Information and Advice on the NZ Sharemarket from Securities Research Company's . . .

# Market Analysis

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## Inside Market Analysis



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# *Summary and Recommended Investment Strategy.*

Our forecasts for the NZ and Australian stockmarkets are only moderately favourable and global liquidity conditions are tightening ahead of the millenium, which is having a negative impact on share valuations. However, we are happy that our share selections will maximise returns in these markets so remain fully invested - while waiting for the post-millenium stockmarket boom in January-March 2000.

# *Investment Outlook.*

Stockmarkets fluctuate between *boom* and *bust*, driven by investor *greed* and *fear*, with sentiment swinging from *manic* to *depressive*. The "secret" to successful stockmarket investment is to *sit well back*, *focus on the long term* and don't get caught up in the news of the *day* or the current investment fad.

High stock valuations in the United States (and the UK and Europe) and a bubble market in Internet stocks brings back memories of the 1985-87 bubble in Investment and Property shares. Very small, start-up e-commerce/computer/telecommunications companies are also being given huge valuations in Australia. Is the sky about to fall? Perhaps not yet. Internet stocks have lost over half of their value in the US over the last few months - so this speculative sector has come "off the boil".

Over the last few years, South East Asia and Japan have experienced the opposite extreme of investor sentiment. Even now that those economies are showing signs of a strong economic recovery, the rise in the Japanese and Asian stockmarkets is generally being greeted by investor skepticism. All of which gives us strong reason to expect further gains over the years ahead.

Further confusing the immediate outlook is the millennium computer *problem*. This is the *most widely anticipated disaster* in modern history. Stockmarkets react to the *unanticipated* events - so investors can largely ignore this event. However, it is having such a significant impact upon global Monetary conditions that it warrants further comment. The usual year end rush of corporate bond issues has been moved forward by three months - tightening monetary conditions *now*, but which should result in greater liquidity at year end. Stock building will also occur during the last three months of 1999 (boosting economic activity) and be reduced in the first quarter of 2000 (leading to a mini-recession). Consumers will hold substantially higher than normal cash levels over the New Year period as insurance against the failure of money machines, EFTPOS, credit card or cheque clearing systems. Many investors are cautious about buying now and will build up cash holdings for investment in 2000.

All of that suggests that the global economy faces tight liquidity over the next few months and low demand for shares. As a result, stockmarkets could be weak during the remainder of 1999. If all the lights don't go out on January 1, 2000 (or when they all come back on again on January 2) world stockmarkets will be overwhelmed by a huge wave of surplus liquidity. Consumers will reduce their cash hoard and investors who have cautiously built up cash deposits will buy shares. De-stocking by companies will further boost liquidity, while a mini-recession may lead to some capital expenditure being delayed. Strong liquidity in a weak economy leads to what economists call "financial asset inflation" (i.e. stock prices will soar).

As always, we seek to structure our portfolio to try to capture investment gains - while attempting to avoid the risks involved in the most over-valued and speculative booming sectors. Internationally that means we are buying warrants on Asian investment trusts (to slightly leverage and multiply our gains) while completely avoiding the over-valued US stockmarket in general and Internet stocks in particular. In NZ where the market and investor sentiment are depressed we are focusing on high yielding *cyclical* shares (e.g. Air NZ, CDL, Cavalier, Colonial Motors, Owens, PDL, Radio Pacific, Tourism). In Australia we seek companies with *growth* potential - that can be bought at low valuations. In the booming computer sectors we bought Data#3 (which, unlike most other companies in that sector trades on a low fundamental valuation). We bought Flight Centre cheaply a year ago when it had experienced a small sales glitch (i.e. profits had risen only 5% in the previous half year - but have boomed at 40-50% p.a. ever since). We have also focused on companies with a competitive niche in their market (Central Equity, Hancock & Gore, Toll), with world leading technology (ERG, Vision) and very small companies with emerging businesses (Atlas, Biron) plus an asset-rich situation (Abigroup).

Our **Primary Trend Model** of the NZ stockmarket is **moderately Bullish** at **66%**, while *International Investor* predicts a similar **64%** chance that the Australian stockmarket will rise over the next year. Our **Short Term Trend Model** is **slightly Bullish** at **61%**.

# *Performance Forecasts*

"**Performance Forecasts**" are computer generated predictions of the relative future price performance of a company's shares over the next three to six months. Performance Forecasts are calculated for **every** listed NZ share (except Investment Trusts) on a rating scale using the letters "A" (Highest potential for capital appreciation over the next 3-6 months ), "B" (Above Average), "C" (Average), "D" (Below Average) and "E" (Lowest). These predictions are NOT buy or sell recommendations, but can be useful to help time planned purchases or sales, or to identify shares worthy of further study and analysis.

| | Performance Forecast | Price | Price/Sales Ratio | P/E Ratio | Gross Yield |
|---|---|---|---|---|---|
| A. Barnett Ltd | C | 120 | 0.58 | NE | 3.7 |
| AMP Limited | B | 2030 | 0.72 | 18 | 1.0 |
| AMP NZ Office | D | 96 | 6.23 | 43 | 6.9 |
| Advantage HDS | B | 240 | 1.53 | NE | Nil |
| Affco Holdings | E | 24 | 0.05 | NE | Nil |
| Air New Zealand | B | 290 | 0.53 | 11 | 6.9 |
| Akd Int Airport | C | 307 | 8.34 | 31 | 2.4 |
| Apple Fields | E | 12 | 1.65 | NE | Nil |
| Aquaria 21 | E | 16 | N/A | NE | Nil |
| Baycorp Hold | A | 525 | 9.31 | 36 | 3.8 |
| Brierley Invest | E | 48 | 0.50 | NE | 9.4 |
| Broadway Ind | E | 36 | 0.08 | NE | Nil |
| CDL Hotel NZ | D | 33 | 0.56 | 17 | 3.4 |
| CDL Investments | D | 24 | 1.68 | 11 | 12.4 |
| Cap Properties | C | 50 | 6.31 | 5 | 22.0 |
| Carter Holt | C | 250 | 1.51 | 83 | 3.2 |
| Cavalier Corp | B | 368 | 0.68 | 13 | 10.1 |
| Cedenco Foods | B | 80 | 1.89 | 9 | Nil |
| Ceramco Corp | A | 140 | 0.65 | 19 | 5.3 |
| Col FS Property | B | 95 | N/A | 14 | 7.2 |
| Col Motor Co | B | 254 | 0.25 | 11 | 7.9 |
| Colonial Ltd | C | 640 | 0.80 | 16 | 0.9 |
| Contact Energy | C | 292 | N/A | 27 | 4.4 |
| Corp Invest Ltd | D | 88 | 0.97 | 18 | 5.1 |
| Cue Energy Ltd * | N/R | 7.2 | 2.34 | NE | Nil |
| DB Group | D | 226 | 0.34 | 9 | 10.6 |
| Dairy Brands | D | 34 | 1.56 | NE | Nil |
| Damba Hold Ltd | C | 60 | 0.71 | NE | Nil |
| Design Textiles | B | 30 | 0.24 | 7 | 14.9 |
| Donaghys Ind | D | 130 | 0.36 | NE | 8.0 |
| Dorchester Pac | A | 90 | 0.69 | 8 | 7.5 |
| East'n Equities | C | 66 | 0.21 | NE | 6.8 |
| Ebos Group Ltd | A | 271 | 0.79 | 18 | 14.9 |
| Eldercare NZ | E | 70 | 0.52 | NE | Nil |
| Ernest Adams | D | 220 | 0.55 | NE | Nil |
| Evergreen | E | 50 | N/A | NE | Nil |
| FC - Paper | D | 142 | 0.37 | NE | 3.2 |
| FC - Forests | D | 103 | 1.84 | NE | Nil |
| FC - Energy | A | 520 | 1.89 | 17 | 4.6 |
| FC - Building | C | 276 | 0.34 | 8 | 7.6 |
| Fernz Corp Ltd | C | 500 | 0.53 | 13 | 5.0 |
| Fisher & Paykel | D | 550 | 0.84 | 18 | 4.9 |
| Force Corp. | C | 63 | 2.94 | 13 | 9.5 |
| Fruitfed Supp | A | 115 | 0.24 | 13 | 9.1 |
| Goodman Fielder | B | 175 | 0.60 | 14 | 5.0 |
| Grocorp Pacific | C | 22 | 1.14 | NE | Nil |
| Guiness Peat | C | 155 | 1.51 | 11 | 1.2 |
| Habitat Group | C | 16 | N/A | NE | Nil |
| Hallenstein G. | C | 219 | 0.83 | 13 | 10.9 |
| Hellaby Hold. | C | 192 | 0.70 | 7 | 10.9 |
| Heritage Mining* | N/R | 5.0 | N/A | NE | Nil |
| Horizon Energy | C | 680 | 2.19 | 24 | 5.0 |
| IT Capital Ltd | D | 17 | N/A | NE | Nil |
| Ind Newspapers | B | 775 | 0.99 | 20 | 4.4 |
| Infratil NZ | B | 138 | 8.25 | 10 | 6.2 |
| Infratil Aust. | D | 95 | N/A | 60 | 2.2 |
| Infratil Int'l | E | 37 | N/A | 31 | Nil |
| JF China Region* | N/R | 83 | N/A | NE | 1.5 |
| Kingsgate Int'l | D | 18 | 0.81 | 13 | Nil |
| Kiwi Property | C | 102 | 7.01 | 11 | 10.1 |
| Kiwi Developmnt | D | 137 | N/A | NE | Nil |
| LWR Industries | C | 102 | 0.31 | 9 | 16.1 |
| Lion Nathan Ltd | D | 461 | 1.40 | 19 | 4.0 |
| Lyttelton Port | D | 150 | 2.87 | 12 | 6.3 |
| Mainfreight Grp | C | 170 | 0.43 | 18 | 4.8 |
| Manor Inns Grp | B | 20 | 0.41 | NE | Nil |
| Max Resources* | N/R | 13 | N/A | NE | Nil |
| Metro. LifeCare | B | 182 | 1.77 | 17 | 4.9 |
| Michael Hill | B | 320 | 0.87 | 17 | 4.4 |
| Mid-Cap Index* | N/R | 197 | N/A | NE | Nil |
| Mr Chips Hold | B | 65 | 0.59 | 19 | 9.2 |
| NZ Experience | C | 13 | 0.98 | NE | Nil |
| NZ Invest Trust* | N/R | 445 | N/A | NE | 1.9 |
| NZ Oil and Gas * | N/R | 37 | 1.60 | 10 | 6.8 |
| NZ Refining Co | B | 1450 | 1.43 | 15 | 6.9 |
| NZ Salmon Co | C | 40 | N/A | NE | Nil |
| Nat Property Tr | C | 97 | 6.10 | 12 | 10.4 |
| National Mutual | C | 285 | 3.18 | 15 | 3.7 |
| Natural Gas | B | 192 | 2.20 | 14 | 8.6 |
| Newmarket Prop. | D | 57 | 3.93 | NE | 16.7 |
| Nobilo Wines | D | 82 | N/A | 15 | 5.5 |
| Northland Port | C | 108 | 0.91 | 14 | 9.0 |
| Nuhaka Forestry | D | 1180 | N/A | NE | Nil |
| Nuplex Indust | C | 280 | 0.87 | 22 | 5.6 |
| Opio Forestry | E | 55 | N/A | NE | Nil |
| Otter Gold Mine* | N/R | 65 | 0.42 | 3 | Nil |
| Owens Investmts | D | 115 | 0.17 | 16 | 13.0 |
| Ozzy (Tortis)* | N/R | 220 | N/A | NE | Nil |
| PDL Holdings | C | 540 | 0.23 | 42 | 5.5 |
| Pacific Retail | B | 170 | N/A | 13 | 2.6 |
| Paynter Hold | E | 16 | 0.23 | NE | Nil |
| Port Tauranga | B | 550 | 9.10 | 36 | 3.5 |
| Ports Auckland | C | 490 | 3.88 | 16 | 5.5 |
| Progressive Ent | A | 300 | 0.30 | 35 | 2.5 |
| Property F Ind. | C | 74 | 5.79 | 14 | 8.7 |
| Pure NZ Limited | D | 16 | N/A | NE | Nil |
| Radio Pacific | A | 740 | 2.04 | 16 | 3.0 |
| Reid Farmers | B | 59 | 0.45 | 9 | 10.1 |
| Renaissance | A | 55 | 0.12 | 15 | Nil |
| Restaurant Brds | A | 141 | 0.58 | 15 | 6.4 |
| Revesco Ltd* | N/R | 27 | N/A | NE | Nil |
| Richina Pacific | E | 65 | 0.09 | NE | Nil |
| Roller Int'l * | N/R | 45 | 0.23 | NE | Nil |
| Ryman Health. | E | 139 | N/A | NE | Nil |
| SE Utilities | C | 90 | 2.24 | 12 | 6.6 |
| Sanford Limited | A | 514 | 1.53 | 23 | 3.5 |
| Savoy Equities | C | 7.1 | 2.25 | NE | Nil |
| Scott Tech. Ltd | B | 240 | 1.95 | 17 | 6.2 |
| Seafresh Fish. | D | 12 | 0.37 | NE | Nil |
| Shortland Prop. | C | 61 | 5.89 | 11 | 10.3 |
| Shotover Jet | C | 75 | 0.94 | 48 | Nil |
| Sky City Ltd | B | 738 | 3.02 | 23 | 5.9 |
| Sky Network TV | D | 355 | 6.18 | NE | Nil |
| Southern Cap | C | 88 | 6.48 | 13 | Nil |
| South Port NZ | B | 90 | 0.89 | 11 | 8.7 |
| Spectrum Res.* | N/R | 2.5 | N/A | NE | Nil |
| St. Lukes Group | B | 178 | 3.02 | 7 | 8.2 |
| Steel & Tube | C | 166 | 0.43 | 15 | 7.2 |
| Strathmore Grp | C | 38 | 8.14 | NE | Nil |
| Summit Gold Ltd* | N/R | 11 | N/A | 65 | Nil |
| Tag Pacific Ltd | D | 13 | 0.29 | 10 | 5.4 |
| Tasman Agric. | C | 82 | 2.63 | 11 | 3.7 |
| Taylors Grp Ltd | B | 108 | 1.38 | 27 | 5.5 |
| TeNZ * | N/R | 104 | N/A | NE | Nil |
| Telecom Corp | C | 868 | 4.43 | 19 | 7.9 |
| Tourism Hold. | B | 264 | 1.16 | 33 | Nil |
| Trans Alta NZ | C | 196 | 0.96 | 15 | 7.4 |
| Trans-Tasman | E | 34 | 1.15 | NE | Nil |
| Tranz Rail Hold | D | 324 | 0.69 | 6 | 7.8 |
| Trust Power Ltd | C | 420 | 3.34 | 37 | 5.7 |
| United Networks | D | 630 | 2.13 | 24 | 7.1 |
| Warehouse Group | C | 725 | 1.37 | 26 | 2.9 |
| Waste Mgmt NZ | B | 890 | 4.74 | 34 | 1.8 |
| Williams Kettle | B | 203 | 0.30 | 27 | 8.8 |
| World Index Fd * | N/R | 174 | N/A | NE | Nil |
| Wrightsons Ltd | D | 39 | 0.09 | 8 | 12.6 |
| Ave of 136 Coys | C | 221 | 0.54 | 21 | 4.4 |

| | | | | | |
|---|---|---|---|---|---|
| A.G.L. | C | 1017 | 2.45 | 15 | 4.0 |
| AAPT | D | 485 | 2.48 | NE | Nil |
| AMP Ltd | D | 1667 | 0.70 | 17 | 1.1 |
| AMP Office Trt | C | 123 | N/A | 15 | 6.7 |
| AMP Shop Centre | E | 125 | N/A | NE | Nil |
| ANZ Bank | B | 1069 | 1.38 | 14 | 4.9 |
| APN News Media | A | 296 | 2.13 | 20 | 3.5 |
| Advance Prop | C | 143 | 6.86 | 12 | 8.2 |
| Amalgamated Hld | C | 410 | 1.16 | 11 | 2.9 |
| Amcor Ltd | B | 841 | 0.89 | 21 | 4.5 |
| Amway Asia Pac | C | 2190 | N/A | NE | Nil |
| Aristocrat | A | 1062 | 2.71 | 39 | 1.3 |
| Aust Stock Exch | D | 1120 | N/A | NE | Nil |
| Austar United | D | 510 | N/A | NE | Nil |
| Austrim Ltd | C | 288 | 8.17 | 63 | 4.0 |
| BRL Hardy Ltd | B | 620 | 1.76 | 22 | 2.1 |
| BTR "A" | E | 508 | N/A | NE | Nil |
| Bank of W.Aust | B | 344 | 4.90 | 15 | 4.8 |
| Biota Holdings | C | 717 | N/A | NE | Nil |
| Boral Ltd | B | 251 | 0.58 | 33 | 3.0 |
| Brambles Ind. | B | 4174 | 2.30 | 38 | 1.8 |
| Brickworks Ltd | A | 4000 | 5.68 | 36 | 2.5 |
| C & W Optus | C | 338 | 5.10 | NE | Nil |
| C'wth Prop Off. | E | 98 | N/A | NE | Nil |
| C.S.R. Ltd | B | 440 | 0.67 | 13 | 5.2 |
| CSL Limited | A | 1709 | 6.12 | 50 | 1.1 |
| Cadbury Sch. | D | 990 | N/A | NE | 3.4 |
| Centro Prop. | C | 277 | 5.08 | 13 | 7.7 |
| Challenger Int. | B | 859 | N/A | NE | Nil |
| Coal & Allied | B | 1510 | 1.63 | 11 | 6.6 |
| Coca-Cola Bev. | E | 297 | N/A | NE | Nil |
| CocaCola Amatil | C | 628 | 1.70 | 34 | 3.0 |
| Cochlear Ltd | A | 1395 | 7.51 | 52 | 1.1 |
| Coles Myer | B | 918 | 0.50 | 27 | 2.6 |
| Colonial Ltd | C | 523 | 0.98 | 20 | 2.9 |
| Com'wealth Bank | B | 2460 | 2.98 | 21 | 4.2 |
| Com. Inv. Trust | E | 99 | N/A | NE | Nil |
| Computer Share | A | 1882 | N/A | NE | 0.2 |
| Crown Ltd | C | 90 | 0.70 | 14 | Nil |
| David Jones | C | 128 | 0.35 | 16 | 5.5 |
| E.R.G. | A | 294 | 2.58 | 41 | 0.3 |
| Email Ltd | B | 292 | 0.34 | 17 | 4.8 |
| Fairfax (John) | B | 440 | 3.01 | NE | 2.2 |
| Faulding (F.H.) | A | 960 | 0.75 | 21 | 2.1 |
| Flight Centre | B | 925 | 0.48 | 41 | 1.2 |
| Foodland Assoc | C | 940 | 0.23 | 18 | 4.9 |
| Foster's Brewin | B | 450 | 3.36 | 35 | 2.4 |
| Futuris Corp. | B | 235 | 0.39 | 10 | 3.2 |
| GIO Australia | E | 366 | 0.81 | NE | 6.0 |
| GWA Internat'l | C | 258 | 1.34 | 18 | 4.3 |
| Gandel Retail T | C | 115 | N/A | 17 | 7.2 |
| General Prop Tr | C | 268 | 9.89 | 15 | 7.1 |
| Ges Internat'l | A | 130 | 0.86 | 54 | 0.8 |
| Goodman Fielder | C | 144 | 0.58 | 13 | 5.2 |
| Guinness Peat | C | 120 | 2.38 | 10 | 0.5 |
| HIH Insurance | D | 179 | 0.25 | 10 | 8.9 |
| Hardie (James) | C | 459 | 1.31 | NE | 3.3 |
| Harvey Norman | C | 1472 | N/A | 81 | 0.4 |
| Hills Motorway | D | 413 | 9.07 | NE | Nil |
| Hoyts Cinemas | C | 200 | 1.18 | 15 | 2.0 |
| Incitec | B | 560 | 0.69 | 19 | 3.8 |
| Infrastructure | C | 165 | 7.37 | 8 | 6.1 |
| Jupiters | A | 388 | 1.59 | 25 | 3.4 |
| Lang Corporatio | D | 506 | 1.77 | NE | Nil |
| Leighton Hold | C | 595 | 0.51 | 15 | 4.4 |
| Lend Lease Corp | B | 1885 | 1.38 | 13 | 5.7 |
| Macquarie Bank | B | 1998 | 3.87 | 20 | 3.4 |
| Mayne Nickless | B | 518 | 0.57 | 16 | 5.8 |
| Mirvac Property | C | 178 | 9.75 | 15 | 6.4 |
| Mirvac Ltd | B | 250 | 0.97 | 13 | 4.0 |
| Mobile Com. | D | 1300 | N/A | NE | Nil |
| Nat'l Foods | C | 276 | 0.72 | 18 | 3.8 |
| Nat'l Mut. Prop | C | 127 | N/A | 17 | 6.8 |
| Nat'l Mutual | D | 234 | 3.09 | 20 | 3.7 |
| Nat'l Aust Bank | C | 2320 | 1.33 | 17 | 4.4 |
| News Corporatio | B | 1270 | 4.87 | NE | 0.2 |
| One Tel Ltd | B | 148 | 8.39 | NE | 1.4 |
| Orica Ltd | C | 820 | 0.66 | 18 | 6.1 |
| Orogen Minerals | C | 188 | 3.41 | 15 | 3.5 |
| PBL | C | 958 | 4.22 | 10 | 5.0 |
| PMP Communicat. | A | 318 | 0.71 | 14 | 6.4 |
| Pacific Group | B | 632 | 1.41 | 40 | 2.5 |
| Pacific Dunlop | C | 230 | 0.34 | 13 | 6.1 |
| Perp Trust Aust | A | 2169 | 5.56 | 30 | 2.4 |
| Pioneer Int'l | A | 418 | 0.99 | 20 | 4.5 |
| Prime Credit PT | C | 118 | 7.69 | 12 | 8.8 |
| Prime Indust. | C | 73 | 7.95 | 11 | 8.6 |
| Property Income | C | 116 | 7.80 | 12 | 8.9 |
| Q.B.E. Insur. | D | 584 | 0.82 | 23 | 4.5 |
| Q.C.T. Resource | B | 100 | 0.69 | 14 | 7.0 |
| Qantas | B | 492 | 0.70 | 18 | 2.7 |
| Rio Tinto Ltd | B | 2850 | 1.86 | 16 | 2.0 |
| Rothmans Hold | B | 1550 | 0.62 | 16 | 5.5 |
| Rural Press Ltd | A | 500 | 1.22 | 12 | 2.4 |
| Schroder Prop. | C | 244 | 8.50 | 14 | 7.5 |
| Seven Network | C | 437 | 1.72 | 69 | 4.7 |
| Simsmetal Ltd | B | 650 | 0.36 | 12 | 5.5 |
| Smith (Howard) | C | 1200 | 0.90 | 35 | 3.3 |
| Smorgon Steel | D | 250 | N/A | NE | Nil |
| Sonic Health | A | 421 | 3.54 | 46 | 2.1 |
| Southcorp Ltd | C | 600 | 1.35 | 24 | 3.0 |
| Spotless Group | B | 420 | 0.57 | 24 | 3.2 |
| St George Bank | B | 1036 | 1.42 | 28 | 5.0 |
| Star City Hold. | C | 144 | 0.98 | 33 | Nil |
| Stockland Trust | C | 366 | 6.34 | 15 | 6.7 |
| Suncorp-Metway | B | 815 | 0.63 | 14 | 5.4 |
| TAB Ltd | C | 292 | 2.28 | 30 | Nil |
| Tabcorp Holding | B | 1018 | 3.24 | 25 | 3.7 |
| Telstra | B | 819 | 4.70 | 27 | 1.7 |
| Ten Network | C | 214 | 0.82 | 73 | 14.0 |
| Transurban Grp | D | 188000 | N/A | NE | Nil |
| United Energy | B | 241 | 1.47 | 67 | 7.2 |
| Village Road. | C | 300 | 1.10 | 15 | 3.3 |
| Wesfarmers Ltd | C | 1360 | 1.21 | 19 | 4.9 |
| West Aust News | A | 562 | 3.34 | 17 | 5.3 |
| Westfield Amer. | C | 155 | 3.76 | 16 | 6.0 |
| Westfield Hold. | C | 910 | 7.11 | 44 | 1.1 |
| Westfield Trust | C | 327 | N/A | 18 | 6.3 |
| Weston (George) | B | 700 | 0.55 | 20 | 2.7 |
| Westpac Banking | C | 988 | 1.72 | 15 | 4.4 |
| Westpac Prop Tr | C | 164 | 6.66 | 9 | 7.8 |
| Wills (WD & HO) | A | 618 | 0.45 | 18 | 4.9 |
| Woolworths Ltd | C | 555 | 0.20 | 22 | 3.1 |
| Ave of 1234 Coys | C | 324 | 0.39 | 23 | 2.4 |

# Recommended Investments

**CDL Investments** has reported a 6.1% increase in revenue but a 5.4% drop in profits to $2,156,000 (1.3 cents per share) for the six months to June 30.

The company generated strong operating cash flows of $6.6 million, which has allowed interest bearing debts to be reduced by $3.0 million to $11.2 million (compared with Shareholders' Equity of $36.5 million). Positive cash flows and low debt levels place the company in a much stronger financial situation than in previous years, and well placed to profit from any upturn in the residential property market.

CDL Investments shares have the potential to double or triple in value (with an upturn in the property market *and* an improvement in investor sentiment) over the next couple of years, but we are more than happy just to hold these shares to collect the 12.4% gross dividend yield (paid as a final dividend in April each year). "Buy".

**Designer Textiles**'s directors have decided *not* to proceed with their proposal to extend the term of the company's convertible notes - a proposal that we criticised last month as it gives note holders (who should be receiving ordinary shares) a *guaranteed* high income and *guaranteed* minimum capital gain while the existing ordinary shareholders bear all of the normal risks involved in equity ownership.

Last month the fact the 49.8% of note holders had elected to take shares and 50.2% had elected to take the new convertible notes was held up by the directors as proof that the transaction was "fair" (we said it just showed that 49.8% of the note holders were idiots). Now the directors seem to consider this 50/50 split does not make it worth proceeding with the extension.

That change of opinion has probably been brought about by "a significant block of shareholders" indicating that they would vote against *(Continued on Page 4)*

## Portfolio of Recommended Investments

| CURRENT ADVICE | Company | Code | Initial Recommendation - Date - | Initial Recommendation Price | Performance Forecast | Issued Shares (mil.) | Volatility Ratio | Price/ Sales Ratio | Price/ Earnings Ratio | Gross Dividend Yield | Recent Share Price | Cash Dividends Rec'd | Total Return % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | NZ Shares | | | | | | | | | | | | |
| HOLD+ | Air New Zealand "A" | AIRVA | 08/10/96 | 257* | B | 566.8 | 0.9 | 0.53 | 11 | 6.9 | 290 | 54.0 | +34% |
| HOLD | Apple Fields Limited | APF | 10/03/92 | 237 | E | 29.2 | 2.4 | 1.65 | NE | Nil | 12 | 10.0 | -91% |
| BUY | CDL Investments Ltd | CDI | 12/01/99 | 25 | D | 169.5 | 2.0 | 1.68 | 11 | 12.4 | 24 | 2.0 | +4% |
| BUY | Cavalier Corporation | CAV | 05/12/95 | 312 | B | 36.0 | 0.9 | 0.68 | 13 | 10.1 | 368 | 79.0 | +43% |
| BUY | Colonial Motor Company | CMO | 10/11/92 | 150 | B | 30.9 | 0.8 | 0.25 | 11 | 7.9 | 254 | 179.8 | +189% |
| HOLD+ | Designer Textiles Ltd | DTL | 12/01/99 | 47 | B | 29.7 | 2.1 | 0.24 | 7 | 14.9 | 30 | 1.0 | -34% |
| HOLD+ | Fernz Corporation Ltd | FER | 11/02/97 | 505 | C | 150.5 | 0.9 | 0.53 | 13 | 5.0 | 500 | 42.0 | +7% |
| HOLD+ | Fruitfed Supplies Ltd | FSL | 09/02/93 | 210 | A | 12.1 | 1.1 | 0.24 | 13 | 9.1 | 115 | 72.0 | -11% |
| HOLD | Michael Hill Int'l Ltd | MHI | 11/06/91 | 46* | B | 38.6 | 0.8 | 0.87 | 17 | 4.4 | 320 | 45.5 | +694% |
| HOLD+ | Nuplex Industries Ltd | NPX | 11/02/97 | 350 | C | 54.6 | 1.0 | 0.87 | 22 | 5.6 | 280 | 16.0 | -15% |
| HOLD+ | Owens Group Limited | OWN | 12/03/91 | 47* | D | 56.3 | 1.1 | 0.17 | 16 | 13.0 | 115 | 77.3 | +309% |
| HOLD+ | PDL Holdings Ltd | PDL | 13/02/96 | 810 | C | 13.6 | 0.9 | 0.23 | 42 | 5.5 | 540 | 113.0 | -19% |
| | Radio Otago Limited (merged with Radio Pacific, see Page 4) | | | | | | | | | | | | |
| HOLD | Radio Pacific Limited | RPA | 08/12/92 | 205 | A | 8.7 | 0.6 | 2.04 | 16 | 3.0 | 740 | 112.5 | +316% |
| HOLD+ | Renaissance Corp | RNS | 13/08/96 | 96 | A | 23.5 | 1.8 | 0.12 | 15 | Nil | 55 | 5.0 | -38% |
| HOLD | Richina Pacific | RCH | 03/11/95 | 119* | E | 72.2 | 1.5 | 0.09 | NE | Nil | 65 | 11.9 | -35% |
| HOLD | South Port New Zealand | SPN | 13/02/96 | 120 | B | 32.4 | 1.1 | 0.89 | 11 | 8.7 | 90 | 29.8 | -0% |
| HOLD+ | Tourism Holdings Ltd | THL | 14/07/92 | 179* | B | 56.6 | 0.9 | 1.16 | 33 | Nil | 264 | 51.7 | +76% |
| HOLD | Wrightson Limited | WRI | 13/01/98 | 83 | D | 139.7 | 1.8 | 0.09 | 8 | 12.6 | 39 | 6.3 | -45% |
| | Australian Shares (in Aust cents) | | | | | | | | | | | | |
| BUY | Abigroup Limited | ABG | 09/03/99 | 265 | C | 47.7 | 0.5 | 0.19 | 7 | 5.3 | 227 | 6.0 | -12% |
| HOLD+ | Atlas Pacific Ltd (1) | ATP | 14/05/96 | 73 | D | 49.4 | 1.7 | 10.58 | NE | Nil | 22 | Nil | -70% |
| HOLD+ | Biron Corporation Ltd | BIC | 12/04/94 | 178 | B | 21.6 | 1.8 | 0.85 | 11 | 10.5 | 19 | 9.0 | -84% |
| BUY | Central Equity Ltd | CEQ | 09/02/94 | 154 | B | 81.7 | 0.5 | 0.76 | 8 | 6.9 | 188 | 55.0 | +58% |
| BUY | Data#3 Limited | DTL | 09/02/99 | 285 | A | 13.4 | 1.0 | 0.38 | 13 | 4.4 | 260 | 5.5 | -7% |
| BUY | E.R.G. Limited | ERG | 10/10/95 | 152* | A | 201.1 | 0.4 | 2.58 | 41 | 0.3 | 294 | 6.0 | +97% |
| HOLD+ | Flight Centre | FLT | 11/08/98 | 308 | B | 80.9 | 0.2 | 0.48 | 41 | 1.2 | 925 | 13.0 | +205% |
| HOLD | Hancock & Gore | HNG | 15/07/97 | 125* | C | 46.5 | 0.6 | 0.60 | 10 | 5.6 | 138 | 11.5 | +20% |
| BUY | PMP Communications | PMP | 09/02/99 | 309 | A | 253.4 | 0.4 | 0.71 | 14 | 6.4 | 318 | 10.4 | +6% |
| HOLD+ | Thakral Holdings | THG | 10/11/98 | 65 | C | 489.6 | 0.9 | 1.90 | 14 | 6.7 | 78 | 2.6 | +24% |
| BUY | Toll Holdings | TOL | 08/09/98 | 240 | B | 59.0 | 0.3 | 0.28 | 18 | 2.6 | 545 | 18.0 | +135% |
| BUY | Vision Systems | VSS | 10/11/98 | 685* | B | 12.5 | 0.3 | 0.72 | 7 | 3.9 | 675 | 13.9 | +1% |

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +58.5%. This is equal to an average annual rate of +23.1%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 30 current and 100 closed out) is +35.0%, compared with a market gain of +15.4% (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..

(1) Atlas Pacific notes (ATPG) last traded at 22 cents.

**Recommended Investments** *(Continued from Page 3)* the proposal. That raises the possibility that either (1) the proposal would be defeated by shareholders (which would be embarrassing for the directors who are supposed to be working for the shareholders) or (2) the dissident shareholders could exercise their right to have the company re-purchase their shares. The directors have previously argued that the re-purchase value in this situation would be the *market price of the shares* - but probably didn't feel confident putting that to the test after valuing the shares at 48 cents and placing that minimum cash value on the new convertible notes.

**Fernz Corporation** increased its revenues just 2.5% to $1,406.8 million over the last year, but trading profits (i.e. excluding gains on the sale of its NZ fertiliser business) rose 20.0% to $59,744,000 (41.0 cents per share). The company's cash operating surplus rose 49.5% to $126.1 million.

Despite this good performance, Fernz Corporation's share price has fallen sharply over the last couple of months. This is probably the result of selling by "index" fund managers. Fernz shares will probably be dropped from all NZ indices when it changes to an Australian company. Even if the company remained NZ based, it would probably be dropped from the NZSE 10 Index in favour of the new Westpac "NZ class" shares. The Fernz share price is therefore likely to remain weak in the immediate future - but once "index" funds have finished selling the shares will be over-sold and probably quickly regain the value lost in the current institutional selloff!

The "bad" news is that the annual dividend will remain *unchanged* at 18.0 cents *and* has slightly less than full imputation tax credits.

With Fernz moving from NZ to Australia, imputation tax credits will not be available on future dividends. However, following the sale of its NZ fertiliser business two years ago, the company generates only 2% of its profits in NZ so pays little NZ company income tax. Even if Fernz remained a NZ company, there would be little or no imputation tax credits to attach to dividends. 45% of profits are generated in Australia, so becoming an Australian company and being able to attach "franking" tax credits to dividends (paid to Australian investors) maximises the company's use of its tax credits. Either way, NZ investors cannot benefit from these Australian tax credits, but being able to distribute these credits in Australia will make the shares more attractive to Australian investors - which should help maximise the value of Fernz shares.

**Radio Otago** and **Radio Pacific** have merged (after paying dividends of 9.0 cents and 7.5 cents, respectively) with Radio Otago shareholders receiving three Radio Pacific shares for every four Radio Otago shares held.

For the purposes of tracking our "Recommended Portfolio" we have assumed that the Radio Otago investment was "realised" on August 1st (being the date of the merger) at the value of the Radio Pacific shares received. That is, as we cannot have two holdings in the Portfolio in Radio Pacific, we have assumed that the Radio Otago shares were sold at $5.43¾ (being 3/4ths of the Radio Pacific share price of $7.25). Our investment in Radio Otago therefore realised a capital gain of 390% plus 83 cents in dividends for a total return of 465% over a period of just over 8½ years (or about 30% per annum compounded).

In fact, we continue to hold all of our Radio Pacific shares (from our original investment in that company and from Radio Otago) which continue to appreciate rapidly in value. As we indicated three months ago, merging these two companies (which have both increased several fold in value in our portfolio) makes the new Radio Pacific our *largest* single NZ investment! Therefore we *plan* to eventually sell off 35-50% of this investment to maintain a balanced portfolio. However, Radio Pacific shares are often quoted on the stock exchange with buyers but *no sellers*. As we also predicted three months ago, institutional interest in the company is increasing - with at least two institutions having made significant purchases over the last two months. With few sellers in the market *and* with institutions buying, Radio Pacific's share price should continue to perform well in the immediate future.

We consider Radio Pacific an attractive long term investment - so are happy to be *over-weighted* in these shares. Although we shall eventually seek to sell some of our personal shareholding to maintain diversification, we are in no hurry given the current very favourable imbalance in *supply* (i.e. few) and *demand* (i.e. large, if institutions keep buying) for the shares! Our patience to date has been well rewarded - with these shares up 38% in value since the terms of the merger were announced three months ago!!!

**Renaissance Corporation** has reported a 105.2% increase in profits to $353,000 (1.5 cents per share) for the six months to June 30. Revenues were up 17.4% to $58.6 million, with similar revenue growth expected for the second half of the year.

Renaissance Corporation is to raise $4.1 million in new equity from shareholders with a 1 for 2 cash issue at 35 cents. This money will be used to fund working capital (i.e. stock and debtors) as sales expand and to finance its new business ventures (i.e. expansion of its internet business and its joint venture with **RM plc**), while improving the company's level of equity.

We recommend taking up the new shares in the cash issue. Renaissance has struggled over many years but does appear to be making progress towards becoming a profitable, growing company. As a result of its poor historical performance, the stockmarket places a very low valuation on these shares - so there is potential for the share price to rise significantly if the company can become more successful.

**Wrightson**'s annual result will be announced in September, but the company has announced that it will show a loss after making provisions for leases and costs "necessary to reposition some businesses". More importantly, the result will show *positive* operating cash flows and the company has a strong balance sheet with no long term debt.

## Australian Shares

**Biron Corporation** has sold its remaining shares in **Sydney Gas Company NL** (formerly Desertstone NL) for a profit of A$668,000 (equal to 3.1 cents per Biron share).

**Data#3** director, CR Tym, purchased 100,000 shares on-market in July at A$2.65 per share, raising his total holding in the company to 304,874 shares.

**IBM Australia** has appointed three companies, Data#3, **Kaz** and **Aspect Computing**, to market its new *e-commerce* software packages to mid-sized companies (i.e. with 30-500 staff).

**Flight Centre** has "experienced a buoyant second half" and expects to report a 20% rise in revenue to just under A$1,800 million and a 50% increase in profits to around A$27.5 million when the final result is announced later this month. The company has performed "very well in Australia, New Zealand and South Africa", while the "businesses in the United Kingdom and Canada have emerged from their early developmental losses".

Flight Centre's share price rose strongly not on that profit forecast but on news that the company intends to enter the United States travel market. The first store will open in Los Angeles in September. In total, nine US shops will be opened in the first year (costing around A$2 million), six in the second year and 15 in the third year. The US operations are expected to lose A$7-900,000 in the nine months to June 2000 before this expansion becomes profitable.

Flight Centre has also identified *future* countries for expansion including Ireland, the Netherlands, Switzerland, Argentina, PNG and countries in Southern Africa.

Flight Centre's forecasts would put the shares on a Price/Sales ratio of 0.42 and a Price/Earnings ratio of 28. This is a low profit margin business, so a P/S ratio range of 0.15-0.60 would appear normal - which places Flight Centre near the top of its valuation range. The P/E ratio of 28 looks fairly high - but perhaps justified for a company growing at 40-50% per annum.

The important question is "How long can this growth continue?" Flight Centre is one of the largest travel agents in Australia and NZ, but with a small market share in a fragmented market there is still room for further growth. The company has very small operations in the United Kingdom, Canada and South Africa, and these markets offer huge potential to expand its successful business model in countries with a total population many times larger. Expansion into the United States offers further huge growth potential.

The greatest thing about this business is that it is not capital intensive. Flight Centre can expand its business by opening shops without the need to raise additional equity from shareholders (which would dilute earnings per share) or borrowing from the bank (which incurs interest costs and can leave a company vulnerable in a downturn). The market for air travel is growing at 5% per annum, but as Flight Centre is more competitive than most other travel agents (i.e. in Australia the company owns 4% of the retail travel agencies but generates 8% of retail ticket sales) it can generate significantly higher growth by expanding its number of shops and increasing market share (at the expense of less efficient travel agencies).

Although Flight Centre has *tripled* in value in just one year - and far exceeded our initial expectations - the current share valuation is not excessive for a company that is growing so rapidly and which has huge growth potential that can be financed from internally generated cash flows!

We recommend that investors hold for further long term growth.

**Thakral Holdings Group**'s share price rose sharply last month - rising from around 60-62 cents to a peak of 80 cents before settling back to around 74-76 cents. Queried by the Australian Stock Exchange, Thakral Holdings was unable to explain this sudden increase in its share price. One possible explanation *may* be the company's July newsletter to shareholders which (among other things) reports favourably on the company's new gaming lounges. These are expected "to make a significant contribution to profits". The company currently operates 240 gaming machines - making it one of the largest gaming machine operators (except for clubs and casinos) in Australia.

# *The Return of "Double Taxation" of Company Dividends*

**The *Old* system of "Double Taxation" of Dividends**

One of the *problems* with limited liability companies used to be that dividends were subject to "double taxation". That is, companies would first pay company income tax on their profits and shareholders would pay a second personal income tax on dividends received. When the company tax rate was 45% and personal tax rates 60%, the government would collect up to 78% in tax (e.g. for every $100 of earnings a company would pay $45 in tax and if the remaining $55 was distributed the shareholders would pay up to $33 tax, leaving them with $22 in cash).

Fortunately, both company tax rates and personal tax rates have now come down to 33%. A system of "imputation" tax credits has also been introduced, so that the benefits of company income tax can be passed on to shareholders so that dividends are only taxed once. Under the current system, a company would pay $33 tax on $100 of earnings, but can then distribute both $67 in cash *plus* a $33 tax credit to its shareholders. Shareholders on maximum tax rates will have no further tax to pay (so receive $67 cash, compared to only $22 in the "good old days"), while shareholders on lower tax rates can use the excess imputation tax credits to get a refund of tax paid on dividends or employment income.

**"Tax-Free" Dividends ends "Double Taxation", leads to "Imputation" Tax Credits**

Of course, the change in the *(Continued on Page 6)*

**Double Taxation** (Continued from Page 5)

taxation treatment of dividends was not initiated by the Government or the Inland Revenue. Back in the 1970's NZ companies sought ways of avoiding the unfavourable double taxation of dividends. Some companies started to pay dividends from "realised capital profits" or from "share premium reserves", arguing that a dividend from capital profits should remain a "capital" item, not "income", and therefore not be subject to income tax in the hands of shareholders. Similarly, share premium was a return of money originally subscribed by shareholders and another "capital" item that should not be subject to income tax when returned to shareholders. Needless to say, the Inland Revenue did not agree - but court rulings came down on the side of the companies (to the benefit of shareholders).

Very soon nearly every NZ company was paying "tax-free" dividends. Whenever a company went public instead of issuing $1 par value shares at a dollar it would issue 1 cent par value shares at a dollar. This had the same effect, but immediately provided 99 cents per share in "share premium" reserves from which it could pay dividends in the future. Some companies sold properties to subsidiaries "realising" capital profits to allow the payment of tax-free dividends (although this was ultimately ruled unacceptable).

The main *problem* with this system of "tax-free" dividends was that many companies were not paying income tax (owing to past tax losses, or depreciation allowances) but were paying tax-free dividends - so that in many cases no tax was being paid by either the company or the shareholder.

Eventually the Government passed legislation to formalise the tax-free dividend system that had been created by companies and approved by the courts - introducing the current system of imputation. Under this system *either* the company *or* the shareholder must pay tax, but not both. If the company has paid income tax, then those credits can be distributed and the shareholder pays no further tax, but if the company has not paid income tax, then it has no imputation tax credits to attach and must deduct withholding tax (so the shareholder pays the tax).

### The *New* system of "Double Taxation" of Dividends

While dividend imputation sounds great (and works perfectly for domestic companies), there is a major problem with the current system. Over the last decade business and investment has become more global - but the imputation system fails when companies pay tax overseas or have shareholders overseas.

For example, Michael Hill has successfully expanded into Australia over the last decade, but the current tax system penalises the company and/or its shareholders. The company does not earn NZ imputation tax credits from income taxes paid in Australia. With further expansion in its offshore earnings, the company may want to increase its dividend to shareholders, but the imputation tax credits that it can attach are limited to its NZ income tax (paid on its NZ profits). If the company becomes *too successful* in Australia then it will have to limit its dividends (to that which is covered by NZ imputation tax credits) or pay dividends (from Australian profits) *without* imputation tax credits. NZ shareholders would then pay income tax in NZ on dividends from profits on which the company has already paid tax in Australia. This is the old "double taxation" but caused by modern, cross-border commerce!

Michael Hill would also find it difficult to raise new capital in Australia or attract Australian shareholders. Australian shareholders cannot benefit from NZ imputation tax credits, and although the company pays income tax in Australia, being a NZ registered company it cannot distribute Australian tax credits (called "franking" credits) to its Australian shareholders. Once again, the threat of "double taxation" is looming for companies that have successfully expanded overseas.

### An end to trans-Tasman "Double Taxation" of Dividends?

The simple solution in this situation would be for the NZ and Australian governments to mutually recognise each others tax systems - allowing companies to earn tax credits from taxes paid in *both* countries and to allow those tax credits to be distributed to shareholders in *both* countries. Eventually the two Governments may make this change - but just as the original imputation tax system was forced by the actions of companies looking to avoid double taxation of dividends, trans-Tasman tax harmonisation will probably also need to be initiated by the actions of individual companies.

The first company to seek a solution to this is **Westpac Banking** which will soon offer a "NZ class" of share (and use the money raised to re-purchase and cancel a similar number of its ordinary Australian shares). These "NZ class" shares are being offered simply to allow the company to use its NZ income tax to generate imputation tax credits that can be distributed to NZ shareholders (and at the same time save its Australian "franking" credits, that would be wasted on NZ investors, for the benefit of its Australian investors). Westpac will achieve this by floating a separate NZ registered company on the NZ Stock Exchange - but these shares will be *economically identical* to its ordinary Australian shares. The NZ shares will pay the same dividends (adjusted for the exchange rate) as the Australian shares, but the NZ shares will have NZ imputation tax credits attached while the Australian shares will have Australian franking credits attached. While the NZ shares *could* trade at a premium or discount to the Australian shares, Westpac will seek to avoid this by re-purchasing shares in whichever market is cheaper while issuing and selling new shares in whichever market is most expensive. If the current tax legislation that permits this arrangement is changed, then each NZ share has the right to be converted to an Australian share.

This totally artificial structure designed to avoid the double taxation of trans-Tasman profits and trans-Tasman dividends will give Westpac a cost effective way to tap the NZ equity market - and a slightly lower cost of capital than its competitors. That lower cost of capital will motivate other larger companies - for example, ANZ Banking and National Australia Bank (both of which have significant businesses in NZ) - to consider making similar "NZ class" share issues.

If this becomes common practice, then look out for politicians to introduce a formal system of trans-Tasman tax harmonisation - somewhere around the year 2010.

# Computer Selections of NZ 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" and "Income" shares should be considered for purchase, while the "Over-valued" and "Worst Performing" shares can generally be sold to release money for re-investment in more attractive shares.

| Company | Share Price | STRENGTH RATING Cur-rent | 4-Wk Chg. | Rank 0-99 | Brokers Following | Price to NTA | Return on Equity | Vola-til-ity | Price Earn. Ratio | Divi-dend Yield | Price Sales Ratio | Market Cap'n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **UNDER-VALUED SHARES**: Lowest Price/Sales, Yld > 0, Rel Strength > 0 | | | | | | | | | | | | |
| East'n Equities | 66 | +0.4 | +5.6 | 56 | - | 0.7 | - | 1.5 | NE | 6.8 | 0.21 | 23 |
| Fruitfed Supp | 115 | +11.2 | +0.9 | 19 | - | 1.9 | 15 | 1.1 | 13 | 9.1 | 0.24 | 14 |
| Col Motor Co | 254 | +7.9 | +1.5 | 25 | 1 | 1.0 | 10 | 0.8 | 11 | 7.9 | 0.25 | 79 |
| Progressive Ent | 300 | +19.5 | +2.4 | 9 | 6 | 3.0 | 9 | 0.9 | 35 | 2.5 | 0.30 | 558 |
| Williams Kettle | 203 | +9.2 | -1.2 | 22 | - | 0.8 | 3 | 0.8 | 27 | 8.8 | 0.30 | 30 |
| FC - Building | 276 | +1.0 | -0.3 | 51 | 8 | 1.1 | 14 | 1.0 | 8 | 7.6 | 0.34 | 1,033 |
| Donaghys Ind | 130 | +2.3 | -0.4 | 42 | 2 | 0.7 | 1 | 0.9 | 107 | 8.0 | 0.36 | 40 |
| FC - Paper | 142 | +1.2 | -1.2 | 49 | 10 | 0.6 | - | 1.4 | NE | 3.2 | 0.37 | 1,054 |
| Mainfreight Grp | 170 | +6.5 | +0.3 | 30 | 6 | 2.7 | 15 | 1.1 | 18 | 4.8 | 0.43 | 12 |
| Reid Farmers | 59 | +1.6 | +2.7 | 46 | - | 1.0 | 11 | 1.3 | 9 | 10.1 | 0.45 | 33 |
| Air New Zealand | 290 | +11.3 | -1.2 | 18 | 10 | 0.8 | 7 | 0.9 | 11 | 6.9 | 0.53 | 1,644 |
| CDL Hotel NZ | 33 | +3.8 | -1.6 | 38 | 6 | 0.6 | 3 | 2.0 | 17 | 3.4 | 0.56 | 115 |
| Restaurant Brds | 141 | +6.6 | -0.3 | 29 | 6 | 5.3 | 36 | 1.1 | 15 | 6.4 | 0.58 | 120 |
| Ceramco Corp | 140 | +12.0 | +0.6 | 17 | 5 | 1.1 | 6 | 1.1 | 19 | 5.3 | 0.65 | 59 |
| Cavalier Corp | 368 | +5.4 | +0.8 | 31 | 4 | 1.9 | 14 | 0.9 | 13 | 10.1 | 0.68 | 132 |
| Dorchester Pac | 90 | +14.7 | +5.5 | 13 | - | 1.4 | 17 | 1.2 | 8 | 7.5 | 0.69 | 15 |
| Ebos Group Ltd | 271 | +8.0 | +3.2 | 25 | - | 2.0 | 11 | 0.6 | 18 | 14.9 | 0.79 | 63 |
| Colonial Ltd | 640 | +0.6 | -0.4 | 54 | - | 1.3 | 8 | 0.9 | 16 | 0.9 | 0.80 | 5,871 |
| Hallenstein G. | 219 | +0.5 | -5.3 | 54 | 6 | 3.9 | 29 | 1.0 | 13 | 10.9 | 0.83 | 127 |
| Michael Hill | 320 | +8.1 | -0.2 | 24 | 3 | 3.8 | 22 | 0.8 | 17 | 4.4 | 0.87 | 123 |
| **BEST PERFORMING SHARES**: Strongest Shares, P/E < 20, P/S < 1.0 | | | | | | | | | | | | |
| Renaissance | 55 | +26.8 | +3.9 | 4 | - | 1.4 | 10 | 1.4 | 15 | Nil | 0.12 | 13 |
| Dorchester Pac | 90 | +14.7 | +5.5 | 13 | - | 1.4 | 17 | 1.0 | 8 | 7.5 | 0.69 | 15 |
| Ceramco Corp | 140 | +12.0 | +0.6 | 17 | 5 | 1.1 | 6 | 0.9 | 19 | 5.3 | 0.65 | 59 |
| Air New Zealand | 290 | +11.3 | -1.2 | 18 | 10 | 0.8 | 7 | 0.8 | 11 | 6.9 | 0.53 | 1,644 |
| Fruitfed Supp | 115 | +11.2 | +0.9 | 19 | - | 1.9 | 15 | 0.9 | 13 | 9.1 | 0.24 | 14 |
| Michael Hill | 320 | +8.1 | -0.2 | 24 | 3 | 3.8 | 22 | 0.7 | 17 | 4.4 | 0.87 | 123 |
| Ebos Group Ltd | 271 | +8.0 | +3.2 | 25 | - | 2.0 | 11 | 0.5 | 18 | 14.9 | 0.79 | 63 |
| Col Motor Co | 254 | +7.9 | +1.5 | 25 | 1 | 1.0 | 10 | 0.7 | 11 | 7.9 | 0.25 | 79 |
| Restaurant Brds | 141 | +6.6 | -0.3 | 29 | 6 | 5.3 | 36 | 0.9 | 15 | 6.4 | 0.58 | 120 |
| Mainfreight Grp | 170 | +6.5 | +0.3 | 30 | 6 | 2.7 | 15 | 0.9 | 18 | 4.8 | 0.43 | 12 |
| Cavalier Corp | 368 | +5.4 | +0.8 | 31 | 4 | 1.9 | 14 | 0.8 | 13 | 10.1 | 0.68 | 132 |
| CDL Hotel NZ | 33 | +3.8 | -1.6 | 38 | 6 | 0.6 | 3 | 1.6 | 17 | 3.4 | 0.56 | 115 |
| Kingsgate Int'l | 18 | +3.5 | -0.4 | 38 | - | 0.5 | 4 | 1.7 | 13 | Nil | 0.81 | 71 |
| Reid Farmers | 59 | +1.6 | +2.7 | 46 | - | 1.0 | 11 | 1.0 | 9 | 10.1 | 0.45 | 33 |
| FC - Building | 276 | +1.0 | -0.3 | 51 | 8 | 1.1 | 14 | 0.9 | 8 | 7.6 | 0.34 | 1,033 |
| Colonial Ltd | 640 | +0.6 | -0.4 | 54 | - | 1.3 | 8 | 0.8 | 16 | 0.9 | 0.80 | 5,871 |
| Hallenstein G. | 219 | +0.5 | -5.3 | 54 | 6 | 3.9 | 29 | 0.9 | 13 | 10.9 | 0.83 | 127 |

| Company | Share Price | STRENGTH RATING Cur-rent | 4-Wk Chg. | Rank 0-99 | Brokers Following | Price to NTA | Return on Equity | Vola-til-ity | Price Earn. Ratio | Divi-dend Yield | Price Sales Ratio | Market Cap'n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME SHARES**: Highest Yields, Capitalisation > NZ$100 million | | | | | | | | | | | | |
| Hallenstein G. | 219 | +0.5 | -5.3 | 54 | 6 | 3.9 | 29 | 0.8 | 13 | 10.9 | 0.83 | 127 |
| DB Group | 226 | -6.7 | +0.3 | 91 | 8 | 1.0 | 11 | 0.7 | 9 | 10.6 | 0.34 | 228 |
| Cavalier Corp | 368 | +5.4 | +0.8 | 31 | 4 | 1.9 | 14 | 0.8 | 13 | 10.1 | 0.68 | 132 |
| Brierley Invest | 48 | -2.3 | -0.3 | 73 | 7 | 0.5 | - | 1.0 | NE | 9.4 | 0.50 | 1,433 |
| Natural Gas | 192 | +1.7 | +3.9 | 45 | 7 | 1.5 | 11 | 0.8 | 14 | 8.6 | 2.20 | 757 |
| Telecom Corp | 868 | -2.9 | -1.4 | 76 | 12 | 14.0 | 76 | 0.6 | 19 | 7.9 | 4.43 | 15,214 |
| Tranz Rail Hold | 324 | -9.6 | +0.3 | 95 | 8 | 0.9 | 15 | 0.7 | 6 | 7.8 | 0.69 | 391 |
| FC - Building | 276 | +1.0 | -0.3 | 51 | 8 | 1.1 | 14 | 0.9 | 8 | 7.6 | 0.34 | 1,033 |
| Trans Alta NZ | 196 | -4.3 | -0.9 | 83 | 8 | 0.9 | 6 | 0.7 | 15 | 7.4 | 0.96 | 484 |
| Steel & Tube | 166 | -1.1 | -0.2 | 65 | 7 | 1.3 | 9 | 0.9 | 15 | 7.2 | 0.43 | 146 |
| **OVER-VALUED SHARES**: Highest Price/Sales Ratios, Relative Strength < 0 | | | | | | | | | | | | |
| Telecom Corp | 868 | -2.9 | -1.4 | 76 | 12 | 14.0 | 76 | 0.6 | 19 | 7.9 | 4.43 | 15,214 |
| Ports Auckland | 490 | -8.3 | -1.5 | 94 | 7 | 3.0 | 19 | 0.6 | 16 | 5.5 | 3.88 | 649 |
| National Mutual | 285 | -6.2 | -0.4 | 90 | - | 1.0 | 7 | 0.8 | 15 | 3.7 | 3.18 | 4,956 |
| Force Corp. | 63 | -1.4 | +0.7 | 66 | 4 | 1.7 | 13 | 1.1 | 13 | 9.5 | 2.94 | 98 |
| Cue Energy Ltd | 7 | -1.6 | +3.8 | 68 | - | 0.4 | - | 2.6 | NE | Nil | 2.34 | 21 |
| SE Utilities | 90 | -2.1 | +0.7 | 71 | - | 0.8 | 7 | 0.8 | 12 | 6.6 | 2.24 | 54 |
| Apple Fields | 12 | -4.3 | +5.0 | 82 | - | 0.2 | - | 1.2 | NE | Nil | 1.65 | 4 |
| NZ Oil and Gas | 37 | -2.1 | +1.2 | 71 | - | 0.9 | 9 | 0.9 | 10 | 6.8 | 1.60 | 41 |
| **WORST PERFORMING SHARES**: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average | | | | | | | | | | | | |
| Spectrum Res. | 3 | -48.7 | +0.0 | 98 | - | 0.5 | - | 2.9 | NE | Nil | N/A | 1 |
| Damba Hold Ltd | 60 | -14.7 | -0.3 | 98 | - | 0.6 | - | 0.5 | NE | Nil | 0.71 | 11 |
| Otter Gold Mine | 65 | -12.0 | -3.7 | 97 | - | 0.5 | 17 | 0.8 | 3 | Nil | 0.42 | 30 |
| Tranz Rail Hold | 324 | -9.6 | +0.3 | 95 | 8 | 0.9 | 15 | 0.7 | 6 | 7.8 | 0.69 | 391 |
| Metro. LifeCare | 182 | -8.6 | -1.0 | 95 | 2 | 1.5 | 9 | 1.0 | 17 | 4.9 | 1.77 | 112 |
| Ports Auckland | 490 | -8.3 | -1.5 | 94 | 7 | 3.0 | 19 | 0.6 | 16 | 5.5 | 3.88 | 649 |
| Trans-Tasman | 34 | -7.8 | -1.0 | 93 | 6 | 0.3 | - | 1.4 | NE | Nil | 1.15 | 123 |
| Nobilo Wines | 82 | -6.9 | +1.8 | 92 | 1 | 8.3 | 55 | 0.9 | 15 | 5.5 | N/A | 36 |
| National Mutual | 285 | -6.2 | -0.4 | 90 | - | 1.0 | 7 | 0.8 | 15 | 3.7 | 3.18 | 4,956 |
| Summit Gold Ltd | 11 | -6.0 | -0.3 | 89 | - | 1.7 | 3 | 1.8 | 65 | Nil | N/A | 10 |
| Tag Pacific Ltd | 13 | -5.9 | +0.7 | 87 | - | 0.4 | 4 | 1.5 | 10 | 5.4 | 0.29 | 6 |
| Goodman Fielder | 175 | -5.7 | +1.7 | 87 | - | 1.4 | 10 | 0.5 | 14 | 5.0 | 0.60 | 2,216 |
| NZ Refining Co | 1450 | -5.1 | -0.8 | 86 | 4 | 2.4 | 16 | 0.4 | 15 | 6.9 | 1.43 | 348 |
| South Port NZ | 90 | -4.4 | +1.9 | 84 | 1 | 0.8 | 7 | 0.6 | 11 | 8.7 | 0.89 | 29 |
| AMP Limited | 2030 | -4.4 | +1.0 | 84 | - | 2.1 | 12 | 0.7 | 18 | 1.0 | 0.72 | 21,855 |
| Trans Alta NZ | 196 | -4.3 | -0.9 | 83 | 8 | 0.9 | 6 | 0.6 | 15 | 7.4 | 0.96 | 484 |
| Apple Fields | 12 | -4.3 | +5.0 | 82 | - | 0.2 | - | 1.1 | NE | Nil | 1.65 | 4 |
| Max Resources | 13 | -4.2 | +0.9 | 81 | - | 0.4 | - | 1.5 | NE | Nil | N/A | 5 |
| Heritage Mining | 5 | -3.5 | +0.7 | 79 | - | 0.4 | - | 1.8 | NE | Nil | N/A | 2 |
| Contact Energy | 292 | -2.9 | -1.6 | 76 | 3 | - | - | 0.7 | 27 | 4.4 | N/A | 1,764 |

# Fletcher Challenge Paper Merger

**Fletcher Challenge** is proposing to merge its **FC Paper** division with its 50.8% owned **Fletcher Challenge Canada**. This would be achieved by the Canadian company making a takeover bid for FC Paper shares.

Under the current proposal, FC Canada will offer shares to the value of C$1.42 (NZ$1.84 at the exchange rate on the date of the announcement) for every FC Paper share. That equals 0.087 Fletcher Challenge Canada shares for every FC Paper share, although the actual number of FC Canada shares offered can range from 0.0791 to 0.0957 shares depending upon fluctuations in the FC Canada share price.

FC Canada would then take over all of the assets and liabilities of FC Paper, and cancel the FC Canada shares currently held by the NZ company.

## Potential for 20% Gain

On the face of it, this merger proposal appears to offer shareholders in FC Paper a 20% takeover premium - and Fletcher Challenge believes that the new FC Canada would itself be likely to become a takeover target (presumably offering investors a further premium in that takeover).

The only problem is that the minority shareholders in FC Canada need to approve the takeover. Although they will not vote until October, institutions holding over 25% of the company (i.e. over 50% of the minority shares) have indicated they will oppose the merger which places a higher value on the NZ assets than on similar assets in Canada. That is, it favours the NZ shareholders over the Canadian shareholders.

## The Future of the Merger Proposal

Predicting the final outcome of this proposal requires making some assessments of the actions of the various parties. Here is our *expectation*.

Fletcher Challenge is determined to push through this merger - in one form or another. The major reason is probably not to maximise *(Continued on Page 8)*

**Fletcher Challenge Paper** *(Continued from Page 7)*

the value of FC Paper shares but to remove FC Paper and its *massive debts* from the Fletcher Challenge balance sheet.

So to make the deal more attractive for the Canadian shareholders *either* the FC Paper shareholders must be given fewer shares (i.e. a smaller takeover premium) *or* the rest of the Fletcher Challenge group must make a contribution to dispose of the heavily indebted FC Paper division. Already the Fletcher Challenge group has offered to take back NZ$112 million of the FC Paper debts (being the discounted future value of the FC Paper tax losses that can be utilised by the other three Fletcher Challenge divisions). However, these future income tax benefits have a book value of over NZ$300 in the FC Paper accounts.

At present, the massive FC Paper debts prevent the Energy, Building and Forest divisions from expanding more rapidly through acquisitions, while an expected downgrading of the company's credit rating will increase the interest cost of funding all of the divisions.

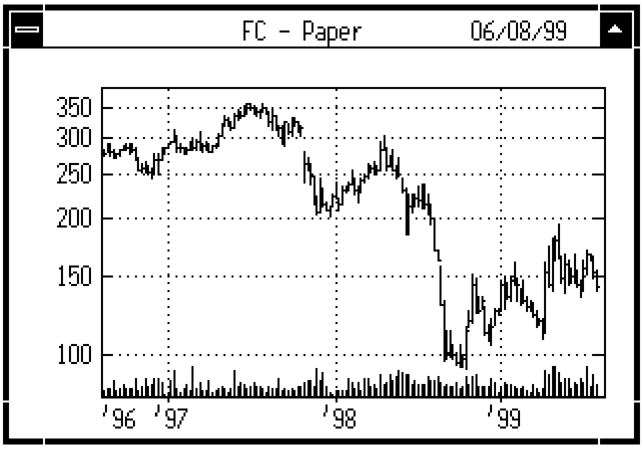
The most likely outcome is that the takeover premium for the FC Paper shareholders will be lowered from 20% to 10-15% through a reduction in the number of FC Canada shares offered (or with FC Canada paying a pre-merger dividend to its minority shareholders). In addition, we expect that the remaining three Fletcher Challenge divisions will make an increased contribution to the assets of the FC Paper division (i.e. pay full book value for the tax losses) to make the business more attractive.

**Summary and Recommendation**

Whichever way you look at it, FC Paper has not been a good investment for shareholders. Perhaps a business that produces newsprint (i.e. a "commodity" grade product) will never earn satisfactory returns for shareholders.

The current merger proposal (and any changes) should offer FC Paper shareholders a value at least 10-20% greater than at present - so investors wishing to quit this company should probably hold on until the merger is completed and then sell the FC Canada shares (which should list on the NZ Stock Exchange).

It may even be worth investors with surplus cash buying FC Paper shares on the market to profit from the expected 10-20% gain over the next six months. Although FC Paper is not a business in which we would want to be *long term* investors, the business and the share price appear to be near the bottom of their cycle - so the risks (i.e. of the share price declining significantly) are not high. Our *Comprehensive Share Selection Criteria* even rates FC Paper shares as *under-valued* owing to their low Price/Sales ratio.



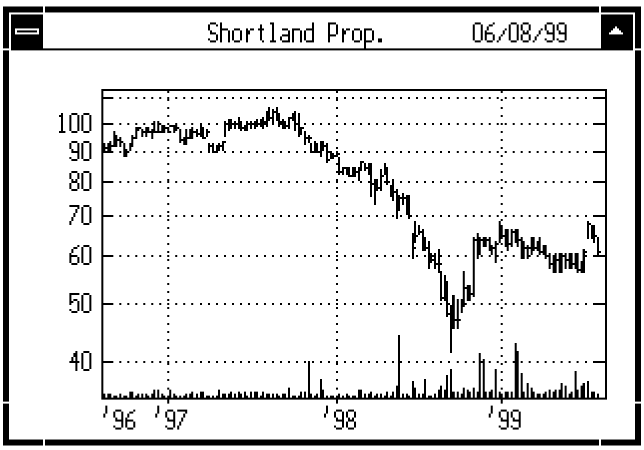

# *Company Review: Shortland Properties*

As last month's issue of *Market Analysis* was being printed **Kiwi Income Properties** announced merger discussions with **Shortland Properties**.

A takeover bid was finally made under which Shortland Properties shareholders would receive a 1.2 cents dividend (plus full tax credits), 16 cents per share in cash plus 55 cents of convertible notes (paying an 8.75% interest rate). The convertible notes would have a face value of 105 cents and convert into one ordinary Kiwi Income unit after five years. Given that Kiwi Income units trade at 102 cents and offer a 10.3% gross yield, the convertible notes should have a *market value* of about 95 cents. So the 55 cents of convertible notes will have a market value of about 49.8 cents.

This takeover bid therefore values Shortland Properties shares at about 67 cents, which is a large 24% discount to net asset value of 88 cents. Shortland Properties' directors will comment on the takeover after receiving independent advice. We believe that the offer undervalues the company and that shareholders should reject it.

This takeover bid also offers the opportunity for investors to seek a short to medium term capital gain. Investors can buy on the market at 61-62 cents and - if this takeover proceeds - realise around 67 cents for a gain of 8-10% over the next couple of months. However, to be successful this takeover bid will probably have to be raised by around 10 cents per share - allowing the short term investor to realise a gain of around 25%. At worst, the takeover will be abandoned and Shortland Properties shares will continue to trade around 58-62 cents - at which price they are an attractive high yielding property company investment.



# 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.

**UNDER-VALUED SHARES**: Lowest Price/Sales, Yld > 0, Rel Strength > 0

| Company | Share Price | STRENGTH RATING Cur-rent | 4-Wk Chg. | Rank 0-99 | Insider Buy-Sell | Brokers Following | Price to NTA | Return on Equity | Vola-til-ity | Price Earn. Ratio | Divi-dend Yield | Price Sales Ratio | Market Cap'n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Port Douglas | 10 | +6.9 | +6.0 | 22 | 0-0 | - | 0.5 | - | 3.7 | NE | 70.0 | 0.04 | 22 |
| Mosaix Technol. | 98 | +0.1 | -0.0 | 44 | 0-0 | - | 1.0 | 4 | 1.4 | 27 | 6.1 | 0.08 | 18 |
| A.P. Eagers | 425 | +1.3 | -3.2 | 37 | 1-0 | 2 | 1.0 | 9 | 0.9 | 11 | 6.1 | 0.08 | 64 |
| Auto Group Ltd | 120 | +11.0 | -2.0 | 17 | 0-0 | 1 | 2.9 | 17 | 1.3 | 17 | 3.3 | 0.08 | 40 |
| Grow Force Aust | 760 | +5.6 | -2.2 | 24 | 0-0 | - | 2.3 | 8 | 0.8 | 28 | 3.3 | 0.13 | 14 |
| Webster Ltd | 91 | +4.7 | +1.9 | 27 | 0-0 | - | 0.7 | 7 | 1.5 | 11 | 4.9 | 0.14 | 21 |
| Amalgamated Res | 12 | +0.5 | +1.4 | 41 | 1-0 | - | - | - | 3.4 | 3 | 10.9 | 0.14 | 11 |
| Queens'd Cotton | 485 | +0.5 | +0.3 | 42 | 2-0 | 3 | 1.5 | 11 | 0.9 | 14 | 5.8 | 0.17 | 137 |
| IAMA Ltd | 239 | +1.9 | +0.0 | 35 | 2-3 | 5 | 2.1 | 17 | 1.1 | 13 | 5.9 | 0.20 | 205 |
| Woolworths Ltd | 555 | +0.3 | +2.8 | 43 | 3-0 | 16 | 4.6 | 21 | 0.9 | 22 | 3.1 | 0.20 | 6,398 |
| Skydome Holding | 28 | +6.1 | +0.3 | 23 | 0-0 | - | 1.6 | 27 | 2.3 | 6 | 8.9 | 0.20 | 3 |
| Angus & Coote | 390 | +7.8 | +4.0 | 21 | 0-0 | - | 1.0 | 7 | 1.0 | 15 | 5.1 | 0.20 | 47 |
| A.V. Jennings | 53 | +11.8 | +1.9 | 15 | 0-0 | 1 | 0.9 | 19 | 1.8 | 5 | 9.0 | 0.21 | 114 |
| Devine | 64 | +1.7 | +2.4 | 37 | 0-0 | 1 | 1.5 | 19 | 1.7 | 8 | 10.9 | 0.21 | 50 |
| Cons Manufact. | 125 | +6.6 | +4.7 | 23 | 0-0 | 2 | 1.6 | 16 | 1.3 | 10 | 6.4 | 0.21 | 15 |
| Danks Holdings | 900 | +3.7 | -1.2 | 30 | 0-0 | - | 1.5 | 12 | 0.8 | 13 | 4.1 | 0.21 | 59 |
| Watpac Ltd | 46 | +0.6 | -1.6 | 41 | 1-0 | 2 | 1.8 | 22 | 1.9 | 8 | 7.1 | 0.22 | 31 |
| Datamatic Hold | 27 | +26.9 | -4.1 | 7 | 0-0 | - | - | - | 2.3 | 2 | 7.4 | 0.23 | 10 |
| Namoi Cotton | 84 | +3.2 | -1.2 | 32 | 2-0 | 2 | 1.2 | 22 | 1.5 | 5 | 11.3 | 0.23 | 87 |
| Spicers Paper | 215 | +18.5 | +2.3 | 11 | 0-0 | 10 | 1.3 | 7 | 1.1 | 19 | 3.7 | 0.26 | 296 |
| Henry Walker Gr | 180 | +4.9 | -1.5 | 26 | 3-3 | 9 | 1.4 | 15 | 1.2 | 9 | 5.4 | 0.26 | 313 |
| Green's Foods | 62 | +13.9 | -2.0 | 14 | 3-0 | - | 2.6 | 2 | 1.7 | 111 | 1.6 | 0.27 | 36 |
| Embelton Ltd | 200 | +6.1 | -1.7 | 23 | 0-0 | - | 0.8 | 7 | 1.1 | 13 | 3.5 | 0.27 | 4 |
| Toll Holdings | 545 | +20.2 | -7.7 | 10 | 2-0 | 5 | 3.8 | 21 | 0.9 | 18 | 2.6 | 0.28 | 322 |
| Joyce Corp. | 195 | +10.9 | -3.9 | 17 | 0-0 | - | 2.3 | 20 | 1.1 | 12 | 4.9 | 0.29 | 36 |
| Automotive Ind. | 25 | +3.3 | +1.5 | 32 | 0-0 | - | 0.8 | 10 | 2.4 | 8 | 8.0 | 0.31 | 5 |
| CPI Group | 239 | +4.8 | -2.8 | 26 | 0-0 | 8 | 1.8 | 6 | 1.1 | 32 | 5.0 | 0.32 | 96 |
| S.P.C. Ltd | 105 | +32.8 | -12.9 | 5 | 1-1 | - | 1.5 | 14 | 1.4 | 10 | 2.1 | 0.33 | 73 |
| Monadelphous Gr | 300 | +3.4 | -0.9 | 31 | 0-0 | - | 2.6 | 24 | 1.0 | 11 | 8.3 | 0.33 | 49 |
| Dollar Sweets | 62 | +0.6 | -3.7 | 41 | 1-0 | 2 | 5.2 | 49 | 1.7 | 11 | 3.5 | 0.34 | 76 |
| Email Ltd | 292 | +5.4 | +1.0 | 25 | 3-0 | 14 | 1.6 | 10 | 1.0 | 17 | 4.8 | 0.34 | 861 |
| Simsmetal Ltd | 650 | +5.8 | -0.4 | 24 | 0-0 | 8 | 2.5 | 21 | 0.9 | 12 | 5.5 | 0.36 | 555 |
| Just Jeans Grp | 155 | +1.7 | -0.3 | 36 | 3-0 | 9 | 2.5 | 13 | 1.2 | 19 | 5.8 | 0.37 | 127 |
| Data 3 Ltd | 260 | +1.9 | -4.7 | 35 | 1-2 | 1 | 9.3 | 72 | 1.1 | 13 | 4.4 | 0.38 | 35 |
| Futuris Corp. | 235 | +9.1 | -0.9 | 19 | 0-0 | 10 | 2.6 | 25 | 1.1 | 10 | 3.2 | 0.39 | 1,208 |
| Tempo Services | 235 | +7.9 | -0.7 | 20 | 1-4 | 6 | 47.0 | - | 1.1 | 18 | 3.2 | 0.39 | 101 |
| Westral'n Fores | 152 | +0.7 | +2.0 | 40 | 0-0 | 2 | 0.8 | 4 | 1.2 | 23 | 2.6 | 0.41 | 92 |
| East African Co | 335 | +4.6 | -1.5 | 27 | 0-0 | - | 0.9 | 11 | 1.0 | 8 | 3.0 | 0.43 | 22 |
| Centennial Coal | 78 | +9.4 | -4.0 | 19 | 0-0 | - | 0.5 | 5 | 1.5 | 10 | 6.4 | 0.43 | 27 |
| Adelaide Bright | 95 | +5.8 | +3.3 | 24 | 2-0 | 8 | 0.9 | 4 | 1.4 | 21 | 5.3 | 0.43 | 450 |
| Wills (WD & HO) | 618 | +26.8 | +5.2 | 7 | 0-0 | 8 | 3.1 | 17 | 0.9 | 18 | 4.9 | 0.45 | 816 |
| Flight Centre | 925 | +27.7 | -0.5 | 7 | 0-4 | 3 | 14.7 | 36 | 0.8 | 41 | 1.2 | 0.48 | 748 |
| Nat'l Consol. | 81 | +0.3 | -0.1 | 42 | 0-0 | - | 2.0 | 2 | 1.5 | 109 | 4.9 | 0.49 | 164 |
| Coles Myer | 918 | +3.7 | +1.3 | 30 | 1-0 | 16 | 4.0 | 15 | 0.8 | 27 | 2.6 | 0.50 | 10,619 |
| Pirelli Cables | 82 | +3.6 | +1.3 | 30 | 0-0 | 1 | 1.3 | 8 | 1.5 | 16 | 5.5 | 0.51 | 71 |
| Erawan Company | 46 | +19.2 | +2.7 | 10 | 0-0 | - | 1.5 | 27 | 1.9 | 6 | 11.9 | 0.53 | 15 |
| Aust Oil & Gas | 168 | +1.8 | -1.6 | 36 | 0-0 | 1 | 0.8 | 11 | 1.2 | 8 | 6.0 | 0.56 | 77 |
| CCI Holdings | 37 | +0.5 | +0.3 | 41 | 0-0 | - | 1.8 | 20 | 2.1 | 9 | 10.8 | 0.57 | 24 |
| Oroton Int'l | 168 | +15.2 | -4.1 | 13 | 3-0 | - | 2.5 | 15 | 1.2 | 17 | 4.8 | 0.57 | 27 |
| Spotless Group | 420 | +1.8 | -1.1 | 36 | 0-1 | 7 | 9.5 | 40 | 0.9 | 24 | 3.2 | 0.57 | 582 |

**BEST PERFORMING SHARES**: Strongest Shares, P/E < 20, P/S < 1.0

| Company | Share Price | STRENGTH RATING Cur-rent | 4-Wk Chg. | Rank 0-99 | Insider Buy-Sell | Brokers Following | Price to NTA | Return on Equity | Vola-til-ity | Price Earn. Ratio | Divi-dend Yield | Price Sales Ratio | Market Cap'n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| S.P.C. Ltd | 105 | +32.8 | -12.9 | 5 | 1-1 | - | 1.5 | 14 | 1.1 | 10 | 2.1 | 0.33 | 73 |
| Vietnam Indust. | 10 | +28.7 | +3.9 | 6 | 0-0 | - | 0.4 | 10 | 2.7 | 4 | Nil | 0.20 | 10 |
| Datamatic Hold | 27 | +26.9 | -4.1 | 7 | 0-0 | - | - | - | 1.8 | 2 | 7.4 | 0.23 | 10 |
| Wills (WD & HO) | 618 | +26.8 | +5.2 | 7 | 0-0 | 8 | 3.1 | 17 | 0.8 | 18 | 4.9 | 0.45 | 816 |
| United Overseas | 60 | +21.6 | +4.5 | 9 | 0-0 | - | 1.0 | 18 | 1.3 | 5 | 6.7 | 0.60 | 29 |
| Toll Holdings | 545 | +20.2 | -7.7 | 10 | 2-0 | 5 | 3.8 | 21 | 0.8 | 18 | 2.6 | 0.28 | 322 |
| Erawan Company | 46 | +19.2 | +2.7 | 10 | 0-0 | - | 1.5 | 27 | 1.5 | 6 | 11.9 | 0.53 | 15 |
| Spicers Paper | 215 | +18.5 | +2.3 | 11 | 0-0 | 10 | 1.3 | 7 | 0.9 | 19 | 3.7 | 0.26 | 296 |
| Qantas | 492 | +18.1 | +0.4 | 11 | 0-1 | 16 | 1.9 | 10 | 0.8 | 18 | 2.7 | 0.70 | 5,931 |
| Oroton Int'l | 168 | +15.2 | -4.1 | 13 | 3-0 | - | 2.5 | 15 | 1.0 | 17 | 4.8 | 0.57 | 27 |
| Waterco Ltd | 150 | +15.1 | +1.3 | 13 | 1-0 | - | 1.6 | 13 | 1.0 | 12 | 4.7 | 0.65 | 27 |
| Eumundi Brewing | 10 | +13.9 | -4.8 | 14 | 0-0 | - | 2.5 | 43 | 2.7 | 6 | Nil | 0.36 | 4 |
| Mirvac Ltd | 250 | +13.2 | -1.5 | 14 | 0-0 | 8 | 1.7 | 13 | 0.9 | 13 | 4.0 | 0.97 | 547 |
| Sunland Group | 225 | +13.2 | -1.8 | 14 | 1-0 | - | 1.8 | 21 | 0.9 | 8 | 3.1 | 0.82 | 73 |
| A.V. Jennings | 53 | +11.8 | +1.9 | 15 | 0-0 | 1 | 0.9 | 19 | 1.4 | 5 | 9.0 | 0.21 | 114 |
| Crown Ltd | 90 | +11.7 | -4.2 | 16 | 0-0 | 11 | 2.0 | 15 | 1.2 | 14 | Nil | 0.70 | 896 |
| Breakwater Is. | 25 | +11.1 | -2.5 | 16 | 0-0 | 2 | 0.8 | 5 | 1.8 | 16 | 4.8 | 0.79 | 36 |
| Auto Group Ltd | 120 | +11.0 | -2.0 | 17 | 0-0 | 1 | 2.9 | 17 | 1.1 | 17 | 3.3 | 0.08 | 40 |
| Joyce Corp. | 195 | +10.9 | -3.9 | 17 | 0-0 | - | 2.3 | 20 | 1.0 | 12 | 4.9 | 0.29 | 36 |
| Reece Australia | 1630 | +10.3 | -0.9 | 17 | 0-0 | - | 2.5 | 13 | 0.7 | 19 | 2.1 | 0.77 | 325 |
| Centennial Coal | 78 | +9.4 | -4.0 | 19 | 0-0 | - | 0.5 | 5 | 1.2 | 10 | 6.4 | 0.43 | 27 |
| Futuris Corp. | 235 | +9.1 | -0.9 | 19 | 0-0 | 10 | 2.6 | 25 | 0.9 | 10 | 3.2 | 0.39 | 1,208 |
| Rothmans Hold | 1550 | +8.9 | +0.4 | 19 | 0-0 | 8 | 9.0 | 56 | 0.7 | 16 | 5.5 | 0.62 | 1,889 |
| PCH Group | 27 | +8.4 | +3.6 | 20 | 0-1 | - | 1.2 | 7 | 1.8 | 18 | 1.9 | 0.61 | 12 |
| Tempo Services | 235 | +7.9 | -0.7 | 20 | 1-4 | 6 | 47.0 | - | 0.9 | 18 | 3.2 | 0.39 | 101 |
| Australand Hold | 145 | +7.9 | +0.6 | 20 | 1-0 | 4 | 1.4 | 19 | 1.0 | 7 | 6.9 | 0.90 | 421 |
| Angus & Coote | 390 | +7.8 | +4.0 | 21 | 0-0 | - | 1.0 | 7 | 0.8 | 15 | 5.1 | 0.20 | 47 |
| Trust Co of Aus | 1475 | +7.3 | +0.4 | 22 | 0-0 | - | 1.6 | 75 | 0.7 | 2 | 4.1 | 0.59 | 10 |
| Maxi TRANS | 40 | +7.1 | -1.0 | 22 | 0-0 | 2 | 7.9 | 73 | 1.5 | 11 | 5.7 | 0.67 | 49 |
| C.S.R. Ltd | 440 | +6.7 | +1.0 | 23 | 3-0 | 16 | 1.4 | 11 | 0.8 | 13 | 5.2 | 0.67 | 4,557 |
| Cons Manufact. | 125 | +6.6 | +4.7 | 23 | 0-0 | 2 | 1.6 | 16 | 1.1 | 10 | 6.4 | 0.21 | 15 |
| Skydome Holding | 28 | +6.1 | +0.3 | 23 | 0-0 | - | 1.6 | 27 | 1.7 | 6 | 8.9 | 0.20 | 3 |
| Embelton Ltd | 200 | +6.1 | -1.7 | 23 | 0-0 | - | 0.8 | 7 | 0.9 | 13 | 3.5 | 0.27 | 4 |
| Stokes (Aust) | 60 | +5.9 | +1.1 | 24 | 0-0 | - | 0.6 | 10 | 1.3 | 6 | Nil | 0.09 | 3 |
| Simsmetal Ltd | 650 | +5.8 | -0.4 | 24 | 0-0 | 8 | 2.5 | 21 | 0.7 | 12 | 5.5 | 0.36 | 555 |
| Email Ltd | 292 | +5.4 | +1.0 | 25 | 3-0 | 14 | 1.6 | 10 | 0.9 | 17 | 4.8 | 0.34 | 861 |
| Schaffer Corp | 250 | +4.9 | -1.2 | 26 | 2-0 | - | 0.8 | 5 | 0.9 | 14 | 4.4 | 0.66 | 25 |
| Henry Walker Gr | 180 | +4.9 | -1.5 | 26 | 3-3 | 9 | 1.4 | 15 | 1.0 | 9 | 5.4 | 0.26 | 313 |
| Gazal Corp | 175 | +4.8 | +0.7 | 26 | 3-0 | - | 1.8 | 15 | 1.0 | 12 | 6.3 | 0.60 | 85 |
| Webster Ltd | 91 | +4.7 | +1.9 | 27 | 0-0 | - | 0.7 | 7 | 1.2 | 11 | 4.9 | 0.14 | 21 |
| Chalmers | 245 | +4.6 | -0.0 | 27 | 0-0 | - | 1.2 | 8 | 0.9 | 14 | 4.5 | 0.65 | 14 |
| East African Co | 335 | +4.6 | -1.5 | 27 | 0-0 | - | 0.9 | 11 | 0.8 | 8 | 3.0 | 0.43 | 22 |
| Central Equity | 188 | +4.5 | -1.0 | 27 | 9-0 | 1 | 1.4 | 19 | 1.0 | 8 | 6.9 | 0.76 | 154 |
| Freedom Furn. | 185 | +4.4 | -0.6 | 27 | 0-0 | 11 | 5.8 | 31 | 1.0 | 19 | 4.1 | 0.70 | 141 |
| Sietel Ltd | 56 | +4.3 | +1.2 | 28 | 0-0 | - | 0.6 | 9 | 1.4 | 7 | Nil | 0.20 | 4 |
| Arrowfield Grp | 144 | +3.7 | -0.4 | 30 | 0-0 | - | 0.6 | 4 | 1.0 | 16 | Nil | 0.83 | 12 |
| Danks Holdings | 900 | +3.7 | -1.2 | 30 | 0-0 | - | 1.5 | 12 | 0.7 | 13 | 4.1 | 0.21 | 59 |
| Pirelli Cables | 82 | +3.6 | +1.3 | 30 | 0-0 | 1 | 1.3 | 8 | 1.2 | 16 | 5.5 | 0.51 | 71 |
| Monadelphous Gr | 300 | +3.4 | -0.9 | 31 | 0-0 | - | 2.6 | 24 | 0.9 | 11 | 8.3 | 0.33 | 49 |

**INCOME SHARES**: Highest Yields, Capitalisation > A$250 million

| Company | Share Price | STRENGTH RATING Cur-rent | 4-Wk Chg. | Rank 0-99 | Insider Buy-Sell | Brokers Following | Price to NTA | Return on Equity | Vola-til-ity | Price Earn. Ratio | Divi-dend Yield | Price Sales Ratio | Market Cap'n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ten Network | 214 | -3.3 | -2.0 | 65 | 0-0 | 9 | - | - | 0.9 | 73 | 14.0 | 0.82 | 802 |
| Burswood Ltd | 100 | +3.9 | -2.6 | 29 | 0-0 | 13 | 0.9 | 11 | 1.0 | 8 | 10.5 | 1.19 | 402 |
| Graincorp | 910 | +3.0 | -3.2 | 32 | 7-2 | 1 | 4.8 | 60 | 0.7 | 8 | 9.9 | 1.67 | 285 |
| HIH Insurance | 179 | -8.2 | +0.8 | 77 | 5-0 | 9 | 1.3 | 14 | 0.9 | 10 | 8.9 | 0.25 | 807 |
| Envestra | 91 | -4.2 | +1.7 | 68 | 1-0 | 5 | 4.0 | - | 1.0 | NE | 8.5 | 2.78 | 319 |
| Normandy NFM | 330 | -5.8 | -0.2 | 72 | 1-0 | 12 | - | - | 0.8 | 7 | 7.6 | 1.92 | 251 |
| Capral Alum. | 245 | +1.1 | +0.1 | 38 | 3-0 | 10 | 1.0 | 3 | 0.8 | 36 | 7.3 | 0.65 | 504 |
| Energy Resource | 191 | -5.6 | +2.7 | 72 | 0-0 | 8 | - | - | 0.9 | 14 | 7.3 | 1.78 | 273 |
| Aust Infra. | 221 | +0.5 | -0.0 | 42 | 0-1 | 2 | 1.0 | 9 | 0.8 | 11 | 7.2 | 8.96 | 307 |
| United Energy | 241 | +4.3 | -1.1 | 28 | 0-0 | 8 | - | - | 0.8 | 67 | 7.2 | 1.47 | 1,003 |
| Q.C.T. Resource | 100 | -0.9 | +4.0 | 52 | 0-0 | 14 | 1.1 | 7 | 1.0 | 14 | 7.0 | 0.69 | 689 |
| Caltex Austrlia | 316 | -6.4 | -3.2 | 74 | 0-0 | 8 | 1.1 | 10 | 0.8 | 11 | 7.0 | 0.14 | 853 |
| Australand Hold | 145 | +7.9 | +0.6 | 20 | 1-0 | 4 | 1.4 | 19 | 0.9 | 7 | 6.9 | 0.90 | 421 |
| Coal & Allied | 1510 | +22.2 | -4.5 | 9 | 0-0 | 4 | 2.4 | 22 | 0.6 | 11 | 6.6 | 1.63 | 959 |
| PMP Communicat. | 318 | +1.5 | -1.4 | 37 | 2-0 | 10 | - | - | 0.8 | 14 | 6.4 | 0.71 | 806 |
| Sons of Gwalia | 390 | -6.5 | -1.8 | 74 | 0-0 | 16 | - | - | 0.8 | 6 | 6.4 | 1.03 | 444 |
| Grosvenor Trust | 154 | +0.0 | -0.0 | 45 | 0-0 | - | 1.1 | 7 | 0.9 | 16 | 6.4 | 8.69 | 448 |
| Metal Manufact. | 190 | -6.1 | +1.3 | 73 | 6-0 | 4 | 1.4 | 66 | 0.9 | 2 | 6.3 | 0.24 | 269 |
| Hills Indust. | 245 | +0.2 | -0.9 | 43 | 1-1 | 4 | 2.8 | 16 | 0.8 | 17 | 6.3 | 0.76 | 273 |
| Orica Ltd | 820 | -1.9 | -1.5 | 58 | 2-0 | 11 | 2.0 | 11 | 0.7 | 18 | 6.1 | 0.66 | 2,229 |
| Pacific Dunlop | 230 | -7.2 | -1.6 | 75 | 0-0 | 16 | 2.3 | 18 | 0.8 | 13 | 6.1 | 0.34 | 2,362 |
| Infrastructure | 165 | -1.0 | +0.1 | 52 | 0-0 | 2 | 1.2 | 15 | 0.9 | 8 | 6.1 | 7.37 | 923 |
| GIO Australia | 366 | -9.7 | -1.4 | 80 | 2-0 | 12 | 1.9 | - | 0.8 | NE | 6.0 | 0.81 | 2,307 |
| OPSM Protector | 275 | -5.0 | +0.5 | 71 | 0-0 | 9 | 3.3 | 1 | 0.8 | 229 | 6.0 | 0.76 | 394 |
| Mayne Nickless | 518 | -8.0 | +1.0 | 77 | 1-1 | 17 | 2.7 | 17 | 0.7 | 16 | 5.8 | 0.57 | 1,778 |

**INSIDER BUYING**: Most Insider Buying, Relative Strength > 0

| Company | Share Price | STRENGTH RATING Cur-rent | 4-Wk Chg. | Rank 0-99 | Insider Buy-Sell | Brokers Following | Price to NTA | Return on Equity | Vola-til-ity | Price Earn. Ratio | Divi-dend Yield | Price Sales Ratio | Market Cap'n |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Milton Corp. | 903 | +1.3 | -0.3 | 37 | 15-0 | - | 1.0 | 9 | 0.6 | 12 | 4.2 | 3.52 | 454 |
| Central Equity | 188 | +4.5 | -1.0 | 27 | 9-0 | 1 | 1.4 | 19 | 0.8 | 8 | 6.9 | 0.76 | 154 |
| Thakral Holding | 78 | +3.4 | +4.1 | 31 | 8-0 | 1 | 1.2 | 8 | 1.0 | 14 | 6.7 | 1.90 | 382 |
| Mt Burgess Gold | 12 | +13.7 | +3.5 | 14 | 6-0 | - | - | - | 1.9 | NE | Nil | N/A | 13 |
| GWA Internat'l | 258 | +2.3 | -0.4 | 34 | 6-0 | 10 | 2.1 | 12 | 0.8 | 18 | 4.3 | 1.34 | 700 |
| Auridiam Cons. | 8 | +4.4 | +1.9 | 28 | 5-0 | - | - | - | 2.2 | NE | Nil | 0.83 | 5 |
| Soul Pattinson | 3900 | +9.7 | +0.1 | 18 | 5-0 | 2 | 1.2 | 6 | 0.6 | 21 | 1.8 | 1.22 | 931 |
| Smith (Howard) | 1200 | +3.2 | -2.1 | 32 | 5-0 | 14 | 4.9 | 14 | 0.6 | 35 | 3.3 | 0.90 | 2,297 |
| Graincorp | 910 | +3.0 | -3.2 | 32 | 7-2 | 1 | 4.8 | 60 | 0.6 | 8 | 9.9 | 1.67 | 285 |
| Heine Managem't | 401 | +16.9 | -0.8 | 12 | 4-0 | - | 13.4 | 47 | 0.7 | 28 | 2.5 | 2.97 | 81 |
| St George Bank | 1036 | +1.3 | -1.0 | 38 | 4-0 | 15 | 4.3 | 16 | 0.6 | 28 | 5.0 | 1.42 | 4,785 |
| Atlas Pacific | 22 | +2.2 | +6.0 | 34 | 4-0 | - | 1.6 | - | 1.5 | NE | Nil | N/A | 11 |
| North Star Res. | 16 | +17.3 | +16.7 | 11 | 4-0 | - | - | - | 1.7 | NE | Nil | N/A | 4 |
| BT Aust Equity | 70 | +0.4 | +0.2 | 42 | 4-0 | - | 0.9 | 3 | 1.0 | 29 | 7.1 | 1.69 | 206 |
| Pacific Energy | 128 | +26.1 | +21.9 | 8 | 4-0 | - | 2.6 | - | 0.9 | NE | Nil | N/A | 22 |
| Mt Grace Res. | 44 | +36.8 | +5.7 | 5 | 4-0 | - | - | - | 1.2 | NE | Nil | N/A | 15 |
| Rural Press Ltd | 500 | +1.0 | -0.2 | 39 | 3-0 | 7 | 3.0 | 24 | 0.7 | 12 | 2.4 | 1.22 | 555 |
| Oroton Int'l | 168 | +15.2 | -4.1 | 13 | 3-0 | - | 2.5 | 15 | 0.8 | 17 | 4.8 | 0.57 | 27 |
| Gazal Corp | 175 | +4.8 | +0.7 | 26 | 3-0 | - | 1.8 | 15 | 0.8 | 12 | 6.3 | 0.60 | 85 |
| Burns Philp | 35 | +11.0 | -4.6 | 17 | 3-0 | 1 | - | - | 1.3 | 64 | Nil | 0.08 | 183 |
| Southcorp Ltd | 600 | +3.3 | -2.4 | 31 | 3-0 | 16 | 3.4 | 15 | 0.7 | 24 | 3.0 | 1.35 | 3,708 |
| Woolworths Ltd | 555 | +0.3 | +2.8 | 43 | 3-0 | 16 | 4.6 | 21 | 0.7 | 22 | 3.1 | 0.20 | 6,398 |
| Hoyts Cinemas | 200 | +4.2 | -2.7 | 29 | 3-0 | 8 | 6.1 | 40 | 0.8 | 15 | 2.0 | 1.18 | 610 |
| Rhodes Mining | 4 | +10.5 | -1.7 | 17 | 3-0 | - | - | - | 3.0 | NE | Nil | N/A | 6 |
| Westfield Hold. | 910 | +1.8 | -2.7 | 35 | 3-0 | 10 | 9.3 | 21 | 0.6 | 44 | 1.1 | 7.11 | 4,766 |

# Australian Company Analysis: Adelaide Brighton

**Adelaide Brighton** (ABC) is an Australian cement and lime company that has performed poorly, but which could now benefit significantly from an internal *Business Improvement Program* and from its recent merger and restructuring.

## Company History

Adelaide Brighton was listed on the Australian Stock Exchange in 1960 following the merger of two independent South Australian cement companies, **Adelaide Company** and **Brighton Company**.

A restructuring in 1993 saw Adelaide Brighton merge its cement business (Adelaide Brighton Cement) with that of **Australian Cement Holdings** (which is a 50/50 joint venture between listed **CSR** and **Pioneer International**). This merger resulted in Australian Cement Holdings owning a 49% shareholding in Adelaide Brighton Cement. The merger provided Adelaide Brighton with a cash injection and important marketing agreements, but left the company without full control of its major cement assets.

As a result of that merger, Adelaide Brighton's largest (and most modern) plant was its **Birkenhead** plant, followed by the **Geelong** plant (acquired from Australian Cement) and several smaller plants.

## Recent Results

Adelaide Brighton's operations have performed poorly, leading to inadequate profits and the share price significantly under-performing the stockmarket over the last decade.

In recent years, revenues have been around A$350-400 million and profits around A$10-19 million (before significant abnormal losses). This represents an inadequate 5-8% return on equity. The annual dividend was cut from 10.0 cents in 1995 to only 5.0 cents in subsequent years.

For the six months to December 31, 1998, revenues rose 6.2% to A$129.3 million while profits fell 41.5% to A$2.4 million and no interim dividend was paid.

## "Business Improvement Program"

As a result of its inadequate performance Adelaide Brighton implemented a *Business Improvement Program* in 1998 designed to lift its return on equity up to 15% - or add A$26 million to pre-tax earnings. This was based upon improvements the following areas: (1) Improved plant reliability, (2) Better value on its A$50 million in purchases from other businesses, (3) Improved margins in selected markets and (4) Elimination of waste. Staff reductions are expected to generate only 25% of these cost savings.

As an example of just how inefficient the company's operations were its modern Birkenhead cement kiln experienced 120 stops in 1998, compared with "good practice" of 20 stops. The company's analysis revealed that 80% of these stops were preventible. Only 20% of the company's maintenance work was planned, compared with better managed cement companies where over 90% was planned. In benchmarking studies, Adelaide Brighton rated itself 3-4 out of 10 in most areas of its operations. The company has started to adopt "best practice" techniques with management focus on its critical manufacturing processes.

This *Business Improvement Program* was expected to take 24-36 months to complete (i.e. through until the end of the year 2001 or 2002), although substantial cost savings were expected during the year 2000. Restructuring costs (mainly redundancies and consultants fees) of about A$10 million will be written off in the year to June 1999.

## Industry Rationalisation

Since beginning its *Business Improvement Program* Adelaide Brighton has become involved in a major restructuring that has significantly changed the company.

Adelaide Brighton has acquired the cement and lime business of **Cockburn Cement**, which was a wholly owned subsidiary of UK based **Rugby Group**. Adelaide Brighton paid A$230 million for this business (200 million shares issued at A$1.15 each), making Rugby the largest shareholder with a 54.9% shareholding in the enlarged group.

Adelaide Brighton has also taken back full control of its 51% owned Adelaide Brighton Cement subsidiary by paying A$82.9 million to Australian Cement Holdings. This was funded with a 3 for 10 cash issue raising $80 million in new equity from the public shareholders and Rugby Group.

Rationalisation is expected to result in substantial cost savings and add A$23 million to pre-tax profits (in addition to the benefits of its *Business Improvement Program*) with these gains starting to show up in reported earnings from about mid-2000.

The enlarged company will be focused around two large, cost effective plants - Adelaide Brighton's Birkenhead plant and Cockburn Cement's lime plant in Perth. The Geelong cement works will be closed (with annual cost savings - partly from better utilisation at other plants - of A$11.5 million). Rationalisation of duplicated cement and lime operations is expected to generate a further A$11.5 million in annual cost savings. The company is now the largest independent cement producer in Australia and the largest producer of lime. Most of Cockburn's lime is sold under long term supply contracts with alumina manufacturers - which diversifies earnings away from Adelaide Brighton's previous exposure to the cyclical building industry.

Adelaide Brighton has also negotiated long term supply contracts with Australian Cement Holdings (which will buy cement on behalf of CSR and Pioneer). The new contracts run until 2008 (replacing existing contracts which expired in 2002) and involve undisclosed "higher volumes" than the previous contracts. These long term supply contracts are very important to Adelaide Brighton as cement manufacture is a capital intensive business, so high utilisation of production capacity is an important factor in achieving profitability.

**Investment Criteria**

Based upon the current share price of 95 cents Adelaide Brighton shares trade on a Price/Sales ratio of 0.43, a Price/Earnings ratio of 21 and offer a Dividend Yield of 5.3%. The recent merger and cash issue, however, have tripled the issued capital and significantly increased the size of the company, so these historical statistics could be meaningless.

Working with the company's pro-forma estimates, the Price/Sales ratio will be around 0.89, while the Price/Earnings ratio will be 13. No dividend policy has been disclosed.

The market capitalisation is A$450 million, making this a fairly large Australian company.

Adelaide Brighton is *moderately followed*, with eight brokers currently publishing profit forecasts. Institutional investors also have only a *moderate* holding in the company.

Two companies in the same industry have large shareholdings: UK based Rugby Group with 54.9% of the capital and Australian based **Barro Group** (a private company involved in concrete and quarrying, but which buys its cement from Adelaide Brighton) with 8.6%.

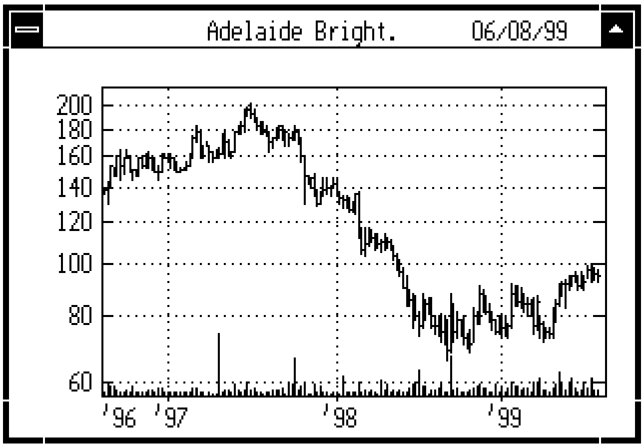
Directors have only small shareholdings in the company but two directors have purchased shares over the last year: In July 1999 MA Kinnaird purchased 15,000 shares (increasing his shareholding to 65,000 shares), while RW Hammond purchased 97,000 shares (taking his holding to 111,164 shares).

Technically the shares appear to be in a new uptrend. The Relative Strength rating is +5.4%, which ranks the shares 25 (on a scale of 0-99).

The two things that we *don't* like about this business is that it is capital intensive (so funds need to be re-invested in the business to maintain efficient plants or to fund any possible expansion) and that the business lacks long term growth potential. Nevertheless, this is a cyclical business emerging from a period of over-supply and low cement prices. The *Business Improvement Program* to reduce costs and improve efficiency, together with the elimination of duplicated costs and closure of inefficient plants (and reduced industry capacity) as a result of the recent merger could have a significant impact on future profitability. We therefore see Adelaide Brighton as a cyclical investment that could increase significantly in value over the next 3-4 years.

**Summary & Recommendation**

We are not formally recommending Adelaide Brighton as this company does not have the long term growth potential that we seek from our Australian investments. Nevertheless, Adelaide Brighton shares should be attractive to more conservative investors (e.g. retired investors) who are looking for established companies that offer a reasonable income and capital appreciation from a cyclical upturn in the share price - aided by the company's efforts to improve profitability.




# *Australian Company Analysis: Auridiam Consolidated*

**Auridiam Consolidated** (ADM) features in the *Insider Buying* section of our *Comprehensive Share Selection Criteria* and was also highlighted last month as being in an industry (i.e. Diamonds) where there is high levels of insider buying. What is it that makes these shares so attractive to the company's directors?

**Company History**

Auridiam Consolidated was listed on the Australian Stock Exchange in 1986 after acquiring the Gold and Diamond mining assets of Auridiam NL.

In 1988 the company diversified with the acquisition of **PG Watson & Co**, a precision engineering company, for $1.5 million in cash.

In 1992 the company developed **River Ranch Mine**, a large diamond mining operation in Zimbabwe. A pilot production plant was established in February 1992, leading to the commissioning of a 500,000 tonnes per annum production plant in February 1994 (when Auridiam Consolidated was re-classified from a "Gold Explorer" to a "Diamond" company). That was further expanded to a 1.5 million tonnes plant during 1995. The company expected this mining operation to last for at least 17 years, but in 1998 (after producing over one million carats of diamonds) the mine was closed down owing to falling diamond prices and lower than expected diamond recoveries. River Ranch was placed in liquidation and Auridiam Consolidated wrote off its loans and equity investment in that company.

The failure of the River Ranch mine to generate the expected profits - and the loss of Auridiam Consolidated's major investment in this project - resulted in Auridiam Consolidated shares losing 97% of their value from a peak of A$1.68 in 1994 to a low of 4 cents in 1998.

This significant deterioration in the company's financial situation has also required a complete re-organisation of how the *(Continued in Page 12)*

**Auridiam Consolidated** *(Continued from Page 11)*
company now funds its exploration activities.

## Current Business and Growth Strategies

Without the expected cash flow from River Ranch, Auridiam Consolidated does not have the cash to spend freely on exploration. Furthermore, the low share price makes it impossible to raise additional equity capital from shareholders. This has led to a change in the way the company funds its businesses. Each area of the company's business is now expected to be "virtually self sufficient" in terms of funding. Unable to throw money at exploration, Auridiam Consolidated has been forced to extract greater value from its assets - which should maximise shareholder value.

The company now has three main areas: The industrial operations of PG Watson & Co, diamond exploration and gold exploration.

Auridiam is seeking to expand PG Watson & Co and improve profitability by seeking to expand beyond its traditional customer base, updating the management information systems (to handle growth and as a performance tool) and increasing the number of multi-skilled employees (while reducing its total workforce). In July this year PG Watson acquired **Guster Engineering** - which manufactures high quality stainless steel bread slicing blades for the baking industry.

Diamond and Gold exploration has been re-organised to minimise the cash cost of exploration while maintaining substantial equity interests. In general, Auridiam Consolidated is using farm-in arrangements where other companies are funding exploration in return for an interest in its exploration tenements. In the year to June 1998, Auridiam Consolidated contributed only A$117,000 towards exploration expenditures of A$1,960,000 yet retains around a 40% interest in most exploration projects.

The company's major Diamond project is the bulk testing of kimberlite at several sites at **Orapa** in Botswana which has yielded gem quality diamonds. This is being funded by Canadian based **MIT Ventures Corporation** with Auridiam Consolidated retaining a 20% free carried interest (i.e. Auridiam will hold a 20% interest in any mine, with MIT Ventures funding 100% of the capital costs) plus an option to buy back another 10% of the project. MIT Ventures will begin trial mining at one of these sites early next year to provide data for a bankable feasibility study for the establishment of a commercial mine.

Its second major Diamond exploration interest is the **Ellendale Diamond Field** in Western Australia where Auridiam Consolidated holds interests of 60% and 40% in different tenements. These tenements are the subject of option agreements with **Kimberley Resources NL** which is paying monthly fees totalling A$11,000 to Auridiam Consolidated to explore in the mining tenements and has the option to buy out Auridiam Consolidated for a total of A$4.6 million prior to January 2000. Both options can be extended - with monthly payments increasing to A$19,000 and the purchase price increasing to around $11.0 million through to March 2002. If Kimberley exercises its purchase option, then Auridiam Consolidated has the right to buy back a small interest and will also retain a 3% net profit interest in any mining in the second tenement area. These tenements are therefore generating an annual income of A$132,000 for Auridiam Consolidated and could result in the receipt of a substantial cash sum (i.e. approximately equal to the company's total market capitalisation) if the purchase option is exercised.

The major Gold project is the **Woodlark Island Gold Project** in the Solomon Sea where Auridiam Consolidated holds a 75% interest (reducing to 49%). This was originally considered a large tonnage, low grade gold deposit but the low price of gold has made that uneconomic. The project is therefore being re-examined with the view to mining the smaller areas of higher grade deposits (i.e. with gold grades of 5 grams per tonne or higher). **Battlefields Minerals Corporation** is spending up to A$3 million on this project to increase its interest from 25% to 51%. Two high grade areas have been identified. At current gold prices these deposits *could* support a 350,000 t.p.a. mine processing high grade ore with a life of five years.

## Share Buy-Back

Auridiam Consolidated has little cash but its current diamond and gold exploration is being funded by outside partners. In February this year the company sold its **River Ranch** (in liquidation) assets for A$645,000 in cash. As the company considers its shares to be under-valued an on-market buy back of up to 6,000,000 shares (9.45% of the capital) was announced in June and will continue through until December.

As mentioned in our original articles on our *Comprehensive Share Selection Criteria* (and re-published in a Special report for new subscribers) "the *smaller* the company, the better the performance during the 3-24 months after the re-purchase announcement. Typically, *smaller* companies' shares had been falling sharply for three years prior to the share re-purchase - and their subsequent two year rally dwarfed that of the shares of *larger* companies!"

## Investment Criteria

Auridiam Consolidated qualifies as a "Buy" under our *Comprehensive Share Selection Criteria* as both a share with *Insider Buying* and a *Share Buy-Back* (as discussed above).

Over the last twelve months there have been five buy transactions by directors and no sales. Four buys over the last year were by Chairman PG Rowe who purchased 192,000 shares (at about 6 cents) in August 1998, 250,000 shares and 314,000 shares (at 5 cents) in September 1998 and 1,648,000 shares (at 5 cents) in April 1999. Director SF Belben purchased 395,000 shares (at 7 cents) in June 1999.

Directors have large stakes in the company, with PG Rowe holding 14,158,763 shares (22.3% of the capital) and SF Belben owning 1,366,195 shares (2.2% of the capital). On the other hand, Auridiam Consolidated is *neglected* by brokers (i.e. no brokers publish profit forecasts) and *neglected* by institutions (where a few very small shareholdings account for less than 5% of the capital). This is exactly the situation that we look for in a potential investment. Companies where management have a sizeable stake tend to performer better than companies where management own few or no shares. Shares that are *neglected* by brokers and/or *neglected* by institutional investors also tend to perform better than *widely followed* and *widely owned* shares.

With a total stockmarket capitalisation of only A$4.8 million Auridiam Consolidated is a "micro-cap" company. *Smaller* capitalisation companies have a tendency to outperform larger companies, while *micro-cap* shares offer the highest returns (but, individually, are very risky). Despite being a very small company, the shares are actively traded with average weekly turnover of about 500,000 shares (worth around A$40,000).

It is always difficult to measure the fundamental value of companies involved in mineral exploration. Shareholders' Equity is A$7,275,000 (including the A$645,000 for River Ranch, which was previously written down to zero) or 11.5 cents per share - but that value does include A$4.2 million of capitalised exploration expenditure. The company generated revenues of A$5,734,000 (65.2% from its PG Watson business) and a trading loss of A$762,000 (PG Watson earned a profit of A$232,000).

So at 7.5 cents, Auridiam Consolidated shares trade at a 35% discount to net asset backing and a Price/Sales ratio of 0.83.

Auridiam Consolidated owns 18.3% of listed **North Star Resources** - with those 4,640,000 shares currently worth A$835,000.

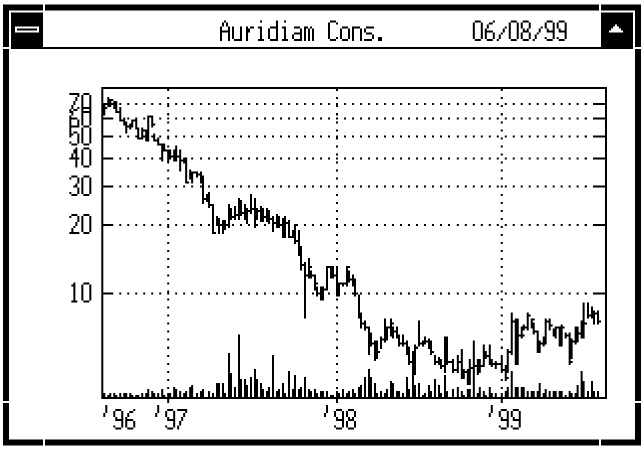
Technically the shares appear to be in a *recovery* and at the start of a new uptrend. The Strength Rating is +4.2%, which ranks the shares at an attractive 14 (on a scale of 0-99).

**Summary and Recommendation**

As an exploration company Auridiam Consolidated shares do involve high risks. However, with little cash to fund further exploration, the company is now seeking to maximise the value of its existing exploration portfolio through farm-in arrangements with other companies, and to grow its manufacturing business.

The share price appears low in relation to the potential value of some of these exploration interests, but the best indication that the shares are *under-valued* is the consistent buying by the company's directors (who best know the value of the company) and the decision to use the A$645,000 in cash from the sale of an asset to fund a share re-purchase.

Other *micro-cap* shares that we have highlighted in *Market Analysis* (i.e. Waterco in August 1997 and Garratt's in August 1998) have both performed well. We are NOT formally recommending Auridiam Consolidated (as it is such a small company with limited value of shares traded), but we do expect the share price to perform well, so these shares would be suitable for investors willing to take higher risks and with well diversified portfolios where a small percentage can be invested in *micro-cap* companies.




# *Warrant / Option Analysis*

Five warrants expire worthless this month: **DB National Mutual** and four **WDR** (previously SBC) **Fletcher Challenge** warrants. Next month the **WDR Carter Holt Harvey** warrants will expire worthless.

The only recent warrant issue was **WDR Contact Energy** warrants - which are also over-valued. Avoid.

The only *under-valued* leveraged security listed on the NZ Stock Exchange is the **Southern Capital** (formerly CBD New Zealand) options (see *Market Analysis* Issue No. 323). These, however, expire in just seven months and require the share price to appreciate at an annual rate of 40% simply to "break-even" - so are a very high risk investment.

| Warrant | Share Price | Exercise Price | Years & Months to Expiry | Warrant Price (NZ cents) | Black-Scholes Valuation (NZ cents) | Warrant Over/Under Valued (%) | Share Vola-tility | Warrant Leverage | No. Warrants to Buy One Share | Break-Even Rate |
|---|---|---|---|---|---|---|---|---|---|---|
| Aquaria 21 | $0.16 | $0.20 | 1-1 | 4.6 | 2.7 | +72 | 0.567 | 3.0 | 1.0000 | +50% |
| DB National Mutual | A$2.34 | A$2.70 | 0-0 | 0.1 | 0.0 | N/A | 0.306 | N/A | 5.0000 | N/A |
| IT Capital | $0.17 | $0.18 | 1-2 | 7.5 | 6.6 | +14 | 0.914 | 1.8 | 1.0000 | +39% |
| NZ Oil & Gas Options | $0.37 | $0.70 | 2-2 | 8.0 | 0.9 | +838 | 0.276 | 5.8 | 1.0000 | +41% |
| Otter Gold Mines 1999/2003 | $0.65 | $1.60 | 0-4 | 9.0 | 0.0 | +9999 | 0.434 | 17.0 | 1.0000 | +1657% |
| Otter Gold Mines 1999/2003 | $0.65 | $2.00 | 3-10 | 9.0 | 5.6 | +60 | 0.434 | 2.9 | 1.0000 | +36% |
| Otter Gold Mines 2001 | $0.65 | $2.75 | 2-2 | 2.8 | 0.5 | +455 | 0.434 | 4.9 | 1.0000 | +95% |
| Southern Capital | $0.88 | $1.00 | 0-7 | 6.9 | 8.7 | -21 | 0.458 | 4.6 | 1.0000 | +40% |
| WDR Carter Holt Harvey | $2.50 | $3.50 | 0-1 | 1.0 | 0.4 | +162 | 0.638 | 14.2 | 2.0000 | +5958% |
| WDR Contact Energy | $2.92 | $3.50 | 0-10 | 17.5 | 11.3 | +55 | 0.350 | 5.9 | 2.0000 | +39% |
| WDR FC - Building | $2.76 | $5.50 | 0-0 | 0.5 | 0.0 | N/A | 0.543 | N/A | 5.0000 | N/A |
| WDR FC - Energy | $5.20 | $7.50 | 0-0 | 1.0 | 0.0 | N/A | 0.503 | N/A | 5.0000 | N/A |
| WDR FC - Forests | $1.03 | $2.00 | 0-0 | 0.5 | 0.0 | N/A | 0.626 | N/A | 2.0000 | N/A |
| WDR FC - Paper | $1.42 | $3.50 | 0-0 | 0.5 | 0.0 | N/A | 0.634 | N/A | 2.0000 | N/A |
| WDR Telecom NZ | $8.68 | $9.00 | 0-7 | 33.0 | 32.1 | +3 | 0.256 | 7.1 | 2.0000 | +20% |

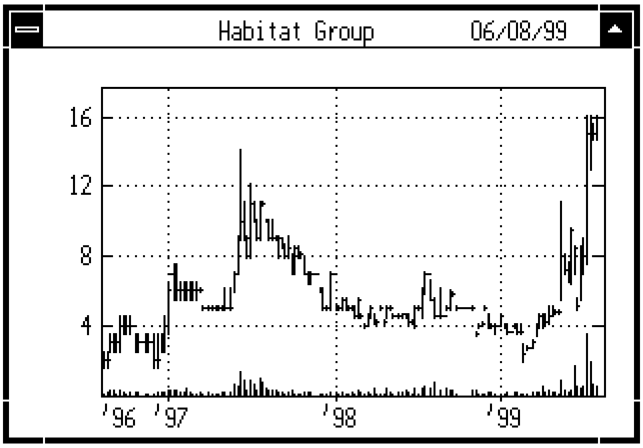
# "Insider" Insights

(A summary of buying and selling by major shareholders)

| Company | Shareholder | Buy/ Sell | Shares (Mill) | % of Coy Held Before | After |
|---|---|---|---|---|---|
| **09/07/99** | | | | | |
| FC - Energy | The Capital Group | Buy | +3.307 | 8.61% | 9.62% |
| **16/07/99** | | | | | |
| Advantage Group | NZ Funds Mgmt | Buy | +2.822 | 0.0% | 6.54% |
| Ceramco Corporation | Nat Mutual | Sell | -0.845 | 9.56% | 7.54% |
| CDL Hotels | Millennium Copthorne | Buy | +4.400 | 68.96% | 70.22% |
| Ebos Group | PF Kraus | Buy | +0.754 | 24.89% | 29.76% |
| Ernest Adams | Goodman Fielder | Buy | +3.300 | 0.0% | 20.00% |
| Hallenstein Glasson | AMP Asset Mgmt | Buy | +0.874 | 14.97% | 16.47% |
| Kiwi Development Trust | Royal & Sun Alliance | Buy | +2.591 | 0.0% | 5.40% |
| Kiwi Development Trust | Kiwi Income Prop. | Buy | +4.800 | 24.16% | 34.16% |
| Natural Gas Corporation | Infratil | Buy | +20.030 | 0.0% | 5.08% |
| Natural Gas Corporation | AGL | Buy | +131.500 | 38.25% | 68.05% |
| Natural Gas Corporation | FC - Energy | Sell | -131.500 | 33.40% | 0.0% |
| Pacific Retail Group | Nat Mutual | Sell | -0.771 | 13.19% | 11.48% |
| Radio Pacific | NZ Funds Mgmt | Buy | +0.130 | 8.00% | 9.50% |
| **23/07/99** | | | | | |
| Designer Textiles | Harris Associates | Sell | -1.000 | 9.95% | 5.78% |
| Force Corporation | Shamrock Holdings | Buy | +23.250 | 0.0% | 15.01% |
| Force Corporation | Francis Securities | Sell | -9.425 | 56.20% | 50.20% |
| Force Corporation | Mercury Asset Mgmt | Sell | -9.177 | 5.92% | 0.0% |
| Habitat Group | B & D Nominees | Buy | +21.185 | 0.0% | 54.86% |
| Met Life Care | NZ Funds Mgmt | Buy | +0.617 | 6.00% | 7.00% |
| Progressive Enterprises | Foodlands | Buy | +4.940 | 62.95% | 65.55% |
| Tourism Holdings | AMP Asset Mgmt | Sell | -0.947 | 12.24% | 10.56% |
| **30/07/99** | | | | | |
| Baycorp Holdings | Col FS Inv Mgmt | Buy | +4.001 | 0.0% | 5.22% |
| Force Corporation | Nat Mutual | Sell | -2.440 | 8.31% | 6.73% |
| FC - Building | Franklin Resources | Buy | +4.375 | 8.81% | 9.93% |
| FC - Paper | Franklin Resources | Sell | -8.187 | 6.58% | 5.52% |
| LWR Industries | CHL New Zealand | Buy | +0.941 | 64.20% | 67.02% |
| Progressive Enterprises | Foodlands | Buy | +1.380 | 65.55% | 66.30% |
| Shortland Properties | Armstrong Jones | Buy | +15.733 | 0.0% | 5.26% |
| **06/08/99** | | | | | |
| Cue Energy | Pacific Millennium | Buy | +12.021 | 4.12% | 8.28% |
| Progressive Enterprises | Foodlands | Buy | +3.886 | 66.30% | 68.38% |
| Scott Technology | JI Urquhart | Buy | +1.000 | 0.0% | 5.11% |
| Shotover Jet | Ngai Tahu Invest. | Buy | +17.688 | 0.0% | 40.80% |

**Ebos Group** director PF Klaus (through his company, Whyte Adder) continues to build his shareholding in the company which must be a positive sign, while **Force Corporation** founder and director PE Francis has been selling shares in his company.

Listed "shell" company, **Habitat Group** has a new major shareholder who has paid $900,341 (4¼ cents per share) for a controlling 54.86% stake. Habitat is then expected to buy an Australian "e-phone" business. Details of this business which is seeking a "backdoor" stock exchange listing have not yet been disclosed -but that hasn't prevented Habitat's share price from quadrupling to 16 cents!




# Dividend$

| Company | Cents per Share | Ex-Date | Pay-able | Tax Credit |
|---|---|---|---|---|
| Fernz Corporation | 10.00 | 16-08 | 26-08 | 3.08713 |
| Restaurant Brands | 4.50 | 13-09 | 24-09 | Full |
| Property For Industry | 1.20 | 09-08 | 13-08 | 0.003 |
| St Lukes Group | 3.14 | 06-09 | 20-09 | Nil |
| Steel & Tube Holdings | 4.00 | 16-08 | 27-08 | Full |
| Tasman Agriculture | 3.00 | 15-11 | 26-11 | 0.012553 |
| Trust Power | 6.95 | 16-08 | 27-08 | Full |

# Current Issues

## CASH ISSUES

| | Ratio | Price | Ex-Date | Appln Date |
|---|---|---|---|---|
| Renaissance | 1:2 | 35 | 16-08 | 17-09 |
| Waste Management | 1:5 | 725 | 26-07 | 20-08 |

## NEW ISSUES

| | Price | Date | EPS | DPS |
|---|---|---|---|---|
| Westpac "NZ Class" | - | - | - | - |

**Total Return Index for All Listed Shares**

| | | | |
|---|---|---|---|
| Jul 12 | 2221.43 | Jul 19 | 2288.51 |
| Jul 13 | 2232.71 | Jul 20 | 2282.56 |
| Jul 14 | 2257.34 | Jul 21 | 2272.37 |
| Jul 15 | 2261.51 | Jul 22 | 2255.21 |
| Jul 16 | 2274.33 | Jul 23 | 2255.17 |
| Jul 26 | 2256.22 | Aug 2 | 2234.53 |
| Jul 27 | 2245.46 | Aug 3 | 2230.45 |
| Jul 28 | 2246.48 | Aug 4 | 2236.25 |
| Jul 29 | 2250.44 | Aug 5 | 2228.04 |
| Jul 30 | 2239.37 | Aug 6 | 2226.43 |

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# Next Issue

The next issue of "Market Analysis" will be posted in four weeks time on Tuesday September 7, 1999.

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