

# Market Analysis

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## Inside Market Analysis

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## Summary and Recommended Investment Strategy.

Remain fully invested in NZ and Australian shares. Avoid small business (and no business) e-commerce hopefuls, where share valuations currently far exceed the ultimate value of even the most successful companies in this sector! Buy and Hold *under-valued* (i.e. low P/E, high Yielding), *neglected* shares of *smaller growth* companies.

## Investment Outlook.

World stockmarkets - and especially technology and e-commerce shares - suffered a sharp correction last week. So is this the time to buy into this speculative sector? Probably not. Just being 20-40% cheaper than a month ago doesn't make a share good value.

For example, an article in *The Economist* in August 1999 (which we quoted in our October newsletter) estimated that **Amazon.com** could have a value of US\$11 billion (about US\$27½ per share) in 10-15 years time. If that proves to be the case, then Amazon shares - which fell 40% to US\$65 over the last month - will still lose half of their value over the next 10-15 years!

Of course, Amazon *may* go back to US\$110 over the next month - but buying now at US\$65 (in the hope of selling to a *bigger fool* next month) is just *speculation*, especially if the company *grows* to eventually be worth *only* US\$27½ per share.

Similarly the shares of NZ's e-commerce hopefuls are not attractive after their recent falls - just slightly less *excessively over-valued*. Most people wouldn't dream of paying \$100 to buy a \$5 note, so why consider buying it for a discounted price of \$60?

Another warning sign is that some of NZ's e-commerce hopefuls prepare fortnightly press releases and stock exchange announcements to maintain media and investor interest. One used its high profile major shareholder/investor to ask questions at the AGM, allowing a director to publicly express opinions and indirect hints! When share price manipulation (which will ultimately benefit "insiders" - not public investors) becomes more important than quietly building a business, then it is time to take your profits . . . and run.

Nevertheless, investors can still find NZ and Australian shares that offer good value - even in the Information Technology sector (see pages 5-7) - so investors should avoid the speculative rubbish and concentrate on companies (whether in the technology sector or not) with real businesses, generating real revenues and real profits.

Our One-Year Forecast for the Australian

stockmarket is **Neutral** at **50%**, and the outlook for the NZ stockmarket is also **Neutral** at **46%**. Our **Short Term Trend Model** for the NZ market is **slightly Bullish** at **64%**.



# 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/Sales Ratio					P/E Ratio					Gross Yield				
Company	Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield	Company	Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield	Company	Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		
A. Barnett Ltd	C	107	0.54	37	11.2	Hallenstein G.	B	226	0.83	13	11.2	Pure NZ Limited	C	30	N/A	NE	Nil		
AMP Limited	B	1950	0.70	17	1.1	Hellaby Hold.	D	200	0.59	7	10.4	Radio Works NZ	A	780	2.15	17	2.9		
AMP NZ Office	C	87	6.22	12	8.9	Heritage Mining*	N/R	5.0	N/A	NE	Nil	Reid Farmers	B	63	0.47	9	10.7		
Advantage HDS	B	354	5.05	41	Nil	Horizon Energy	B	770	2.48	27	4.5	Renaissance	D	50	0.12	15	Nil		
Affco Holdings	D	33	0.08	NE	Nil	IT Capital Ltd	C	68	N/A	NE	Nil	Restaurant Brds	B	158	0.64	17	5.7		
Air New Zealand	C	237	0.40	6	6.3	Ind Newspapers	A	840	1.08	22	4.3	Revesco Ltd*	N/R	39	5.15	NE	Nil		
Akd Int Airport	C	275	7.20	27	4.3	Infratil NZ	B	135	8.07	10	6.4	Richina Pacific	D	50	0.07	NE	Nil		
Apple Fields	D	11	0.09	NE	Nil	Infratil Aust.	D	78	N/A	NE	Nil	Roller Int'l *	N/R	40	0.21	NE	Nil		
Aquaria 21	D	17	N/A	NE	Nil	JF China Region*	N/R	85	N/A	NE	1.4	Ryman Health.	C	221	N/A	NE	Nil		
Baycorp Hold	A	845	N/A	48	2.8	Kingsgate Int'l	E	17	0.74	12	Nil	SE Utilities	B	94	2.34	13	6.4		
Brierley Invest	C	40	0.61	11	7.5	Kiwi Property	D	94	6.46	10	11.0	Sanford Limited	B	567	1.68	14	3.9		
Broadway Ind	E	30	0.08	NE	Nil	Kiwi Developmnt	D	155	N/A	NE	Nil	Savoy Equities	D	7.2	2.71	NE	Nil		
CDL Holdings NZ	E	29	0.49	15	3.9	Lion Nathan Ltd	C	430	1.21	16	4.8	Scott Tech. Ltd	C	270	1.93	18	6.1		
CDL Investments	E	24	1.68	11	12.4	Lytelton Port	C	171	3.14	13	6.4	Seafresh Fish.	D	14	0.53	13	Nil		
Calan Hlthcare	E	114	N/A	NE	Nil	Mainfreight Grp	B	190	0.48	20	4.3	Shortland Prop.	C	66	6.38	12	9.5		
Cap Properties	C	41	5.18	4	26.8	Manor Inns Grp	E	14	0.56	NE	Nil	Shotover Jet	C	68	1.23	11	3.7		
Carter Holt	D	244	1.47	81	3.3	Max Resources*	N/R	13	N/A	NE	Nil	Sky City Ltd	C	724	2.70	15	8.9		
Cavaliere Corp	B	345	0.62	12	11.2	Metro. LifeCare	B	220	2.14	20	4.1	Sky Network TV	E	290	8.80	NE	Nil		
Cedenco Foods	B	90	2.12	10	Nil	Michael Hill	B	320	0.79	14	5.4	South Port NZ	B	99	1.10	23	8.3		
Ceramco Corp	B	155	0.72	21	4.8	Mid-Cap Index*	N/R	197	N/A	NE	Nil	Southern Cap	D	70	5.15	11	Nil		
Col FS Property	C	88	N/A	13	7.8	Montana Group	C	206	1.03	18	2.2	Spectrum Res.*	N/R	28	N/A	NE	Nil		
Col Motor Co	C	270	0.28	15	8.6	Mr Chips Hold	C	70	0.64	20	8.5	St. Lukes Group	C	157	2.66	7	9.3		
Colonial Ltd	B	840	1.05	21	0.7	NZ Experience	D	12	0.87	58	Nil	Steel & Tube	B	182	0.48	16	6.6		
Contact Energy	B	328	9.49	17	7.2	NZ Invest Trust*	N/R	420	N/A	NE	2.0	Strathmore Grp	C	51	N/A	NE	Nil		
Cue Energy Ltd * N/R	D	13	6.70	NE	Nil	NZ Oil and Gas *	N/R	55	3.79	NE	Nil	Summit Gold Ltd*N/R	N/R	12	N/A	NE	Nil		
DB Group	D	232	0.36	8	10.3	NZ Refining Co	C	980	0.97	10	10.2	Tag Pacific Ltd	C	41	0.52	NE	1.8		
Dairy Brands	E	25	1.68	NE	Nil	Nat Property Tr	C	84	5.20	10	12.1	Tasman Agric.	C	80	2.56	11	3.8		
Damba Hold Ltd	D	52	0.61	NE	Nil	National Mutual	C	310	2.92	15	3.6	Taylor's Grp Ltd	A	119	0.76	16	5.6		
Design Textiles	C	33	0.22	6	13.6	Natural Gas	D	180	2.45	16	8.3	TeNZ *	N/R	100	N/A	NE	Nil		
Donaghys Ind	C	146	0.38	11	8.2	Newcall Group	D	53	N/A	NE	Nil	Telecom Corp	B	870	4.44	19	7.9		
Dorchester Pac	A	145	1.11	13	4.6	Newmarket Prop.	C	61	4.54	7	15.6	Tourism Hold.	A	335	1.12	19	2.2		
E-Phone Ltd	D	64	N/A	NE	Nil	Nobilo Wines	C	94	0.82	21	4.8	Tower Limited	B	550	0.72	12	2.4		
Ebos Group Ltd	A	382	0.98	17	7.0	Northland Port	A	135	1.08	13	8.3	Trans-Tasman	E	27	0.91	NE	Nil		
Eldercare NZ	E	59	N/A	NE	Nil	Nuhaka Forestry	D	1380	N/A	NE	Nil	Trans Alta NZ	C	240	1.18	18	6.0		
Evergreen	E	51	N/A	22	Nil	Nuplex Indust	B	350	0.62	17	4.5	Tranz Rail Hold	C	360	0.76	6	7.0		
FC - Building	C	265	0.32	37	6.8	Opio Forestry	E	54	N/A	NE	Nil	Trust Power Ltd	C	410	3.26	36	5.9		
FC - Paper	E	133	0.24	NE	1.7	Otter Gold Mine*	N/R	90	0.57	20	Nil	United Networks	D	590	2.00	22	7.6		
FC - Forests	D	76	1.18	12	Nil	Owens Investmnts	D	126	0.18	18	11.8	Utilico Int'l	D	28	N/A	NE	Nil		
FC - Energy	D	455	1.25	27	4.6	Ozzy (Tortis)*	N/R	220	N/A	NE	Nil	Warehouse Group	A	860	1.31	23	3.3		
Fernz Corp Ltd	C	435	0.47	11	5.8	PDL Holdings	B	567	0.24	44	5.3	Waste Mgmt NZ	A	460	4.90	36	3.5		
Fisher & Paykel	B	700	1.06	23	3.8	Pacific Retail	B	180	N/A	14	2.5	Williams Kettle	A	204	0.29	13	9.5		
Force Corp.	B	55	2.67	11	10.9	Paynter Hold	C	43	0.64	NE	Nil	World Index Fd * N/R	N/R	202	N/A	NE	Nil		
Goodman Fielder	C	166	0.47	15	5.6	Port Tauranga	B	600	8.67	25	4.5	Wrightsons Ltd	D	42	0.10	NE	Nil		
Grocorp Pacific	D	20	1.04	NE	Nil	Ports Auckland	C	530	4.57	21	5.1	<b>Ave of 133 Coys</b>	<b>C</b>	<b>233</b>	<b>0.56</b>	<b>20</b>	<b>4.2</b>		
Guinness Peat	C	149	1.45	11	1.3	Property F Ind.	C	75	5.87	14	8.6								
A.G.L.	C	898	1.76	13	5.0	Energy Develop.	A	926	9.73	67	0.5	PMP Communicat.	C	209	0.45	9	9.8		
AAPT	B	500	1.98	43	Nil	Fairfax (John)	B	425	2.35	14	2.5	Pacifica Group	C	470	1.05	30	3.4		
AMP Diver. Prop	C	228	7.94	13	8.0	Faulding (F.H.)	B	970	0.74	25	2.2	Pacific Dunlop	C	206	0.33	11	6.8		
AMP Ltd	C	1582	0.66	16	1.1	Flight Centre	A	1320	0.58	38	1.4	Perp Trust Aust	C	1880	3.36	24	3.2		
AMP Office Trt	D	108	8.90	13	7.6	Foodland Assoc	C	975	0.23	8	5.0	Pioneer Int'l	B	454	1.01	17	35.5		
AMP Shop Centre	E	107	N/A	NE	Nil	Foster's Brewin	B	444	2.45	21	2.9	PowerTel Ltd	B	230	2.25	NE	Nil		
ANZ Bank	B	1027	1.46	11	5.5	Futuris Corp.	C	198	0.26	17	4.0	Prime Indust.	D	72	7.84	11	8.8		
APN News Media	B	336	2.42	23	3.1	GIO Australia	D	233	0.49	NE	5.2	O.B.E. Insur.	B	748	0.79	18	3.6		
Advance Prop	C	139	6.66	12	8.5	GWA Internat'l	C	223	1.11	14	5.6	O.C.T. Resource	C	83	0.57	12	8.4		
Amcor Ltd	C	705	0.67	16	5.5	Gandel Retail T	D	107	9.53	16	7.8	Qantas	C	386	0.54	12	4.9		
Amway Asia Pac	C	2580	N/A	NE	Nil	General Prop Tr	C	239	8.82	13	8.0	Rio Tinto Ltd	A	3326	2.17	18	1.7		
Aristocrat	A	1920	3.64	36	0.9	Ges Internat'l	A	145	0.81	33	0.7	Rural Press Ltd	C	490	1.31	13	2.6		
Aust Stock Exch	A	1176	7.35	30	3.0	Goodman Fielder	C	135	0.50	16	5.6	Sausage Softwar	B	507	N/A	NE	Nil		
Austar United	C	600	N/A	NE	Nil	Guinness Peat	D	120	2.38	10	0.5	Seven Network	B	495	1.95	79	4.1		
Austrim Nylex	C	280	0.73	9	5.4	HIH Insurance	C	144	0.20	8	11.1	Smith (Howard)	C	1053	0.75	20	3.9		
BA Tobacco Aust	C	1325	0.53	14	6.4	Hardie (James)	D	383	1.09	NE	3.9	Smorgon Steel	C	200	0.88	26	2.3		
BRL Hardy Ltd	B	697	1.98	25	1.9	Harvey Norman	B	265	1.59	6	5.7	Solution 6	A	1080	7.39	29	Nil		
BTR "A"	E	508	N/A	NE	Nil	Hills Motorway	D	308	8.66	38	1.9	Sonic Health	A	662	4.70	47	2.1		
Bank of W.Aust	B	378	5.39	16	4.4	Hoys Cinemas	C	200	1.18	15	2.0	Southcorp Ltd	C	521	1.12	18	3.8		
Boral Ltd	C	237	0.52	12	3.2	Hutchison Tel.	C	395	N/A	NE	Nil	Spotless Group	B	470	0.60	21	3.7		
Brambles Ind.	C	4019	1.79	28	1.9	Incitech	C	530	0.65	18	4.0	Spotless Serv.	B	135	0.53	19	4.4		
Brickworks Ltd	B	3950	3.52	13	2.8	Infrastructure	C	160	7.14	8	6.3	St George Bank	B	1125	1.57	16	4.6		
C & W Optus	B	478	7.21	NE	Nil	Jupiters	C	286	1.20	15	4.9	Stockland Trust	C	316	5.47	13	7.8		
C.S.R. Ltd	C	376	0.57	11	6.1	Lang Corporatio	B	720	2.12	24	Nil	Suncorp-Metway	C	806	0.66	6	5.5		
CSL Limited	A	2055	6.37	57	1.0	Leighton Hold	C	596	0.47	13	5.0	TAB Ltd	C	269	0.33	24	3.3		
Cadbury Sch.	D	915	N/A	NE	3.7	Lend Lease Corp	B	2015	2.47	24	3.0	Tabcorp Holding	C	982	2.75	21	4.4		
Centro Prop.	C	260	6.21	12	8.8	M.Y.O.B. Ltd	B	1110	8.39	NE	Nil	Telstra	A	784	1.85	10	4.2		
Challenger Int.	A	400	3.29	18	1.3	Macquarie Bank	B	2425	4.70	24	2.8	Ten Network	C	193	1.27	13	7.5		
Coal & Allied	B	1600	1.73	11	6.3	Macquarie C Tel	C	255	N/A	NE	Nil	Transurban Grp	E	304	N/A	NE	Nil		
Coca-Cola Bev.	E	286	N/A	NE	Nil	Macquarie Off.	C	110	8.04	12	9.6	United Energy	C	194	1.18	54	8.9		
Coca-Cola Amatil	C	395	1.07	21	4.8	Mayne Nickless	A	378	0.32	12	7.9	Village Road.	C	275	0.81	9	3.6		
Cochlear Ltd	A	1880	7.41	58	1.5	Mirvac Property	C	178	9.75	15	6.4	Wesfarmers Ltd	C	1226	1.09	17	5.4		
Coles Myer	C	780	0.39	20	3.3	Mirvac Ltd	B	250	0.97	13	4.0	West Aust News	C	517	3.07	16	5.8		
Colonial Ltd	B	646	1.21	24	2.3	Mobile Com.	C	1470	N/A	NE	Nil	Westfield Hold.	B	878	5.27	36	1.4		
Com'wealth Bank	B	2510	2.36	16	4.6	Nat'l Mut. Prop	D	112	9.17	15	7.7	Westfield Trust	C	288	8.97	16	7.1		
Com. Inv. Trust	E	88	N/A	NE	Nil	Nat'l Mutual	C	240	2.83	14	3.8	Westfield Amer.	D	139	3.37	14	6.7		
Computer Share	A	651	N/A	NE	0.6	Nat'l Aust Bank	C	2189	5.08	44	5.1	Weston (George)	C	660	0.50	18	2.9		
Crown Ltd	C	90	0.70	14	Nil	Nat'l Foods	C	254	0.61	14	5.1	Westpac Prop Tr	D	150	6.58	20	8.7		
David Jones	B	134	0.37	13	6.0	News Corporatio	A	1415	1.31	19	0.2								

# Recommended Investments

**Air New Zealand** will receive a further \$54 million from the sale of 34% of its remaining interest in **Equant NV**, a telecommunications network company set up by airlines and owned through **The SITA Foundation**.

**Apple Fields** has reported a total loss (including the write down of property values) of \$6,446,000 (22.0 cents per share). Since balance date further property sales have reduced debt levels to under \$2 million, but it is unclear exactly what remaining assets are worth or what business the company will operate. The company is involved in four joint ventures that have purchased properties - and will "participate in any increase in value" if they are successfully re-zoned for urban use.

Over the years our Apple Fields investment has dwindled in value while our overall portfolio has risen in value, so this investment now accounts for an insignificantly small percentage of our portfolio.

Although this is a "messy" company and therefore, unlike Biron Corporation (see below) unsuitable for use in a "reverse takeover" at present, Apple Fields' low market capitalisation of \$3 million suggests that there could be some upside in value. Nevertheless, we do not recommend adding to existing holdings, but similarly we are not recommending the sale of these shares simply to make our Recommended Portfolio look better!

**Fernz Corporation** is to change its name to **Nufarm** and will become an Australian company on January 27. Prior to that migration the company will pay an 8.0 cents dividend.

**South Port NZ** has sold its last remaining non-port asset, **Southland Motor Group**. The Nissan, BMW and Rover dealership has been sold for an undisclosed sum with settlement in mid-January.

**Spotless Services** has further increased its shareholding in **Taylors Group** (Cont'd on Page 4)

## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Recommendation	Perform- ance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %	
	<b>NZ Shares</b>											
HOLD+	Air New Zealand "A"	AIRVA 08/10/96 257*	C	567.0	0.9	0.40	6	6.3	237	63.0	+17%	
HOLD-	Apple Fields Limited	APF 10/03/92 237	D	29.2	2.6	0.09	NE	Nil	11	10.0	-91%	
BUY	CDL Investments Ltd	CDI 12/01/99 25	E	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	0.62	12	11.2	345	97.0	+42%	
HOLD+	Colonial Motor Company	CMO 10/11/92 150	C	30.9	0.8	0.28	15	8.6	270	187.3	+205%	
HOLD+	Designer Textiles Ltd	DTL 12/01/99 47	C	29.7	1.7	0.22	6	13.6	33	3.0	-23%	
HOLD+	Ebos Group Ltd	EBO 12/10/99 290	A	23.2	0.8	0.98	17	7.0	382	9.0	+35%	
HOLD	Fernz Corporation Ltd	FER 11/02/97 505	C	150.5	0.8	0.47	11	5.8	435	52.0	-4%	
HOLD	Michael Hill Int'l Ltd	MHI 11/06/91 46*	B	38.6	0.9	0.79	14	5.4	320	51.5	+708%	
HOLD+	Nuplex Industries Ltd	NPX 11/02/97 350	B	55.4	1.0	0.62	17	4.5	350	21.0	+6%	
HOLD	Owens Group Limited	OWN 12/03/91 47*	D	56.3	1.1	0.18	18	11.8	126	77.3	+333%	
BUY	PDL Holdings Ltd	PDL 13/02/96 810	B	13.6	0.8	0.24	44	5.3	567	113.0	-16%	
HOLD+	Radio Works NZ Ltd	RWL 08/12/92 205	A	12.0	0.5	2.15	17	2.9	780	121.0	+340%	
HOLD+	Renaissance Corp	RNS 13/08/96 85*	D	35.3	2.4	0.12	15	Nil	50	4.4	-36%	
HOLD	Richina Pacific	RCH 03/11/95 119*	D	72.2	1.6	0.07	NE	Nil	50	11.9	-48%	
HOLD	South Port New Zealand	SPN 13/02/96 120	B	32.4	1.1	1.10	23	8.3	99	33.3	+10%	
BUY	Taylors Group Ltd	TAY 09/11/99 102	A	24.3	1.2	0.76	16	5.6	119	Nil	+17%	
HOLD+	Tourism Holdings Ltd	THL 14/07/92 168*	A	56.6	1.0	1.12	19	2.2	335	53.2	+131%	
HOLD+	Wrightson Limited	WRI 13/01/98 83	D	139.7	1.8	0.10	NE	Nil	42	6.3	-42%	
	<b>Australian Shares (in Aust cents)</b>											
BUY	Abigroup Limited	ABG 09/03/99 265	C	47.7	0.9	0.13	6	7.0	200	14.0	-19%	
BUY	Atlas Pacific Ltd <sup>1</sup>	ATP 14/05/96 73	C	54.8	1.8	16.83	NE	Nil	35	Nil	-52%	
HOLD+	Biron Corporation Ltd	BIC 12/04/94 178	B	21.6	2.0	0.86	NE	7.8	26	11.0	-79%	
BUY	Campbell Brothers Ltd	CPB 12/10/99 435	B	30.9	0.7	0.75	14	4.9	490	11.0	+15%	
HOLD+	Central Equity Ltd	CEQ 09/02/94 154	A	82.1	0.8	1.01	6	7.2	222	65.0	+86%	
BUY	Data#3 Limited	DTL 09/02/99 285	A	14.2	0.7	0.32	16	3.8	315	12.0	+15%	
HOLD-	E.R.G. Limited	ERG 10/10/95 152*	A	203.2	0.9	5.18	69	0.2	700	7.5	+365%	
HOLD	Flight Centre	FLT 11/08/98 308	A	81.6	0.5	0.58	38	1.4	1320	24.5	+337%	
BUY	Hamilton Island Ltd	HAM 09/11/99 205	A	43.5	0.9	1.01	11	5.8	225	Nil	+10%	
HOLD+	Hancock & Gore	HNG 15/07/97 125*	C	46.7	0.9	0.73	11	5.4	148	11.5	+28%	
BUY	PMP Communications	PMP 09/02/99 309	C	253.4	0.9	0.45	9	9.8	209	20.4	-26%	
HOLD	Thakral Holdings	THG 10/11/98 65	C	513.5	1.2	1.77	12	7.4	78	5.8	+29%	
BUY	Toll Holdings	TOL 08/09/98 240	B	59.5	0.8	0.24	10	4.1	536	30.0	+136%	
BUY	Utility Services Corp	USC 11/01/00 59	B	77.1	1.5	0.60	17	Nil	59	Nil		
BUY	Vision Systems Ltd	VSL 10/11/98 685*	B	13.8	0.6	0.67	13	4.0	700	27.9	+6%	

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +73.8%. This is equal to an average annual rate of +22.1%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 34 current and 101 closed out) is +30.2%, compared with a market gain of +13.8% (by the SRC Total Return Index) and 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 33 cents (although should be worth slightly more than the ordinary shares)

**Recommended Investments** (Continued from Page 3) with the purchase of 118,500 shares. This gives the Australian Company 15,940,677 shares or 65.60% of Taylors Group.

### Australian Shares

**Abigroup** and **Tenix** have won a long term gas maintenance contract valued at over A\$300 million. The ten year, A\$30 million per year contract involves the maintenance of (and additional construction to) the gas network of **TXU Group**, which supplies 400,000 consumers in Melbourne's western suburbs and adjacent rural areas. Much of Abigroup's construction work involves one-off projects, so this type of long term contract is valuable to the company.

Abigroup has also been awarded a A\$72 million contract from the **Queensland Government** to transform the wasteland that was formerly Brisbane's Roma Street Railways Yards into a World Class Park and Garden Complex. The one year project involves earthworks, a lake, gardens, and the construction of an activity centre, pedestrian bridges and a market plaza, restaurants and shops.

**Biron Corporation** reports a "most disappointing" December with its US distributor not taking up their planned purchases. As a result the company now expects a trading loss of A\$550,000 for the half year.

However . . . **Advent Investors** (and eight other "associates") have built up a shareholding of 19.988% in Biron Corporation over the last month at prices up to 30 cents per share. Maybe publishing an investment newsletter has just made us suspicious of people's ulterior motives, but if these shares were simply bought as an *investment* why would these nine entities have acted together as a group? This has all the signs of a group of venture capital investors looking for a listed shell company to float an e-commerce business.

Biron Corporation would be an ideal shell company. Its total market capitalisation is just A\$5.5 million, making it cheap to acquire a significant shareholding to engineer a "reverse takeover" of an unlisted company. Biron has about A\$1 million in cash, an A\$2.3 million investment in **Atlas Pacific** convertible notes, is debt free and owns a created emerald business which, while not currently profitable is usually cash flow *positive* and does not require additional capital investment - so this existing business could be retained, or sold off if the new owners could find a buyer.

In a "reverse takeover" Biron *could* issue perhaps 20-80 million shares to acquire an unlisted business. As the stockmarket can currently value a small e-commerce company at A\$50-200 million, that could value shares in the enlarged Biron (re-labelled with some "dot com" name) anywhere between 50 cents and A\$2.00 each!

**ERG** has sold 20% of its UK based **Prepayment Cards** subsidiary to **FirstGroup plc** for around A\$20 million. This reduces ERG's shareholding to 50%, with **Stagecoach Holdings plc** holding 20% and **Sema Group (UK)** with 10% (with an option to buy a further 10%). Both FirstGroup and Stagecoach will install smartcard technology provided by Prepayment Cards and ERG this year.

ERG shares have fallen sharply over the last week as technology company share prices fell. ERG, however, does have a world leading "niche" business in Automated

Fare Collection systems (unlike a lot of other technology companies which *hope* to generate growth *somehow*). While we do think the shares are getting expensive, the major AFC contracts won over the last year should lead to rapid growth. So if ERG's share price fell further we would be happy to hold this growth company, but if the price recovers to new highs we will be looking to realise further profits.

**Hancock & Gore** has now acquired a total of 702,156 shares under its current on-market buy-back in which it is seeking up to 3,041,875 shares. Prices paid to date range from A\$1.25 to A\$1.40.

The recent announcement of plans for a major takeover or acquisition have seen Hancock & Gore's share price recover strongly over the last month.



**Thakral Holdings Group** has agreed to sell its **All Seasons Hotels** *management* business and to concentrate on hotel *ownership*. All Seasons was acquired in 1994 for A\$3 million and will be sold for A\$29 million in cash to **ACCOR Asia Pacific**. All Seasons currently manages 27 hotels, five of which are owned by Thakral. The management contracts on these five properties have been extended to 15 years, with provision for repayment of some of the sale proceeds if any of these properties are sold within eight years.

Thakral will therefore bring A\$15 million of the sales proceeds into account this year, which (after deducting the original A\$3 million cost of this business and A\$2 million cost re-branding) will generate an abnormal gain of A\$10 million. A further A\$1.75 million gain will be taken into account over each of the next eight years as the maximum liability for repayment (in the case of property sales) diminishes.

**Toll Holdings** is to acquire **Removals Australia**, a "specialist relocation management and brokerage business using sophisticated information technology", owned by the Australian Government. A major customer, the **Department of Defence**, has extended its contract to use Removals Australia by three years until 2005. Toll also intends to grow and diversify the business to service the private sector - which was excluded whilst under government ownership.

All of that may just sound like a *removals business* and not much to get excited about, but Toll Holdings considers this acquisition to be "another major initiative in the group's e-commerce strategy" that "will give Toll the capability to capture new growth opportunities in Internet-based trading".

# Share Recommendation

## Buy Utility Services Corporation

**BUY Australian listed Utility Services Corporation** Information Technology (IT), Telecommunications, Internet and Infrastructure are some of the "hottest" sections of the stockmarket. However, while companies in these sectors *may* grow strongly, investors won't make money buying into growth shares selling at very high valuations.

We have recently warned against paying high prices for technology companies (with small businesses), although *knowledge* based businesses are the types of companies in which we do want to invest. But where can an investor find a rapidly growing Information Technology company with a substantial *existing* business and whose shares trade on a Price/Earnings ratio of less than 30? Our *Comprehensive Share Selection Criteria* has identified **Utility Services Corporation** (code USC) - a *neglected* company not yet "discovered" by brokers or institutional investors.

### Company History

The current business that is Utility Services Corporation was formed in March 1998 with the merger of the failing listed technology company **TechComm Group** and the larger unlisted **Managed Information Technology Solutions** (MITS).

TechComm was originally listed on the Australian Stock Exchange in 1993 with its main business being the **TechComm Power Station Training Simulator** for training operators of coal, oil or gas power stations. This was considered a promising business and TechComm invested heavily in marketing but never achieved enough sales to generate sufficient revenue to become profitable. In December 1997 the Latin American business and technology was sold to **Siemens** and in September 1998 (after the merger with MITS) the remaining Simulator business was sold to **Yokogawa Electric Corporation** of Japan for A\$5.1 million in cash.

Other smaller TechComm businesses still owned and operating include:

1. **Mobile Data** - a joint venture with **Queensland Transport** has developed and markets an in-vehicle remote communication system - with touch screen display, keyboard, local and wide area networking, and a handheld terminal with a 300 metre range - for use by the Queensland Police and other organisations with representatives on the road. After an initial trial of 20 systems the Queensland Police ordered a further 100 computers (for A\$580,000) in June 1998 and may eventually equip all of their 600 vehicles.
2. **Telecommunications** The company established a joint venture, **Data Call**, with Malaysian based **TIME Engineering** (although this partner, suffering in the Asian crisis, was forced to seek protection from creditors in September 1998 to allow it to restructure). The Malaysian telecommunications market was deregulated in January 1999, with Data Call receiving a major order for 10,000 call divertors (8,000 for **Binariang** and 2,000 for **TIME Telekom**)

in June 1999.

3. **TechComm IT** - with this Information Technology business merged into the larger MITS business during 1998.
4. An investment in **ILID Partnership**, which is an electronic shelf labelling and price display system being trialed by **Kmart** at its Chadstone store.

**Managed Information Technology Solutions** (MITS) was formed in 1990 as a computer unit of **Melbourne Water**, but spun-off as a separate business in the mid-1990's. The merger with TechComm in early 1998, in which MITS shareholders received A\$6.0 million in cash, 18.0 million shares and A\$640,000 worth of convertible notes, was effectively a "reverse-takeover" with MITS management taking control of the merged entity.

The Information Technology business of MITS currently generates about 85% of revenues and 85% of group profits, so this is by far the largest business of the combined group. To explain *what* the company does we should best look at some of its major projects:

In July 1998 the company supplied Queensland based **South West Power** with a A\$650,000 **Smallworld Geographic Information System** to manage its assets (including 210,000 power poles and 92,800 customers over an area of 413,000 km<sup>2</sup>). This system integrates with South West Power's existing Works, Asset, Scheduling and Programming system.

In August 1998, NSW high voltage electricity network operator **TransGrid** selected MITS to design and install an Asset Mapping and Facilities Management system based upon Smallworld GIS. The system will cover 11,500 km of transmission lines, 73 substations, 55,000 poles and towers, 13,800 easements and 46,000 property owners, allowing in-depth analysis of asset ownership and maintenance.

In September 1998, MITS won an A\$4.0 million, four year contract to provide local and wide area network support for Western Australia's **Department of Land Administration**.

In October 1998, MITS won the contract (against competition from 30 other companies) to build an Integrated Graphical Leasing System over 12-18 months at a cost of about A\$1 million for the **NSW Waterways Authority**. The Authority processes applications to build marinas and jetties, and manages the resulting leases. The new system will replace a text-based system that was unable to be integrated with financial and record management systems.

In May 1999, **Yarra Valley Water** selected two systems worth a total of A\$3 million: a Supervisory Control and Data Acquisition system (SCADA) and an Asset Infrastructure Management system (AIMS) from MITS.

In June 1999, **Rail Access Corporation** awarded MITS an A\$3 million contract to develop an Electric Distribution Management SCADA system for its operations control centre in Sydney. (*Cont'd on Page 6*)

**BUY Utility Services** (Continued from Page 5)

The system will monitor, control and manage the rail network, supplying power for trains and signalling systems.

In July 1999, **Legal Aid Western Australia** outsourced the management of its entire information technology infrastructure to MITS, which won the A\$1.2 million contract against competition from nine other bidders. MITS (in alliance with three other companies) also won A\$600,000 worth of work from the **Thailand Department of Lands**. MITS' will conduct a feasibility study into document imaging of the 25 million land titles, all currently in paper form, held at 600 Lands offices throughout Thailand - which could lead to a much larger contract installing such a system.

While MITS is a successful and growing business, it does have at least one dissatisfied customer. The **Brisbane City Council** is suing over an alleged breach of contract, with media reports suggesting an A\$17.1 million claim. MITS considers that most of the issues do not relate to their work and that the cost of rectifying any of their work would be insignificant. MITS also believes the legal action is inappropriate as the council has failed to use the disputes mechanisms required by the contract. The company's liability is also limited by indemnity insurance against liability arising from the provision of services, while contract risk (e.g. this claim for breach of contract) is limited to the maximum value of the contract (i.e. A\$3 million in this case).

**Growth Strategy**

Utility Services Corporation plans to grow by expanding the range of services that it can offer to its utility customers. This is to be achieved via the acquisition of small companies that, with additional financial resources, can expand rapidly, through internal growth of existing businesses and from starting up new ventures to service the group's existing customers. Acquisitions are often partially funded with new shares, but as that can *dilute* growth, the company aims to have all acquisitions increase earnings per share within two years.

Since the early 1998 merger and restructuring, Utility Services has grown rapidly. Revenues have risen from A\$39.3 million in 1998 to A\$67.8 million in 1999, with revenue of A\$200 million forecast for 2001.

**Recent Acquisitions**

Utility Services has acquired several businesses over the last two years. In June 1998, a 50% shareholding in **Neo Design Synergy** was acquired by issuing 1,500,000 shares (with up to a further 1,500,000 shares to be issued subject to performance over three years). This company is the largest industrial/graphic design consultancy in Australia, specialising in graphics, signage, merchandising and product design and is expanding its services into e-commerce and website design.

Other acquisitions have all been small companies involved in the provision of services to electricity utilities:

Meter reading and meter management company **Skilltech Consulting Services** (50% owned, with an option to raise that to 100% ownership) at a cost of A\$500,000 in cash and the issue of 1,000,000 shares. **National Powerline Industries** (100% acquired in

August 1999 at a cost of A\$300,000 and 1,000,000 shares, plus up to a further 1,000,000 shares to be issued subject to future performance), which was established in 1994 by three former employees of Eastern Energy. This small company generates revenue of A\$4 million and pre-tax profits of A\$0.5 million but, with the financial backing of Utility Services, has "significant potential to grow" as electricity companies start to outsource specialist tasks. Specialist skills include the ability to work on live electricity distribution networks and 24-hour, 365-days emergency response crews. Other services include metering and service, customer fault repairs, powerline construction and maintenance. **Powerline Management Systems** (purchased in December 1999 for \$4.0 million in cash) is an "electrical asset management and maintenance company" [Editor's Note: Read "power pole inspection and maintenance, overhead line maintenance, maintenance planning and information systems management"] which had negotiated long term contracts with several electricity utilities. This acquisition was funded from November's 1 for 5 cash issue at 25 cents, which raised A\$3.3 million.

Buying existing businesses is a quick way to build revenue and profits, although shares issued to fund such acquisitions can *dilute* earnings per share growth. The electricity servicing businesses above, however, are small companies that should be able to expand rapidly with the additional financial and management support of a strong shareholder. So, rather than simply buying revenue and profits (which, owing to dilution, adds nothing to shareholder value), Utility Services appears to be buying small, specialist companies that it can grow - thereby increasing shareholder wealth over the next several years. There should also be benefits as the individual companies' technology and specialist services can be shared and marketed within the larger Utility Services Corporation group.

**New Businesses**

Starting and building new businesses is a slower way to increase revenues and profits, but is usually much cheaper than buying an existing business. New business formation therefore offers excellent potential for increasing earnings per share and the value of the company's shares.

The largest new business, however, did require the company to make a placement of 5,802,223 shares at 36 cents in March 1999 to raise \$2.1 million. This was to fund the formation of **EPIC LLC**, a US based joint venture to service opportunities offered by the forthcoming deregulation of the US utilities market. The other joint venture partner was US based **Hansen Information Technology Inc**, a supplier of web-enabled utilities software (which MITS uses and incorporates in many of their IT projects in Australia).

*Low cost* new businesses include **Utility Management Solutions** (a staff contracting and recruitment business focusing on the utility sector), **U-tel Communications** and **Eco-Global**.

**U-tel Communications** is a 50% owned joint venture formed in September 1999 that will market **Vodafone** mobile telephones to Utility Services' customers, with management expertise provided by the other parties in this joint venture: U-tel's Managing

January 11, 2000.

Director Phil Haas (a former General Manager of Motorola's Cellular Subscriber Group) and its Director of Sales and Marketing Warwick Hunter (who was the founder of Roadhouse Electronics, one of Australia's largest mobile phone distributors). The mobile phone sector is considered "one of the fastest growing and most profitable areas in telecommunications" with U-tel expecting to "quickly generate significant on-going revenues". Mobile phone distributors receive a percentage of the revenue generated by subscribers for a period of 3-5 years. However, as most customers upgrade to new phones or change to a new call plan within that period, the 3-5 year revenue sharing agreement begins again. This business therefore offers Utility Services a long term stream of revenue and profit, with very little capital investment needed to establish or expand this business. Consequently the stockmarket usually places a relatively high valuation on companies involved in distributing mobile phones.

Another 50% owned joint venture, **Eco-Global**, was established in October 1999 to provide infrastructure project management in partnership with **Dalton Consulting Engineers**. The joint venture will focus on "innovative design and construction techniques for in-ground infrastructure creation, renewal and rehabilitation" - or, in other words, replacing old gas, power, communications, water and sewage lines. The first project will be to design and construct an A\$2.2 million, 18 km water main renewal for **Yarra Valley Water**.

#### Recent Results

Prior to the merger and restructuring, TechComm was unprofitable - reporting a loss of A\$506,000 from revenue of A\$24.9 million in the year to June 1997. For the year to June 1998, revenue increased 58.0% to A\$39.3 million and the company recorded an insignificant trading profit of A\$18,000 but abnormal losses of A\$4.0 million. Revenue rose 72.4% to A\$67.8 million in the year to June 1999, with a trading profit of A\$2,439,000 (3.5 cents, diluted for the recent cash issue). There was also an abnormal gain of A\$549,000. No dividend has yet been paid. The company *may* begin paying dividends this year, although shareholders would probably benefit more by the company using the cash to further expand its businesses. As previously mentioned, Utility Services Corporation plans to *triple* its revenue to around A\$200 million by 2001.

#### Investment Criteria

At 59 cents, Utility Services shares trade on a Price/Earnings ratio of 17 and a Price/Sales ratio of 0.60. Those statistics are close to the *average* of all Australian listed companies - but significantly lower than other Information Technology companies which may trade on P/S ratios of 10-50 (i.e. valuations 15-85 times higher!) or other firms that are experiencing rapid growth which can trade on P/E ratios of 30-50 (i.e. at valuations 2-3 times higher). These shares therefore look to be very under-valued.

The market capitalisation is A\$42 million, making this a *smaller* company. However, that is substantially less than the valuation that stockmarket currently places on shell companies *hoping* to establish some sort of internet or technology business even though Utility Services has a much larger business (generating

revenues of around A\$100 million per year).

Directors have a significant interest in this company. Managing Director G Lord owns 5,732,900 shares (7.7% of the company) plus 2,200,000 options. R Pickering holds 500,908 shares, F Swaab 339,775 shares and G Campbell owns 134,775 shares.

On the other hand, the company is *neglected* by brokers and institutional investors - which is also very favourable. No stockbrokers follow Utility Services closely enough to publish profit forecasts and there is only one institutional investor owning just 5.7% of the company. This neglect by brokers and institutions is probably the reason why Utility Services shares are under-valued. When Utility Services is "discovered" its share price is likely to rise significantly as institutions buy into the company and brokers start recommending the shares. Success with its plans to treble in size over the next two years should draw attention to the company, resulting in that "discovery" and a significant re-rating of the company's share price.

Technically the shares are in an established uptrend. Our long term Relative Strength Rating is +9.3%, ranking the shares at 25 (on a scale of 0-99).

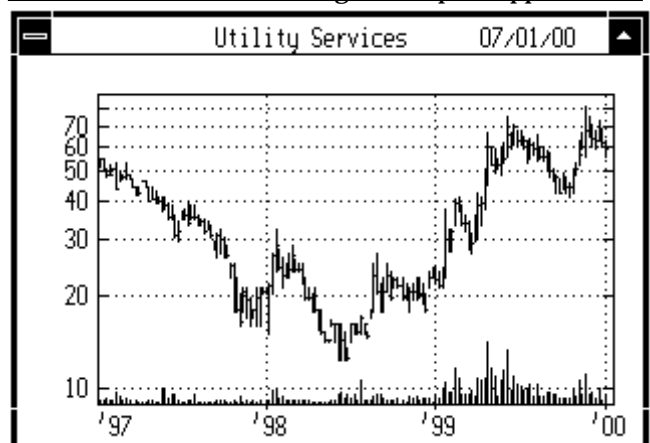
Although Utility Services is just a small company, the shares are actively traded with average weekly turnover of about 900,000 shares.

#### Summary & Recommendation

Buy! This is a well managed and rapidly growing company in an industry which is usually given a very high valuation by the stockmarket. Utility Services shares, however, are neglected and undiscovered, so trade at a very low valuation. Planned growth should see that situation change - with the shares likely to rise 3-8 fold in value to 200-500 cents over the next 2-3 years.

The shares currently pay no dividend, although an Information Technology company needs retain little cash - except to finance *new* expansion. As an emerging growth company, Utility Services *may* retain all or most of its profits and cash flows to finance expansion, but long term (when the company can no longer find attractive acquisitions or expansion opportunities) those cashflows could finance large dividend payouts to shareholders.

Information Technology companies probably involve above average risks - but the low valuation on these shares removes the usual risk in this sector (i.e. that investors pay *too much* to buy into the company), so we believe Utility Services Corporation shares are a very attractive investment for long term capital appreciation.



# 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	STRENGTH RATING										Market Cap'n	
	Share Price	Cur. rent	4-Wk Chg.	Rank	Brokers Following	Price to NTA	Return on Equity	Vola-ility	Price Earn. Ratio	Divi- dend Yield		Price Sales Ratio
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0												
PDL Holdings	567	+2.5	-0.4	38	2	1.0	2	0.9	44	5.3	0.24	77
Col Motor Co	270	+3.7	+0.3	35	-	1.1	7	0.8	15	8.6	0.28	84
Williams Kettle	204	+3.6	-1.0	36	-	0.8	6	0.7	13	9.5	0.29	27
Donaghys Ind	146	+6.3	-1.1	25	1	0.8	7	0.8	11	8.2	0.38	45
Reid Farmers	63	+2.3	-0.6	42	-	1.0	11	1.3	9	10.7	0.47	35
Mainfreight Grp	190	+6.4	+2.8	23	7	3.1	15	1.1	20	4.3	0.48	14
Tag Pacific Ltd	41	+75.3	-4.3	1	-	1.5	-	1.8	NE	1.8	0.52	19
Nuplex Indust	350	+5.8	+6.0	26	7	1.9	12	1.0	17	4.5	0.62	194
Mr Chips Hold	70	+1.7	+1.1	47	-	2.1	10	1.0	20	8.5	0.64	11
Restaurant Brds	158	+4.6	+3.5	30	8	5.9	36	1.2	17	5.7	0.64	134
Ceramco Corp	155	+11.3	+1.1	12	3	1.2	6	1.1	21	4.8	0.72	65
Tower Limited	550	+1.1	+0.1	50	-	1.2	9	0.6	12	2.4	0.72	912
Taylor's Grp Ltd	119	+3.3	+2.1	36	2	1.5	10	1.2	16	5.6	0.76	29
Michael Hill	320	+2.4	-1.2	39	4	3.8	27	0.9	14	5.4	0.79	123
Nobilo Wines	94	+2.1	+0.5	45	-	1.5	7	1.3	21	4.8	0.82	41
Ebos Group Ltd	382	+21.5	+3.9	7	-	5.7	34	0.8	17	7.0	0.98	89
Montana Group	206	+9.2	-1.1	15	8	3.7	21	1.1	18	2.2	1.03	442
Colonial Ltd	840	+7.4	+2.7	19	-	1.7	8	0.8	21	0.7	1.05	7,705
Fisher & Paykel	700	+5.1	+3.1	29	8	2.2	9	0.8	23	3.8	1.06	823
Northland Port	135	+6.4	+3.0	24	3	1.2	9	1.1	13	8.3	1.08	56

<b>BEST PERFORMING SHARES:</b> Strongest Shares, P/E < 20, P/S < 1.0												
Ebos Group Ltd	382	+21.5	+3.9	7	-	5.7	34	0.7	17	7.0	0.98	89
Seafresh Fish.	14	+8.9	-0.1	16	-	0.6	5	2.5	13	Nil	0.53	9
Mainfreight Grp	190	+6.4	+2.8	23	7	3.1	15	0.9	20	4.3	0.48	14
Donaghys Ind	146	+6.3	-1.1	25	1	0.8	7	0.6	11	8.2	0.38	45
Nuplex Indust	350	+5.8	+6.0	26	7	1.9	12	0.9	17	4.5	0.62	194
Restaurant Brds	158	+4.6	+3.5	30	8	5.9	36	1.1	17	5.7	0.64	134
Col Motor Co	270	+3.7	+0.3	35	-	1.1	7	0.7	15	8.6	0.28	84
Williams Kettle	204	+3.6	-1.0	36	-	0.8	6	0.5	13	9.5	0.29	27
Taylor's Grp Ltd	119	+3.3	+2.1	36	2	1.5	10	1.0	16	5.6	0.76	29
Michael Hill	320	+2.4	-1.2	39	4	3.8	27	0.8	14	5.4	0.79	123
Reid Farmers	63	+2.3	-0.6	42	-	1.0	11	1.0	9	10.7	0.47	35
Otter Gold Mine	90	+1.5	-0.6	48	-	0.8	4	0.8	20	Nil	0.57	42
Renaissance	50	+1.5	+3.3	48	-	1.3	9	2.1	15	Nil	0.12	18
Tower Limited	550	+1.1	+0.1	50	-	1.2	9	0.5	12	2.4	0.72	912

<b>INCOME SHARES:</b> Highest Yields, Capitalisation > NZ\$100 million												
Cavalier Corp	345	-0.7	+1.3	63	5	1.7	15	0.8	12	11.2	0.62	124
Hallenstein G.	226	-0.4	+0.8	59	7	4.0	30	0.8	13	11.2	0.83	131

Company	STRENGTH RATING										Market Cap'n	
	Share Price	Cur. rent	4-Wk Chg.	Rank	Brokers Following	Price to NTA	Return on Equity	Vola-ility	Price Earn. Ratio	Divi- dend Yield		Price Sales Ratio
Hellaby Hold.	200	-1.7	+2.7	71	4	1.6	22	0.9	7	10.4	0.59	101
DB Group	232	-2.0	+1.4	72	8	1.1	13	0.5	8	10.3	0.36	234
NZ Refining Co	980	-13.2	+0.8	97	4	1.6	16	0.4	10	10.2	0.97	235
Sky City Ltd	724	+0.5	-0.7	54	8	4.7	31	0.5	15	8.9	2.70	710
Natural Gas	180	-1.5	+0.7	69	8	1.3	8	0.9	16	8.3	2.45	810
Telecom Corp	870	+0.6	+2.9	53	11	14.1	76	0.5	19	7.9	4.44	15,249
United Networks	590	-1.6	-0.1	70	3	1.2	6	0.4	22	7.6	2.00	894
Brierley Invest	40	-7.5	-0.6	92	6	0.4	4	1.0	11	7.5	0.61	1,194

<b>OVER-VALUED SHARES:</b> Highest Price/Sales Ratios, Relative Strength < 0												
Sky Network TV	290	-2.5	-0.8	76	9	16.4	-	0.7	NE	Nil	8.80	1,060
Akd Int Airport	275	-0.0	-0.4	56	9	2.3	8	0.7	27	4.3	7.20	1,155
Ports Auckland	530	-2.6	+2.0	77	8	3.0	14	0.5	21	5.1	4.57	702
Savoy Equities	7	-9.6	-3.3	95	-	0.3	-	2.9	NE	Nil	2.71	28
Force Corp.	55	-4.6	+0.5	86	3	1.4	13	1.3	11	10.9	2.67	85
Tasman Agric.	80	-0.6	+1.0	62	4	0.6	5	0.8	11	3.8	2.56	103
Natural Gas	180	-1.5	+0.7	69	8	1.3	8	0.8	16	8.3	2.45	810
United Networks	590	-1.6	-0.1	70	3	1.2	6	0.3	22	7.6	2.00	894
Dairy Brands	25	-0.5	-0.3	60	-	0.6	-	1.3	NE	Nil	1.68	12

<b>WORST PERFORMING SHARES:</b> Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average												
Spectrum Res.	28	-48.7	+0.0	98	-	4.2	-	1.7	NE	Nil	N/A	7
Trans-Tasman	27	-11.1	+0.4	96	6	0.3	-	1.4	NE	Nil	0.91	98
Savoy Equities	7	-9.6	-3.3	95	-	0.3	-	2.7	NE	Nil	2.71	28
FC - Forests	76	-8.7	-0.8	94	10	0.5	5	1.0	12	Nil	1.18	643
Damba Hold Ltd	52	-8.5	+1.4	93	-	0.6	-	0.7	NE	Nil	0.61	9
Utilico Int'l	28	-7.8	-0.9	92	1	0.6	-	1.0	NE	Nil	N/A	28
Brierley Invest	40	-7.5	-0.6	92	6	0.4	4	0.8	11	7.5	0.61	1,194
Fernz Corp Ltd	435	-6.7	+1.4	89	7	1.5	14	0.6	11	5.8	0.47	655
CDL Hotel NZ	29	-5.0	-2.2	87	4	0.5	3	1.2	15	3.9	0.49	101
Infratil Aust.	78	-4.1	-1.6	83	-	0.8	-	0.7	NE	Nil	N/A	237
FC - Building	265	-4.0	+2.7	83	8	1.2	3	1.0	37	6.8	0.32	862
Goodman Fielder	166	-3.8	-0.6	82	-	1.3	8	0.6	15	5.6	0.47	2,102
Southern Cap	70	-3.7	+0.1	80	-	0.6	6	0.8	11	Nil	5.15	18
Air New Zealand	237	-3.7	-1.8	80	11	0.6	10	0.6	6	6.3	0.40	1,344
Col FS Property	88	-3.6	+0.7	79	-	-	-	0.7	13	7.8	N/A	128
Kingsgate Int'l	17	-3.0	+0.3	78	-	0.5	4	1.3	12	Nil	0.74	65
Ports Auckland	530	-2.6	+2.0	77	8	3.0	14	0.5	21	5.1	4.57	702
Sky Network TV	290	-2.5	-0.8	76	9	16.4	-	0.6	NE	Nil	8.80	1,060
AMP Limited	1950	-2.3	+2.4	74	-	2.1	12	0.6	17	1.1	0.70	20,993
Summit Gold Ltd	12	-2.2	+1.3	74	-	1.9	-	1.8	NE	Nil	N/A	11

## New Issue: Henley Communications

**Henley Communications** will be an unlisted company (i.e. it does not plan to list on the Stock Exchange), but is an interesting example of the type of New Issue that is only possible during a boom!

The company is involved in providing share price data, charting and technical analysis via the internet, with plans to expand its operations globally. The company is offering 5,000,000 shares at \$1.00 (plus 2,500,000 options to acquire shares at \$1.00 in March 2003) which will raise \$5 million to fund the company's planned expansion. Existing investors will be given 15,000,000 shares in exchange for their current paid up capital of \$1000. In the event of over-subscriptions, the existing investors will sell 500,000 shares to the public.

Formed in 1997 and "having successfully established itself" revenue is forecast to be \$51,000 (sic) in the year to March 2000 - when the company expects a loss of \$696,000. So Henley shares are being valued at a Price/Sales ratio of 392. Revenue is forecast to grow 9,702% to \$4,999,000 in the year to March 2001, with profits forecast at \$161,000. Further revenue growth predicted

at 114% would take revenue to \$15,675,000 in the March 2002 year with profits expected at \$2,234,000.

Although the business has been in operation for over two years it has yet to generate any *meaningful* revenue. There are *many* competitors that provide share price data and technical analysis services via the internet, and the performance of Henley to date would suggest that the company is not finding it easy to compete or build revenue. Despite this, public investors are being offered the opportunity to put up all of the \$5 million risk capital needed to try to expand the business 300-fold over the next two years - in return for just 25% of the shares!

### Recommendation

We find it very scary to think that some investors will consider paying (a share of) \$5 million for 25% of an unproven company with just \$51,000 in revenue!

However, if you *really* want to own an investment services company at a Price/Sales ratio of 392 send us your cheque for \$99.5 million and (after it clears!) you can be the owner of Securities Research Company.



# Company Analysis: Sky Network TV

Our *Comprehensive Share Selection Criteria* is once again rating **Sky Network TV** shares as a "Sell" - indicating that investors should sell these shares at their current high price.

### Company History

Sky Network TV was formed in 1987 to provide pay TV services in NZ. After accumulated losses of \$146 million in its first decade of operation (and with Shareholders Equity of *minus* \$71 million) the company listed on the NZ Stock Exchange after raising \$138 million in new equity from the public in December 1997.

### Recent Results

The \$138 million was initially used to repay some debt. The resulting savings in interest costs boosted profits from \$487,000 (0.1 cents per share) in the year to December 1997 to \$15,304,000 (4.2 cents per share) in the December 1998 year. The company has since changed its balance date to June 30, reporting a loss of \$4,371,000 (1.2 cents per share) for the six month period to that date.

Revenue growth has been very strong. Up 21.6% to \$176.0 million in 1997, up 20.7% to \$212.4 million in 1998 and up 24.8% in the six month period to June 1999.

### What is Wrong with Sky Network TV's Business?

So why has this company failed to become profitable despite over a decade of strong revenue growth?

The problem is that the economics of this business are unsound. Around the world Pay-TV has been a popular industry with investors, but most ventures have either failed or yielded low returns.

There are two major reasons why Sky Network TV is unlikely to ever earn a reasonable level of profitability. Firstly, 72-74% of revenue is spent on variable costs of providing this service (i.e. programming, transmission, subscriber management). Secondly, the business is very capital intensive. So the remaining 26-28% of revenue goes in depreciation and interest costs.

Growing the business by 20% per annum for year after year makes no improvement in profitability. Variable costs increase as fast as revenues, the company needs to make massive capital expenditures (to service

new subscribers) resulting in higher interest and depreciation costs. The business remains unprofitable.

The only way to improve this situation and ever make a profit would be to *significantly* increase revenues. To earn sufficient profits (i.e. \$75-115 million) to put the current share price at a Price/Earnings ratio of 10-15, would require *lifting subscription revenue by 50-70%* with no additional operating costs (i.e. not sharing that additional revenue with program suppliers) and with no loss of customers. Subscribers are unlikely to accept such a large increase - especially as competition is now emerging in the Pay-TV business.

The other alternative would be to provide *additional* revenue generating services. While Sky TV has talked about providing new services, no significant extra services have yet been provided. Any such services would *probably* involve at least some additional capital investment and significant additional costs. Assuming a 20% pre-tax profit margin on any new services, the company would need to generate new sales of \$600-850 million (to achieve a \$75-115 million profit) - far in excess of its existing \$240 million in Pay-TV and advertising revenue.

### Investment Criteria

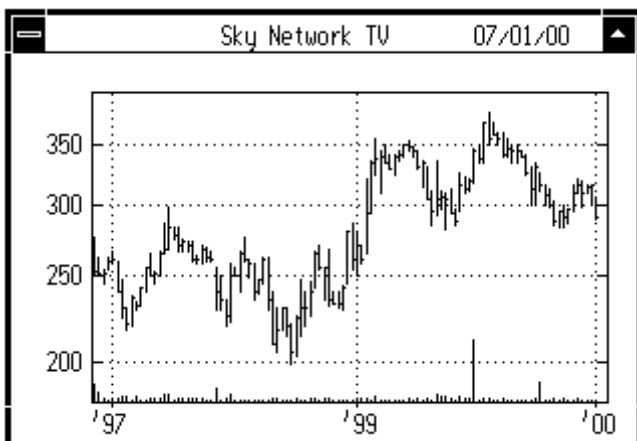
At 290 cents, Sky Network TV shares trade on a high Price/Sales ratio of 8.80 and the company is unprofitable and will probably never pay a dividend. This high Price/Sales ratio rates the shares as a "Sell" in the *Over-Valued Shares* section of our *Comprehensive Share Selection Criteria*.

With a market capitalisation of \$1,152 million this is a very large NZ company. The shares are *widely followed* by stockbrokers and *widely owned* by institutional investors. Nine brokers publish profit forecasts - and amazingly *all* of them expect the company to make a profit next year! Should these optimistic forecasts prove correct, Sky TV shares will be trading on an excessively over-valued P/E ratio of 225.0! Two of the nine brokers make no recommendation, two rate Sky a "Hold", with the other five rating the shares as "Buy".

In fact, widely followed and widely owned shares are likely to *under-perform* the market. The widespread broker optimism is also likely to be *over-valuing* the shares at present, leading to below average investment returns in the future.

Director T Farmer (together with A Gibbs) owns 4.65 million shares (12.7% of the company), while founder C Heatley sold 9.5 million shares in June 1998 and most of his remaining 20 million shares in October 1999 (although re-investing the money in **Independent Newspapers**, which owns 49.6% of Sky TV). We rate this selling as unfavourable, while re-investing further up the "food chain" highlights one (of several) potential conflicts of interest within this company.

Sky is effectively controlled by its 49.6% shareholder Independent Newspapers, which is controlled by its 49.4% shareholder **News** (Continued on Page 10)



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

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

Company	STRENGTH RATING				Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank									
<b>OVER-VALUED SHARES:</b> Highest Price/Sales Ratios, Relative Strength < 0													
Infracore Aust.	63	-5.4	-1.4	80	1.0	5	0.7	-	0.9	NE	Nil	9.57	213
Hills Motorway	308	-6.0	-1.3	82	0.0	8	0.9	2	0.7	38	1.9	8.66	570
Ind & Com Elect	57	-2.2	-2.0	66	0.0	-	1.6	-	0.9	NE	Nil	7.78	24
Bougainville Co	18	-5.7	-2.6	81	0.0	-	-	-	1.2	12	Nil	7.66	72
Tyndall Prop Tr	34	-4.7	-0.1	77	0.0	-	0.7	5	1.0	13	8.0	7.41	37
Climax Mining	14	-9.4	-3.3	89	0.0	-	-	-	1.3	NE	Nil	7.41	14
E.Tec Limited	11	-7.3	+4.3	86	0.0	-	-	-	1.4	NE	Nil	7.38	36
Aust Infra.	187	-5.6	+0.9	81	1.0	4	0.9	11	0.7	8	8.6	6.66	263
Quantum Res.	11	-20.7	+0.9	97	0.0	-	-	-	1.5	NE	Nil	5.95	18
Investment Coy	245	-1.6	+1.0	64	0.0	-	0.8	5	0.7	15	5.6	5.84	52
Oil Search Ltd	186	-3.2	-0.2	71	0.0	14	-	-	0.7	58	Nil	5.83	978
Sea World PT	78	-3.3	+0.5	72	0.0	1	0.7	7	0.8	10	9.2	5.77	162
ETRADE Aust.	360	-7.4	-2.4	86	3.3	2	6.5	-	0.7	NE	Nil	5.63	216
Peptide Tech.	43	-4.7	-0.8	77	0.0	1	8.6	-	1.0	NE	Nil	5.32	60
Nat'l Aust Bank	2189	-2.6	+0.6	68	4.1	18	2.5	6	0.6	44	5.1	5.08	32,494
Innerhadden	39	-2.4	+2.3	67	0.0	-	0.7	-	1.0	NE	2.6	5.02	16
Equatorial Min.	330	-6.3	-3.2	83	0.0	-	-	-	0.7	NE	Nil	4.86	117
Petroz NL	31	-16.8	+1.3	95	0.0	6	0.7	3	1.1	25	Nil	4.81	60
Pac Strategic	22	-6.9	-0.4	84	0.0	-	0.8	-	1.2	NE	Nil	4.71	11
Preston Resourc	27	-33.9	-1.8	99	1.0	2	-	-	1.1	NE	Nil	4.17	17
Maple Oil NL	22	-3.7	-1.4	74	0.0	-	-	-	1.2	NE	Nil	4.10	43
Dominion Mining	33	-3.3	-1.8	72	1.0	-	-	-	1.0	NE	Nil	3.92	22
Pearl Riv. Tyre	45	-17.5	+4.7	96	0.0	-	0.4	-	1.0	NE	Nil	3.82	24
Aust Min Proc.	5	-11.6	+1.2	92	0.0	-	1.7	-	1.9	NE	Nil	3.42	9
Perp Trust Aust	1880	-3.7	-2.4	74	5.0	8	6.5	27	0.6	24	3.2	3.36	688
Lihir Gold	106	-7.2	-3.1	85	0.0	15	-	-	0.8	147	Nil	3.34	1,148
Amlink Tech	62	-7.3	+3.9	86	0.0	-	3.4	15	0.9	23	3.2	3.28	9
Huntley Invest	52	-0.2	+0.8	55	0.0	-	0.8	16	0.9	5	4.8	3.25	30
Pipers Brook	245	-1.2	-1.5	61	0.0	1	1.6	2	0.7	65	0.8	3.11	37
West Aust News	517	-2.5	-0.9	67	0.0	12	7.3	45	0.6	16	5.8	3.07	1,062
Orogen Minerals	167	-3.8	-0.3	74	0.0	7	-	-	0.7	13	3.9	3.03	536
Nat'l Mutual	240	-0.4	+2.8	57	0.0	13	-	-	0.7	14	3.8	2.83	4,230
Tabcorp Holding	982	-1.4	-0.5	63	0.0	13	98.2	-	0.6	21	4.4	2.75	3,636
Carillon Dev.	144	-2.5	-1.9	67	0.0	-	0.5	3	0.7	15	5.2	2.71	35
Dev Capital Aus	80	-0.6	-0.8	57	0.0	1	-	-	0.8	13	6.9	2.58	56
Santos Ltd	423	-5.9	+0.1	82	1.0	19	-	-	0.6	14	5.9	2.55	2,565
Adsteam Marine	228	-6.3	-1.2	83	2.0	6	5.6	52	0.7	11	6.1	2.47	214
Lend Lease Corp	2015	-2.1	+2.8	66	1.2	13	3.0	12	0.6	24	3.0	2.47	10,202
Mobilie Innov.	93	-3.2	+3.5	71	0.0	-	46.5	-	0.8	18	6.9	2.46	102
Housewares Int.	76	-5.4	+1.1	80	0.0	-	1.6	3	0.8	52	1.3	2.45	55
Foster's Brewin	444	-0.6	-0.2	58	1.0	17	5.5	26	0.6	21	2.9	2.45	7,663
Guinness Peat	120	-3.1	+0.5	71	0.0	-	0.8	8	0.8	10	0.5	2.38	563
Simeon Wines	338	-3.3	-0.5	72	1.1	10	2.2	15	0.7	14	4.1	2.35	253
Bank of Q'land	496	-4.2	-0.7	75	0.0	11	1.8	12	0.6	15	5.0	2.33	291
Forest Place Gr	59	-5.7	-0.7	81	0.0	1	0.7	7	0.9	10	6.8	2.33	45
Queensld Metal	46	-13.2	+0.5	93	0.0	3	-	-	0.9	NE	Nil	2.21	152
China Cons	18	-6.8	+0.4	84	0.0	-	0.3	6	1.2	4	Nil	2.20	91
Stirling Res.	2	-2.3	+7.6	67	0.0	-	-	-	2.6	NE	Nil	1.98	6
Metal Storm Ltd	260	-7.1	+2.5	85	0.0	-	-	-	0.7	NE	Nil	1.96	30
Beach Petroleum	3	-6.3	+3.7	83	0.0	-	-	-	2.4	NE	Nil	1.94	14
<b>WORST PERFORMING SHARES:</b> Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average													
Vengold	34	-35.7	+3.6	99	0.0	-	-	-	1.0	NE	Nil	N/A	49
Preston Resourc	27	-33.9	-1.8	99	1.0	2	-	-	1.0	NE	Nil	4.17	17
Diamond Rose	5	-30.7	+2.0	98	0.0	-	-	-	1.7	NE	Nil	N/A	7
Antaeus Energy	9	-27.5	+1.3	98	0.0	-	-	-	1.4	NE	Nil	N/A	13
Viagold Capital	14	-25.2	+5.9	98	0.0	-	3.4	-	1.3	1	Nil	N/A	17
Aurora Gold	36	-25.0	+0.5	98	0.0	12	-	-	1.0	4	Nil	0.40	58
Astro Mining NL	21	-24.7	-0.5	98	0.0	-	-	-	1.1	NE	Nil	N/A	15
Coeur D'Alene	410	-24.5	+2.7	98	0.0	-	-	-	0.6	NE	Nil	N/A	90
Werrie Gold Ltd	24	-23.3	-2.5	97	0.0	-	-	-	1.1	NE	Nil	N/A	15
Cons. Gaming	45	-21.9	-2.9	97	0.0	-	2.3	-	0.9	NE	Nil	N/A	13
St Frances Min.	2	-21.7	+0.4	97	1.1	-	-	-	2.7	NE	Nil	1.26	14
Quantum Res.	11	-20.7	+0.9	97	0.0	-	-	-	1.4	NE	Nil	5.95	18
Senetas Corp	71	-18.6	+9.3	96	0.0	-	7.1	-	0.8	NE	Nil	N/A	85
Cadbury Sch.	915	-18.1	+0.8	96	0.0	-	-	-	0.6	NE	3.7	N/A	18,699
Anzoil NL	10	-18.0	-2.6	96	0.0	-	-	-	1.4	NE	Nil	N/A	6
Medical Researc	29	-17.7	-5.8	96	0.0	-	0.8	7	1.0	12	Nil	0.63	15
Carpenter Pac.	47	-17.6	-2.1	96	0.0	-	-	-	0.9	NE	Nil	N/A	12
Pearl Riv. Tyre	45	-17.5	+4.7	96	0.0	-	0.4	-	0.9	NE	Nil	3.82	24
Coms 21 Ltd	23	-17.4	+0.7	96	0.0	-	1.9	-	1.1	NE	Nil	N/A	23
Petroz NL	31	-16.8	+1.3	95	0.0	6	0.7	3	1.0	25	Nil	4.81	60
Ashanti Goldfld	330	-16.7	-10.6	95	0.0	-	-	-	0.6	3	Nil	0.50	355
Int'l Allsports	113	-15.6	-1.8	95	0.0	2	-	-	0.8	NE	Nil	N/A	46
Scanbox AsiaPac	24	-15.3	+3.3	94	0.0	1	0.4	25	1.1	2	Nil	0.49	9
Amity Oil NL	24	-14.5	-0.2	94	0.1	-	-	-	1.1	NE	Nil	N/A	24
Travel.com.au	136	-14.1	+6.5	94	0.0	-	2.8	-	0.7	NE	Nil	0.74	31
Cobra Resources	13	-14.1	+2.3	94	0.0	-	-	-	1.3	NE	Nil	N/A	7
Energy Equity	20	-13.8	+0.4	94	0.0	2	0.6	5	1.1	13	Nil	1.38	64
Taipan Res.	9	-13.6	-1.3	94	0.0	-	-	-	1.4	NE	Nil	N/A	17
Queensld Metal	46	-13.2	+0.5	93	0.0	3	-	-	0.9	NE	Nil	2.21	152
Golden Valley	7	-12.6	-1.0	93	0.0	-	-	-	1.6	NE	Nil	N/A	6
Westgold Res.	10	-12.2	+1.0	93	0.0	-	-	-	1.4	NE	Nil	1.03	7
East Coast Min.	28	-11.9	-3.0	92	0.0	-	-	-	1.0	NE	Nil	N/A	11
Reckon Holding	27	-11.7	+5.6	92	0.0	-	1.0	-	1.0	NE	Nil	0.73	6
Reckon Limited	200	-11.7	+7.3	92	0.0	-	-	-	0.7	NE	Nil	N/A	211
Mt Grace Res.	26	-11.7	-1.4	92	3.0	-	-	-	1.0	NE	Nil	N/A	10
First Aust Res.	9	-11.7	+3.3	92	0.1	-	-	-	1.5	NE	Nil	N/A	8
Amrad Corp.	80	-11.6	+0.8	92	1.0	2	1.3	-	0.8	NE	Nil	0.62	93
Aust Min Proc.	5	-11.6	+1.2	92	0.0	-	1.7	-	1.8	NE	Nil	3.42	9
MTM Office Trt	58	-11.5	+1.9	92	0.0	-	14.5	-	0.9	NE	Nil	N/A	48
Cent Bore Nick.	16	-11.4	-1.3	92	0.0	-	-	-	1.2	NE	Nil	N/A	9
Centaur Mining	23	-11.3	-0.1	92	0.0	7	-	-	1.1	NE	Nil	0.35	99
Sydney Oil Co	3	-11.2	+1.9	91	0.0	-	-	-	2.2	NE	Nil	N/A	6
Crest Resources	22	-11.1	-3.0	91	0.1	-	-	-	1.1	NE	Nil	N/A	17
Roc Oil Company	145	-11.0	-0.5	91	0.0	-	-	-	0.7	NE	Nil	N/A	154
Paladin Res.	6	-11.0	+3.1	91	1.0	-	-	-	1.7	NE	Nil	N/A	6
Charter Pacific	60	-10.9	+1.2	91	0.0	-	4.6	-	0.9	NE	Nil	N/A	38
Medicine Quant.	17	-10.9	-1.8	91	0.0	-	-	-	1.2	NE	Nil	N/A	15

# "Insider" Trades in Australian Shares

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

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

## "Insider" Indicators

Last 5 wks: 72.0% Buyers  
Last 13 wks: 73.3% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
AMP Ltd	7-1	Central Equity	3-0	Gippsland Ltd	4-0	Mayne Nickless	2-0	Portman Mining	2-0
ARC Energy	5-0	Circadian Tech	0-3	Gold Mines Kal.	2-0	McPherson's Ltd	2-0	Precious Metals	0-2
Acclaim Uranium	5-1	Citadel Pooled	2-0	Goldfields	2-0	Menzies Court	3-1	Q.B.E. Insur.	2-0
Adacel Tech.	2-4	Cleland	2-0	Goodman Fielder	4-0	Metal Manufact.	3-0	Ranger Minerals	1-4
Adelaide Bright	2-0	Colonial Ltd	3-0	Graincorp	4-2	Metex Resources	0-2	Ridley Corp.	4-0
Adsteam Marine	2-0	Comet Gold	3-0	Grimwood Davies	4-0	Michealago Res.	2-0	Rio Tinto Ltd	2-0
Adtrans Group	4-0	Computer Share	2-4	HIH Insurance	5-0	Milton Corp.	12-0	SME Growth	2-0
Adultshop.com	0-2	Corp Express	1-3	Hamilton Island	3-0	Mt Burgess Gold	15-0	Sabre Group	0-3
Allegiance Min.	3-0	Crane Group	3-0	Hartley Poynton	1-3	Mt Grace Res.	3-0	Sausage Softwar	0-3
Anaconda Nickel	3-1	Data 3 Ltd	0-3	Healthscope	4-0	Nat'l Aust Bank	4-1	Schaffer Corp	6-0
Atlas Pacific	8-0	E.R.G.	1-3	Helix Resources	2-0	Nat'l Foods	4-0	Shield Equities	2-0
Auridiam Cons.	2-0	Eastern Corp	0-2	Herald Resource	3-0	Normandy NFM	3-0	Smith (Howard)	2-0
Ausdoc Group	6-0	Eco-Air Ltd	0-2	Holyman Ltd	2-0	Normandy Mining	6-0	Sonic Health	0-2
Auspine Ltd	6-0	Ecorp Limited	0-2	Hunter Explor.	0-2	OAMPS	6-0	Soul Pattinson	8-0
Aust Rural	2-0	Energy Develop.	0-9	Infosentials	3-0	Orica Ltd	2-0	St George Bank	3-0
Aust Stock Exch	0-8	Equigold NL	0-2	Inovax Ltd	2-0	Oroton Int'l	2-0	Strategic Min.	2-0
Austin Group	2-0	Flight Centre	0-4	Institute Drug	7-4	PMP Communicat.	2-0	Sunland Group	2-0
Austral Coal	2-0	Foodland Assoc	2-0	Investor Group	3-0	Pacifica Group	2-0	TDG Logistics	2-0
BT Aust Equity	4-0	Fortuna NL	2-0	Kilkenny Gold	2-0	Pacific Energy	3-0	Tanganyika Gold	5-1
BT Global Asset	0-3	G.U.D. Holdings	4-0	Kingsgate Cons.	3-0	Parbury Ltd	3-0	Templeton Globa	0-3
Brickworks Ltd	3-0	GME Resources	2-0	Legate	0-2	Payco Consol.	3-0	Thakral Holding	2-0
Burns Philp	4-0	GWA Internat'l	7-0	M.I.M. Holdings	2-0	Perilya Mines	4-0	Titan Resources	2-0
C & W Optus	2-5	Gazal Corp	3-1	MacMahon Hold	0-2	Perp Trust Aust	5-0	Vos Industries	3-1
C.S.R. Ltd	3-0	General Gold Re	3-0	Macmin NL	0-3	Platinum Cap'l	3-0	Waterco Ltd	3-0
Cambrian Res	3-1	Gindalbie Gold	0-2	Macro Corp.	2-0	Polartechincs	0-3	Westfield Hold.	4-0
								Yates (Arthur)	2-0

Rank	Industry Group	Insider Buy-Sell	No. of Buyers-CoyS	Average Sellers	Rank	Industry Group	Insider Buy-Sell	No. of Buyers-CoyS	Average Sellers	Rank	Industry Group	Insider Buy-Sell	No. of Buyers-CoyS	Average Sellers
1	Insurance	25-1	10	+2.40	24	Diamonds	3-0	10	+0.30	47	Pharmaceutical	9-8	12	+0.08
2	Uranium	5-1	2	+2.00	25	Diversified Media	9-2	24	+0.29	48	Other Telecommunications	1-0	14	+0.07
3	Building Materials	23-2	20	+1.05	26	Other Infrastructure	2-0	7	+0.29	49	Casinos/Gaming	1-0	15	+0.07
4	Trustee Company	5-0	5	+1.00	27	Leisure Activities	3-0	11	+0.27	50	Biotechnology	2-1	16	+0.06
5	Hospital Management	4-0	4	+1.00	28	Banking	11-7	15	+0.27	51	Property Trust	4-0	71	+0.06
6	Diversified Industrial	21-4	23	+0.74	29	Gold Explorer	65-24	162	+0.25	52	Misc Services	9-8	33	+0.03
7	Diversified Mining	5-0	7	+0.71	30	Transport	5-2	12	+0.25	53	Gold/Investment	0-0	2	+0.00
8	Food	19-2	25	+0.68	31	Brewer	1-0	4	+0.25	54	Gold/Other Mining	0-0	9	+0.00
9	Chemical & Fertiliser	6-2	6	+0.67	32	Vintner	7-4	13	+0.23	55	Advertising/Marketing	0-0	19	+0.00
10	Agricultural	15-2	24	+0.54	33	Misc Industrial	11-4	32	+0.22	56	Entrepreneurial Investor	0-0	10	+0.00
11	Forest Products	8-2	13	+0.46	34	Mining Producer	4-1	16	+0.19	57	Machinery Manufacturer	0-0	3	+0.00
12	Mining Services	4-0	10	+0.40	35	Investment Trust/Company	8-4	22	+0.18	58	Building Contractor	4-4	13	+0.00
13	Manufacturer/Retailer	6-1	13	+0.38	36	Oil/Gas Producer	3-0	17	+0.18	59	Mineral Exploration	13-13	43	+0.00
14	Hotel/Resort	3-0	8	+0.38	37	Light Engineering	4-1	18	+0.17	60	High Technology	6-6	32	+0.00
15	Equity Investor	35-9	70	+0.37	38	Residential Developer	2-0	12	+0.17	61	Mining Investment	0-0	4	+0.00
16	Base Metals	9-2	19	+0.37	39	Heavy Engineer	1-0	6	+0.17	62	Oil/Gas Investor	0-0	2	+0.00
17	Health & Related Products	4-0	11	+0.36	40	Oil/Gas Exploration	12-7	35	+0.14	63	Retail	10-12	29	-0.07
18	Property Investor	4-0	11	+0.36	41	Soft Drink/Confectionery	1-0	8	+0.13	64	Computer & Office Serv.	7-10	41	-0.07
19	Automotive	5-0	14	+0.36	42	Television	1-0	8	+0.13	65	Equipment/Services	1-4	29	-0.10
20	Gold Producer	23-6	49	+0.35	43	Wholesaler/Retail	4-3	9	+0.11	66	Misc Financial	14-18	20	-0.20
21	Engineering Contractor	2-0	6	+0.33	44	Mineral Sands	1-0	10	+0.10	67	Gold/Copper	0-1	4	-0.25
22	Other Utilities	1-0	3	+0.33	45	Property Devment/Manager	3-1	22	+0.09	68	Network Operator	2-5	6	-0.50
23	Publishers	4-2	6	+0.33	46	Coal	2-1	11	+0.09	69	Health/Medical Services	0-5	7	-0.71
										70	Energy/Electricity	4-9	6	-0.83

"Insiders" are some of the smartest investors. With their intimate knowledge of their company they can usually buy or sell at just the right time. Therefore - with the Australian stockmarket hitting an all-time high in late 1999 it is reassuring to see that "insiders" are still buying heavily. As shown in the statistics at the top right of this page, 73.3% of "insider" trades over

the last quarter were Buys and that is continuing with 72.0% of Buy trades over the last five weeks.

As "insiders" acquire many shares off-market (e.g. from executive options, or prior to listing) over the very long term about 40% of all trades will be Buys and 60% will be Sells. Current levels of "insider" buying are well above that average, and clearly Bullish.

# "Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before	% of Coy Held After
<b>03/12/1999</b>					
Aquaria 21	Cullen Trust	Sell	-22.429	10.82%	0.0%
Nuhaka Farm Forestry	Evergreen Forests	Buy	+0.045	21.13%	23.68%
Shortland Properties	Capital Properties	Buy	+36.225	84.47%	96.59%
<b>10/12/1999</b>					
Carter Holt Harvey	Franklin Resources	Sell	-17.525	9.23%	8.22%
Evergreen Forests	Hambrecht & Quest	Sell	-2.701	11.10%	9.39%
FC - Energy	The Capital Group	Sell	-3.414	9.62%	8.62%
FC - Forest	Franklin Resources	Sell	-9.143	7.47%	6.40%
Metropolitan Life Care	NZ Funds Mgmt	Buy	+0.740	7.00%	8.20%
Tourism Holdings	Royal & Sun Alliance	Sell	-1.662	8.40%	6.36%
Waste Management NZ	Royal & Sun Alliance	Buy	+3.143	0.0%	6.48%
<b>17/12/1999</b>					
Advantage Group	Royal & Sun Alliance	Sell	-2.336	9.21%	4.43%
Brierley Investments	Franklin Resources	Sell	-76.500	11.75%	9.42%
Kiwi Development	National Mutual	Sell	-0.739	13.02%	11.48%
Mainfreight	National Mutual	Sell	-0.926	5.93%	4.65%
Montana Group NZ	AMP	Sell	-2.309	8.22%	7.15%
<b>24/12/1999</b>					
Advantage Group	Soros Fund Mgmt	Buy	+2.564	0.0%	5.25%
FC - Building	Franklin Resources	Sell	-4.320	11.49%	10.22%
FC - Energy	The Capital Group	Sell	-3.824	8.62%	7.50%
Horizon Energy	BOP Consumer Trt	Buy	+2.613	25.00%	77.30%
Mainfreight	Armstrong Jones	Buy	+0.265	4.88%	5.25%
Property For Industry	Spicers Portfolio	Sell	-2.694	6.55%	4.69%
Spectrum Resources	Momentum	Buy	+38.172	0.0%	54.00%
Spectrum Resources	Momentum	Sell	-4.133	54.00%	38.80%

Cullen Trust (i.e. E Watson) hasn't actually sold 22.4 million Aquaria 21 shares but has allowed a call option to expire. Cancel all those market rumours of the company being used as a shell for another e-commerce business.

Evergreen Forests has increased its holding in Nuhaka Farm Forestry. We can assume that Evergreen has a pretty good idea of the value of that trust's forestry assets, so this buying is a Bullish comment on the value of Nuhaka.

Momentum Investments has announced its intention to use Spectrum Resources to acquire an information technology company involved in business to business e-commerce. Spectrum has distributed all of its mining exploration assets to its shareholders by spinning off shares in unlisted Asian Mineral Resources, leaving Spectrum with no assets except its stock exchange listing. Momentum acquired 38,172,393 Spectrum shares for an undisclosed sum (but probably around 10-15 cents), Spectrum then placed 17,000,000 shares at 11 cents to raise \$1,870,000 after which Momentum sold 4,133,745 shares (probably at prices around 21-25 cents).

Momentum Investments is associated with John Carr, who controlled NZ listed Carr Business Systems, which was later used as a shell company to list CBS Forests which later merged with Evergreen Forests. He was also associated with NZ Petroleum (when it had become an investment company), which was later used as a shell to list Eldercare NZ. That track record shows both some moderate success and some moderate failure, so we don't know how this will all work out for Spectrum. However, at 28 cents the market is now valuing this business at \$24.5 million and its only asset is that \$1,870,000 in the bank. For that sort of money, your Editor would rather own almost half of Utility Services Corporation!

Disclosure of Interest: None at present in any of these companies. Unfortunately my portfolio is still on the wrong side of \$24½ million, and I really do prefer to hold a diversified portfolio. So I will settle for buying 30-50,000 Utility Services Corporation shares over the next few months.

# Dividend \$

Company	Cents per Share	Ex- Date	Pay- able	Tax Credit
Cermco Corporation	5.00	20-12	22-12	Nil
DB Group	8.00	31-01	11-02	Full
Fernz Corporation	8.00	10-01	21-01	Nil
Owens Group	3.00	17-01	21-01	Full
South Eastern Utilities	2.00	10-01	14-01	Full
Steel & Tube Holdings	6.00	10-01	14-01	Full
Tower Corporation	12.00	06-03	17-03	1.00
Westpac Trust	29.9424	08-12	04-01	Full
<u>Australian Shares</u>				
Hancock & Gore	4.25	21-01	11-02	-

## Total Return Index for All Listed Shares

Dec 6	2400.54		
Dec 7	2392.14		
Dec 8	2379.54		
Dec 9	2376.98		
Dec 10	2384.18		
Dec 13	2404.63	Dec 20	2464.00
Dec 14	2418.06	Dec 21	2472.28
Dec 15	2427.38	Dec 22	2486.24
Dec 16	2433.67	Dec 23	2493.72
Dec 17	2448.20	Dec 24	2509.85
Dec 27	Holiday	Jan 3	Holiday
Dec 28	Holiday	Jan 4	Holiday
Dec 29	2522.96	Jan 5	2533.82
Dec 30	2544.00	Jan 6	2522.99
Dec 31	Holiday	Jan 7	2508.91

# Current Issues

## CAPITAL RECONSTRUCTIONS

Ex-Date

Otter Gold Mines (1)

-

Damba Holdings (2)

-

(1) Otter Gold has distributed 1 NZ Oil & Gas share for every 11 Otter Gold shares held - equal to a 4.0 cents (fully imputed) dividend paid in shares instead of cash.

(2) Damba Holdings plans to cancel 1 share in every 100 at a price of \$7.50, which is almost the same as paying a 7½ cents tax-free dividend.

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