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

Market Analysis

Issue No. 351 P.O. Box 34-162, Auckland September 11, 2001.

Inside Market Analysis

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Summary and Recommended Investment Strategy.

World stockmarkets fell sharply last week - dragging Australia and NZ lower. A further interest rate cut by the US Federal Reserve has highlighted continued weakness in the US economy, but will eventually lead to a moderate economic recovery. We are re-investing a little more of our cash reserve.

Investment Outlook.

On August 21, the US Federal Reserve made their seventh consecutive cut in interest rates. Rates were cut ¼% to 3½% - down from 6½ at the start of this calendar year. The US stockmarket - and other major stockmarkets - have responded by plunging sharply to new lows!

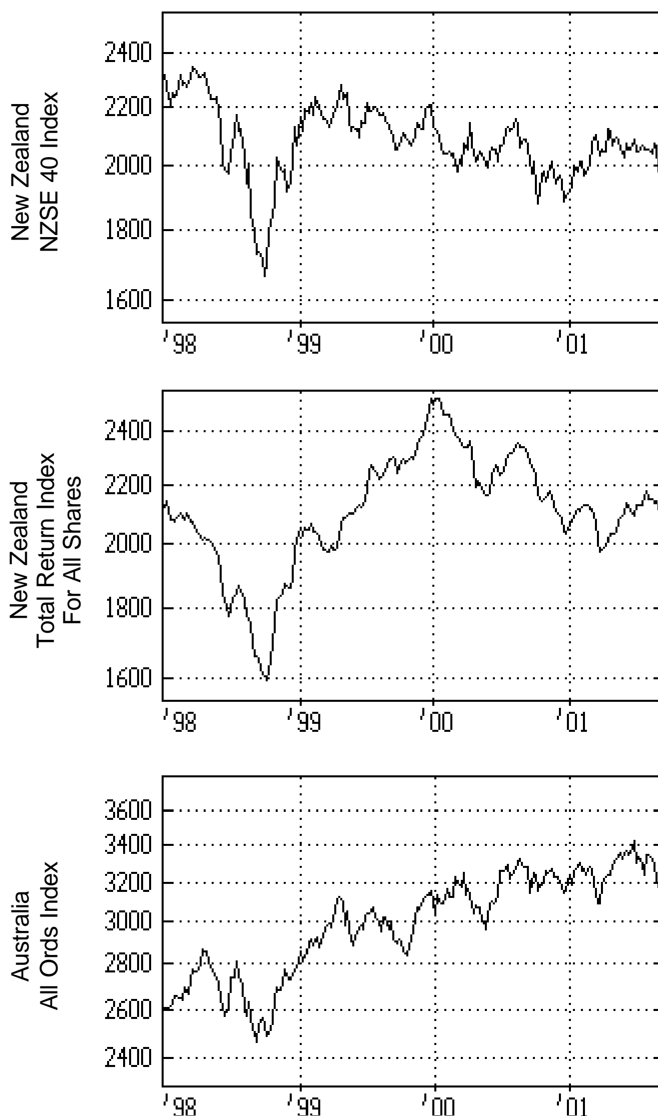
Investors could be mistaken for thinking falling interest rates are unfavourable for share prices! In fact, stockmarkets (i.e. investors) often act irrationally - especially in the short to medium term. Investors have seen six previous interest rate cuts this year while US share prices have fallen. The latest cut is therefore seen as a sign that the US economy is still too weak - which *is* unfavourable for the stockmarket, so prices fell.

As always, success in the stockmarket requires looking past the *current situation* and focusing on the *future.* The economic and stockmarket situation will always look "good" at the top of the cycle and "bad" near the bottom. Need we remind investors of the widely perceived "good" outlook for Investment and Property shares in 1987, Gold Mining shares in 1994/95 or Technology shares just 18 months ago?

The world economy will probably start to recover, albeit only slowly, from the first quarter of 2002. Stockmarkets *anticipate* economic changes, so world stockmarkets will probably form their lows over the last quarter of this year (i.e. September to December). So expect a little more weakness - perhaps a couple of *selling panics?* - in the immediate future, then a gentle recovery next year.

Our Forecasts for the Australian and New Zealand stockmarkets have weakened slightly to **Neutral** levels. Our One-Year Forecast for Australia is a **55%** chance that prices will rise. In NZ is it **59%**. Our Short Term Trend Model for NZ is also **Neutral** at **43%**.

Despite weak markets, we remain happy with our *Recommended Investments* and see opportunities developing to add depressed *cyclical* issues and *emerging growth* companies to our portfolio. We are therefore using another 2-5% of our cash reserve to buy shares in **Commander Communications**.



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.

Company	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A. Barnett Ltd	C	83	0.44	18	Nil
AMP Limited	B	2270	0.73	17	2.5
AMP NZ Office	C	83	6.11	10	8.6
AQL Holdings	E	1.2	0.54	NE	Nil
AXA Asia Pac.	B	322	0.54	12	3.7
Advantage Group	D	46	0.41	37	Nil
Affco Holdings	E	32	0.07	6	Nil
Air New Zealand	C	70	0.11	2	21.4
Akd Int Airport	B	380	9.44	27	4.4
Apple Fields	C	15	0.24	NE	Nil
Baycorp Hold	B	1260	N/A	53	2.7
Beauty Direct	C	11	4.17	NE	Nil
Bendon Limited	B	185	0.68	17	7.3
Blis Technology	E	80	N/A	NE	Nil
Brierley Invest	E	58	0.50	NE	Nil
Broadway Ind	C	35	0.19	10	Nil
CACI Group Ltd	C	44	N/A	NE	Nil
CDL Hotel NZ	D	19	0.27	46	5.5
CDL Investments	E	18	1.27	8	13.1
Cabletalk Group	C	70	N/A	NE	Nil
Cadmus Tech Ltd	D	15	N/A	NE	Nil
Calan Hlthcare	C	81	6.57	12	8.4
Cap Properties	C	89	N/A	8	13.1
Carter Holt	C	169	0.77	11	3.6
Cavalier Corp	A	560	0.93	14	8.5
Cedenco Foods	A	195	2.38	11	Nil
Col FS Property	C	106	6.88	12	10.1
Col Motor Co	B	285	0.23	16	7.3
Commsoft Group	C	9.0	N/A	NE	Nil
Compass Com.	D	32	N/A	NE	Nil
Contact Energy	B	329	2.29	32	7.9
Cube Capital	D	40	0.36	31	Nil
Cue Energy Ltd *	N/R	7.1	2.46	NE	Nil
DB Group	B	510	0.64	14	4.7
Dairy Brands	C	73	3.35	13	Nil
Design Textiles	C	35	0.18	11	8.5
Dorchester Pac	B	119	0.86	9	7.5
E-Ventures NZ	E	30	N/A	NE	Nil
E-cademy Hold.	D	1.1	N/A	NE	Nil
Ebos Group Ltd	C	296	0.75	14	7.1
Eldercare NZ	D	13	0.60	NE	Nil
Elect Trans Tec	D	9.8	7.54	NE	Nil
Evergreen	D	51	2.17	11	Nil
FC - Forests	E	30	1.29	NE	Nil
Finzsoft Sol'ns	E	40	0.08	NE	Nil
Fisher & Paykel	A	1380	1.95	30	2.7
Fletcher Build.	B	260	0.39	26	6.9
Force Corp.	D	9.6	0.28	NE	Nil

Company	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Frucor Bev.	C	170	0.93	18	7.0
GDC Communicat.	C	199	1.81	25	2.4
Genesis Res.	D	351	3.10	NE	Nil
Goodman Fielder	C	155	0.47	11	6.5
Grocorp Pacific	D	11	0.36	NE	Nil
Guiness Peat	B	169	2.96	16	1.8
Hallenstein G.	B	274	0.98	14	10.1
Hellaby Hold.	B	204	0.40	9	10.2
Heritage Mining*	N/R	5.0	4.20	NE	Nil
Horizon Energy	A	1135	2.35	11	11.2
IT Capital Ltd	D	9.0	1.15	NE	Nil
Ind Newspapers	B	335	2.62	52	3.8
Infratil NZ	B	166	3.87	19	6.3
Kingsgate Int'l	C	13	0.43	3	Nil
Kirkcaldie & St	C	458	N/A	NE	Nil
Kiwi Property	C	93	5.31	8	11.2
Lion Nathan Ltd	A	555	1.42	18	3.3
Lyttelton Port	B	170	2.97	13	9.0
Mainfreight Grp	C	128	0.23	27	7.6
Medical Care	E	127	N/A	81	Nil
Metro. LifeCare	D	114	0.82	26	Nil
Michael Hill	B	440	0.90	17	5.1
Mid-Cap Index *	N/R	198	N/A	NE	Nil
Montana Group	C	474	3.29	39	Nil
Mooring Systems	C	130	N/A	NE	Nil
Mowbray Collect	C	62	N/A	NE	Nil
Mr Chips Hold	B	130	1.19	19	7.5
NZ Experience	D	10	0.80	31	Nil
NZ Invest Trust*	N/R	495	N/A	NE	1.7
NZ Oil and Gas *	N/R	36	2.29	NE	Nil
NZ Refining Co	A	1495	1.21	5	25.0
NZIJ.co.nz	D	32	N/A	NE	Nil
Nat Property Tr	C	90	6.81	15	10.2
National Mail	D	6.5	0.71	NE	Nil
Natural Gas	D	98	0.61	77	4.6
Newcall Group	D	4.0	0.25	NE	Nil
Newmarket Prop.	C	51	N/A	7	18.6
Northland Port	C	205	3.09	89	Nil
Nuhaka Forestry	C	880	2.33	NE	6.3
Nuplex Indust	C	322	0.46	13	7.0
Opio Forestry	E	49	N/A	NE	Nil
Otter Gold Mine*	N/R	14	0.09	NE	Nil
Owens Group Ltd	B	112	0.17	13	6.7
Ozzy (Tortis) *	N/R	230	N/A	NE	Nil
PDL Holdings	A	1040	0.40	43	1.4
Pacific Retail	B	162	0.20	7	Nil
Port Tauranga	A	730	7.43	27	4.9
Ports Auckland	A	566	5.02	18	5.5

Company	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Powerco Limited	C	173	0.61	NE	Nil
Property F Ind.	D	83	7.72	38	8.3
Pure NZ Limited	D	11	4.57	NE	Nil
Reid Farmers	B	123	0.64	9	8.5
Renaissance	D	52	0.12	14	5.7
Restaurant Brds	B	160	0.62	12	9.3
RetailX Limited	E	20	N/A	NE	Nil
Richina Pacific	C	75	0.07	12	Nil
Richmond Hold.	D	258	N/A	NE	Nil
Rocom Wireless	E	41	N/A	NE	Nil
Rubicon Limited	C	72	0.10	NE	Nil
Ryman Health.	C	206	3.45	15	2.7
Sanford Limited	B	650	1.76	13	4.6
Savoy Equities	D	17	0.63	NE	Nil
Scott Tech. Ltd	B	134	0.86	7	12.3
Seafresh Fish.	E	4.2	0.25	NE	Nil
Selector Group	C	3.2	4.71	NE	Nil
Shotover Jet	D	52	0.90	10	Nil
Sky City Ltd	A	1135	2.57	17	8.3
Sky Network TV	D	355	4.60	NE	Nil
Software of Exc	C	206	1.10	NE	Nil
South Port NZ	B	129	2.64	15	6.9
Southern Cap	D	81	8.66	NE	Nil
Spectrum Res.	D	2.8	2.14	NE	Nil
Steel & Tube	A	197	0.44	12	12.1
Strathmore Grp	C	7.3	1.54	NE	Nil
Submarines Aust	C	39	0.18	NE	Nil
Summit Gold Ltd*	N/R	19	N/A	NE	Nil
Tag Pacific Ltd	D	15	0.29	NE	Nil
Tasman Agric.	C	175	3.07	NE	Nil
Taylors Grp Ltd	B	125	0.68	10	8.4
TeNZ *	N/R	86	N/A	NE	Nil
Telecom Corp	B	472	1.55	10	6.3
Tourism Hold.	B	151	0.68	11	8.9
Tower Limited	C	516	0.53	11	5.8
Trans-Tasman	E	18	1.00	5	Nil
Tranz Rail Hold	B	420	0.81	19	2.0
Trust Power Ltd	C	310	1.12	24	8.3
United Networks	B	826	2.72	11	6.0
Utilico Int'l	D	47	N/A	NE	Nil
Vending Tech.	C	290	5.12	21	Nil
WN Drive Tech.	D	54	N/A	NE	Nil
Warehouse Group	C	593	1.54	23	3.1
Waste Mgmt NZ	C	337	2.39	23	3.3
Williams Kettle	A	355	0.33	13	6.3
World Index Fd *	N/R	167	N/A	NE	Nil
Wrightsons Ltd	B	109	0.21	14	11.0
Ave of 143 Cos	C	225	0.49	21	3.6

Company	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A.G.L.	C	860	0.88	27	6.0
AMP Diver. Prop	B	252	7.80	14	7.6
AMP Ltd	C	1882	0.75	18	2.5
AMP Office Trt	B	121	N/A	14	7.3
AMP Shop Centre	B	135	6.95	15	8.1
ANZ Bank	A	1610	2.05	15	4.0
APN News Media	C	416	1.70	21	3.5
AXA Asia Pac	C	273	0.57	13	3.5
Adelaide Bank	A	650	1.10	17	4.6
Advance Prop	B	182	8.64	15	6.7
Alintagas Ltd	A	365	1.50	14	1.5
Amcor Ltd	B	612	0.66	14	4.6
Aristocrat	B	704	5.42	46	1.6
Aust Pipeline	B	249	2.53	20	8.8
Aust Stock Exch	C	1201	6.16	24	3.6
Austereo Group	D	190	N/A	NE	Nil
Australand Hold	A	155	0.92	7	7.7
BA Tobacco Aust	B	1771	0.70	19	4.8
BRL Hardy Ltd	B	1135	2.71	27	1.6
Bank of W.Aust	A	388	3.59	15	4.6
Bendigo Bank	A	657	3.20	22	6.2
Bidvest	B	325	0.23	13	2.7
Billabong Int'l	A	800	4.12	38	1.6
Boral Limited	A	354	0.58	13	5.1
Brambles Ind.	B	1025	2.49	64	8.0
Brickworks Ltd	A	705	6.99	15	2.0
C & W Optus	C	378	2.76	39	Nil
C'wth Prop Off.	A	116	8.31	14	7.2
C.S.R. Ltd	A	653	0.96	13	3.5
CSL Limited	A	4700	8.24	90	0.6
Cadbury Sch.	C	991	N/A	NE	3.4
Centro Prop.	B	319	9.20	14	7.9
Challenger Int.	C	340	0.91	5	2.5
Coal & Allied	B	2400	2.95	26	1.5
Coca-Cola Bev.	C	240	N/A	NE	Nil
CocaCola Amatil	B	520	1.36	28	2.3
Cochlear Ltd	B	4757	N/A	79	0.9
Col FS Property	B	210	5.39	12	8.6
Coles Myer	C	700	0.33	17	3.9
Com'wealth Bank	B	2861	1.95	15	4.8
Computer Share	C	502	3.64	71	0.2
Corp Express	C	510	0.98	19	1.8

Company	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Crown Ltd	C	90	0.70	14	Nil
Data Advantage	B	699	9.65	58	1.4
Deutsche Div Tr	B	115	6.78	13	7.6
Deutsche Office	C	134	N/A	NE	Nil
Downer EDI Ltd	A	70	0.34	12	3.0
Email Ltd	B	291	0.37	15	8.4
Energy Develop.	C	655	6.97	36	0.8
Fairfax (John)	C	373	2.06	21	3.1
Faulding (F.H.)	A	1520	0.87	23	1.8
Flight Centre	B	2600	0.74	52	1.1
Foodland Assoc	A	1250	0.31	16	4.4
Foster's Brewin	B	538	2.69	21	2.7
Futuris Corp.	B	179	0.19	14	4.5
GWA Internat'l	B	235	1.14	16	6.8
Gandel Retail T	B	112	7.31	13	7.8
General Prop Tr	B	263	6.38	15	7.3
Global Int'l	B	225	5.31	83	Nil
Goodman Fielder	C	132	0.52	NE	5.7
Guinness Peat	B	140	3.05	13	0.4
Hardie (James)	A	548	1.45	NE	3.5
Harvey Norman	C	405	N/A	NE	0.9
Hills Motorway	B	545	9.97	NE	3.1
ING Indust Trt	B	158	N/A	12	8.4
ING Office Fund	B	113	7.24	13	9.3
Incitec	A	600	0.79	22	3.8
Investa Prop.	B	192	8.05	8	7.2
Jupiters	B	450	1.40	14	4.2
Kaz Computer	C	131	5.54	67	0.5
Lang Corporatio	B	1210	2.80	29	1.2
Leighton Hold	A	1000	0.60	17	3.9
Lend Lease Corp	C	1085	0.41	31	1.9
Macquarie Off.	B	120	8.31	12	9.0
Macquarie Bank	A	3970	4.79	29	2.3
Macquarie Good.	B	139	N/A	14	8.2
Macquarie Infra	A	333	8.98	46	2.8
Mayne Nickless	B	658	0.78	18	2.0
Medical Imaging	C	121	3.38	39	2.6
Millers Retail	B	351	1.07	30	7.6
Mirvac Property	B	178	9.75	15	6.4
Mirvac Limited	B	380	2.83	15	6.6
NRMA Insurance	B	334	1.10	38	3.0
Nat'l Aust Bank	B	2930	1.07	13	4.2

Company	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Nat'l Foods	B	244	0.70	15	6.1
News Corporatio	C	1499	1.36	24	0.2
OPSM Protector	A	390	0.83	NE	2.4
Orica Ltd	B	458	0.32	9	7.6
Origin Energy	B	310	1.06	18	1.3
Pacific Dunlop	C	75	0.16	NE	6.7
Pacifica Group	B	355	0.47	16	5.4
Paladin Com.	B	124	7.45	14	7.7
Paperlin X Ltd	B	417	0.57	13	6.5
Perp Trust Aust	A	4257	4.95	29	2.0
Publishing & Br	C	926	2.38	NE	2.2
Q.B.E. Insur.	C	1026	1.27	42	1.6
Q.C.T. Resource	C	121	1.05	NE	Nil
Qantas	B	274	0.35	9	7.3
Rio Tinto Ltd	C	3452	1.36	10	2.5
Rural Press Ltd	C	457	1.19	21	3.1
Seven Network	B	711	1.57	28	2.9
Simsmetal Ltd	B	593	0.39	13	5.4
Smith (Howard)	A	1482	1.08	26	2.8
Smorgon Steel	C	105	0.32	NE	2.9
Sonic Health	C	850	3.67	76	1.8
Southcorp Ltd	B	809	1.61	27	2.6
Spotless Group	B	680	0.69	36	3.1
St George Bank	B	1447	1.76	17	3.8
Stockland Trust	B	419	4.73	15	7.0
Suncorp-Metway	A	1500	1.38	14	3.1
TAB Ltd	C	264	1.58	18	4.5
Tabcorp Holding	C	890	1.80	18	5.7
Telstra	C	489	1.36	8	3.9
Ten Network	B	189	1.18	12	8.4
Toll Holdings	A	2505	0.94	31	1.3
Transurban Grp	C	422	7.02	NE	Nil
United Energy	B	271	1.66	75	6.4
Wesfarmers Ltd	A	2861	2.16	36	2.6
West Aust News	B	550	3.46	17	5.8
Western Mining	C	860	2.50	13	4.8
Westfield Hold.	B	1798	7.50	56	0.9
Westfield Trust	B	315	9.81	18	6.5
Westfield Amer.	B	164	3.00	19	5.1
Weston (George)	C	510	0.35	12	3.7
Westpac Banking	B	1350	1.89	14	4.0
Woolworths Ltd	B	1126	0.54	25	2.4
Ave of 1403 Cos	C	157	0.00	16	2.7

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Recommended Investments

Air New Zealand plans to announce its result for the year to June 30 on September 13.

Unfortunately, we are beginning to wonder whether the company's operations will ever improve. Quite clearly the company paid *too much* to acquire Ansett Australia. Similarly, the company has not even come close to realising the $200 million of synergy benefits. Now media reports suggest that Ansett's market share has fallen from 47% to 39% and that Air NZ has unsuccessfully been trying to buy **Virgin Blue** for A$250 million.

As we have stated earlier, we believe that Air NZ is a company that will not be allowed to fail. It is too important for this country's export industries and for inbound tourism. So - if no-one else will come up with the cash - at the end of the day the NZ government will need to bail out the airline and provide whatever money is necessary to keep the company afloat. Similarly, the Australian government cannot allow Ansett to fail.

At this stage, however, we have little interest in buying additional Air NZ shares on market, or participating in the re-capitalisation of the company. We shall continue to hold our existing Air NZ shares. Re-capitalisation may involve the issue of hundreds of millions of new shares which will *dilute* our ownership - but our Air NZ shares are unlikely to ever become *completely* worthless. We continue to rate the shares a "Hold".

Cavalier Corporation has produced an excellent result with trading profits down 6.1% to $12,294,000. In addition, there were unusual costs of $2,045,000 from closing the Wool operations. That closure, however, released $40 million of assets, tied up in a low profit margin business, allowing *(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	244*	C	756.7	1.4	0.11	2	21.4	70	78.7	-39%
HOLD+	CDL Investments Ltd	CDI	12/01/99	25	E	185.8	2.1	1.27	8	13.1	18	6.1	-3%
HOLD+	Cavalier Corporation	CAV	05/12/95	312	A	31.5	0.8	0.93	14	8.5	560	146.0	+126%
HOLD	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.7	0.23	16	7.3	285	202.8	+225%
HOLD+	Lyttelton Port Company	LPC	12/12/00	150	B	101.8	0.9	2.97	13	9.0	170	3.5	+16%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.6	0.8	0.90	17	5.1	440	74.5	+1018%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	C	58.6	1.0	0.46	13	7.0	322	44.0	+5%
HOLD	Renaissance Corp	RNS	13/08/96	85*	D	36.7	2.2	0.12	14	5.7	52	7.4	-30%
BUY	Richina Pacific	RCH	03/11/95	119*	C	72.2	1.6	0.07	12	Nil	75	11.9	-27%
HOLD	South Port New Zealand	SPN	13/02/96	120	B	26.2	1.2	2.64	15	6.9	129	41.3	+42%
BUY	Steel & Tube Holdings	STU	08/08/00	146	A	87.8	1.1	0.44	12	12.1	197	23.0	+51%
BUY	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	1.2	0.68	10	8.4	125	9.0	+31%
BUY	Wrightson Limited	WRI	13/01/98	83	B	134.1	1.4	0.21	14	11.0	109	18.3	+53%
	Australian Shares (in Aust cents)												
BUY	Abigroup Limited	ABG	09/03/99	265	A	47.7	0.8	0.14	7	7.0	213	29.0	-9%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	B	56.3	1.9	2.04	6	Nil	27	Nil	-63%
HOLD+	Auspine Limited	ANE	08/02/00	210	B	57.0	0.8	0.62	10	5.3	225	28.0	+20%
BUY	Austral Coal Ltd	AUO	16/01/01	19	C	81.8	1.8	0.31	6	Nil	31	Nil	+61%
HOLD	Biron Corporation Ltd	BIC	12/04/94	178	C	21.8	1.7	1.94	38	Nil	40	11.0	-71%
BUY	Campbell Brothers Ltd	CPB	12/10/99	418*	B	31.5	0.5	0.50	11	5.9	512	55.5	+36%
HOLD	Central Equity Ltd	CEQ	09/02/94	154	B	82.1	0.9	0.80	8	7.3	205	91.0	+92%
BUY	Commander Communicatio	CDR	11/09/20	92	B	143.4	1.2	0.68	12	2.7	92	Nil	
HOLD+	C.S.R. Limited	CSR	11/07/00	436	A	956.3	0.7	0.96	13	3.5	653	23.0	+55%
HOLD	Hamilton Island Ltd	HAM	09/11/99	205	C	45.0	0.8	1.05	8	Nil	235	9.0	+19%
BUY	Julia Ross Recruitment	JRR	14/08/01	92	A	57.2	1.1	0.37	10	5.9	102	Nil	+11%
HOLD+	McPherson's Ltd	MCP	10/10/00	125	B	39.2	0.9	0.18	4	9.5	126	6.0	+6%
HOLD	Nufarm Limited	NUF	11/02/97	418*	B	154.6	0.8	0.29	8	6.4	265	70.3	-20%
BUY	OAMPS Limited	OMP	15/05/01	198	B	31.7	0.7	1.17	12	4.5	264	Nil	+33%
HOLD+	Thakral Holdings	THG	10/11/98	65	B	592.3	1.2	1.20	10	10.6	59	15.1	+14%
HOLD	Toll Holdings	TOL	08/09/98	240	A	61.3	0.6	0.94	31	1.3	2505	58.0	+968%
HOLD	Utility Services Corp	USC	11/01/00	55*	C	102.4	1.8	0.81	17	Nil	62	7.0	+25%
BUY	Vision Systems Ltd	VSL	10/11/98	69*	C	146.4	0.7	2.49	25	1.3	257	14.4	+294%
BUY	Volante Group Ltd	VGL	13/03/01	132	C	68.0	1.0	0.24	12	6.2	130	Nil	-2%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +94.6%. This is equal to an average annual rate of +27.2%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 32 current and 113 closed out) is +31.5%, compared with a market gain of +10.6% (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 28 cents. (2) Toll Holdings notes (TOLG) last traded at 2550 cents.

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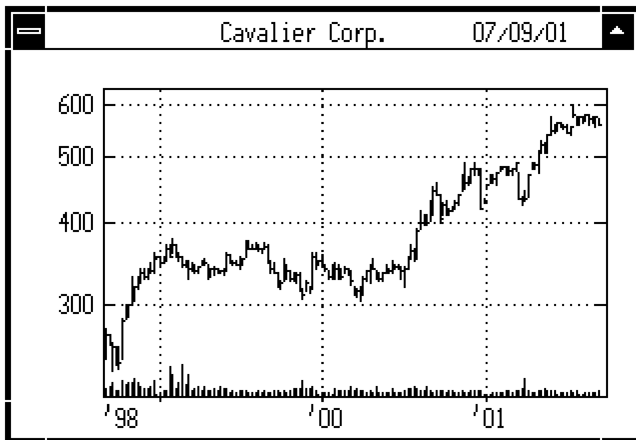
Recommended Investments *(Continued from Page 3)*
Cavalier to significantly reduce debt levels *and* re-purchase 12.5% of its capital. As a result, earnings per share have risen 7.1% to 39.0 cents per share and the annual dividend has risen 6.7% to 32.0 cents (plus full imputation tax credits).

Total revenues fell 13.6% to $188.8 million, with continuing businesses (i.e. mainly carpet manufacture) generating revenues of $124.5 million.

As the company anticipated, the carpet business "turned down significantly" in the second half of the year. An upturn in demand is expected in 2002. Yarn manufacturing capacity was expanded at the Napier and Wanganui mills which will increase efficiency and reduce costs. A small improvement in earnings is expected for the year to June 2002.

This is a sound industrial company and exporter, whose shares are trading at a reasonable valuation (i.e. a Price/Sales ratio of 0.93, a Price/Earnings ratio of 14 and produce a gross Dividend Yield of 8.5%), so Cavalier shares remain a sound, long term investment. "Hold+".



CDL Investments lifted revenues slightly (up 2.9%) to $11.3 million for the six months to June 30. Profits, however, fell 39.9% to $1,359,000 (0.7 cent per share) owing to more low margin residential sections in this year's sales.

164 new residential sections were developed in Auckland and Hamilton, and 4 hectares of land has been acquired adjoining its East Coast Bays (Auckland) land holding. Overall the company holds 256½ hectares of land, which will be steadily developed and sold over several years.

The development of residential sub-divisions is a cyclical and volatile business, but can also be extremely profitable. CDL Investments is a sound company. Debt levels are relatively low (i.e. $11.9 million in debt, $40.8 million in Shareholders Equity) and the company has a large land holding which will generate revenue and profits over many years.

Colonial Motor Company lifted revenues 16.1% to $339.2 million in the year to June 30 - boosted mainly by strong demand for high value heavy trucks. Profits, however, fell 30.2% to $5,011,000 (18.0 cents per share). A 15.8% lower final dividend of 8.0 cents (plus full tax credits) brings the annual payout to 14.0 cents (down 24.3%).

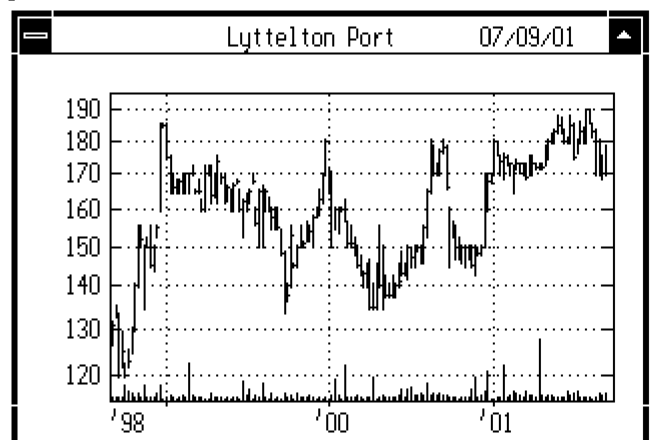
This is a cyclical business, so there is nothing unusual in the profit downturn of the last year. This company has produced an excellent cash income over the last ten years (partly from liquidating its property portfolio and paying a series of special dividends and capital repayments) *and* the shares have appreciated in value. Furthermore, the shares still offer good value, leaving Colonial Motors as a sound long term investment.

Lyttelton Port Company has reported steady revenues of $58.3 million for the year to June 30. Profits fell 8.1% to $13,657,000 (13.4 cents per share), partly as a result of interest on the extra $10 million borrowed to pay a special 10.0 cents dividend last year before we bought into the company. The regular annual dividend remains steady at 10.25 cents (plus tax credits).

Operating cash flows fell 17% to $15.9 million. After re-investing $3.9 million in plant and machinery, and the $10.4 million on the ordinary dividend the company hasn't been able to make much progress at debt reduction. Nevertheless, Lyttelton Port is a very attractive *income* investment. The ordinary dividend of 10.25 cents offers a gross Yield of 9.0%, and this is a business that (over the long term) can afford to distribute close to 100% of its earnings (i.e. can pay special dividends every two or three years). This is also a low risk business that generates a very stable level of profitability.

Lyttelton Port Company would be an attractive investment for retired investors seeking high income and low risks.

On the other hand, younger investors prepared to take higher risks and mainly interested in maximum capital appreciation would also do well to invest a portion of their portfolio in lower risk shares like Lyttelton Port. Having some low risk shares enables a growth investor to better withstand fluctuations in the more volatile, emerging growth investments in a portfolio.



Michael Hill International has reported a flat year to June 30, despite "extremely difficult conditions in Australia". Total revenues rose 3.9% to $189.4 million, while profits were up just 1.0% at $10,039,000 (26.0 cents per share). Nevertheless, the final dividend will be raised 1.0 cent to 8.5 cents which, together with the 0.5 cent higher interim, lifts the annual payout 11.1% to 15.0 cents (plus tax credits).

The company now has 74 stores in Australia and 41 in NZ.

The NZ head office building in Whangarei has been sold (and leased back) realising $1.5 million. The Brisbane head office will also be sold in two parts, expected to release A$4.6 million over the next couple

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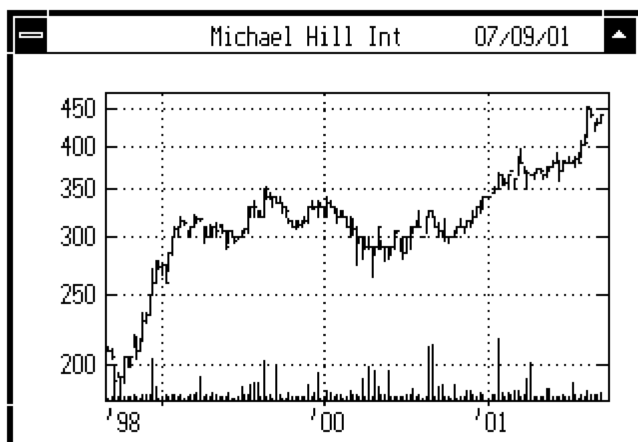
of months and a further A$2 million in about three years. Re-invested to finance future expansion of the retail stores this money could generate pre-tax returns of $3.3-4.3 million, while it will cost only $0.9-1.1 million to rent the head office properties. Owning property is a poor use of funds for Michael Hill as the company can earn a much higher return in its core business!

Like Cavalier and Colonial Motors, Michael Hill is another successful long term investment that still offers good value (i.e. the shares trade on a P/S ratio of 0.90, a P/E of 17 and Yield of 5.1%). Michael Hill, however, has been slightly more successful at chalking up *steady annual profit increases* - mainly by steadily expanding its number of retail stores. One decade on, the money we invested in this company has expanded 11-fold and the shares have not become over-valued. Of course, you may be one of those investors who wants to *double* their money over the next month. Sorry, we don't know how to do that!



Nuplex Industries managed to lift revenues 6.2% to $408.3 million over the year to June 30, but trading profits slipped 19.7% to $14,328,000 (24.5 cents per share). The annual dividend rate will remain steady at 15.0 cents (plus full tax credits).

Higher raw material prices (which were not fully reflected in sales prices) plus the Australian construction downturn were responsible for the low profit. The company states "We view the year as the low point in the business cycle" with these "two major negative factors already moving in a positive direction" and the future is "seen as generally positive".

Nuplex subsidiary **United Environmental** has sought Commerce Commission approval to buy all of the assets of competitor, **Solvent Services**. This company is involved in importing and selling solvents as well as disposal of used solvents and solvent recycling.

Richina Pacific has experienced a further very significant increase in profitability! Revenues for the six months to June 30 rose 6.2% to $373.5 million, while profits jumped 244.8% to $7,028,000 (9.7 cents per share).

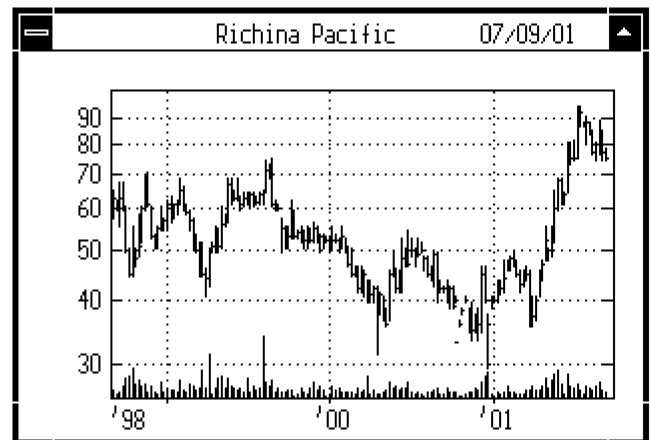
While the outlook for the second half is described as "positive", profits are "unlikely to match that of the first half". The first half result includes earnings of $3.9 million from the NZ Venison business which was sold for $12 million. Nevertheless, the China Leather business is just starting to become a major contributor to profits with earnings of $5.5 million in the latest half year.

The massive profit growth results from Richina Pacific's high debt levels: $94.0 million of interest bearing debt and $94.5 million of Shareholders equity. Of course, debt levels will reduce significantly when the company sells its *Mobil-on-the-Park* property. We believe this is shown at $65 million in the balance sheet, but has a market value closer to $80 million.

The high debt *leverages* the company's earnings. For example, earnings increased 76% to $15.5 million for the current period, but after overhead and interest costs the net profit was up 245%.

Richina Pacific is unlikely to pay a dividend until it reduces its debt levels and exhaust its tax losses - but continued earnings growth from China and/or the property sale (and debt reduction) could turn this into an investment quality growth company that institutions would start buying!

With the strong growth from Richina Pacific's Chinese leather business we are upgrading these shares to a "Buy". The shares trade on a *very low* valuation, so a combination of *growth* and some *re-rating* of the shares could see the price appreciate strongly over the next year or two.



Like Cavalier, **South Port NZ** has benefited from a share buy-back during the year. Total revenues fell 33.0% (owing to the sale of **Southland Motors** in January 2000), but port and warehousing revenues were up 12% to $12.8 million. Profits rose 12.4% to $2,201,000 but with South Port having re-purchased 19% of its capital, earnings per share have jumped 38.8% to 8.4 cents. The annual dividend is being raised 9.1% to 6.0 cents (plus full tax credits), in line with the company's new policy of distributing about 70% of profits.

Despite borrowing $6.8 million to fund the share buy-back, South Port has low debt levels. At balance date there was $5.1 million of interest bearing debt (compared with Shareholders Equity of $24.7 million), but that has subsequently reduced to just $1.7 million after the company received $3.4 million owing from earlier rural asset sales.

We chose not to participate in the November 2000 share buy back at 110 cents per share, stating "we believe the increase in earnings per share, leveraged growth potential and strong financial position make South Port shares an attractive, low risk, niche business that is well positioned to benefit from future export growth in Southland". In just ten months we have been rewarded with a 38% increase in earnings per share and the company is again *(Continued on Page 6)*

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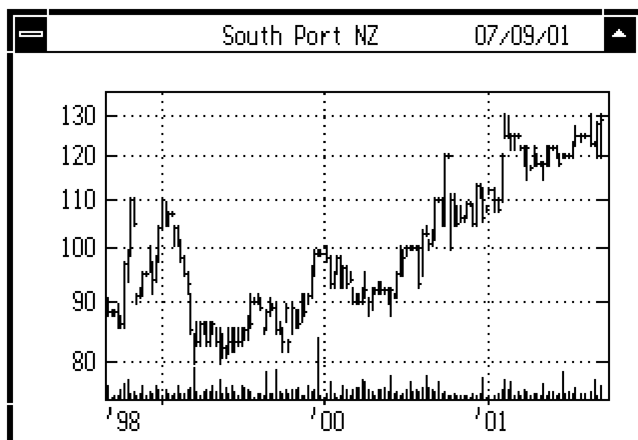
Recommended Investments *(Continued from Page 5)*
virtually debt free. South Port will need to buy-back more shares and/or make further special dividends to achieve its plan to have "the best mix of debt and shareholders equity" in its capital structure.

We have already collected large quantities of ordinary dividends and special dividends from this investment and rate the shares a sound "Hold" for income and (eventually) capital appreciation.

Capital investments planned for the current year include (1) building a new 3,300m² warehouse (expanding its 14,700m² of dry warehouse facilities which were "extensively utilised" over the last year), (2) constructing a 1,400m² canopy for undercover unloading, (3) extending the rail network on its Island Harbour and (4) replacing its existing weighbridge. These projects will cost only about $2.0 million, so can be funded out of operating cash flows.

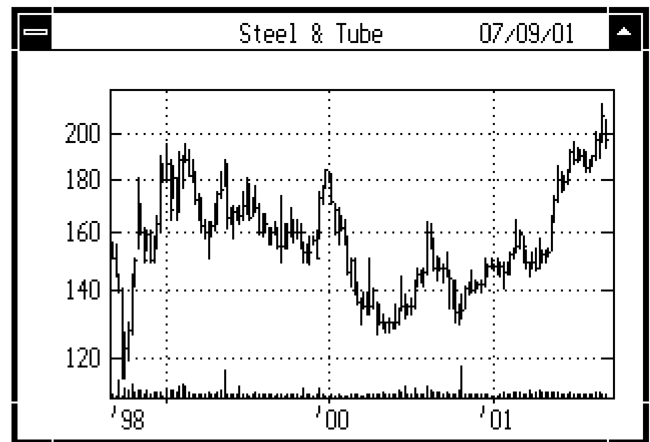


Steel & Tube Holdings is a reliable cyclical business that is performing perfectly! For the year to June 30, revenues rose 4.8% to $390.0 million and profits increased 8.7% to $14,887,000 (17.0 cents per share). A 9.0 cents final dividend lifts the annual payout by 33.3% to 16.0 cents (plus full tax credits).

This is also a business that generates strong cash flows. Net operating cash flows were $34.6 million for the year - allowing the repayment of $16.7 million in interest bearing debts. Debt levels are now very low at $33.1 million (compared with Shareholders Equity of $130.3 million), so Steel & Tube Holdings is in a very sound financial position. This has allowed the higher dividend payout, but the company could also make a large acquisition which would increase profits and/or consider a share buy-back/capital repayment.

At 197 cents, Steel & Tube shares are trading on a Price/Sales Ratio of 0.44, a Price/Earnings ratio of 12 and offer a gross Dividend Yield of 12.1%. With the company in a sound financial position it is likely that investors seeking current income will steadily bid up the share price. In addition, this is a cyclical business. Results in Canada were depressed over the last year and the NZ operations mixed (i.e. strong in rural and export sectors, weak in the building sector), so there is still plenty of potential from a cyclical upturn.

We have successfully invested in Steel & Tube *twice* before (for gains of 119% and 462%), but the company is looking even better this time around! Steel & Tube shares remain a strong "Buy" for *capital appreciation* and *high income*.



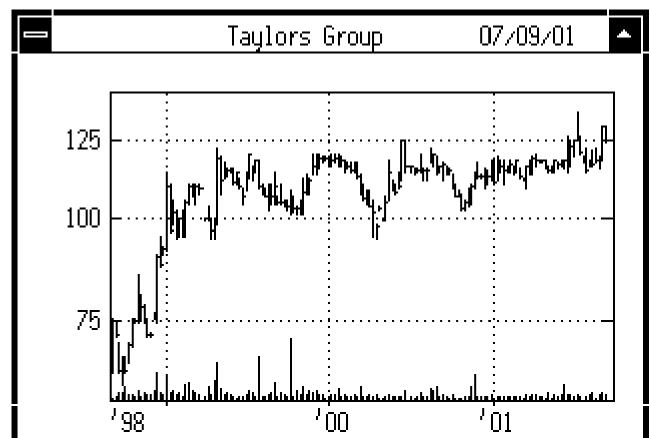
Taylors Group has lifted revenues by a steady 14.3% to $44.7 million for the year to June 30, with profits up 28.6% to $2,970,000 (12.2 cents per share). The annual dividend rate will rise just 16.7% to 7.0 cents (plus full tax credits).

Operating cash flow remained strong at $5.3 million. Interest bearing debt increased $5.5 million (owing to the $7.8 million borrowed to fund acquisitions) to $9.6 million, but this is low compared with Shareholders Equity of $21.8 million.

Details of the April 2000 acquisition of **Laundry & Drycleaning Services** for $6.2 million were not disclosed at the time, but we estimated such an acquisition would "add 20-30%" to annual revenues (i.e. $8-12 million) over a full year of trading. That estimate was correct, with this operation's annual revenues now being disclosed at "approximately $10 million". We also estimated profitability at $250,000-500,000 - although only three month's operations would be included in the current year's results. This acquisition will therefore add around $180,000-380,000 (6-13%) to the June 2001 result which will include a full year of trading.

Taylors Group's contracts to supply linen to Auckland hospitals has been extended to 2007, securing the company's future in this market and providing "the ongoing base for the development of other products". The directors expect the company to "trade positively through 2001/02".

Taylors Group shares trade at a low valuation (i.e. a P/S ratio of 0.68, a P/E of 10 and Yield 8.4%) and offer steady growth potential. There isn't anything exciting in a laundry company - but the high dividend income *plus* a moderate rate of capital appreciation over the medium to long term will produce an above average total return for investors. That is what excites us about the shares.



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Six months ago **Wrightson** reported first half profits of just $962,000 (0.7 cent per share), but the second half has produced a profit exactly *ten-times* higher at $9,691,000 - taking the annual profit to $10,653,000 (7.9 cents per share). Of course, as we pointed out in March "The NZ businesses have actually performed very well", with large one-off losses in Australia and "on that basis the shares are trading on a low P/E ratio".

The half year loss of $5.4 million in Australia was followed by *profits* of $2.7 million in the second half, but the company lost $3.5 million in Uruguay (being trading losses and the write-off of goodwill following a drought followed by Foot & Mouth Disease which has devastated agriculture in that country).

Revenues for the year rose 18.2% to 704.8 million. The final dividend will be 4.0 cents higher at 7.0 cents, lifting the annual dividend 100.0% to 8.0 cents (plus full tax credits).

Wrightsons continues to be over-capitalised, with interest bearing debts of just $11.2 million compared with Shareholders Equity of $113.4 million. So the company has the capacity to make a large acquisition (which should increase earnings), continue to make large dividend distributions to shareholders, make further share buy-backs and/or a capital repayment to shareholders.

Australian Shares

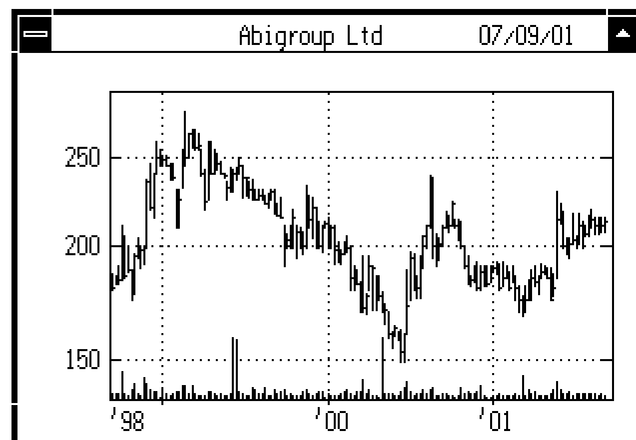
(This section is in Australian currency unless stated.)

Abigroup is to re-enter the Funds Management business. A new wholly owned subsidiary, **Pacific Funds Management** has entered into an option to acquire six industrial properties for $48.1 million. These properties will form the basis of a small unlisted property trust that will accept subscriptions from the public from October. Pacific Funds Management will earn up-front and ongoing investment management fees from this property syndicate. This is *potentially* an attractive business that requires little capital investment by Abigroup but which can earn on-going fee income.

Abigroup attempted to establish such an investment property management business late last decade, under the name **York Capital**. After half a dozen small syndicates over several years, a $24 million syndicate in late August/September 2000 failed to raise the required funds. **Australian Unity** offered to subscribe the capital, if Abigroup also sold it York Capital.

Abigroup's investment in **Hills Motorway** has increased to new highs over recent weeks. Hills Motorway currently trades at $5.45 per unit, valuing Abigroup's 15.0 million units at $82 million. That is 170 cents per Abigroup share - placing little value on the group's profitable construction business and other assets or investments (i.e. $57 million cash in the bank or the Sydney SuperDome).

Abigroup shares trade on an extremely low Price/Sales ratio of 0.14, a low Price/Earnings ratio of 7 and offer a high Yield of 7.1% - even though the valuable Hills Motorway investment makes little contribution to earnings. In effect, Abigroup has an $82 million investment and a $100 million construction business (with a very strong balance sheet) but is valued by the stockmarket at just $100 million. Eventually this *hidden value* will be released and Abigroup shares will be worth at least *double* their current market price. We are upgrading the shares to a strong "Buy".



Atlas Pacific has reported revenues up 24.5% to $5.6 million for the six months to June 30. Pre-tax profits rose 52.4% to $3,109,000 but the company is now paying income tax so the net profit rose 17.9% to $2,404,000 (4.3 cents per share).

Revenue for the period was generated mainly from the sale of 30,475 pearls. A further 44,079 pearls will be sold this month.

Atlas Pacific will pay the 0.9452 cents half annual interest (to September 23) on its convertible notes on September 24. The notes have traded ex-interest since September 3.

Atlas Pacific has not yet declared a maiden dividend on its ordinary shares, but has previously indicated that a dividend was likely late this calendar year. It is therefore quite likely that an ordinary dividend will be paid in October or November, after the company has received a large seven figure cheque from the September pearl sales.

We can participate in any ordinary dividend that is declared by electing to convert our convertible notes into ordinary shares. In the meantime, the convertible notes continue to earn interest up until the day of conversion. Investors *could* maximise their interest income by holding the notes as long as possible and electing to convert to shares just in time to receive any ordinary dividend that is declared. The only problem is that the company will take 3-13 days to convert the notes into ordinary shares and postal delivery of your *Election Notice* can take 5-7 days, so if you wait for an ordinary dividend to be declared the shares may already be ex-dividend by the time an election to convert the notes is processed.

Rather than try to make the last fraction of a cent, we believe the ordinary shares now offer better income potential so we intend to return the *Notice of Election to Convert Notes* to convert all of our notes into ordinary shares. A blank copy of the *Notice Of Election* has been placed on our website (www.stockmarket.co.nz/atlas.pdf). This form should be completed and lodged *with the company* (Atlas Pacific Ltd, PO Box 709, Balcatta, WA 6914, Australia).

As expected, **Auspine** has reported a lower result for the year to June 2001. Revenues were down 23.5% to $206.0 million while profits fell 41.8% to $13,120,000 (23.0 cents per share). A final 6.0 cents dividend will make a 45.5% lower 12.0 cents for the year. The June 2000 result was boosted by *(Continued on Page 8)*

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Recommended Investments *(Continued from Page 7)*
a pre-GST building boom, while the 2001 result reflects the post-GST building decline. As reported last month, building activity is now recovering strongly.

Even with this lower result the shares look undervalued on a P/S ratio of 0.62, a P/E of 10 and a Yield of 5.3%, while this year's result should recover strongly. "Buy".

Biron Corporation has now changed its name to **Biron Capital** following shareholders acceptances of its new business as a property finance company.

For the year to June 30 Biron earned a profit of $231,000 (1.1 cents per share) from revenues of $4.5 million.

Central Equity has reported revenues 3.2% lower at $211.4 million for the year to June 30. As previously indicated, profit margins were squeezed as the company initially had to absorb the GST on sales. Profits therefore fell 30.2% to $21,132,000 (25.7 cents per share) and the annual dividend rate will decline 16.7% to 15.0 cents.

Pre-sales prices have steadily increased to reflect GST, so profit margins will increase this year and next. Pre-sales at June 2001 were $320 million (compared with $275 million in June 2001 and $310 in December 2001). Central Equity reports a "very favourable response" to pre-sales of its $110 million *The Sentinel* and anticipates an early construction of this apartment tower.

Central Equity is in a strong financial position with strong demand for its projects, so remains a sound long term investment offering a high income and steady long term capital growth. The company is involved in designing and selling residential apartments, but avoids the usually property development risks by (1) pre-selling prior to development and (2) contracting development on fixed price contracts. "Hold".

Hamilton Island's revenue rose 11.0% to $100.4 million, with profits up 5.8% at $13,313,000 (29.6 cents per share), for the year to June 30. The company is continuing its policy of using cashflow to repay debt rather than paying unfranked dividends.

The Resort generated revenues of $83.5 million and earnings (before interest) of $13.6 million, but the highly profitable parts of this company are the Airport and Land Development. The Airport earned $5.6 million on revenues of $8.1 million (a 69% profit margin), while the Land Development business earned $5.8 million on sales of just $7.1 million (an 82% profit margin). Daydream Island has recently re-opened - after being closed for redevelopment over the last year - which will boost traffic through the airport, which is becoming a regional hub.

Hamilton Island was experiencing a slowdown during the second half of the June 2001 financial year, but "the market has shown signs of recovery", "demand for accommodation is strong" and "interest in land and property sales remain very active". Re-sale values of privately owned Hamilton Island apartments have increased by up to 12% over the last year.

One of the features that makes Hamilton Island attractive as an investment is the high fixed cost, low variable cost of this company. The opening up of the airport to all airlines in May 1998 is one of the major factors leading up to our initial investment in Hamilton Island shares in late 1999. Better air services bring significant benefits to all aspects of this business: Better occupancy rates at the resort (i.e. more revenues earned from its major investment in fixed assets and infrastructure), higher landing fees at the airport (with little increase in operating costs) and makes the company's land more attractive (i.e. increases the volume of land sales, which is virtually *all* profit).

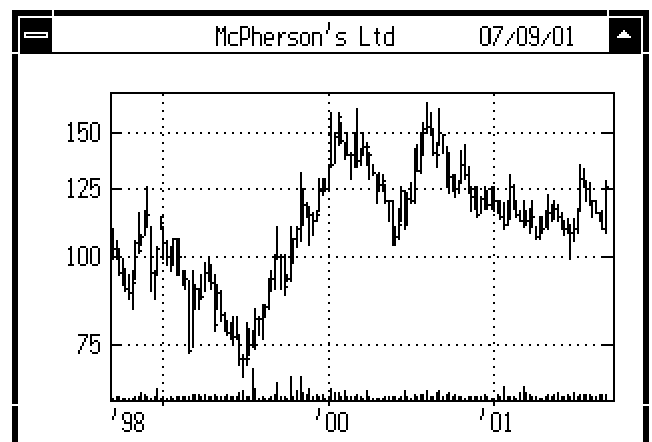
It is now almost two years since we bought into Hamilton Island and, unfortunately, the company has not yet realised the scale of improvement in profitability that we thought possible. Nevertheless, the situation remains attractive and steady volume growth can still result in rapid profit improvement. We therefore continue to rate the shares a "Hold".

McPhersons has lifted revenues 12.8% to $270.2 million for the year to June 30, with profits up 3.7% to $11,027,000 (28.1 cents per share). An unchanged 6.0 cents final dividend will leave the annual payout steady at 12.0 cents.

The acquisition of **Australian Print Group** in May has resulted in "significant synergies". McPhersons is now the largest book printer in Australia and "this business is expected to underpin significant earnings growth for the Printing Division" in the current financial year.

McPhersons has exhausted its tax losses, so having to pay income tax in future will reduce the company's net profits by 20-30%. On the positive side, the final dividend (and future dividends) will include franking credits. These are of no value to NZ investors, but will make the dividend income 42.9% more attractive to Australian investors. The overall impact is that McPhersons shares will be more attractive to investors and should be re-rated upwards in value.

Are McPhersons shares an attractive investment? How can one argue with a P/S ratio of just 0.18, a P/E ratio of only 4½ and a high Yield of 9.5%. This is also a strong cash flow business. We rate the shares only a "Hold+" (as the share price will probably be relatively steady in the immediate future) but this is a "must have" share for *value* investors seeking income and capital growth.



OAMPS has acquired another small insurance broker, **Frank Bogacz Insurance Brokers**, which generates commissions and fees of around $300,000 per annum.

OAMPS results to June 2001 will be announced on September 12 and will show "an improvement of more

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than 100% on profit" compared with the previous year.

Thakral Holdings Group lifted revenues by 13.1% to $292.1 million in the year to June 30. Profits increased just 2.8% to $35,325,000 (6.0 cents per share). The annual dividend will remain unchanged at 6.25 cents.

Thakral's public liability insurer was **HIH Insurance** from 1994-1998 and **The Independent Insurance Group plc** from 1998 until June 2001. Both companies were placed in liquidation during the year, leaving Thakral responsible for unsettled claims. This liability is estimated at $2 million and has been provided for as an expense in the June 2001 result.

Earnings (before interest and tax - and insurance claims) for the Hotel division increased 35% to $50.0 million. Retail & Commercial property earnings were up 10% to $17.2 million, while Property Development earnings rose 49% to $9.3 million.

Toll Holdings has reported an 18.3% lift in revenues for the year to June 30. Profits rose 21.9% to $49,238,000 (80.2 cents per share). A final dividend of 18.0 cents will lift the annual dividend rate 17.9% to 33.0 cents. The convertible notes will receive an initial interest payment of 45.62 cents.

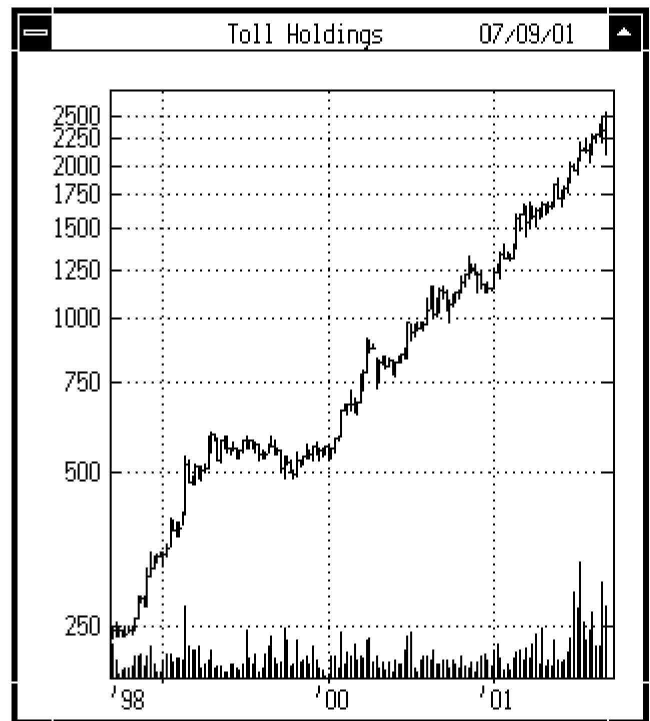
Toll Holdings' Managing Director remains very optimistic, expecting "the company to continue its strong growth record of recent years".

The Finemore operations acquired in March 2001 have "been integrated into the Toll divisional structure" and "synergy benefits have exceeded expectations". That is just as well as Toll Holdings acquired Finemore at a high valuation relative to its historical profitability. The company is now preparing to roll out its *TollWorks* and *TollConnect* systems to the Finemore operations, which is expected to help generate "additional synergies over the next two years". Future results "will meet or exceed our projections at the time of the acquisition."

Toll Holdings and **Lang Corporation** will form a consortium to bid for **National Rail** and **Freightcorp**. Toll is the biggest user of rail, while Lang is seeking to improve rail links to ports, but these "complementary but different business strategies" both require a reliable, cost effective rail service.

The acquisition of National Rail and Freightcorp could cost up to $1.0-1.5 *billion*. The businesses would probably also require significant capital expenditure to improve efficiency. It is likely, however, that Toll and Lang would restructure their bid with the rail lines going into an *infrastructure* trust that leased access to the rail operator. The infrastructure trust would make the largest capital investment, mainly debt funded with equity probably raised through a stockmarket float. Toll and Lang would own the rail operator. This would require a much smaller capital outlay, but offer significant leveraged gains if the two partners can run an efficient rail operation. Both companies have been successful at turning around under-performing businesses (and Toll has been extremely successful at buying businesses very cheaply), so there is enormous potential from rail and this acquisition offers significant potential to boost earnings.

While there is still potential for significant further gains, Toll Holdings shares are already showing us a massive capital gain, so we rate them a "Hold".



Utility Services Corporation has acquired **Gibson Quai Pty** - a leading specialist telecommunications and data networking consulting business - for $4.5 million (i.e. $3.5 million in cash and the issue of 1.5 million Utility Services shares). Additional consideration may be paid based upon performance. Gibson Quai generates annual revenues of $7 million and is a profitable business.

Utility Services is currently negotiating additional acquisitions of companies providing professional services in specialised technology and e-business, with further announcements expected in the near future.

In the meantime, the company is continuing to repurchase its own shares on-market - having now acquired 9,011,836 shares at an average cost of 64 cents.

Vision Systems' report for the year to June is complicated owing to the large gain on the investment received on **TTP Communications**. Revenue from *trading* activities, however, appears to be up 26.1% to $151.6 million, while *trading* profits are up 166.4% to $15,300,000 (10.5 cents per share). Despite this strong growth (and the company's large cash holding) the annual dividend rate will rise only 13.3% to 3.4 cents.

Vision Fire & Security lifted revenues 51% to $106.3 million with earnings up 109% to $25 million. Vision Technologies experienced only a 6% increase in revenues and steady earnings of $4.7 million.

Vision Systems remains in a very strong financial position. Interest bearing debts are just $12.7 million (8 cents per share), while the company holds cash of $77.5 million (50 cents per share) and TTP Communications shares worth $78 million (50 cents per share).

This is a sound result. Vision Systems' existing businesses offer good potential for revenue and profit growth over the next several years. The company has a huge cash holding and little debt, so could easily finance a major acquisition or undertake a large share buy-back. Nevertheless, the share price has fallen sharply in response to *(Continued on Page 10)*

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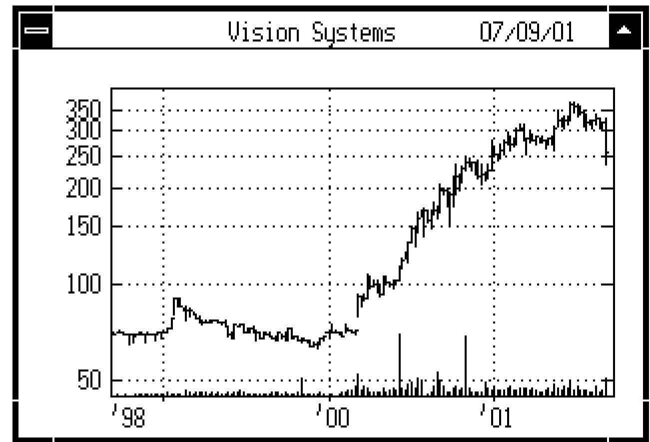
Recommended Investments *(Continued from Page 9)*
the company's results!

At 257 cents, Vision Systems looks reasonably priced for a high growth technology company, with a P/S ratio of 2.49, a P/E ratio of 25 and with a Yield of only 1.3%. However, deduct the cash and TTP shares, and the statistics would be a P/S of 1.52, a P/E of 15 and a Yield of 2.1%. That is far too low for a company that could grow profits by 40-50% per annum over the next few years. We continue to rate Vision Systems shares a "Buy" for investors who are under-weighted or who do not own shares in this company.



Share Recommendation: Buy Commander Communications

(This section is in Australian currency unless stated.)

BUY Australian listed Commander Communications. We are formally recommending that investors buy shares in Commander Communications (code CDR).

The shares rate well under our *Comprehensive Share Selection Criteria* (although currently fall just a little short of inclusion in the *Under-Valued Shares*, *Best Performing Shares* and *Insider Buying* lists which can only show the very top shares in each section, see Page 13). Being involved in *marketing*, *financing* and providing telecommunications *services*, Commander Communications requires little re-investment in fixed assets in its existing business or to fund its growth plans. Its equipment lease receivables generate recurring revenues and profits, providing a sound financial base for expansion into new businesses.

Company History

This business was established twenty years ago by **Telstra** to market to small and medium sized enterprises (SME). In 1998, the business was sold to **Commander Communications** and owned by Telstra (29.8%), RMB Belgium NV (37.0%), Plessey Asia Pacific (5.2%) and management (28.0%).

In October 2000, the company sought to sell 62.5 million new shares at $1.05-1.30 to raise $65-81 million to repay shareholders loans ($35 million) and bank debt ($31 million) and to be able to expand the business. The issue price, set by institutional tender, was 95 cents - raising just $59 million.

Current Business and Growth Potential

Commander Communications' core business is selling telephone equipment (i.e. business telephone systems and data network equipment) and providing telecommunications services to small and medium sized businesses. Commander Communications is the largest company in its field, with 125,000 business customers (covering about one million users) and a 45% market share in telecommunications equipment sales to SMEs. 70% of equipment is sold on long term rental agreements, so financing and rentals provide recurring revenues and profits. At the time of the October 2000 float, Commander Communications had a $15 million facility with **Citibank** for lease finance, and this was raised to $50 million in February 2001.

Revenues for the year to June 30 came from the sales of goods (42% of total revenues), telecommunications services (37%), interest on finance leases (6%), income from the sale of lease contracts (3%) and equipment rental income (9%).

One area where Commander Communications plans to expand rapidly is web-hosting. The company entered the web-hosting business - again with no capital investment - in March 2001. Commander Communications has entered into an agreement to purchase wholesale "dedicated, managed data centre services" (i.e. web-hosting facilities) from **WebCentral** (a subsidiary of **FTR Holdings**) for a period of up to 3½ years. Web-hosting has been an unprofitable business for most companies owing to "Terminal Velocity" (i.e. prices have fallen so rapidly that hosts cannot recoup the money spent buying equipment). Commander Communications is avoiding all capital investments and is also free to buy wholesale services from another company if prices continue to fall. The company's exposure is simply to marketing (i.e. $2 million was spent marketing this service in the second half of the June 2001 year) and its ability to re-sell retail web hosting at a profit. The latter should not be a problem as the company's web hosting prices are competitive but certainly not the cheapest, and it should be able to attract and retain SME customers as it seeks to offer a "one-stop-shop" and a "quality customer experience". Commander Communications hopes to build a 10% market share in web hosting by 2004.

The web hosting business received a boost in August when **Peakhour** announced it was moving out of the SME market to concentrate on Global 1000 companies. Commander Communications has negotiated to take over web hosting for all of Peakhour's "substantial number" of SME customers.

A second area in which Commander Communications plans to expand rapidly is data networking (i.e. designing, selling and installing

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computing and data communications facilities and networks) . The company plans to invest around $35 million to establish itself as a leading data networking company in Australia. Two established data networking companies have been acquired in Melbourne and Sydney, and the company will expand in this sector through a combination of acquisitions and organic growth.

Recent Results

Commander Communications has recently announced its results for the ten months to June 30. Revenues were $160.8 million and profits $8,892,000 (7.4 cents per share, annualised). A maiden dividend of 2.5 cents will be paid. The company also generated extremely strong operating cash flows of $39.5 million.

Investment Criteria

At 92 cents, Commander Communications shares trade on a low Price/Sales ratio of 0.68, a low Price/Earnings ratio of 12 and offer a Dividend Yield of 2.7%.

Net tangible assets per share are just 21 cents, but this is not a capital intensive business so assets are irrelevant. Non-capital intensive businesses have the potential to expand rapidly (e.g. generating many-fold gains like Flight Centre) or to shrink in value (e.g. like Data#3, but limited to a 100% loss). Their success or failure depends upon management's ability to provide goods or services that customers will buy. The other attractive feature of a non-capital intensive business is that a high percentage of profits do not need to be re-invested in fixed assets, but can be used to finance expansion, acquisitions or distributed to shareholders. Initially the company may use its cashflow to expand its data networking business, but longer term will be able to make significantly large dividend payouts to shareholders.

With a market capitalisation of $132 million, Commander Communications is still a small listed company.

Directors and management have a significant investment in Commander Communications *and* have been buying additional shares on-market. Non-executive director, DR Coe holds 7,230,593 shares directly and an interest in AIB Investments (one of the original investors from 1998) which owns 8,135,097 shares. GM Cohen (a former director) holds 2,782,889 shares directly as well as an interest in AIB Investments. Managing Director, JP Dougall, holds 576,557 shares (and 2,150,369 executive share options), while Deputy MD and Marketing Manager, DL Gingell, has just 8,333 shares (and 1,433,579 executive options). Another director, PF Frueh, holds 12,000 shares.

There were four insider purchases on-market (at prices around 80-84 cents) in late June and early July. JP Dougall purchased 576,557 shares, PF Frueh bought his 12,000 shares, while DR Coe purchased 432,520 shares and then another 289,999 shares.

Large management shareholdings and insider buying are particularly favourable features.

Telstra (16.6%), RMB Belgium NV (20.6%) and Plessey Asia Pacific (2.9%) still retain their original shares in the business (although the percentages have declined owing to the new shares issued in the float).

Institutions have moderate holdings, with a dozen companies holding about 18% of Commander Communications' capital. Brokers *neglect* the company, with none following it closely enough to publish profit forecasts.

Lower than expected demand for Commander Communications at the time of the October float resulted in the shares being priced *(Continued on Page 12)*

Our Investment Strategy for the Telecommunications Industry

We discussed our strategy for investing in the rapidly growing Telecommunications market earlier this year (*Market Analysis* Issue 344, February 2001). While this industry offers good growth potential, prices charged to consumers are falling rapidly while increased usage requires most network operators to invest heavily in fixed assets to expand capacity. Network operators (i.e. Telecom, Telstra) are therefore forced to borrow to invest in fixed assets to expand capacity - but their total revenues will remain relatively static owing to the decline in sales prices. In effect, network operators need to make massive investments, usually with borrowed money, that will effectively generate *no additional revenue* or return on their investment. This will result in operating costs rising faster than revenues, so profits will decline.

"Terminal Velocity" is reached when costs grow to exceed revenues and the company becomes unprofitable and fails (i.e. is sucked into the "Black Hole in Cyberspace", which is where most technology related companies end up).

Our solution is to seek *niche* service providers that are successful at *marketing* telecommunications products and providing telecommunications *services*. These companies can benefit from the growth in telecommunications services *without the need to make large, unprofitable capital investments in network infrastructure*.

Sky Network TV hit "Terminal Velocity" many years ago and hovers on the edge of the "Black Hole", saved from falling in by regular massive doses of new equity ($86.7 million from institutions over the last year, and it now wants $125 million from junk bonds). Revenues rose 14.4% last year while the already higher operating costs rose 18.9%- expanding the company's annual loss to $42.3 million.

Telecom NZ is in a much stronger financial position, and far from "Terminal Velocity", but total revenues rose 30.3% while total operating costs rose 39.3%. Operating profits *increased*, but the continuation of this trend (i.e. costs rising faster than revenues) would see profits relatively steady over the next few years - and then start an accelerating decline.

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Buy Commander Communications *(Cont'd from Page 11)*

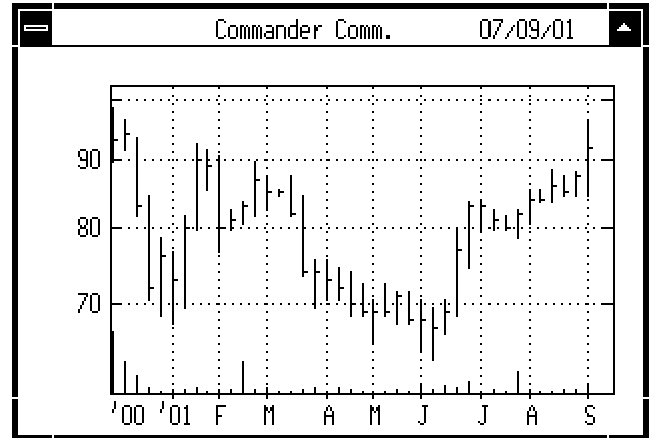
at 95 cents - below the 105-130 cents range that the promoters hoped to achieve. The shares quickly dropped to a low of 68 cents in December 2000 and 63 cents in June. The shares have since recovered and now appear to be in a new uptrend. The Relative Strength rating is +2.4%, with the shares ranked 25 (on a scale of 0-99).

Summary and Recommendation

Commander Communications is a market leader in telecommunications sales to the SME market and from this extensive customer base it is seeking to expand its range of services. The company has avoided capital investment in the infrastructure assets that make most telecommunications companies unattractive for investment, but will benefit from the growth of this sector by specialising in equipment marketing and financing, telecommunication services and re-selling web hosting.

The shares offer good value, insiders are buying and the share price appears to be at the start of an uptrend.

Commander Communications shares are suitable for investors with diversified portfolios and seeking emerging growth shares that hold the *potential* to generate significant capital appreciation over the next several years.



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: Current	Strength Rating: 4-Wk Chg.	Strength Rating: Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0												
Owens Group Ltd	112	+2.7	+3.3	42	3	1.8	14	1.0	13	6.7	0.17	63
Design Textiles	35	+6.9	-1.9	27	-	0.4	4	1.7	11	8.5	0.18	11
Wrightsons Ltd	109	+29.6	+8.0	4	-	1.3	9	1.4	14	11.0	0.21	146
Col Motor Co	285	+2.0	+0.8	46	-	1.0	7	0.7	16	7.3	0.23	79
CDL Hotel NZ	19	+1.5	+1.0	49	-	0.2	0	2.3	46	5.5	0.27	66
Williams Kettle	355	+11.8	-0.9	14	-	1.4	11	0.6	13	6.3	0.33	52
Fletcher Build.	260	+7.9	+1.1	25	7	1.1	4	1.3	26	6.9	0.39	896
Hellaby Hold.	204	+7.5	-0.8	26	2	1.5	17	1.0	9	10.2	0.40	102
PDL Holdings	1040	+35.8	-14.2	1	-	1.6	4	0.8	43	1.4	0.40	141
Steel & Tube	197	+12.1	+0.2	13	6	1.3	11	1.1	12	12.1	0.44	173
AXA Asia Pac.	322	+0.9	-0.6	51	-	1.4	12	0.8	12	3.7	0.54	5,675
Restaurant Brds	160	+8.5	+0.2	24	6	5.3	45	1.3	12	9.3	0.62	147
Reid Farmers	123	+20.6	+2.0	8	-	1.6	18	1.2	9	8.5	0.64	69
DB Group	510	+3.1	-2.0	40	4	2.3	17	0.6	14	4.7	0.64	257
Taylors Grp Ltd	125	+2.7	+0.5	42	-	1.4	14	1.2	10	8.4	0.68	30
Bendon Limited	185	+5.7	-0.8	31	1	1.1	6	1.0	17	7.3	0.68	57
AMP Limited	2270	+0.7	-1.9	52	-	2.5	14	0.6	17	2.5	0.73	24,438
Tranz Rail Hold	420	+4.8	+2.6	35	6	1.1	6	0.9	19	2.0	0.81	507
Dorchester Pac	119	+2.5	+1.5	44	-	1.5	18	1.3	9	7.5	0.86	22
Michael Hill	440	+8.2	+1.8	24	5	3.4	20	0.8	17	5.1	0.90	170
BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0												
Richina Pacific	75	+34.8	-3.6	2	-	0.6	5	1.3	12	Nil	0.07	54
Wrightsons Ltd	109	+29.6	+8.0	4	-	1.3	9	1.2	14	11.0	0.21	146
Reid Farmers	123	+20.6	+2.0	8	-	1.6	18	1.0	9	8.5	0.64	69
Steel & Tube	197	+12.1	+0.2	13	6	1.3	11	0.9	12	12.1	0.44	173
Williams Kettle	355	+11.8	-0.9	14	-	1.4	11	0.5	13	6.3	0.33	52
Broadway Ind	35	+11.2	+1.5	16	-	1.0	10	1.2	10	Nil	0.19	7
Cavalier Corp	560	+9.9	-2.0	19	3	3.2	22	0.7	14	8.5	0.93	176
Hallenstein G.	274	+9.0	-1.5	22	5	4.7	34	0.7	14	10.1	0.98	159
Restaurant Brds	160	+8.5	+0.2	24	6	5.3	45	1.1	12	9.3	0.62	147
Michael Hill	440	+8.2	+1.8	24	5	3.4	20	0.7	17	5.1	0.90	170
Hellaby Hold.	204	+7.5	-0.8	26	2	1.5	17	0.9	9	10.2	0.40	102
Design Textiles	35	+6.9	-1.9	27	-	0.4	4	1.3	11	8.5	0.18	11
Pacific Retail	162	+6.6	+3.4	28	4	1.4	19	1.2	7	Nil	0.20	82
Kingsgate Int'l	13	+6.2	+2.6	30	-	0.4	14	2.2	3	Nil	0.43	51
Bendon Limited	185	+5.7	-0.8	31	1	1.1	6	0.8	17	7.3	0.68	57
Tranz Rail Hold	420	+4.8	+2.6	35	6	1.1	6	0.8	19	2.0	0.81	507
DB Group	510	+3.1	-2.0	40	4	2.3	17	0.5	14	4.7	0.64	257
Taylors Grp Ltd	125	+2.7	+0.5	42	-	1.4	14	0.9	10	8.4	0.68	30
Owens Group Ltd	112	+2.7	+3.3	42	3	1.8	14	0.8	13	6.7	0.17	63
Dorchester Pac	119	+2.5	+1.5	44	-	1.5	18	1.1	9	7.5	0.86	22

Company	Share Price	Strength Rating: Current	Strength Rating: 4-Wk Chg.	Strength Rating: Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Volatility	Price Earn. Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
INCOME SHARES: Highest Yields, Capitalisation > NZ$100 million												
NZ Refining Co	1495	+4.2	-2.9	38	3	1.2	23	0.3	5	25.0	1.21	359
Air New Zealand	70	-12.1	+0.4	85	8	0.3	11	1.0	2	21.4	0.11	530
Steel & Tube	197	+12.1	+0.2	13	6	1.3	11	0.8	12	12.1	0.44	173
Wrightsons Ltd	109	+29.6	+8.0	4	-	1.3	9	1.1	14	11.0	0.21	146
Hellaby Hold.	204	+7.5	-0.8	26	2	1.5	17	0.8	9	10.2	0.40	102
Hallenstein G.	274	+9.0	-1.5	22	5	4.7	34	0.6	14	10.1	0.98	159
Restaurant Brds	160	+8.5	+0.2	24	6	5.3	45	1.0	12	9.3	0.62	147
Lyttelton Port	170	+2.6	-2.0	43	4	4.0	32	0.6	13	9.0	2.97	173
Tourism Hold.	151	-7.1	+2.1	79	6	0.8	7	0.8	11	8.9	0.68	139
Cavalier Corp	560	+9.9	-2.0	19	3	3.2	22	0.7	14	8.5	0.93	176
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0												
Elect Trans Tec	10	-15.5	+3.5	90	-	16.1	-	2.9	NE	Nil	7.54	13
Sky Network TV	355	-0.7	-0.0	59	7	16.4	-	0.8	NE	Nil	4.60	1,382
Genesis Res.	351	-13.0	+1.4	87	-	1.5	1	0.9	123	Nil	3.10	89
Waste Mgmt NZ	337	-6.2	-1.2	77	6	2.1	9	0.6	23	3.3	2.39	329
Nuhaka Forestry	880	-11.2	-0.6	82	-	0.7	-	0.4	NE	6.3	2.33	16
Spectrum Res.	3	-48.7	+0.0	99	-	1.2	-	3.8	NE	Nil	2.14	6
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average												
Spectrum Res.	3	-48.7	+0.0	99	-	1.2	-	3.5	NE	Nil	2.14	6
Advantage Group	46	-30.4	-1.5	96	5	5.3	14	1.4	37	Nil	0.41	31
Strathmore Grp	7	-24.5	+1.8	93	-	0.4	-	2.6	NE	Nil	1.54	15
Force Corp.	10	-22.8	-6.8	92	1	3.4	-	2.0	NE	Nil	0.28	15
IT Capital Ltd	9	-19.5	-4.8	92	-	0.7	-	2.5	NE	Nil	1.15	15
Tag Pacific Ltd	15	-17.7	-2.0	90	-	0.6	-	1.4	NE	Nil	0.29	10
Elect Trans Tec	10	-15.5	+3.5	90	-	16.1	-	2.8	NE	Nil	7.54	13
Eldercare NZ	13	-13.8	+2.9	88	-	0.7	-	1.9	NE	Nil	0.60	21
Natural Gas	98	-13.0	+0.4	88	7	1.2	2	0.9	77	4.6	0.61	759
Genesis Res.	351	-13.0	+1.4	87	-	1.5	1	0.9	123	Nil	3.10	89
Grocorp Pacific	11	-12.5	-5.0	85	-	1.7	-	1.9	NE	Nil	0.36	6
GDC Communicat.	199	-12.0	+0.4	84	2	5.4	22	0.9	25	2.4	1.81	75
Nuhaka Forestry	880	-11.2	-0.6	82	-	0.7	-	0.3	NE	6.3	2.33	16
Rocom Wireless	41	-9.6	-0.8	81	-	1.3	-	1.0	NE	Nil	N/A	6
FC - Forests	30	-8.0	+1.3	80	8	0.6	-	1.5	NE	Nil	1.29	834
Telecom Corp	472	-6.8	-1.3	78	8	4.4	42	0.7	10	6.3	1.55	8,764
E-Ventures NZ	30	-6.5	+2.0	78	-	1.4	-	1.2	NE	Nil	N/A	75
Waste Mgmt NZ	337	-6.2	-1.2	77	6	2.1	9	0.6	23	3.3	2.39	329
Trans-Tasman	18	-4.8	-3.3	74	4	0.3	6	1.3	5	Nil	1.00	106
Frucor Bev.	170	-4.8	+2.3	74	6	5.6	31	0.8	18	7.0	0.93	212

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

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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
Adtrans Group	200	+0.3	+0.4	32	3-1	1	1.9	20	0.9	9	9.0	0.11	45
A.P. Eagers	395	+0.4	-0.6	32	0-0	1	0.8	6	0.8	14	6.1	0.12	61
Skydome Holding	18	+10.4	+0.3	9	0-0	-	0.8	19	2.0	4	5.6	0.13	2
Watpac Ltd	31	+6.7	+2.6	15	0-0	1	1.1	17	1.7	7	10.5	0.14	23
Abigroup Ltd	213	+5.2	-0.2	17	0-0	-	1.7	23	0.9	7	7.0	0.14	102
McConnell Dowel	150	+3.4	-3.2	22	0-0	-	0.7	-	1.0	NE	5.3	0.15	63
Multispares Hld	17	+7.0	+0.8	14	0-0	-	0.5	8	2.1	7	3.0	0.15	3
Ridley Corp.	87	+8.0	+4.7	13	0-1	3	1.0	6	1.2	17	4.6	0.15	209
Henry Walker E.	116	+2.1	+4.0	26	0-0	-	0.9	7	1.1	12	9.1	0.17	191
Onesteel Ltd	103	+4.1	+1.7	20	0-0	-	0.5	-	1.1	NE	5.8	0.18	474
McPherson's Ltd	126	+0.0	+0.7	35	1-0	-	2.7	60	1.1	4	9.5	0.18	49
Atkins Carlyle	299	+9.0	+2.8	11	4-0	2	2.4	17	0.9	14	8.0	0.18	107
Futuris Corp.	179	+4.7	-6.9	19	1-0	7	2.2	16	1.0	14	4.5	0.19	1,086
CMI Limited	121	+0.5	-0.1	32	0-0	-	1.9	37	1.1	5	6.6	0.19	33
Roberts Ltd	253	+9.7	+0.5	10	0-0	-	84.3	-	0.9	10	7.9	0.20	26
Crane Group	710	+0.7	+0.1	31	2-0	4	1.3	4	0.7	34	6.1	0.21	308
Sigma Company	276	+25.2	+0.5	2	0-0	-	2.4	11	0.9	22	2.7	0.21	378
CDK Tectonics	100	+6.7	+0.1	15	0-0	-	1.9	25	1.1	7	10.0	0.23	12
Pirelli Cables	83	+2.0	-0.5	26	0-0	-	1.8	10	1.2	18	4.2	0.23	71
Wrigdways Aust	49	+8.8	+4.3	11	0-0	-	-	-	1.4	7	8.2	0.23	16
Bidvest	325	+1.3	+1.1	28	0-0	-	2.7	21	0.8	13	2.7	0.23	638
Palm Corp	42	+2.8	-0.7	24	0-0	-	1.0	13	1.5	8	7.2	0.24	15
Volante Group	130	+3.1	-0.5	23	2-0	-	5.7	46	1.1	12	6.2	0.24	88
Kimberley Secur	50	+3.9	+2.6	21	0-0	-	1.2	22	1.4	5	4.0	0.25	8
Angus & Coote	440	+9.0	-3.7	11	1-0	-	1.1	10	0.8	10	5.5	0.25	53
K&S Corporation	205	+18.5	+1.8	4	1-0	2	1.2	11	0.9	10	6.3	0.27	61
United Group	153	+2.6	-0.6	25	1-0	-	2.4	25	1.0	9	5.9	0.27	124
Crevet Ltd	68	+0.6	-0.1	31	0-0	-	0.9	-	1.3	NE	2.2	0.28	23
Evans Deakin	230	+2.0	-0.5	26	0-2	-	1.5	8	0.9	18	8.3	0.28	217
Aust Pharm. Ind	253	+4.2	+0.2	20	2-0	4	2.6	15	0.9	17	4.9	0.30	497
Ludowici Ltd	200	+12.6	-0.9	7	3-0	-	0.9	8	0.9	12	4.3	0.30	28
Foodland Assoc	1250	+15.7	+3.8	5	1-0	9	3.8	25	0.7	16	4.4	0.31	1,189
Just Jeans Grp	137	+17.0	+1.5	4	0-0	2	2.4	18	1.0	14	6.6	0.32	110
Korvest Ltd	140	+0.3	+2.2	32	0-0	-	1.3	16	1.0	8	7.1	0.34	11
Downer EDI Ltd	70	+2.6	+0.7	24	0-0	-	1.6	13	1.3	12	3.0	0.34	549
G.U.D. Holdings	179	+2.3	+0.7	25	2-0	2	1.7	15	1.0	11	8.4	0.34	116
Coventry Group	395	+3.0	-0.7	23	0-0	-	1.0	5	0.8	18	11.4	0.34	133
Freedom Group	130	+4.3	+0.0	19	2-0	5	4.2	26	1.1	16	6.2	0.35	112
Spicers Paper	326	+4.9	-1.3	18	0-0	-	1.8	10	0.8	17	3.1	0.35	452
White (J) Malt	349	+4.1	-1.6	20	0-0	-	1.1	-	0.8	NE	0.6	0.36	73
Email Ltd	291	+0.4	-0.1	32	0-0	-	1.8	12	0.9	15	8.4	0.37	791
Julia Ross Rec.	102	+11.6	+6.4	8	4-0	-	5.4	55	1.1	10	5.9	0.37	58
Capral Alum.	225	+2.7	+1.0	24	3-0	5	0.9	12	0.9	8	8.0	0.38	152
Simsmetal Ltd	593	+5.1	+1.1	18	0-0	7	2.6	20	0.8	13	5.4	0.39	527
Comb Communicat	80	+6.7	+2.5	15	2-1	-	1.6	4	1.2	38	2.4	0.40	123
Milnes Holdings	116	+2.8	+1.3	23	0-0	-	2.2	5	1.1	49	6.0	0.40	43
Hudson Timber	55	+4.1	+8.5	20	0-0	-	3.9	11	1.4	37	2.3	0.46	122
Tempo Services	250	+22.1	+4.0	3	1-2	6	31.3	-	0.9	23	2.6	0.46	219
WAM Capital Ltd	129	+8.8	+2.7	11	1-0	-	1.0	17	1.1	6	4.7	0.47	28
Pacifica Group	355	+0.8	-0.9	30	4-0	10	1.9	12	0.8	16	5.4	0.47	534
Colorado Group	183	+20.8	+1.2	3	0-0	-	2.5	24	1.0	11	4.4	0.48	155
Rebel Sport	174	+37.7	+15.6	1	0-0	2	4.2	10	1.0	43	1.7	0.48	109
Forrester Kurts	90	+4.3	+3.8	19	0-0	3	0.7	12	1.2	6	11.1	0.49	102
TDG Logistics	100	+1.6	+5.2	27	0-0	2	1.3	10	1.1	13	5.4	0.50	47
Canberra Invest	46	+2.5	-1.5	25	0-0	-	0.8	15	1.4	5	8.7	0.50	14
Campbell Bros	512	+5.0	-0.9	18	8-1	2	3.3	29	0.8	11	5.9	0.50	161
Haoma Mining NL	11	+1.3	-3.4	29	2-1	-	-	-	2.6	7	9.5	0.50	19
Chalmers	190	+0.3	-1.3	33	0-0	-	0.8	-	1.0	NE	3.2	0.51	11
Aust Hospital	119	+4.3	-1.1	20	0-0	-	1.3	1	1.1	168	1.9	0.52	198
Woolworths Ltd	1126	+15.7	-1.1	5	1-0	14	12.0	49	0.7	25	2.4	0.54	11,660
Scientific Serv	56	+9.2	+4.4	11	0-1	1	3.1	42	1.4	7	5.4	0.55	44
AXA Asia Pac	273	+1.7	-0.5	27	0-0	-	1.7	13	0.9	13	3.5	0.57	4,811
Paperlin X Ltd	417	+5.1	-1.3	17	3-0	-	-	-	0.8	13	6.5	0.57	1,340
Clough Limited	94	+10.4	-4.3	9	0-0	1	2.8	21	1.2	13	4.8	0.57	348
Boral Limited	354	+19.2	+2.8	3	5-0	-	1.2	9	0.8	13	5.1	0.58	2,011
East African Co	500	+4.6	-1.2	19	0-0	-	-	-	0.8	23	2.8	0.58	32
Snack Foods Ltd	127	+14.5	+4.0	6	0-0	-	4.7	31	1.1	15	3.1	0.58	159
Plaspak Group	75	+7.0	+0.6	14	1-1	-	1.5	12	1.2	13	7.3	0.59	42
SDI Limited	73	+12.6	+0.1	7	0-0	-	2.1	33	1.2	6	4.1	0.60	17
Leighton Hold	1000	+18.9	+4.4	3	0-0	9	4.1	24	0.7	17	3.9	0.60	2,649

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
Vietnam Indust.	42	+34.2	+1.8	1	3-1	-	1.6	14	1.2	11	2.4	0.85	43
Astron Ltd	70	+29.8	+23.7	1	0-0	-	0.5	7	1.0	7	Nil	0.39	9
Adelaide Bright	78	+28.7	+2.5	2	1-0	3	1.3	10	1.0	13	3.8	0.92	369
Phileo	25	+27.6	+20.5	2	0-0	-	0.5	4	1.4	11	Nil	0.33	7
Triako Res.	68	+23.3	-2.9	2	2-1	-	-	-	1.0	4	2.9	0.94	22
Ashanti Goldfld	652	+20.8	+6.4	3	0-0	-	-	-	0.7	7	Nil	0.99	702
Colorado Group	183	+20.8	+1.2	3	0-0	-	2.5	24	0.8	11	4.4	0.48	155
Boral Limited	354	+19.2	+2.8	3	5-0	-	1.2	9	0.7	13	5.1	0.58	2,011
Leighton Hold	1000	+18.9	+4.4	3	0-0	9	4.1	24	0.6	17	3.9	0.60	2,649
K&S Corporation	205	+18.5	+1.8	4	1-0	2	1.2	11	0.8	10	6.3	0.27	61
Just Jeans Grp	137	+17.0	+1.5	4	0-0	2	2.4	18	0.9	14	6.6	0.32	110
CCI Holdings	21	+16.2	+3.6	5	0-0	-	1.2	8	1.5	16	Nil	0.42	13
C.S.R. Ltd	653	+16.1	-2.8	5	10-1	9	2.2	16	0.7	13	3.5	0.96	6,244
Foodland Assoc	1250	+15.7	+3.8	5	1-0	9	3.8	25	0.6	16	4.4	0.31	1,189
Snack Foods Ltd	127	+14.5	+4.0	6	0-0	-	4.7	31	0.9	15	3.1	0.58	159
Austral Coal	31	+13.1	-17.5	7	1-0	-	-	-	1.3	6	Nil	0.31	25
Trust Co of Aus	490	+13.1	+4.1	7	0-0	-	2.6	62	0.7	4	5.1	0.83	16
Ludowici Ltd	200	+12.6	-0.9	7	3-0	-	0.9	8	0.8	12	4.3	0.30	28
SDI Limited	73	+12.6	+0.1	7	0-0	-	2.1	33	1.0	6	4.1	0.60	17
Julia Ross Rec.	102	+11.6	+6.4	8	4-0	-	5.4	55	0.9	10	5.9	0.37	58
Centennial Coal	121	+11.5	-3.7	8	5-0	-	-	-	0.9	11	5.8	0.99	104
Imdex NL	29	+10.9	+1.1	9	0-1	-	-	-	1.3	15	Nil	0.96	27
Skydome Holding	18	+10.4	+0.3	9	0-0	-	0.8	19	1.6	4	5.6	0.13	2
Clough Limited	94	+10.4	-4.3	9	0-0	1	2.8	21	1.0	13	4.8	0.57	348
Australand Hold	155	+10.1	+0.3	10	0-0	4	1.3	19	0.9	7	7.7	0.92	752
Pro Maintenance	216	+10.0	+1.0	10	0-0	-	2.3	21	0.8	11	4.2	0.95	139
Cons Minerals	50	+9.7	+1.7	10	0-0	-	-	-	1.1	5	4.5	0.93	57
Roberts Ltd	253	+9.7	+0.5	10	0-0	-	84.3	-	0.8	10	7.9	0.20	26
Scientific Serv	56	+9.2	+4.4	11	0-1	1	3.1	42	1.1	7	5.4	0.55	44
Kidston Gold	21	+9.1	+1.8	11	0-0	-	-	-	1.5	9	Nil	0.20	26
Atkins Carlyle	299	+9.0	+2.8	11	4-0	2	2.4	17	0.8	14	8.0	0.18	107
Angus & Coote	440	+9.0	-3.7	11	1-0	-	1.1	10	0.7	10	5.5	0.25	53
WAM Capital Ltd	129	+8.8	+2.7	11	1-0	-	1.0	17	0.9	6	4.7	0.47	28
Wrigdways Aust	49	+8.8	+4.3	11	0-0	-	-	-	1.1	7	8.2	0.23	16
Hills Indust.	276	+8.1	+1.6	12	3-0	4	3.0	20	0.8	15	7.0	0.66	333
Ridley Corp.	87	+8.0	+4.7	13	0-1	3	1.0	6	1.0	17	4.6	0.15	209
Amadeus Petrol.	12	+7.1	+5.3	14	0-0	-	-	-	1.8	10	Nil	0.90	10
Multispares Hld	17	+7.0	+0.8	14	0-0	-	0.5	8	1.6	7	3.0	0.15	3
Plaspak Group	75	+7.0	+0.6	14	1-1	-	1.5	12	1.0	13	7.3	0.59	42
CDK Tectonics	100	+6.7	+0.1	15	0-0	-	1.9	25	0.9	7	10.0	0.23	12
Watpac Ltd	31	+6.7	+2.6	15	0-0	1	1.1	17	1.3	7	10.5	0.14	23
Select harvest	180	+6.6	+0.7	15	0-0	-	5.0	56	0.8	9	5.6	0.91	59
St Barbara Mine	19	+6.5	-1.4	15	0-0	-	-	-	1.5	4	Nil	0.46	41
Raptis Group	24	+6.5	+3.9	15	0-0	-	1.6	12	1.4	14	Nil	0.29	17
Mayne Nickless	658	+6.3	-1.7	16	1-0	10	4.0	22	0.7	18	2.0	0.78	2,912
BA Tobacco Aust	1771	+6.2	-1.6	16	0-0	-	10.9	59	0.6	19	4.8	0.70	2,665
Oroton Int'l	305	+6.0	-3.0	16	0-1	-	3.7	32	0.8	12	4.9	0.85	56
Amcor Ltd	612	+5.4	-2.3	17	8-0	10	2.4	18	0.7	14	4.6	0.66	3,875
Roc Oil Company	130	+5.3	-5.4	17	1-0	-	-	-	0.9	9	Nil	0.88	138
Abigroup Ltd	213	+5.2	-0.2	17	0-0	-	1.7	23	0.8	7	7.0	0.14	102
Paperlin X Ltd	417	+5.1	-1.3	17	3-0	-	-	-	0.7	13	6.5	0.57	1,340
Simsmetal Ltd	593	+5.1	+1.1	18	0-0	7	2.6	20	0.7	13	5.4	0.39	527
Campbell Bros	512	+5.0	-0.9	18	8-1	2	3.3	29	0.7	11	5.9	0.50	161
Spicers Paper	326	+4.9	-1.3	18	0-0	-	1.8	10	0.7	17	3.1	0.35	452
Mark Sensing	10	+4.9	+8.2	18	0-0	-	3.3	28	2.0	12	Nil	0.72	14
Pac Strategic	22	+4.7	+0.1	19	5-0	-	0.8	7	1.5	10	Nil	0.67	11
Futuris Corp.	179	+4.7	-6.9	19	1-0	7	2.2	16	0.8	14	4.5	0.19	1,086
Forrester Kurts	90	+4.3	+3.8	19	0-0	3	0.7	12	1.0	6	11.1	0.49	102
Freedom Group	130	+4.3	+0.0	19	2-0	5	4.2	26	0.9	16	6.2	0.35	112
Sabre Group	168	+4.2	+0.8	20	0-0	-	-	-	0.8	10	6.0	0.83	51
Aust Pharm. Ind	253	+4.2	+0.2	20	2-0	4	2.6	15	0.8	17	4.9	0.30	497
Queensl'd Tour.	41	+4.0	-1.3	21	0-0	-	1.0	33	1.2	3	Nil	0.84	7
Kimberley Secur	50	+3.9	+2.6	21	0-0	-	1.2	22	1.1	5	4.0	0.25	8
Woolstock Aust	93	+3.8	+1.3	21	0-0	-	93.0	-	1.0	5	Nil	0.82	325
Reece Australia	2065	+3.7	+0.2	21	0-0	-	2.6	18	0.6	15	2.8	0.77	411
Breakwater Is.	29	+3.4	-0.3	22	0-0	2	0.7	7	1.3	11	6.9	0.98	42
Folkestone Ltd	60	+3.3	-2.2	22	0-0	-	0.9	12	1.1	8	8.3	0.65	13
Merchant House	10	+3.2	+1.5	22	0-0	-	0.8	38	2.0	2	Nil	0.15	9
Volante Group	130	+3.1	-0.5	23	2-0	-	5.7	46	0.9	12	6.2	0.24	88
Coventry Group	395	+3.0	-0.7	23	0-0	-	1.0	5	0.7	18	11.4	0.34	133

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
Caltex Austrlia	140	-15.4	-2.6	71	0-0	2	0.4	4	0.8	10	11.4	0.08	378
Envestra	82	-1.6	+0.3	40	1-0	8	-	-	0.9	NE	11.3	1.89	500
Orogen Minerals	99	-11.9	+0.6	65	0-0	5	0.4	17	0.9	2	9.7	0.69	318
Energy Resource	195	-7.1	-2.4	54	0-0	2	0.6	5	0.8	12	9.2	1.50	279
Aust Pipeline	249	+0.7	-0.8	31	0-0	-	1.3	7	0.7	20	8.8	2.53	608
Ten Network	189	-5.9	+0.3	52	1-0	9	-	-	0.8	12	8.4	1.18	718
Email Ltd	291	+0.4	-0.1	32	0-0	-	1.8	12	0.7	15	8.4	0.37	791
Brambles Ind.	1025	-3.1	-3.4	45	0-0	9	1.5	2	0.6	64	8.0	2.49	9,789
Australand Hold	155	+10.1	+0.3	10	0-0	4	1.3	19	0.8	7	7.7	0.92	752
Orica Ltd	458	-7.7	+1.5	55	7-0	9	1.0	12	0.7	9	7.6	0.32	1,263
Millers Retail	351	+17.7	-2.3	4	1-2	8	-	-	0.7	30	7.6	1.07	698
Ticor Ltd	108	-0.1	+0.2	36	2-0	7	0.7	15	0.8	4	7.4	0.61	266
Qantas	274	-2.8	-3.5	44	1-1	13	1.1	13	0.7	9	7.3	0.35	3,586
Hills Indust.	276	+8.1	+1.6	12	3-0	4	3.0	20	0.7	15	7.0	0.66	333
Graincorp	1140	+10.7	+0.7	9	0-0	3	3.7	38	0.6	10	6.9	1.56	470
David Jones	117	-4.6	+1.3	49	10-1	12	1.2	12	0.8	10	6.8	0.28	461
Adsteam Marine	220	-1.8	+1.2	40	3-0	7	2.7	11	0.7	26	6.8	4.34	416
GWA Internat'l	235	+6.6	-1.2	15	4-0	4	1.7	11	0.7	16	6.8	1.14	652
Pacific Dunlop	75	-20.3	-2.2	79	8-0	9	0.8	-	0.9	NE	6.7	0.16	698
Paperlin X Ltd	417	+5.1	-1.3	17	3-0	-	-	-	0.7	13	6.5	0.57	1,340
Oil Coy of Aust	280	+0.1	+2.6	34	0-0	-	-	-	0.7	10	6.4	3.26	329
Nufarm Limited	265	-3.6	-1.5	46	2-2	-	1.5	19	0.7	8	6.4	0.29	410
United Energy	271	-7.8	+1.5	55	0-0	9	1.9	3	0.7	75	6.4	1.66	1,137
Bendigo Bank	657	+6.5	-0.1	15	5-1	7	2.1	10	0.6	22	6.2	3.20	743
Djerriwarrh	346	+3.1	-0.9	23	5-0	-	1.0	6	0.7	16	6.2	N/A	479

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
Biron Corp	40	+13.2	-1.7	7	10-0	-	0.8	2	1.0	38	Nil	1.94	9
Nat'l Aust Bank	2930	+6.9	-1.7	14	10-0	16	3.3	25	0.6	13	4.2	1.07	45,069
Beacon Fin Serv	130	+39.0	-0.9	1	15-5	-	5.2	27	0.8	19	3.1	1.98	53
Burswood Ltd	74	+1.3	-2.0	29	9-0	7	1.3	10	0.9	13	5.4	0.86	298
C.S.R. Ltd	653	+16.1	-2.8	5	10-1	9	2.2	16	0.6	13	3.5	0.96	6,244
Wesfarmers Ltd	2861	+25.5	+1.5	2	11-2	10	6.7	18	0.6	36	2.6	2.16	11,951
Healthscope	216	+36.2	-1.8	1	13-4	2	-	-	0.7	22	2.1	1.08	142
Amcor Ltd	612	+5.4	-2.3	17	8-0	10	2.4	18	0.6	14	4.6	0.66	3,875
OAMPS	264	+14.1	+1.1	6	10-2	-	13.9	-	0.7	12	4.5	1.17	84
Brickworks Ltd	705	+15.4	+2.3	5	7-0	4	1.9	12	0.6	15	2.0	6.99	929
Campbell Bros	512	+5.0	-0.9	18	8-1	2	3.3	29	0.6	11	5.9	0.50	161
Argo Investment	401	+6.7	+1.2	15	8-1	-	1.0	5	0.7	21	3.7	N/A	1,415
Oxiana NL	14	+20.7	-7.5	3	6-0	-	-	-	1.4	NE	Nil	N/A	43
Milton Corp.	1200	+10.4	+1.6	10	6-0	-	1.1	5	0.6	21	3.7	N/A	618
St George Bank	1447	+2.6	-2.5	24	6-0	14	4.9	29	0.6	17	3.8	1.76	6,724
Aust Foundation	303	+8.7	+0.1	12	6-0	-	1.0	5	0.7	21	4.7	N/A	2,225
Pac Strategic	22	+4.7	+0.1	19	5-0	-	0.8	7	1.2	10	Nil	0.67	11
Boral Limited	354	+19.2	+2.8	3	5-0	-	1.2	9	0.7	13	5.1	0.58	2,011
Centennial Coal	121	+11.5	-3.7	8	5-0	-	-	-	0.8	11	5.8	0.99	104
Com'wealth Bank	2861	+2.0	-1.5	26	5-0	16	3.0	20	0.6	15	4.8	1.95	35,593
Djerriwarrh	346	+3.1	-0.9	23	5-0	-	1.0	6	0.7	16	6.2	N/A	479
BT Aust Equity	69	+0.2	+0.9	33	6-1	-	0.9	-	0.9	NE	5.8	0.66	206
Southcorp Ltd	809	+12.1	+1.2	7	6-1	13	4.3	16	0.6	27	2.6	1.61	5,845
Institute Drug	385	+7.0	-3.1	14	7-2	-	-	-	0.7	44	1.0	8.40	162
Macquarie Bank	3970	+13.8	+1.0	6	7-2	7	7.3	25	0.5	29	2.3	4.79	6,982

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Company Review: E.R.G.

ERG was a successful investment for *Market Analysis* subscribers who realised a 603% gain when we recommended selling the shares at $10.61 in February 2000. Following our sale, the shares were split 3:1, but the company has performed poorly and the shares have lost 80-80% of their value to trade around 50-70 cents.

It response to subscribers enquiries, let us take a close look at what has happened to ERG.

Company History and Recent Changes

The company was originally formed in 1984 as **Energy Research Group** to research energy saving projects. The name changed to **ERG Australia** in 1987 and to **ERG** in 1994.

The company moved into its current businesses - Automated Fare Collection (AFC) systems and Smart Cards - following the 1988 acquisition of **Associated Electronic Systems** and the 1992 acquisition of Belgium based ticketing company **Prodata Electronics SA**.

Until recently, ERG operated two divisions: AFC (and smart cards) and Telecommunications. However, the Telecommunications businesses have been sold off. In June 2000, **ERG Connect** was sold to **Downer Group** for $38.0 million in shares (i.e. 58,460,000 Downer Group shares at 65 cents each) and in September 2000 ERG's telecommunications manufacturing business was sold to US based **SCI Systems** for $75 million in cash.

ERG has also taken over full ownership of its international AFC business by paying $46 million to buy out **Motorola**'s 50% share in the ERG Motorola Alliance.

Why We Sold In February 2000

ERG's share price rose strongly during 1999 and we followed the practice of "letting profits run". By February 2000 the shares hit $10.61 ($3.54 adjusted for the subsequent 3:1 split) and were looking very over-valued. The Price/Sales ratio was 7.9, the P/E ratio 127 and the Yield just 0.1%. The share price was inflated by both (1) institutional and index fund buying, after ERG was promoted to the Top 150 Index, and (2) the technology share boom. There had been slight insider selling (i.e. 1 buyer and 3 sellers).

In February 2000 we wrote "Assuming that the full year profit rises 50-100% the P/E is still 50-70" and that was "just too richly priced for us!". We also said "Our investment in ERG has demonstrated share prices can fluctuate between extremes of under-valuation and over-valuation. A correction in major overseas stockmarkets or in the technology sector would also leave ERG's share price vulnerable to a sharp decline. Sell ERG."

Recent Results

ERG grew well over recent years but has hit a glitch in the year to June 2001. This glitch *may* lead to the opportunity to buy back into ERG shares cheaply - or could lead to the demise of the company (i.e. it *could* fail financially or be taken over cheaply by a financially stronger competitor).

In the year to June 1998, revenues rose 20.5% to $239.1 million and profits rose 10.6% to $13,823,000. Earnings per share (adjusted for the 3:1 split) were 2.2 cents, down 10.8% owing to the issue of new shares to Motorola. The dividend was steady at 0.33 cent.

Revenues rose 10.8% to $265.0 million with profits up 47.1% to $20,345,000 (3.2 cents) for the year to June 1999. The dividend was raised 50.0% to 0.50 cent.

The year to June 2000 saw continued strong growth, with *operating* revenues up 35.9% to $360.3 million. Profits rose 73.0% to $35,205,000 (5.5 cents) and the dividend rose 33.3% to 0.67 cent.

The report for June 2001 *was* going to show operating revenues down 16.5% to $301.0 million but profits up 5.8% at $37,262,000 (5.8 cents). However, the auditors have questioned $31.2 million of licensing revenue (and profit) relating to one contract completed during the year. The auditor will not accept that "the consideration receivable is sufficiently measurable or that there is sufficient probability that economic benefit will flow".

ERG has therefore reported operating revenues 25.1% lower at $269.8 million and a profit 82.7% lower at $6,107,000 (0.96 cent per share). The dividend, however, is being raised 50.0% to 1.0 cent.

Even this result, however, is not quite accurate. It includes as revenue $48.6 million from the *sale* of its telecommunications manufacturing businesses and the $5,170,000 profit on this transaction. These are one-off transactions.

Revenue from *ongoing* businesses (i.e. AFC and smart cards) fell 3.1% to $233.4 million with earnings (before interest and tax) down 76.7% to $8,874,000. After deducting *unallocated expenses* the *trading* result was a profit of just $937,000.

The 2001 result was also achieved after expensing only $2.8 million in Research & Development (compared with expensing $26.9 million the previous year) and capitalising $39.6 million ($29.4 million previously) in R & D.

This 2001 result therefore indicates a very *low quality* to ERG's profits. Firstly, the directors had wanted to count $31.2 million of revenue and profit which the auditors would not accept. Secondly, if ERG were to *expense* all of its Research & Development in the year it was incurred, then historical reported profits would be significantly lower and the 2001 year would show a large loss.

ERG Continues to Win AFC Contracts

Research & Development, however, can be a positive factor if it builds new technology. Of course, the company must eventually turn that technology into revenues and earn a profit on those sales.

In the year to June 1999 the company spent $14.5 million on R & D, but this rose to $58.4 million in the year to June 2000 and $42.3 million to June 2001 as the company sought to aggressively expand new smart card applications. Unfortunately, most of this expenditure is capitalised (i.e. not written off as an expense), which can over-state current profitability.

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ERG was awarded many small AFC contracts over the last year - a handful of contracts in France (worth about $36 million in total), an $11 million contract to extend the Hong Kong AFC system to cover the Kowloon-Canton Railway Corporation light rail extensions, plus a $6 million contract to design the *systems specification* for an AFC project in Norway.

At year end (i.e. June 2001) ERG was awarded a major $40 million contract to install and operate an AFC system in Gothenburg, the second largest city in Sweden and the new financial year has started well with an ERG/Motorola joint venture named as preferred tender for the **Sydney Integrated Ticketing System** in August. ERG will now negotiate the final contract terms before the end of this calendar year, design the system, supply software and equipment, and then operate the AFC system for a period of ten years. This system will be introduced from mid 2003 and expected to be fully operational from early 2005.

High Debt Level Limits Growth Potential and Threatens Survival

ERG's most serious mistake was the February 2000 placement of 18,520,000 convertible notes at $13.50 each to raise $250 million. These notes paid 7.5% interest and noteholders may either convert each note to three ordinary shares (i.e. at a cost of $4.50 per share) or be repaid in cash in October 2005.

ERG should have taken advantage of its high share price and made a placement of ordinary shares and could have raised $250 million in *equity* while increasing its issued capital by only 12%. Such a placement would (1) have caused little *dilution* (i.e. issued capital would have increased only slightly), (2) saved $18.75 million per year in interest and (3) the company would now be in a strong financial position with very little interest bearing debt.

Unfortunately, with the collapse of the ordinary share price the noteholders will not seek conversion to ordinary shares in 2005 but will demand repayment in cash. ERG will therefore need to re-finance this $250 million by taking out new bank debts. This is a large sum for a company with Shareholders equity of only $250.2 million and which is struggling to generate a profit!

In fact, ERG probably should be raising large amounts of bank debt over the next few years to finance the working capital, plant and equipment involved in installing many large AFC contracts. The need to re-finance *existing* borrowings in four years - and the current high debt/equity ratio - therefore act to limit the company's growth potential. ERG must now focus on cash generation and debt repayment (to survive), *not* aggressive growth.

ERG is currently experiencing a revenue and profit glitch, but is in an unsound financial position owing to $300 million in interest bearing debts. This makes the company risky and the shares unattractive. On the other hand, if only ERG had issued ordinary shares in February 2000 it would now have Shareholders Equity of $500 million and interest bearings debts of just $50 million. A company with a strong balance sheet, but experiencing a revenue and profit glitch, could well be an attractive investment situation.

The market also appears to have some (not unreasonable) doubts about ERG's ability to repay its convertible notes in 2005. The $13.50 notes were trading on market at around $8.75 (but have since recovered to $9.40) when ERG indicated that it will seek to re-purchase an unspecified number of these convertible notes on-market. Buying back its own distressed securities is a good investment for ERG, but diverts cash flow from its AFC operation.

ERG's debts also include $30.9 million worth of convertible notes issued to Motorola in October 1997. These convert in October 2002 when Motorola can take either 54,536,967 shares (at a price of 55 cents) or $30.9 million in cash. Motorola has already sold its other ERG shares, so if ERG's share price is above 55 cents in October 2002, then Motorola will take ordinary shares and sell them on-market. This *overhang* of shares for sale will probably keep ERG's share price depressed over the next year. If ERG's share price is below 55 cents in October 2002, Motorola will ask for $30.9 million in cash - putting further pressure on ERG's cash flow and debt re-financing.

Investment Criteria

At 68 cents, ERG shares trade on an average Price/ Sales ratio 1.42, a very high Price/Earnings ratio of 69 and offer a Dividend Yield of 1.5%. The high P/E ratio represents *low earnings* rather than a *high share price*, but despite losing 90% of their value since early 2000, ERG shares would appear to be about fairly valued now (i.e. not necessarily under-valued).

On the other hand, the Price/Research ratio is attractive at 9.9. In the book *Super Stocks* (page 60), Kenneth Fisher suggests looking for companies with a ratio of 5-10. ERG therefore looks to be fairly valued in relation to its investment in Research & Development to create new products and services.

With a market capitalisation of $425 million, this once Top 50 Australian company should now be considered a medium sized company.

Directors have a moderate investment in ERG. Director and Chief Executive, PJ Fogarty holds 11,819,019 shares (1.9% of the company), EL Bolto holds 1,102,538 shares, AS Murdoch has 650,000 shares and GL Crew owns 61,011 shares. There have been no insider buys or sells on market over the last year.

Institutional investors have large shareholdings in ERG. Many of these shares were bought near the peak when ERG shares were included in the ASX 200 and ASX 100 indices, or in March this year when Motorola sold its 82.6 million ERG shares at $1.85 each.

When we originally bought into ERG in 1995 the shares were *neglected* (i.e. three brokers published profit forecasts) but today the shares are *widely followed* (i.e. by ten brokers). Neglected shares tend to be under-valued, but with ten brokers now following ERG the share price is more likely to reflect the company's fair value.

Technically ERG is an example of the type of shares that investors should avoid. The Relative Strength rating is -26.8%, with the shares ranked 87 (on a scale of 0-99). This is therefore a very weak share in a strong downtrend. Investors are often attracted to weak shares as they look under-valued. In a very few cases,

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share prices may bounce back, but overall, weak shares tend to under-perform the market and are therefore unattractive for investment.

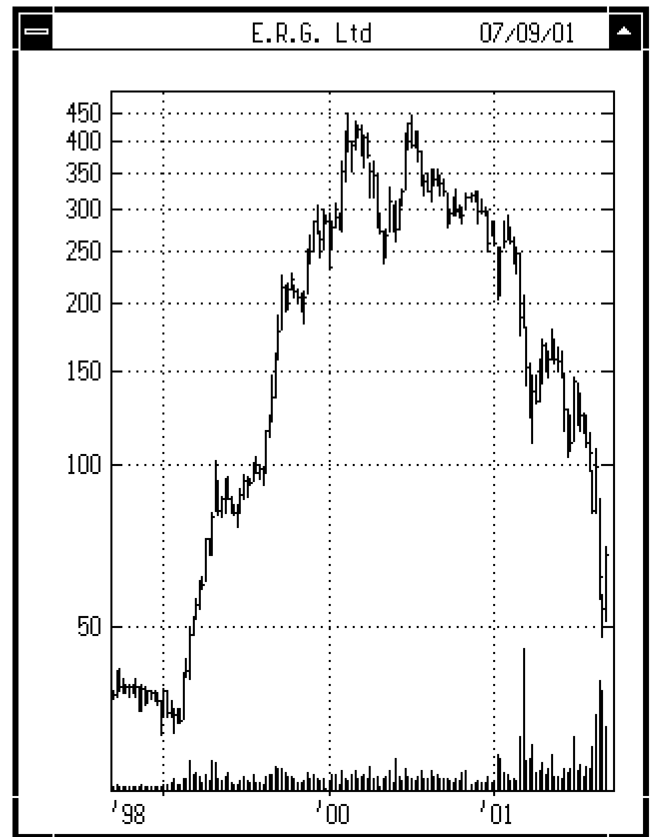
ERG shares have recently bounced up 40% off a low of 48½ cents to their current price of 68 cents, but this is unlikely to be a new recovery and we would expect to soon see the shares back around 50 cents.

Summary and Recommendation

ERG shares have lost 90% of their value - but that only confirms that the shares were *very over-valued* when we sold out of this company in February 2000. At best the shares are *fairly* valued - or a little *under-valued* today. Nevertheless, there are many unfavourable factors. ERG has failed to generate strong revenue growth and its profit margins are far too low. The company failed to raise equity capital when its share price was high, and now suffers under a huge debt burden that will hinder its ability to expand the business.

ERG is the emerging leader in the provision of AFC systems and will generate more recurring revenues and profits from operating many of the larger systems. <u>We believe that the overhang of the Motorola convertible notes will help keep ERG's share price depressed for at least the next twelve months</u>. Longer term the refinancing of the $250 million convertible notes in October 2005 is a major uncertainty for the company - and we would also want to see revenue growth, significantly higher profits (and better *quality* profits) *and* an improvement in the balance sheet before considering re-investing in ERG shares.

ERG is worth watching as a *potential* future investment, but there are far too many uncertainties for the shares to be worth *considering* for purchase at this stage. Perhaps in a few years.



Company Update: Scientific Services

The following update on a takeover situation was e-mailed to subscribers over the last month:

Scientific Services *was reviewed last year in Market Analysis (November 2000) when the shares traded around 38 cents. Management are now seeking to buyout the minority shareholders at 57 cents.*

The company has recently reported an 87.5% higher profit of A$5,930,000 (7.5 cents per share) for the year to June 30. This buyout is priced at only 7.6 times current earnings, but is supported by the board of directors. This low valuation, however, may attract an alternative buyer with a higher bid.

If the buyout is approved by shareholders, then NZ investors should seek to sell on-market to maximise their after tax return. The buyout offer is 50 cents per share plus a fully franked dividend of 7.0 cents. As NZ investors can <u>not</u> benefit from Australian franking credits the net value of the buyout to a NZ investor is about 54.3-54.7 cents after NZ income tax.

On the other hand, the net value to an Australian investor buying shares on-market is about 58.3 cents. It is therefore likely that Scientific Services shares will trade on-market at about 57-58 cents ahead of the buyout.

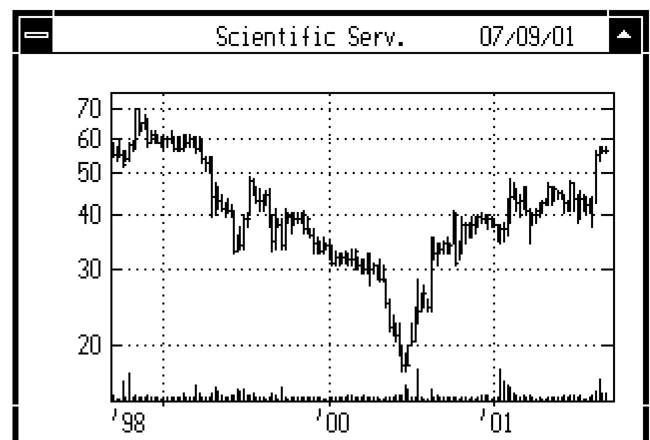
Summary and Recommendation

Investors with Scientific Services shares should continue to Hold over the next several weeks - in case a rival company enters the market with a higher bid!

If a second buyer does <u>not</u> emerge, NZ investors should eventually sell on-market at 56-58 cents for a tax-free capital gain rather than receive 50 cents tax-free and 7 cents taxable from the buyout.

Current Advice

No rival bidder has emerged since this management buyout was announced in mid-August, so it is probably safe for investors to now sell these shares on-market over the next couple of weeks for 56-57 cents. The management buy-out is worth only 54½ cents after tax to NZ investors.



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"Neglect" Ratings of NZ Shares

"Neglected" Shares = 1-6 Brokers, "Moderately Followed" Shares = 7-8 Brokers, "Widely Followed" Shares = 9 or more Brokers.

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
AMP NZ Office	6	415
Advantage Group	5	31
Air New Zealand	8	530
Akd Int Airport	8	1,599
Baycorp Hold	7	1,061
Bendon Limited	1	57
Brierley Invest	4	793
Cap Properties	3	106
Carter Holt	6	2,939
Cavalier Corp	3	176
Col FS Property	1	154
Contact Energy	6	199
DB Group	4	257
FC - Forests	8	834
Fisher & Paykel	6	1,630
Fletcher Build.	7	896
Force Corp.	1	15
Frucor Bev.	6	212
GDC Communicat.	2	75
Guiness Peat	2	960
Hallenstein G.	5	159
Hellaby Hold.	2	102
Horizon Energy	2	57
Ind Newspapers	7	1,443
Infratil NZ	3	308
Kiwi Property	5	287
Lion Nathan Ltd	5	2,965
Lyttelton Port	4	173
Mainfreight Grp	5	93
Metro. LifeCare	1	98
Michael Hill	5	170
Montana Group	7	1,017
NZ Refining Co	3	359
Natural Gas	7	759
Northland Port	2	85
Nuplex Indust	6	189
Owens Group Ltd	3	63
Pacific Retail	4	82
Port Tauranga	6	558
Ports Auckland	7	750
Property F Ind.	6	148
Restaurant Brds	6	147
Ryman Health.	1	206
Sanford Limited	5	622
Sky City Ltd	7	1,138
Sky Network TV	7	1,382
Steel & Tube	6	173
Tasman Agric.	2	184
Telecom Corp	8	8,764
Tourism Hold.	6	139
Tower Limited	4	911
Trans-Tasman	4	106
Tranz Rail Hold	6	507
Trust Power Ltd	5	568
United Networks	5	1,251
Warehouse Group	7	1,707
Waste Mgmt NZ	6	329

"Neglect" Ratings of Australian Shares

"Neglected" Shares = 1-4 Brokers, "Moderately Followed" Shares = 5-10 Brokers, "Widely Followed" Shares = 11 or more Brokers.

Company	No. of Brokers Following Company	Market Capital-isation (A$ Mill.)
A.G.L.	12	3,094
A.P. Eagers	1	61
AMP Ind Prop Tr	5	349
AMP Ltd	11	20,998
AMP Office Trt	7	876
ANZ Bank	17	23,892
APN News Media	10	1,061
ARB Corporation	1	110
Adelaide Bank	9	565
Adelaide Bright	3	369
Adsteam Marine	7	416
Adtrans Group	1	45
Amalgamated Hld	1	236
Amcor Ltd	10	3,875
Amrad Corp.	1	94
Anaconda Nickel	2	319
Aristocrat	9	3,168
Asia Pac Spec	1	30
Atkins Carlyle	2	107
Aurora Gold	1	20
Ausdoc Group	6	126
Auspine Ltd	1	128
Aust Infra.	5	230
Aust Gth Prop.	1	139
Aust Stock Exch	9	1,218
Aust Pharm. Ind	4	497
Australand Hold	4	752
Austrim Nylex	2	88
B.H.P.	12	17,454
BRL Hardy Ltd	11	1,761
BT Office	8	0
Bank of W.Aust	9	2,100
Bendigo Bank	7	743
Biota Holdings	4	34
Brambles Ind.	9	9,789
Brandrill	5	79
Brazin Limited	4	165
Breakwater Is.	2	42
Brickworks Ltd	4	929
Bristile Ltd	5	352
Burns Philp	3	297
Burswood Ltd	7	298
C & W Optus	12	14,315
C.S.R. Ltd	9	6,244
CI Technologies	4	115
CPI Group	4	32
CSL Limited	11	7,041
Caltex Austrlia	2	378
Campbell Bros	2	161
Candle Aust.	5	38
Capral Alum.	5	152
Centro Prop.	7	1,036
Challenger Int.	6	843
Clough Limited	1	348
Coal & Allied	2	2,078
Coates Hire	5	99
CocaCola Amatil	11	5,460
Cochlear Ltd	10	2,474
Coles Myer	14	8,246
Com'wealth Bank	16	35,593
Computer Share	13	2,747
Cons Rutile	2	158
Corp Express	9	971
Crane Group	4	308
Cranswick Wines	4	54
DCA Group Ltd	4	132
Data 3 Ltd	1	6
David Jones	12	461
Delta Gold NL	10	488
E.R.G.	10	425
ETRADE Aust.	1	44
Emperor Mines	2	30
Energy Develop.	8	671
Energy Resource	2	279
Envestra	8	500
Fairfax (John)	11	2,726
Faulding (F.H.)	10	2,490
Fleetwood Corp	1	41
Flight Centre	5	2,223
Foodland Assoc	9	1,189
Forrester Kurts	3	102
Freedom Group	5	112
Futuris Corp.	7	1,086
G.U.D. Holdings	2	116
GWA Internat'l	4	652
Gandel Retail T	9	1,437
General Prop Tr	9	4,830
Goldfields	7	359
Goodman Fielder	11	1,689
Graincorp	3	470
Grand Hotel	3	176
Gunns Ltd	3	326
Gympie Gold	1	80
Hardie (James)	6	2,278
Harvey Norman	10	4,124
Healthscope	2	142
Hill 50 Gold	4	104
Hills Motorway	10	1,008
Hills Indust.	4	333
Homemaker Prop.	3	205
Illuka Resource	11	858
Ipoh Garden	1	226
Jupiters	11	1,086
Just Jeans Grp	2	110
K&S Corporation	2	61
Keycorp ltd	5	90
Lang Corporatio	7	1,955
Leighton Hold	9	2,649
Lend Lease Corp	13	4,661
Lihir Gold	11	1,028
M.I.M. Holdings	14	1,825
Macquarie Off.	5	798
Macquarie C'Wde	6	496
Macquarie Bank	7	6,982
Macquarie Infra	6	3,210
Mayne Nickless	10	2,912
McGuigan Wines	5	172
Micromedical	2	92
Millers Retail	8	698
Namoi Cotton	2	32
Nat'l Aust Bank	16	45,069
Nat'l Foods	8	690
Nautronix Ltd	4	46
Newcrest Mining	12	1,063
News Corporatio	12	31,356
Norm Mt Leyshon	5	30
Normandy Mining	12	2,943
Normandy NFM	7	629
Novogen Ltd	3	111
Novus Petroleum	6	297
OPSM Protector	5	521
Oil Search Ltd	9	444
Orbital Engine	2	206
Orica Ltd	9	1,263
Orogen Minerals	5	318
PMP Limited	7	155
Pacific Dunlop	9	698
Pacific Mining	2	169
Pacific Hydro	6	487
Pacifica Group	10	534
Pasminco Ltd	10	81
Perp Trust Aust	10	1,596
Petaluma Ltd	7	159
Peter Lehman W.	5	108
Petroz NL	1	158
Polartechnics	2	85
Portman Mining	3	214
PowerTel Ltd	5	142
Pracom Ltd	4	43
Prime Retail	3	99
Prime TV	4	202
Prophecy Int'l	2	12
Publishing & Br	11	6,066
Q.B.E. Insur.	7	4,706
Qantas	13	3,586
Queens'd Cotton	5	89
Ramsay Health	10	476
Ranger Minerals	5	53
Rebel Sport	2	109
Ridley Corp.	3	209
Rio Tinto Ltd	15	17,205
Rock Building	1	37
Rural Press Ltd	8	523
Santos Ltd	13	3,709
Scientific Serv	1	44
Sea World PT	1	168
Seven Network	10	1,849
Simeon Wines	8	171
Simsmetal Ltd	7	527
Singleton Group	5	495
Skilled Eng.	6	60
Smith (Howard)	8	2,928
Smorgon Steel	5	794
Solution 6	4	163
Sonic Health	9	1,934
Sons of Gwalia	9	903
Soul Pattinson	3	1,186
Southcorp Ltd	13	5,845
Spotless Group	7	1,306
St George Bank	14	6,724
Sthn Cross Brd.	6	413
Stockland Trust	8	3,078
Straits Res.	1	24
Strathfield Grp	1	55
Sydney Aquarium	1	77
TAB Ltd	12	1,320
TDG Logistics	2	47
Tabcorp Holding	11	3,313
Tap Oil	4	161
Telecasters Aus	2	258
Telemedia Serv.	5	0
Telstra	16	31,397
Tempo Services	6	219
Ten Network	9	718
Thakral Holding	3	349
Ticor Ltd	7	266
Toll Holdings	8	1,535
United Energy	9	1,137
Villa World	2	64
Village Road.	6	420
Watpac Ltd	1	23
Wattyl Ltd	2	125
Wesfarmers Ltd	10	11,951
West Aust News	8	1,139
West'n Metals	5	61
Western Mining	15	9,442
Westfield Hold.	11	9,496
Westfield Trust	9	5,831
Westfield Amer.	6	1,938
Westpac Banking	16	23,483
Wide Bay Cap'n	1	86
Woodside Petrol	12	9,195
Woolworths Ltd	14	11,660

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"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before	After
17/08/2001					
Calan Heathcare	Armstrong Jones	Buy	+6.493	0.0%	5.01%
E-cademy	Matrix Global	Buy	+200.00	0.0%	57.40%
Property For Industry	Armstrong Jones	Sell	-2.716	8.42%	7.05%
Rubicon Ltd	Castlerigg Master	Buy	+4.500	3.75%	5.10%
Southern Capital	Armstrong Jones	Sell	-1.337	11.59%	9.87%
Tower Limited	Perpetual Trustees	Sell	-1.949	5.79%	4.70%
24/08/2001					
Advantage Group	AXA Asia Pacific	Sell	-2.408	7.23%	3.60%
Force Corporation	AXA Asia Pacific	Sell	-2.459	6.73%	4.79%
Opio Farm Forestry	LK Hastings Trust	Buy	+2.098	3.16%	17.18%
Spectrum Res.	DF Mainland	Buy	+15.460	0.0%	5.04%
31/08/2001					
Genesis Research	AMP	Buy	+1.642	0.0%	6.38%
Rubicon Ltd	Credit Suisse	Sell	-4.550	6.69%	5.40%
07/09/2001					
Genesis Research	Arcus Inv Mgmt	Buy	+0.200	6.00%	7.07%
Mainfreight	Shamrock Holdings	Sell	-4.250	8.26%	2.35%
Rubicon Ltd	Credit Suisse	Sell	-2.597	5.40%	4.67%

Total Return Index for All Listed Shares

Aug 13	2155.67	Aug 20	2142.27
Aug 14	2145.52	Aug 21	2134.17
Aug 15	2147.16	Aug 22	2131.52
Aug 16	2149.58	Aug 23	2130.53
Aug 17	2150.64	Aug 24	2136.49
Aug 27	2146.27	Sep 3	2126.04
Aug 28	2148.48	Sep 4	2122.63
Aug 29	2148.01	Sep 5	2120.23
Aug 30	2139.59	Sep 6	2108.40
Aug 31	2129.44	Sep 7	2086.73

Current Issues

SHARE REPURCHASES

	Details
Port of Tauranga	1:8 @ $7.00

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Vending Technologies	1:10	250	14-09	12-10

NEW ISSUES

	Price	Date	EPS	DPS
Wakefield Hospital	250	03-09	21.4	7.3

Dividend$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
AMP NZ Office Trust	3.5899	17-09	21-09	Nil
Auckland Int'l Airport	6.25	08-10	19-10	Full
Capital Properties	2.175	10-09	21-09	0.20
Cavalier Corporation	16.00	08-10	12-10	Full
Colonial Motor Company	8.00	29-10	05-11	Full
Ebos Group	7.50	08-10	12-10	Full
Fletcher Building	6.00	12-09	27-11	Full
Frucor Beverages	4.00	03-09	11-09	Full
GDC Communications	1.75	27-08	31-08	Full
Independent Newspapers	4.50	29-10	06-11	Full
Lyttelton Port Company	6.75	01-10	05-10	Full
Michael Hill International	8.50	22-10	29-10	Full
National Property Trust	1.2219	27-08	07-09	0.2098
NZ Refining Company	50.00	24-09	28-09	Full
Nuplex Industries	7.00	08-10	19-10	Full
Port of Tauranga	15.00	22-10	02-11	Full
Ports of Auckland	12.00	10-09	14-09	Full
Reid Farmers	7.00	20-08	14-09	Full
Restaurant Brands	4.50	17-09	28-09	Full
Sky City Ltd	35.00	24-09	05-10	Full
South Port NZ	3.50	08-10	02-11	Full
Steel & Tube Holdings	9.00	03-09	07-09	Full
Taylors Group	4.00	17-09	05-10	Full
Telecom NZ	5.00	03-09	14-09	Full
Tourism Holdings	5.00	15-10	22-10	Full
United Networks	17.00	27-08	07-09	Full
Waste Management NZ	2.50	03-09	07-09	Full
Wrightsons Ltd	7.00	03-09	17-09	Full
Australian Shares				
AMP Ltd	25.00	09-10	25-10	
Atlas Pacific conv notes	0.9452	03-09	24-09	
Auspine	6.00	01-10	05-10	
Central Equity	3.00	28-09	04-10	
Commander Com.	2.50	26-09	19-10	
Julia Ross Recruitment	3.00	05-10	19-10	
McPhersons	6.00	11-10	31-10	
Thakral Holdings Group	3.25	20-09	28-09	
Toll Holdings	18.00	15-09	28-09	
Toll Holdings notes	45.62	15-09	01-10	
Vision Systems	1.80	11-09	28-09	
Volante Group	7.50	15-09	28-09	

Next Issue

The next issue of *Market Analysis* will be posted in five weeks time on Tuesday October 16, 2001 (and delivered in most areas on Wednesday 17).

Subscribers who have updated their account online with an e-mail address will also receive the Electronic version in their e-mail Tuesday morning.

Office Closed: September 14-25

The office will be closed for a few days this month while your Editor and family take a short holiday.

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