying" shares should be considered for purchase, while the "Over-valued", "Worst Performing" and "Insider Selling" shares can be sold to release money for re-investment in more attractive shares.

Company	STRENGTH RATING				Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank									
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0													
Port Douglas	8	+4.1	+2.5	30	0-0	-	0.4	34	4.2	187.5	0.03		18
Auto Group Ltd	98	+13.0	-0.8	13	0-0	1	2.4	17	1.5	14	4.1	0.07	33
Mosaix Technol.	98	+0.3	-0.1	42	0-0	-	1.0	4	1.5	27	6.1	0.08	18
A.P. Eagers	450	+6.5	+1.4	23	1-0	2	1.0	9	0.9	11	5.8	0.08	54
Adtrans Group	195	+0.8	+0.7	40	3-0	1	2.2	22	1.2	10	6.2	0.10	43
Grow Force Aust	739	+7.6	+2.8	21	0-0	-	2.4	9	0.8	27	3.4	0.13	14
Roberts Ltd	180	+0.5	-0.2	41	0-0	1	0.7	11	1.2	6	8.3	0.13	19
FAI Insurance	75	+11.9	-3.0	15	3-1	5	1.4	-	1.6	NE	0.7	0.13	239
Datamatic Hold	18	+10.9	-0.2	16	0-0	-	-	-	2.9	111.4	0.15		7
Tag Pacific	11	+2.7	-7.8	33	0-0	-	0.5	5	3.6	10	5.5	0.15	5
Angus & Coote	310	+2.2	+0.6	35	0-1	-	0.8	7	1.0	12	6.5	0.16	37
Spicers Paper	148	+4.4	+0.8	29	0-0	8	0.9	7	1.3	13	5.4	0.18	204
Skydome Holding	25	+2.4	-3.4	34	0-0	-	1.4	25	2.5	610.0	0.18		3
Abigroup Ltd	224	+4.7	-1.7	27	0-0	2	2.3	36	1.1	6	5.4	0.19	105
IAMA Ltd	240	+6.5	-2.3	23	2-3	5	2.1	17	1.1	13	5.8	0.20	206
Farm Pride Food	79	+7.6	-2.3	21	0-0	-	-79.0	-	1.6	11	2.0	0.20	13
S.P.C. Ltd	66	+17.7	+10.8	10	0-0	-	0.9	14	1.7	6	3.4	0.21	46
Danks Holdings	950	+5.8	+2.4	24	0-0	-	1.6	12	0.8	14	3.9	0.23	62
Heggies Bulk.	58	+30.0	-3.3	4	0-0	-	1.9	15	1.8	12	6.0	0.23	31
Eltin	158	+9.9	+4.3	17	1-0	7	1.0	11	1.2	9	6.3	0.23	118
Joyce Corp.	157	+3.5	+0.2	31	0-0	-	1.9	20	1.2	10	6.1	0.23	29
Green's Foods	55	+9.4	+2.8	18	3-1	-	2.3	2	1.8	99	1.8	0.24	32
Watpac Ltd	51	+15.2	+1.6	11	2-0	2	2.0	22	1.9	9	6.4	0.25	34
Bridgestone	325	+3.0	+0.7	32	0-0	1	0.9	8	1.0	10	3.8	0.25	119
Toll Holdings	512	+34.8	-3.7	3	1-0	5	3.5	21	0.9	17	2.7	0.26	232
Metal Manufact.	210	+8.5	-0.9	20	7-0	4	1.6	66	1.1	2	5.7	0.27	274
Penfold (WC)	165	+2.5	+0.8	34	0-0	-	1.3	4	1.2	38	6.1	0.27	21
Embelton Ltd	200	+2.2	+3.6	35	0-0	-	0.8	7	1.2	13	3.5	0.27	4
Foodland Assoc	1180	+11.0	+1.7	16	0-0	12	3.2	15	0.8	22	3.9	0.28	1,106
Ges Internat'l	45	+38.3	+2.6	3	0-0	1	2.0	11	1.9	19	2.3	0.30	185
Lemarne Corp	255	+0.3	-1.3	42	0-0	1	1.7	16	1.1	10	5.1	0.30	42
Colly Cotton	128	+4.9	-2.1	26	2-0	1	1.1	30	1.3	4	7.6	0.30	137
Aust Pharm. Ind	215	+0.8	+0.4	40	1-0	3	2.0	12	1.1	17	4.5	0.31	311
Flight Centre	600	+27.5	+3.5	6	0-4	2	9.5	36	0.9	27	1.8	0.31	474
Wills (WD & HO)	429	+17.8	+0.5	10	0-0	8	2.1	17	0.9	13	7.0	0.31	566
CPI Group	237	+9.7	+1.3	18	0-0	8	1.8	6	1.1	32	5.1	0.32	95
Morgan & Banks	539	+21.0	+0.9	8	0-0	320.7	61	0.9	34	1.9	0.33	380	
Monadelphous Gr	300	+2.3	+1.8	34	0-0	-	2.6	24	1.0	11	8.3	0.33	49
Pearl Riv. Tyre	72	+4.7	-0.4	27	0-0	-	0.5	12	1.6	4	4.2	0.36	38
Futuris Corp.	220	+10.8	+0.4	16	3-0	8	2.4	25	1.1	10	3.4	0.37	1,122
Centennial Coal	68	+6.7	+2.9	22	0-0	-	0.5	5	1.7	9	7.4	0.38	23
Tempo Services	225	+30.1	-1.6	4	0-5	545.0	-	1.1	17	3.3	0.38	96	
Just Jeans Grp	163	+4.4	-1.2	28	5-0	8	2.6	13	1.2	20	5.5	0.38	133
Clough Limited	72	+6.4	-1.0	23	0-0	2	2.5	29	1.6	9	1.4	0.40	241
Southern Dental	31	+3.1	-1.1	32	0-0	-	1.1	17	2.3	7	6.5	0.40	7
East African Co	325	+6.7	+2.4	23	0-0	-	0.8	11	1.0	8	3.1	0.41	21
Finemore Hold	330	+10.4	+3.3	17	2-0	6	1.7	12	1.0	15	3.9	0.42	134
Data 3 Ltd	289	+38.4	+1.5	3	1-2	110.7	72	1.0	14	4.0	0.42	37	
A.I. Engineering	16	+4.3	+4.5	29	0-0	-	1.3	25	3.1	5	6.5	0.43	12
Lemvest Ltd	385	+6.6	+0.5	23	0-0	1	1.7	13	1.0	13	6.2	0.43	38
<b>BEST PERFORMING SHARES:</b> Strongest Shares, P/E < 20, P/S < 1.0													
New Hampton Gol	25	+42.2	-0.0	2	0-0	-	-	-	1.9	10	Nil	0.87	34
Data 3 Ltd	289	+38.4	+1.5	3	1-2	110.3	72	0.9	14	4.0	0.42	37	
Ges Internat'l	45	+38.3	+2.6	3	0-0	1	2.0	11	1.5	19	2.3	0.30	185
Toll Holdings	512	+34.8	-3.7	3	1-0	5	3.5	21	0.8	17	2.7	0.26	232
West Aust Metal	5	+30.2	-5.6	4	0-0	-	-	-	3.8	0	Nil	0.02	1
Tempo Services	225	+30.1	-1.6	4	0-5	545.0	-	0.9	17	3.3	0.38	96	
Heggies Bulk.	58	+30.0	-3.3	4	0-0	-	1.9	15	1.4	12	6.0	0.23	31
Strathfield Grp	238	+26.5	+3.4	6	0-0	1	9.9	55	0.9	18	5.4	0.84	145
Keycorp Ltd	241	+25.4	+2.0	6	0-0	1	4.5	24	0.9	19	Nil	0.56	75
Qantas	405	+22.9	+1.5	7	1-1	15	1.6	10	0.8	15	3.3	0.58	4,850
Crown Ltd	93	+21.2	+3.8	8	0-0	13	2.1	15	1.2	14	Nil	0.72	926
Oroton Int'l	157	+20.7	+2.5	8	3-0	-	2.3	15	1.0	15	5.1	0.53	25
Garratt's Ltd	115	+18.6	-1.8	9	3-0	-	3.1	35	1.1	9	8.7	0.98	12
Wills (WD & HO)	429	+17.8	+0.5	10	0-0	8	2.1	17	0.8	13	7.0	0.31	566
S.P.C. Ltd	66	+17.7	+10.8	10	0-0	-	0.9	14	1.3	6	3.4	0.21	46
ASC Ltd	80	+17.4	-2.6	10	0-0	-	1.0	33	1.2	3	Nil	0.29	34
Waterco Ltd	124	+16.6	+3.4	11	0-0	-	1.3	13	1.1	10	5.6	0.53	21
Breakwater Is.	21	+15.2	+2.8	11	0-0	2	0.6	5	2.0	13	5.7	0.66	30
Watpac Ltd	51	+15.2	+1.6	11	2-0	2	2.0	22	1.4	9	6.4	0.25	34
Reece Australia	1425	+13.8	+2.3	13	0-0	-	2.2	13	0.7	16	2.5	0.67	284
TDG Logistics	128	+13.7	-2.9	13	0-0	1	1.4	10	1.1	14	4.9	0.80	58
Auto Group Ltd	98	+13.0	-0.8	13	0-0	1	2.4	17	1.2	14	4.1	0.07	33
Erawan Company	31	+13.0	+0.4	13	0-0	-	0.2	5	1.7	4	11.6	0.51	10
Rothmans Hold	1395	+13.0	+2.2	13	1-0	8	8.4	48	0.7	17	11.8	0.68	1,700
Norm Mt Leyshon	173	+12.6	-4.6	14	0-0	10	-	-	1.0	5	20.2	0.89	137

Company	STRENGTH RATING				Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank									
Faulding (F.H.)	915	+12.5	+2.8	14	0-0	10	4.5	23	0.7	20	2.2	0.71	1,337
Central Equity	190	+12.3	+0.2	14	6-0	1	1.5	19	1.0	8	6.8	0.77	155
Freedom Furn.	198	+11.8	+2.1	15	1-0	10	6.4	32	1.0	20	3.8	0.75	150
Dollar Sweets	69	+11.7	-1.5	15	0-0	113.8	-	-	1.3	13	2.9	0.92	71
Datamatic Hold	18	+10.9	-0.2	16	0-0	-	-	-	2.2	111.4	0.15		7
Futuris Corp.	220	+10.8	+0.4	16	3-0	8	2.4	25	0.9	10	3.4	0.37	1,122
Finemore Hold	330	+10.4	+3.3	17	2-0	6	1.7	12	0.9	15	3.9	0.42	134
Eltin	158	+9.9	+4.3	17	1-0	7	1.0	11	1.0	9	6.3	0.23	118
Jones (David)	1	+9.3	+6.7	19	0-0	-	-	-	9.0	0	Nil	0.02	2
Atlantic Ltd	22	+9.1	+2.8	19	0-0	-	0.4	30	2.0	1	Nil	0.96	5
Stokes (Aust)	50	+8.6	+4.4	19	0-0	-	0.5	10	1.4	5	Nil	0.08	3
Metal Manufact.	210	+8.5	-0.9	20	7-0	4	1.6	66	1.0	2	5.7	0.27	274
Eumundi Brewing	10	+7.9	+8.0	20	0-0	-	2.5	43	2.7	6	Nil	0.36	4
Maxi TRANS	35	+7.8	+0.2	20	0-0	1	7.0	73	1.6	10	6.4	0.60	44
Vision Systems	755	+7.7	+0.4	21	4-1	2	4.7	59	0.7	8	3.4	0.80	89
Farm Pride Food	79	+7.6	-2.3	21	0-0	-	-79.0	-	1.2	11	2.0	0.20	13

# Readers Ask . . .

**Question:** I am 61 years old, recently retired and financially supported by my husband now also retired.

I have just inherited \$76,000 and would appreciate advice on what to do with the money. My first thought was to invest 30% in shares and place the remainder in fixed interest and mortgage bonds, with some cash in a short term bank deposit.

I don't need the money for day to day living. My goal is to make the money work, so feel I should be less conservative - but I don't want to lose it!

I am in for the medium term (3-10 years). Not expecting to live for ever, I want to have some extra money for travel, etc.

My existing portfolio is worth about \$40,000. I would appreciate your advice on what to buy now, how much in NZ and whether to invest directly in Australia or via a trust.

**Answer:** How you choose to invest this money will depend upon several factors that will be unique to your situation.

Firstly, decide how quickly you would like to spend the money. For example, two people can take a two week holiday in the Pacific or Asia for around \$5000. A trip to Australia would be cheaper, while Europe and America would cost more. Being retired you may also like to stay away for longer.

Also, will you be funding travel completely from these investments, or partially from your husbands other assets or income (which hasn't been detailed or disclosed in your letter)?

So decide whether you want \$3-5000 (which could be funded mainly from investment *income*) or a greater sum (which would require spending some of your *capital* as well).

If you plan the smaller annual expenditure, then you can afford to put more of your inheritance into volatile shares as you will be *spending the income* and will not be too concerned with (shorter term) fluctuations in value. This will give you the greatest long term income growth and capital appreciation.

On the other hand, if you plan to spend larger amounts, then *preservation of capital* becomes more important, so you will want to put more of the money into fixed interest investments. Your medium to longer term returns will be lower with fixed interest, but at least you will know that the capital will be there when you want to spend it!

Assuming that you want to spend \$3-5,000 per year (and can therefore afford the volatility of investing in shares) you must, secondly, decide the level of stock-market investment with which you will be comfortable.

For example, for many people it may be appropriate to have 100% of their investments in the stockmarket - but if they are going to stay awake at night worrying every time the market takes a little dip, then it would be better to put 50% in shares and 50% in fixed interest, and at least sleep better.

Given that you don't need this money for "day to day

living", being a little less conservative and making the money work harder in the stockmarket is probably a good idea - provided that you don't become overwhelmed by your "I don't want to lose it" fears and sell out at the worst possible time! No-one *wants* to lose money, but to make it work in the stockmarket we must all understand that there are risks involved, but minimise them through good diversification. The biggest risk is getting into a panic at a market bottom and selling out as it looks as though the market will never recover.

Thirdly you need to find some investments that best suit your investment goal of high income to fund travel, plus some growth to maintain the purchasing power of your investment income - and your capital - against inflation.

Given the low (5½-6½%) yield on fixed interest investments, one of the best investment for your situation would be property shares (e.g. **Capital Properties, Kiwi Income Properties, Property for Industry, Shortland Properties**).

The gross income yields on these shares (and based upon the fully paid up cost of the Capital Properties partly paid shares) are around 8½-9½%. Medium to long term you should also be able to expect around 2% per annum in both income growth and capital appreciation. Property shares are also less volatile than industrial shares, so are a good low risk, high yield investment.

We therefore suggest putting around \$20-25,000 of the inheritance into Property shares, another \$20-25,000 into building and diversifying your existing share portfolio, and \$15-25,000 into fixed interest investments and about \$10,000 in an "at call" account. The gross income from that should be around \$5,000 - giving you about \$3,500 after tax.

You can also use some of the "at call" funds (topped up over the medium term with some capital gains or original capital, plus the income from your existing shares) to fund a higher level of annual expenditure.

### **What to Buy**

For the \$20-25,000 in Property shares, put about \$5-6,000 in each of the four companies mentioned above.

The existing portfolio consists of 12 shareholdings: Telstra (about \$10,000), Toll Holdings (\$8,900), Fernz (\$5,500), Cavalier (\$3,500), Sky City (\$3,400), Radio Pacific (\$2,800) and Air NZ (\$2,800), with very small holdings (i.e. just \$100-1000) in Brierley, South Port, CDL Investments, Designer Textiles and Fruited.

You obviously have some experience investing in Australia (e.g. JNA, Telstra and Toll Holdings) and so continue to make direct investments rather than invest in a unit trust where capital gains are usually taxed (or distributed as income, and taxed in your hands).

In addition to the Property shares, aim to have about 10-12 shareholdings, with around \$4-8,000 in each - which will give you very good diversification and minimise the risk. Telstra and Toll Holdings are slightly above that level, but not by enough to justify any action.

Use the new money to build up the Air NZ, Cavalier, CDL Investments and Designer Textiles holdings, and perhaps add Owens Group, Abigroup and PMP Communications.

The \$15-25,000 in fixed interest could go into 3-5 investments with different banks and finance companies, with a spread of maturities (from six months to three years).

Finally, sit back and wait for those dividend cheques to arrive each month, while planning your holiday. [Editor's Note: This year my wife and I are off to Malaysia for two weeks in June, and will take the children to Fiji or another Pacific Island for two weeks in September.]

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**Question:** I have \$120,000 in a superannuation scheme, into which I am contributing 12% of my \$100,000 salary (with a 6% contribution from the company).

My other investments are about \$10,000 in shares (in three companies that have not been too successful), and \$60,000 equity in a \$146,000 rental property returning \$9,600 per year.

To raise some cash to build a share portfolio, should I reduce my company superannuation contribution to 6% of gross salary, sell the house to realise the equity, sell all my existing shares and start again and/or withdraw \$28,000 (at 6½% interest) that I have paid off my revolving mortgage account?

**Answer:** The one certain thing that we advise doing is reducing the 12% contribution going into the company superannuation scheme. Reducing this contribution by half will free up \$6,000 per year, while you will still receive the full subsidised contribution from your employer.

There are several advantages in investing this money yourself. Firstly, you will not pay capital gains taxes, but money invested through the superannuation scheme is taxed at 33% on all capital gains from shares. Secondly, you can invest all of this \$6,000 per year in the stockmarket for maximum capital appreciation over the medium to long term. Your superannuation fund probably has 40-60% of its portfolio invested in fixed interest investments. Those aren't the best long term investments for building retirement savings.

The residential property investment is producing a 6½% return on its value - before allowing for repairs and maintenance, depreciation, loss of income during vacancies and the labour value (your full time job pays \$55/hour) of managing this investment. The \$60,000 equity invested in the stockmarket would probably provide a similar income yield, involve less work and generate better medium to long term capital appreciation. Therefore we also favour selling this residential property investment.

The three existing stockmarket investments are all large, popular, widely held shares - that you would find in most share portfolios. However, large popular widely held shares are not the best investments to be

holding!

Re-borrowing against your mortgage is a less attractive way to raise cash. Shares are volatile investments that should be bought with equity, not debt. If the stockmarket declines, a fall in the value of your equity may be painful but, over the longer term the market will recover and your equity will grow in value. On the other hand, if you buy shares with borrowed money a decline in the stockmarket would be considerably more painful. Your losses would be higher (as you would have more money invested in the stockmarket) and you would need to go on paying interest, instead of using that money to add to holdings at lower prices.

The sale of the residential property and the existing shares should raise around \$70,000 in cash, plus \$6000 from lowering your superannuation contribution and (hopefully) some other savings from your \$100,000 salary.

With this you should start off by investing around \$5-7,000 in each of 10-14 different NZ and Australian shares - and adding another couple of shareholdings each year from savings and accumulated dividends.

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**Question:** What can I expect from a broker? Are they supposed to do as they are told, or should they get on the phone to me the moment one of my stocks looks set to dive? What else could/should a broker offer?

**Answer:** If one is going to talk about "my broker phoning the moment one of my stocks looks set to dive" then it is important to begin with "Once upon a time" and to end with "married the beautiful princess and lived happily ever after" - just to make it clear to new investors that we are not discussing something that happens in the real world!

Brokers tend to fall into two groups: "full service" brokers that not only provide a broking service but also offer investment advice and newsletters, and "discount" brokers that have lower fees but no advice.

However, the distinction is changing, especially overseas with internet brokers which are offering access to a large range of information sources (although not specific advice).

The main thing is to decide what you want - and, more importantly, don't want - from a broker.

As a subscriber, if you plan to follow the advice in "Market Analysis" then a "full service" broker giving you conflicting advice may be the last thing that you need. Several subscribers have told us that they were "talked out of buying NZ Refining" shares back in 1986!

If you know what you want to buy or sell, then a "discount" broker will simply complete your purchase or sale without comment. They should also be able to help you out if you have a question - just don't ask them "What do you think of XYZ shares?"

If you invest through an internet broker then you are effectively acting as your own broker - and placing your buy and sell orders directly into the market yourself!

# Current Issues

## SHARE REPURCHASES

	Price	Ratio
Infratil (1)	-	-
NZ Oil & Gas (2)	-	-
Progressive Enterprises (3)	-	1:4
Sky City (4)	-	-
Tranz Rail (5)	-	-
Wrightson (6)	-	-

- (1) Infratil NZ plans to buy-back up to 10% of its capital on-market.  
 (2) NZ Oil & Gas plans to re-purchase up to 5% of its capital on-market.  
 (3) Progressive Enterprises is planning a 1 in 4 compulsory pro-rata share buy-back to distribute around \$80 million in cash.  
 (4) Sky City plans to buy-back up to 7.5% of its capital on-market.  
 (5) Tranz Rail plans to re-purchase 5% of its capital on-market.  
 (6) Wrightsons "up to \$50 million" buy-back will continue through March and April.

## NEW ISSUES

	Price	Date	EPS	DPS
Contact Energy	240-300	-	10.8	8.7

**Contact Energy's** issued capital will consist of 603,950,000 shares.

40% of these (or 242 million shares) have already been sold to US based **Edison International** at NZ\$5.00 per share.

The NZ government now plans to sell 37% of the company (223 million shares) to NZ and Australian institutional and private investors and another 20% (121 million shares) to foreign institutions.

Contact Energy is the second biggest electricity generator in NZ (with a 25% market share), a major gas supplier (with a 30% market share) and a major electricity retailer (with 22% of retail customers).

While an energy utility *should* be a low risk business that situation is far from certain in NZ. Contact Energy's public share sale coincides with the April split of the remainder of ECNZ assets into three competing companies - which is expected to result in price volatility in the wholesale electricity market for at least three months.

Like other recent government share issues, the price that investors pay for Contact Energy shares will be determined *after* the issue closes. This is *likely* to be between \$2.40 and \$3.00 - but may be higher or lower.

This pricing system *maximises* the amount that the government will get from selling Contact Energy, but does not necessarily work in the interests of investors. An investor who believed the shares were good value at \$2.50, but over-valued at \$3.00, could end up buying into the company at \$3.20.

Contact Energy is predicting revenues of \$795.6 million in the current financial year, profits of \$65.5 million (10.8 cents per share) and a dividend of 8.7 cents (plus tax credits). At an issue price of \$2.50 per share, that puts the shares on a Price/Sales ratio of 1.90, a Price/Earnings ratio of 23.1 and offers a gross Dividend Yield of 5.2%.

At an issue price of \$3.00, the P/S ratio rises to 2.28, the P/E to 27.8 and the Yield falls to 4.3%.

Revenue is predicted to rise 11.6% the following year, with profits growing by 19.7% and dividends 18.4%. Based upon an issue price of \$2.40-3.00, that gives a P/S ratio of 1.63-2.04, a P/E of 23.3-29.1 and a Yield of 5.1-6.4%.

Contact Energy shares will not be cheap, with the shares being fully priced at the \$2.40-3.00 indicated issue price.

Despite this, the shares will likely prove popular with investors - with demand for shares exceeding supply. Edison *may* also later seek to increase its shareholding to about 50%, although is prevented from buying shares in the first six months.

The previous two paragraphs suggest that Contact Energy may not be a particularly great *long term* investment (as investors are buying at a fairly high price) but that the shares may perform well over the first year after listing as private investors and institutions increase their holdings and, later, if Edison seeks to raise its shareholding.

However, that *expectation* is likely to be built into the institutional tender - with institutions bidding high to get as many shares as possible in anticipation that the share price will rise on the market. For example, an aggressive institution may bid \$3.50 to get a large allocation, but hoping that the price is set at \$3.00 and the shares will list on the market at \$3.20. If too many institutions do this then we could all end up paying this unexpectedly high price!

This situation would be similar to the AMP float. With the expectation that AMP shares would rise on the market as institutions bought, the shares actually listed *at their peak* and then declined in price!

The market capitalisation of Contact Energy will be \$1450-1800 million or \$870-1090 million excluding the 40% held by Edison.

That would rank the company 4th out of the 13 (stet) shares that make up the NZSE10 Index (possibly displacing FC Forests or Natural Gas), and as the 5th to 7th largest company in NZSE30 Index.

### Summary and Recommendation

If you have some spare money then it is probably worth applying for some Contact Energy shares on the basis that they will perform reasonably well over the next year.

However, we don't see it as a *very long term* holding. The high price received for Contact Energy will also encourage the government to advance plans to sell off one or more of the three new companies being formed out of ECNZ. A second float in a few years time would have a negative impact on Contact Energy's share price.

# "Insider" Trades in Australian Shares

The first table below shows the number of Purchases and Sales of a company's shares by its Directors over the last twelve months (excluding "Neutral" situations where the number of Buyer and Sellers were equal, or differed by just one). Shares where many "insiders" have been buying can outperform the market for up to two years, while shares where many "insiders" have sold can under-perform for a similar period.

The second table ranks Industry Groups by the average number of Net Buyers (i.e. Buyers less Sellers over the last year). Consistent buying across an Industry may indicate developments that are favourable for all companies within that sector, while consistent Industry selling may indicate an unfavourable outlook for that whole sector.

## "Insider" Indicators

Last 5 wks: 54.6% Buyers  
Last 13 wks: 56.3% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
AMP Ltd	6-1	Border Gold NL	2-0	GIO Australia	3-0	Metal Manufact.	7-0	Schaffer Corp	2-0
APN News Media	3-0	Brambles Ind.	3-0	GWA Internat'l	3-0	Metex Resources	1-5	Seven Network	4-1
ARC Energy	3-0	Buderim Ginger	0-3	Garratt's Ltd	3-0	Milton Corp.	5-0	Smith (Howard)	5-1
Abednego Nickel	2-11	Burns Philp	2-0	Gindalbie Gold	0-2	Montague Gold	0-2	Soul Pattinson	2-0
Adacel Tech.	5-0	C & W Optus	1-4	Glengarry Res.	2-0	Mt Grace Res.	3-0	Southcorp Ltd	3-0
Adtrans Group	3-0	C.S.R. Ltd	3-0	Goldstream Min.	2-0	Murchison Un.	3-0	South East Tele	6-0
Africwest Gold	6-0	Capital Energy	0-2	Graincorp	4-2	Namoi Cotton	4-0	St Barbara Mine	2-0
Amcor Ltd	2-0	Capral Alum.	2-0	Grange Resource	5-0	Nat'l Foods	2-0	Tanganyika Gold	3-1
Anglo Australia	2-0	Central Equity	6-0	Green's Foods	3-1	Nautronix Ltd	4-1	Tempo Services	0-5
Argo Investment	0-4	CocaCola Amatil	2-0	Hamilton Island	2-0	Normandy Mining	2-0	Tennyson Hold	2-0
Ashanti Goldfld	2-0	Colly Cotton	2-0	Healthscope	2-0	North Star Res.	4-0	Thakral Holding	11-0
Ashton Mining	2-0	Colonial Ltd	4-0	Heine Managem't	2-0	Oroton Int'l	3-0	Titan Resources	2-0
Atlas Pacific	3-0	Cons Foods Aust	2-0	Helix Resources	2-0	PMP Communicat.	5-0	Triden Corp	3-0
Auridium Cons.	7-0	Crane Group	3-0	Herald Resource	3-1	Pacific Energy	4-0	Tyndall Aust.	4-0
Auspine Ltd	9-0	D.E.M. Limited	2-0	Hoyts Cinemas	3-0	Pacific Group	2-0	Vision Systems	4-1
Aust United In	0-2	Div. United Inv	2-0	Imdex NI	2-0	Pacrim Energy	2-0	Vos Industries	0-2
Aust Resources	0-2	Duketon Gold.	2-0	Infratil Aust.	2-0	Payco Consol.	5-1	Watpac Ltd	2-0
Aust Kaolin NL	4-0	Email Ltd	3-0	Jubilee Gold	5-1	Perilya Mines	2-0	Welcome Strange	2-0
Aust Rural	2-0	Equigold NL	7-4	Just Jeans Grp	5-0	Petroz NL	3-0	Werrie Gold Ltd	0-2
Aust Stock Exch	0-4	FAI Insurance	3-1	Kilkenny Gold	2-0	Plaspak Group	0-2	West'n Reefs	2-0
Austral Coal	3-0	Finders Gold NL	2-0	Lakes Oil NL	2-0	Portman Mining	2-0	Westfield Hold.	3-0
Austrim Ltd	2-0	Finemore Hold	2-0	Legend	0-2	Q.B.E. Insur.	3-1	Westral'n Sands	3-0
BT Global Asset	10-2	Flight Centre	0-4	M.I.M. Holdings	2-0	Ranger Minerals	2-5	Wide Bay Cap'n	2-0
BT Resources	3-0	Futuris Corp.	3-0	MacMahon Hold	0-2	Ridley Corp.	2-0	Woolworths Ltd	3-0
Beaconsfield GI	0-2	G.U.D. Holdings	2-0	McGuigan Wines	2-0	Rural Press Ltd	3-0		

Rank	Industry Group	Insider Buy/Sell	No. Average of Buyers-Coys Sellers	Rank	Industry Group	Insider Buy/Sell	No. Average of Buyers-Coys Sellers	Rank	Industry Group	Insider Buy/Sell	No. Average of Buyers-Coys Sellers
1	Publishers	12-0	6 +2.00	25	Property Dev/Manager	6-0	19 +0.32	49	Misc Industrial	8-6	32 +0.06
2	Insurance	22-4	12 +1.50	26	Building Contractor	10-5	16 +0.31	50	Advertising/Marketing	0-0	19 +0.00
3	Television	10-1	9 +1.00	27	Oil/Gas Exploration	11-1	34 +0.29	51	Mining Investment	0-0	4 +0.00
4	Hospital Management	4-0	4 +1.00	28	Base Metals	8-3	17 +0.29	52	Machinery Manufacturer	0-0	3 +0.00
5	Forest Products	11-0	12 +0.92	29	Heavy Engineer	3-1	7 +0.29	53	Gold/Other Mining	0-0	9 +0.00
6	Diamonds	9-0	10 +0.90	30	Soft Drink/Confectionery	2-0	7 +0.29	54	Oil/Gas Investor	0-0	2 +0.00
7	Diversified Industrial	27-6	26 +0.81	31	Automotive	4-0	14 +0.29	55	Chemical & Fertiliser	1-1	6 +0.00
8	Building Materials	15-1	21 +0.67	32	Food	12-5	25 +0.28	56	Other Utilities	0-0	3 +0.00
9	Energy/Electricity	9-5	7 +0.57	33	Pharmaceutical	4-2	8 +0.25	57	Wholesaler/Retail	0-0	7 +0.00
10	Diversified Mining	4-0	7 +0.57	34	Hotel/Resort	2-0	9 +0.22	58	Other Telecommunications	0-0	10 +0.00
11	Transport	7-1	11 +0.55	35	Gold Explorer	63-26	177 +0.21	59	Casinos/Gaming	1-2	11 -0.09
12	High Technology	18-4	30 +0.47	36	Mining Services	2-0	10 +0.20	60	Health & Related Products	2-3	11 -0.09
13	Mineral Sands	4-0	9 +0.44	37	Trustee Company	1-0	5 +0.20	61	Entrepreneurial Investor	0-1	9 -0.11
14	Retail	13-5	18 +0.44	38	Mineral Exploration	19-10	45 +0.20	62	Misc Services	10-13	27 -0.11
15	Agricultural	19-6	30 +0.43	39	Equipment/Services	3-0	16 +0.19	63	Computer & Office Serv.	2-5	25 -0.12
16	Equity Investor	34-5	74 +0.39	40	Gold Producer	17-8	48 +0.19	64	Misc Financial	4-6	14 -0.14
17	Coal	5-1	11 +0.36	41	Mining Producer	15-12	17 +0.18	65	Engineering Contractor	0-1	6 -0.17
18	Leisure Activities	4-0	11 +0.36	42	Vintner	6-4	12 +0.17	66	Investment Trust/Company	1-4	16 -0.19
19	Property Investor	5-1	11 +0.36	43	Other Infrastructure	2-1	6 +0.17	67	Health/Medical Services	0-1	5 -0.20
20	Banking	10-5	15 +0.33	44	Property Trust	11-0	70 +0.16	68	Gold/Copper	1-2	5 -0.20
21	Manufacturer/Retailer	5-1	12 +0.33	45	Oil/Gas Producer	4-2	16 +0.13	69	Brewer	0-1	4 -0.25
22	Uranium	1-0	3 +0.33	46	Diversified Media	3-1	16 +0.13	70	Network Operator	1-4	3 -1.00
23	Gold/Investment	1-0	3 +0.33	47	Residential Developer	1-0	11 +0.09				
24	Light Engineering	6-0	19 +0.32	48	Biotechnology	1-0	12 +0.08				

# "Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before	% of Coy Held After
<b>12/03/99</b>					
IT Capital	PF Seton	Buy	+1.681	2.43%	6.29%
Sky City Ltd	Colonial First State	Buy	+6.781	0.0%	6.01%
<b>19/03/99</b>					
Damba Holdings	DA Joy, JN Simpson	Buy	+2.370	0.0%	13.31%
Designer Textiles	Harris Associates	Sell	-1.656	16.50%	9.95%
IT Capital	HD Kennedy	Buy	+1.850	12.04%	16.28%
Pacific Retail	Logan	Buy	+0.335	71.42%	73.72%
Progressive Enterprises	Foodland	Buy	+3.648	60.26%	61.73%
<b>26/03/99</b>					
Baycorp Holdings	Tower Corporation	Sell	-0.663	8.46%	6.73%
Restaurant Brands	Tower Corporation	Buy	+0.867	5.02%	6.04%
Sky City Ltd	Colonial First State	Buy	+0.727	6.01%	7.55%
<b>02/04/99</b>					
Fisher & Paykel	Franklin Resources	Sell	-0.170	11.76%	10.37%
Mainfreight	Shamrock Holdings	Buy	+5.969	0.0%	8.26%
Sky City Ltd	Colonial First State	Buy	+10.642	7.55%	11.06%
Tourism Holdings	Alpine Deer	Sell	-3.728	6.06%	0.0%
<b>09/04/99</b>					
Aquaria 21	Callander Ltd	Buy	+21.387	7.23%	17.07%
Dorchester Pacific	BD King	Buy	+0.840	8.56%	13.70%
Dorchester Pacific	Malaysian Holdings	Sell	-2.000	12.20%	0.0%
Dorchester Pacific	Green & McCahill	Buy	+1.425	0.0%	8.73%
FC - Forests	Franklin Resources	Sell	-8.992	9.11%	8.10%
Newmarket Property	Metropolitan Life	Buy	+0.725	38.33%	40.07%
Nuplex Industries	Royal & Sun Alliance	Buy	+0.865	5.38%	6.95%
Strathmore Group	RJ Thompson	Buy	+1.240	60.60%	66.20%
Tourism Holdings	Royal & Sun Alliance	Buy	+4.269	0.0%	7.54%

**Strathmore Group** director RJ Thompson has historically been able to use his knowledge of the company to buy and sell shares at just the right time. Recently he has been buying!

However, despite two directors increasing their shareholdings in **IT Capital** (formerly Iddison Vietnam), we advise investors to stay away from this company owing to its consistent track record of losing shareholders' money - partly through high overheads and management fees!

### Total Return Index for All Listed Shares

Mar 8	1982.29		
Mar 9	1976.25		
Mar 10	1971.76		
Mar 11	1967.36		
Mar 12	1979.36		
Mar 15	1981.57	Mar 22	1975.16
Mar 16	1990.85	Mar 23	1978.13
Mar 17	1981.51	Mar 24	1963.48
Mar 18	1965.15	Mar 25	1965.43
Mar 19	1968.53	Mar 26	1968.68
Mar 29	1974.85	Apr 5	Holiday
Mar 30	1980.66	Apr 6	1989.34
Mar 31	1990.55	Apr 7	1971.75
Apr 1	1988.48	Apr 8	1975.33
Apr 2	Holiday	Apr 9	1984.06

## New Telephone/Fax Numbers

We have moved our telecommunications from an old, unmaintained Telecom exchange that was unable to handle "smart services" to a newer one in our area. As a result our telephone and fax numbers have changed:

Telephone: 64-9-4199 427

Facsimile: 64-9-4199 428

# Dividend \$

Company	Cents per Share	Ex- Date	Pay- able	Tax Credit
Arthur Barnett	5.00	03-05	07-05	Nil
CDL Hotels	0.75	06-04	16-04	Full
CDL Investments	2.00	19-04	30-04	Full
Colonial Motor Company	8.00	29-03	01-04	Full
Donaghys Industries	5.00	29-03	01-04	Nil
Hallenstein Glasson	8.00	26-04	30-04	Full
LWR Industries	4.00	06-04	09-04	Full
Met Life Care	3.00	26-04	30-04	Nil
Nuplex Industries	5.50	06-04	16-04	Full
Newmarket Property Trust	4.114965	12-04	16-04	0.932465
National Property Trust	2.215	29-03	31-03	0.246
NZ Light Leathers	10.00	12-04	22-04	Full
NZ Refining Company	100.00	19-04	29-04	Nil
Sky City Ltd	17.00	19-04	30-04	Full
Warehouse Group	13.00	12-04	16-04	Full
Warehouse Group special	18.00	12-04	16-04	Full
Williams & Kettle	6.00	26-04	30-04	Full
<u>Australian Dividends</u>				
Abigroup	6.00	25-03	15-04	-
Data#3	5.50	12-04	30-04	-
Flight Centre	6.50	25-03	15-04	-
Thakral Holdings	2.60	09-03	31-03	-
Toll Holdings	10.00	05-03	31-03	-
Vision Systems	14.00	15-03	09-04	-

## Internet Password

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## Change in Internet Edition of "Market Analysis"

From this month we have changed the way we publish "Market Analysis" on the internet.

The newsletter is now published in Adobe PDF (portable document file) format. This allows subscribers to quickly download the newsletter from the internet, and then view on screen or print out a newsletter formatted exactly the same as the print edition, including graphics.

To read this document, subscribers will need to install **Adobe Acrobat Reader** on their computer - which can be downloaded from the Adobe site ([www.adobe.com/prodindex/acrobat/readstep.html](http://www.adobe.com/prodindex/acrobat/readstep.html)) free of charge.

See the article on Page 6-7 for more details.

## Next Issue

The next issue of "Market Analysis" will be posted in four weeks time on Tuesday May 11, 1999.

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