

Market Analysis

Issue No. 360

P.O. Box 34-162, Auckland

June 11, 2002.

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Summary and Recommended Investment Strategy.

Our stockmarket forecasts are Neutral - but there are plenty of attractive investment opportunities - so remain close to fully invested in the recommended equities.

Investment Outlook.

The rapid rise in the Australian and NZ dollars make an unfavourable environment for shares. What companies will benefit from the higher exchange rate? Not many. Perhaps a few importers like **Colonial Motors, Nuplex, Renaissance, Cellnet, McPhersons** and **Volante** - but all can be sensitive to a general economic downturn caused by a higher dollar.

A higher exchange rate has a generally negative impact on the productive sectors of the economy, but stimulates consumption - especially on imports. Exporting companies and farmers receive less from their production and face greater price competition in foreign markets. Domestic companies face increased competition from cheaper imports.

In practice the only real solution to exchange rate fluctuations - and other external economic factors - is to seek (1) under-valued shares (which can be great investments even in a difficult economic environment) and (2) businesses with competitive advantages in niche markets. For example, **Lyttelton Port** and **South Port** are natural monopolies servicing local industries and should remain profitable - despite small fluctuations in import and export volumes as a result of exchange rate movements. **Atlas Pacific** has a competitive advantage as a low cost, high quality pearl farmer - so should be a sound long term investment, although this business can be very volatile. **Toll Holdings** has a strong competitive advantage in transport and logistics, so managed to perform very strongly over the last two years despite significant increases in fuel costs. **Julia Ross Recruitment** and **Skilled Engineering** are sensitive to economic cycles, but have strong niche businesses in two high growth sectors, temporary labour hire and outsourcing.

Our forecasts for the Australian and New Zealand stockmarkets are Neutral, so we shall remain fully invested in the *Portfolio of Recommended Investments*.

Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	58% (Neutral)	57% (Neutral)
New Zealand:	55% (Neutral)	49% (Neutral)



Performance Forecasts

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

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A. Barnett Ltd	C	82	0.40	23	Nil	Finzsoft Sol'ns	C	49	0.09	NE	Nil	Pure NZ Limited	D	12	9.52	NE	Nil
AMP Limited	C	1980	3.07	27	3.1	Fletcher Build.	B	283	0.43	29	6.3	Pyne Gould G.	C	111	0.58	8	9.4
AMP NZ Office	C	87	6.41	10	8.2	Force Corp.	B	6.0	0.59	NE	Nil	Renaissance	D	38	0.07	NE	Nil
AXA Asia Pac.	B	358	0.60	13	3.3	GDC Communicat.	B	130	0.72	14	4.0	Restaurant Brds	B	207	0.75	16	7.2
Advantage Group	D	45	0.40	36	Nil	Genesis Res.	C	268	3.50	NE	Nil	RetailX Limited	C	22	N/A	NE	Nil
Affco Holdings	E	22	0.04	8	Nil	Goodman Fielder	B	197	0.59	14	5.1	Richina Pacific	C	70	0.08	15	Nil
Air New Zealand	E	57	0.05	NE	Nil	Guinness Peat	B	167	0.85	6	2.0	Richmond Hold.	D	230	N/A	NE	Nil
Akd Int Airport	A	437	N/A	31	3.8	Hallenstein G.	C	274	0.94	14	10.1	Rocom Wireless	D	20	0.30	NE	Nil
Allied Farmers	D	215	0.41	NE	Nil	Hellaby Hold.	B	272	0.36	10	8.2	Rubicon Limited	C	66	2.49	NE	Nil
Apple Fields	D	15	1.07	NE	Nil	Heritage Mining*	N/R	5.0	4.20	NE	Nil	Ryman Health.	C	180	3.01	13	3.1
Beauty Direct	E	12	4.47	NE	Nil	Horizon Energy	A	1650	3.16	11	7.7	Sanford Limited	C	550	1.46	20	5.4
Blis Technology	D	50	N/A	NE	Nil	IT Capital Ltd	D	5.0	3.16	NE	Nil	Savoy Equities	D	3.3	6.23	NE	Nil
Brierley Invest	C	59	1.38	NE	Nil	Ind Newspapers	B	385	3.02	60	3.3	Scott Tech. Ltd	C	185	2.18	87	2.8
Briscoe Group	B	226	1.87	27	4.3	Infratil NZ	B	193	2.30	16	2.3	Seafresh Fish.	E	2.0	0.27	NE	Nil
Broadway Ind	C	44	0.24	12	Nil	Kingsgate Int'l	C	18	0.94	7	Nil	Selector Group	D	2.8	4.12	NE	Nil
CACI Group Ltd	C	49	N/A	NE	Nil	Kirkcaldie & St	A	395	0.59	10	13.2	Shotover Jet	D	46	0.80	9	Nil
CDL Hotel NZ	C	25	0.43	8	4.2	Kiwi Property	B	101	5.77	9	10.3	Sky City Ltd	B	650	2.95	19	7.2
CDL Investments	E	19	1.71	46	Nil	Lion Nathan Ltd	B	577	1.65	17	3.4	Sky Network TV	D	460	5.96	NE	Nil
Cabletalk Group	E	36	N/A	NE	Nil	Lyttelton Port	A	188	3.28	14	8.1	Software of Exc	E	240	3.73	NE	Nil
Cadmus Tech Ltd	E	8.0	1.42	24	Nil	Mainfreight Grp	C	128	0.23	27	7.6	South Port NZ	C	166	3.40	20	5.4
Calan Hlthcare	C	83	6.74	12	8.2	Metro. LifeCare	C	128	1.32	16	Nil	Southern Cap	E	64	N/A	37	Nil
Cap Properties	C	92	2.29	9	10.7	Michael Hill	B	503	1.02	19	4.5	Spectrum Res.	D	1.7	1.30	NE	Nil
Carter Holt	B	200	0.91	13	3.0	Mid-Cap Index*	N/R	213	N/A	NE	Nil	Steel & Tube	A	290	0.65	17	8.2
Cavalier Corp	A	630	1.05	16	7.6	Mooring Systems	D	105	N/A	NE	Nil	Straightedge	D	48	N/A	NE	Nil
Cedenco Foods	C	209	1.21	8	Nil	Mowbray Collect	C	78	N/A	NE	Nil	Strathmore Grp	C	2.7	N/A	NE	Nil
Cert Organics	E	0.6	N/A	NE	Nil	Mr Chips Hold	C	115	1.08	17	8.4	Submarines Aust	C	10	N/A	NE	Nil
Col FS Property	C	108	6.16	11	9.8	NZ Experience	D	12	0.95	36	Nil	Summit Gold Ltd*N/R	12	N/A	NE	Nil	
Col Motor Co	B	285	0.23	16	7.3	NZ Invest Trust*	N/R	500	N/A	NE	1.7	Tag Pacific Ltd	D	12	0.23	NE	Nil
Commsoft Group	D	1.0	0.14	NE	Nil	NZ Oil and Gas *	N/R	43	1.93	24	Nil	Taylor's Grp Ltd	A	160	0.87	13	6.5
Compass Com.	D	34	N/A	NE	Nil	NZ Refining Co	A	1675	2.25	11	15.6	TeNZ *	N/R	94	N/A	NE	Nil
Contact Energy	B	401	2.21	19	7.1	NZIJ.co.nz	D	25	N/A	NE	Nil	Telecom Corp	B	520	1.71	12	5.7
Cube Capital	C	35	0.56	14	Nil	Nat Property Tr	C	93	7.04	15	9.9	Tourism Hold.	B	96	0.43	7	14.0
Cue Energy Ltd *	N/R	5.6	1.33	3	Nil	Natural Gas	D	112	1.15	10	Nil	Tower Limited	C	479	0.74	12	6.3
DB Breweries	B	591	1.07	13	6.8	Newcall Group	E	2.0	0.15	NE	Nil	Trans-Tasman	D	28	1.58	9	Nil
Dairy Brands	C	61	2.80	11	Nil	Newmarket Prop.	C	51	3.88	9	12.9	Tranz Rail Hold	C	340	0.65	15	2.5
Design Textiles	C	70	0.43	89	Nil	Northland Port	C	265	3.99	NE	Nil	Trust Power Ltd	C	340	1.03	NE	5.6
Dorchester Pac	B	143	0.60	7	6.9	Nuhaka Forestry	B	951	2.52	NE	5.8	United Networks	B	770	2.56	10	6.8
E-Ventures NZ	D	31	6.37	NE	Nil	Nuplex Indust	C	318	0.46	13	7.0	Utilico Int'l	D	66	6.12	9	Nil
E-cademy Hold.	D	0.3	N/A	NE	Nil	Opio Forestry	D	55	N/A	NE	Nil	Vending Tech.	C	195	3.44	14	Nil
Ebos Group Ltd	C	325	0.82	16	6.4	Otter Gold Mine*	N/R	39	0.34	NE	Nil	WN Drive Tech.	E	25	N/A	NE	Nil
Eldercare NZ	D	25	1.15	NE	Nil	Owens Group Ltd	C	109	0.16	13	6.8	Wakefield Hosp.	B	132	N/A	6	5.5
Elect Trans Tec	E	4.5	3.46	NE	Nil	Ozzy (Tortis)*	N/R	227	N/A	NE	Nil	Warehouse Group	A	760	1.37	36	2.5
Evergreen	C	61	2.59	13	Nil	Pacific Retail	A	301	0.34	9	Nil	Waste Mgmt NZ	B	295	1.87	22	3.8
F & P Health.	D	900	4.29	15	4.1	Port Tauranga	A	775	7.89	28	4.6	Williams Kettle	B	360	0.29	8	8.3
F & P Appliance	B	970	1.94	30	3.8	Ports Auckland	A	682	5.72	20	4.6	World Index Fd *	N/R	135	N/A	NE	Nil
FC - Forests	E	26	1.12	NE	Nil	Powerco Limited	B	200	2.73	13	9.8	Wrightsons Ltd	C	105	0.20	13	11.4
Feverpitch Int.	D	30	N/A	NE	Nil	Property F Ind.	C	87	8.09	40	7.9	Ave of 140 Cos	C	219	0.52	21	3.1
AMP Diver. Prop	B	265	9.81	14	7.4	Deutsche Div Tr	B	121	7.14	14	7.2	Nufarm Limited	B	400	0.45	12	4.5
AMP Ltd	B	1690	0.68	16	2.8	Deutsche Ind Tr	B	174	6.52	16	8.5	Onesteel Ltd	C	129	0.22	NE	4.7
AMP Office Trt	B	128	N/A	15	6.9	Downer EDI Ltd	C	73	0.35	13	2.9	Orica Ltd	A	934	0.62	42	1.7
AMP Shop Centre	B	144	7.41	16	7.6	Envestra	D	85	1.96	NE	10.9	Origin Energy	B	344	1.17	20	1.2
ANZ Bank	B	1989	4.59	16	3.7	Fairfax (John)	C	348	1.92	20	3.3	Pacifica Group	B	407	0.51	NE	2.1
APN News Media	B	372	2.67	33	4.0	Flight Centre	B	2850	0.81	57	1.0	Paperlin X Ltd	B	530	0.72	16	5.1
AWB Limited	B	423	0.53	12	5.2	Foodland Assoc	A	1901	0.47	31	2.9	Patrick Corp	B	1698	3.91	39	1.0
AXA Asia Pac	B	307	1.03	14	4.0	Foster's Group	C	466	2.33	19	3.1	Perp Trust Aust	B	4527	5.26	31	1.9
Adelaide Bank	B	748	1.26	19	4.0	Futura Corp.	B	146	0.15	11	5.5	Publishing & Br	D	912	2.34	NE	2.2
Alintagas Ltd	B	421	3.07	21	2.6	GWA Internat'l	B	237	1.15	16	6.8	Q.B.E. Insur.	C	703	0.43	NE	4.3
Amcor Ltd	A	846	0.94	19	3.3	Gandel Retail Tr	B	125	8.16	15	7.0	Qantas Airways	A	447	0.57	14	4.5
Ansell Ltd	B	658	0.27	NE	0.8	General Prop Tr	B	282	8.03	14	7.0	Ramsay Health	B	418	1.35	33	2.0
Aristocrat	B	593	3.44	31	2.0	Globe Int'l Ltd	C	195	4.60	72	Nil	Reece Australia	A	730	1.37	26	7.8
Aust Pipeline	B	245	2.48	19	9.0	Goodman Fielder	C	168	0.67	NE	4.5	Rio Tinto Ltd	A	3510	0.86	5	3.3
Aust Pharm. Ind	C	334	0.40	23	3.7	Graincorp	A	1260	0.99	11	5.7	Rural Press Ltd	B	470	1.23	22	3.0
Aust Gas Light	B	977	1.00	30	5.3	Guinness Peat	B	145	3.16	14	0.4	STW Comm Group A	A	412	N/A	32	1.8
Aust Stock Exch	B	1387	7.11	28	3.1	Gunns Ltd	A	756	2.51	34	2.1	Seven Network	C	567	1.25	93	3.6
Austereo Group	C	163	8.25	56	2.1	Harvey Norman	C	294	4.34	28	1.4	Sigma Company	C	429	0.35	27	2.3
Australand Hold	B	154	0.60	9	7.8	Hills Motorway	C	503	9.21	NE	3.4	Simsmetal Ltd	B	693	0.45	15	4.6
BRL Hardy Ltd	C	912	2.04	22	2.2	ING Indust Trt	B	173	N/A	13	7.6	Smorgon Steel	C	118	0.36	NE	2.5
Bank of W.Aust	B	467	4.69	18	3.7	ING Office Fund	B	124	7.95	14	8.5	Sonic Health	C	528	1.92	46	3.2
Baycorp Advant.	C	353	4.87	29	2.8	ION Limited	B	307	3.07	34	1.6	Southcorp Ltd	C	560	1.12	19	3.8
Bendigo Bank	B	703	3.42	24	5.8	Incitec	A	860	1.06	16	3.3	Spotless Group	B	434	0.44	23	4.8
Bidvest	A	470	0.34	19	1.9	Insurance Aust.	B	327	1.08	37	3.1	St George Bank	A	2001	2.42	24	3.2
Billabong Int'l	A	945	4.87	45	1.4	Investa Prop.	B	213	8.93	9	6.5	Sthn Cross Brd.	C	908	1.55	16	5.9
Boral Limited	A	395	0.64	15	4.6	James Hardie	A	619	2.38	49	1.6	Stockland Trust	B	454	5.13	16	6.4
Brambles Ind.	B	905	2.20	56	2.3	Jupiters	A	526	1.63	16	3.6	Suncorp-Metway	B	1230	1.13	12	3.7
Brickworks Ltd	A	668	6.62	15	2.1	Leighton Hold	A	1068	0.64	18	3.7	TAB Ltd	B	325	1.94	22	3.7
Burns Philp	B	66	0.32	5	Nil	Lend Lease Corp	C	1040	0.39	30	2.0	Tabcorp Holding	A	1255	2.54	25	4.1
C'wth Prop Off.	B	125	8.93	15	6.7	Macquarie Off.	B	134	9.28	14	8.0	Telstra	C	455	1.27	7	4.2
C.S.R. Ltd	B	633	0.82	11	3.8	Macquarie C'Wde	B	173	9.93	15	7.6	Ten Network	B	220	1.26	47	6.5
CSL Limited	C	3549	6.22	68	0.7	Macquarie Infra	B	325	9.55	49	2.8	Toll Holdings	A	3485	1.30	43	0.9
Centro Prop.	B	384	N/A	17	6.5	Macquarie Good.	B	150	N/A	15	7.6	Transurban Grp	C	410	6.82	NE	Nil
Challenger Int.	C	284	0.76	5	3.0	Macquarie Bank	B	3015	2.51	21	3.1	United Energy	C	215	1.85	19	8.0
Coal & Allied	A	2825	1.58	12	2.7	Maytag Group Ltd	C	426	0.50	12	3.1	W.M.C. Limited	B	947	2.85	26	3.1
CocaCola Amatil	B	616	1.12	20	2.3	Metacash Trading	A	239	0.23	25	2.1	Wesfarmers Ltd	B	2773	2.09	35	2.6
Cochlear Ltd	C	3590	8.40	60	1.1	Mia Group Ltd	C	93	2.59	30	3.3	West Aust News	B	508	3.20	16	6.3
Col FS Property	B	225	5.77	13	8.0	Millers Retail	C	255	0.78	22	10.5	Westfield Trust	B	344	8.26	15	6.7
Coles Myer	C	661	0.24	39	3.9	Mirvac Group	B	419	3.12	16	5.9	Westfield Hold.	B	1543	6.43	48	1.0
Com'wealth Bank	B	3405	2.33	18	4.0	Mirvac Property	B	178	9.75	15	6.4	Westfield Amer.	B	202	2.58	16	6.9
Computer Share	C																

Recommended Investments

Colonial Motor Company may do well from the higher exchange rate. The *decline* in the NZ dollar from 1997 to 2000 boosted export activity which, over the last year led to strong demand for large trucks to transport higher export volumes. New car sales have also been increasing. The *higher* exchange rate may lead to a decline in demand for trucks to service the export sector, but *may* stimulate consumer spending and create higher demand for cars which have become cheaper as a result of the higher exchange rate.

Nuplex Industries is "disappointed" that the directors of **Asia Pacific Specialty Chemicals** have advised shareholders to "take no action in relation to Nuplex's takeover offer" at 70 cents per share. A month ago the directors were recommending the **Symex Holdings** bid at 65 cents "in the absence of a better offer".

Nuplex Industries also wants Asia Pacific Specialty Chemicals to release the *independent* valuation report commissioned in response to the original Symex offer.

The problem, however, is that the Nuplex bid is conditional on 90% acceptances while Symex owns 19.99% of the target. So unless (1) Nuplex waives that condition or (2) comes to an arrangement with Symex to buy its shares there really is no serious takeover bid that Asia Pacific Specialty Chemicals shareholders can accept.

Nuplex has built its own shareholding up to 11.52% on-market, so similarly blocks the Symex bid. If shareholders attempt to accept either bid they simply tie their shares up and cannot either (1) trade them on-market or (2) accept the alternative bid if its minimum acceptance condition is removed. Accepting either bid at this stage simply gives Nuplex or Symex an option to buy. The bidders can walk away (*Continued on Page 4*)

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Recommendation		Performance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %	
		Code	- Date -										Price
NZ Shares													
HOLD	CDL Investments Ltd	CDI	12/01/99	25	E	187.1	2.1	1.71	46	Nil	19	6.1	-2%
HOLD+	Cavalier Corporation	CAV	05/12/95	312	A	31.5	0.7	1.05	16	7.6	630	180.5	+160%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.6	0.23	16	7.3	285	219.8	+237%
HOLD+	Lyttelton Port Company	LPC	12/12/00	150	A	101.8	0.7	3.28	14	8.1	188	14.0	+35%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.6	0.6	1.02	19	4.5	503	90.0	+1189%
HOLD	Nuplex Industries Ltd	NPX	11/02/97	350	C	58.6	0.8	0.46	13	7.0	318	59.0	+8%
HOLD	Renaissance Corp	RNS	13/08/96	85*	D	37.1	2.0	0.07	NE	Nil	38	7.4	-47%
BUY	Richina Pacific	RCH	03/11/95	119*	C	72.2	1.6	0.08	15	Nil	70	11.9	-31%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.9	3.40	20	5.4	166	59.0	+88%
BUY	Steel & Tube Holdings	STU	08/08/00	146	A	87.8	0.9	0.65	17	8.2	290	42.0	+127%
BUY	Taylors Group Ltd	TAY	09/11/99	102	A	24.3	0.9	0.87	13	6.5	160	17.0	+74%
BUY	Wrightson Limited	WRI	13/01/98	83	C	134.1	1.4	0.20	13	11.4	105	21.8	+53%
Australian Shares (in Aust cents)													
HOLD+	Abigroup Limited	ABG	09/03/99	265	B	47.7	0.8	0.15	6	5.0	239	45.0	+7%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	A	82.5	1.4	3.23	9	8.6	47	4.0	-31%
HOLD+	Auspine Limited	ANE	08/02/00	210	A	57.0	0.7	0.66	10	5.0	239	41.0	+33%
HOLD+	Austral Coal Ltd	AUO	16/01/01	19	B	134.2	1.1	0.67	13	Nil	65	Nil	+242%
HOLD-	Biron Capital Ltd	BIC	12/04/94	171*	C	25.5	1.7	1.67	32	Nil	33	10.5	-75%
BUY	Brazin Limited	BRZ	11/12/01	160	B	116.4	0.9	0.68	24	5.4	233	8.5	+51%
HOLD+	Campbell Brothers Ltd	CPB	12/10/99	418*	B	38.8	0.5	0.61	19	5.5	550	55.5	+45%
BUY	Cellnet Telecommunicat	CLT	12/02/02	152	C	49.3	1.0	0.27	9	6.5	138	4.0	-7%
SELL	Central Equity Ltd	CEQ	09/02/94	154	C	86.2	0.9	0.68	7	8.5	176	100.0	+79%
HOLD+	Commander Comm.	CDR	11/09/01	92	C	143.8	1.2	0.54	10	3.4	73	2.5	-18%
HOLD	C.S.R. Limited	CSR	11/07/00	436	B	936.2	0.7	0.82	11	3.8	633	36.0	+53%
BUY	Julia Ross Recruitment	JRR	14/08/01	92	B	57.4	1.0	0.39	10	5.6	108	6.0	+24%
BUY	McPherson's Ltd	MCP	10/10/00	125	A	39.2	0.7	0.30	7	5.8	206	18.0	+79%
HOLD	Nufarm Limited	NUF	11/02/97	418*	B	155.3	0.8	0.45	12	4.5	400	88.3	+17%
HOLD+	OAMPS Limited	OMP	15/05/01	198	B	44.8	0.7	0.39	14	5.4	315	14.0	+66%
BUY	Skilled Engineering	SKE	12/03/02	126	C	84.2	0.9	0.21	NE	Nil	137	4.0	+12%
HOLD-	Toll Holdings ¹	TOL	08/09/98	240	A	68.8	0.5	1.30	43	0.9	3485	94.0	+1391%
HOLD	Utility Services Corp	USC	11/01/00	55*	B	95.8	1.4	1.20	NE	6.2	65	11.0	+38%
BUY	Villa World Ltd	VWD	11/06/02	68	A	102.9	1.1	0.41	13	5.1	68	Nil	+0%
HOLD	Vision Systems Ltd	VSL	10/11/98	69*	C	159.3	1.0	1.57	16	2.1	163	18.0	+162%
HOLD+	Volante Group Ltd	VGL	13/03/01	132	C	68.0	1.1	0.22	11	6.7	119	8.5	-3%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +126.6%.

This is equal to an average annual rate of +33.5%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 33 current and 116 closed out) is +30.6%, compared with a market gain of +9.7% (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) Toll Holdings notes (TOLG) last traded at 3490 cents.

Recommended Investments (Continued from Page 3) at any stage and return the shares. Or they can waive the 90% condition, accept the shares and then on-sell to the other party, or sell to a third party, or sell on-market - all at a higher price!

We agree that shareholders should be given access to the valuation report (although see little value in such documents), but until the investors have an *unconditional* bid from either Symex or Nuplex Industries the only correct advice is to "do nothing".

If Nuplex Industries waived the acceptance level (or lowered it to 51%) then it would probably pick up a controlling shareholding in Asia Pacific Specialty Chemicals. As there are so many *legal* ways in which a controlling shareholder can disadvantage minority shareholders, Symex would probably concede defeat and also sell to Nuplex. The risk, however, is that Symex may choose to remain a minority shareholder and if Nuplex cannot get to 90% then it cannot seek compulsory acquisition of the remaining 10% of the company.

Richina Pacific is seeking retrospective approval from its public minority shareholders for loans from its major shareholders which breached NZ Stock Exchange rules covering related party transactions.

The loans were made to finance working capital needs of **Shanghai Richina Leather**. Growth in that business - and volatility in working capital needs - required additional financing, so interests associated with Richina Pacific's major shareholders provided short term loans, mostly at an interest rate of 18%.

One of the advantages of a *cornerstone* shareholder group is that it can often provide management expertise or financial support to a company. However, when related party transactions - even a loan at market rates - exceeds the lower of either (1) 5% of Shareholders Equity or (2) 5% of the company's average market capitalisation then NZ Stock Exchange listing rules require approval from the minority shareholders.

Richina Pacific's NZ bankers would have charged 22.75% on additional loans, but were unwilling to fund operations in China. The company would like to sell its valuable *Mobil-on-the Park* building - but is "unwilling to accept less than a realistic price for this well performing asset". Richina Pacific would also like Shanghai Richina Leather to obtain its own funding from Chinese financial institutions - but they will only lend to established businesses, will not accept security over stock or debtors and will only lend a small percentage against real estate.

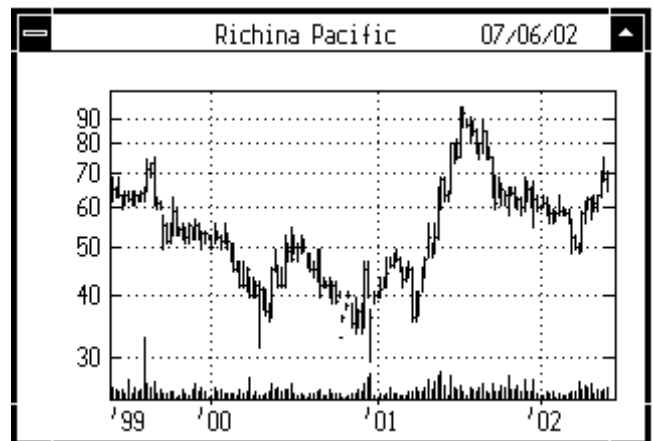
Richina Pacific therefore requires minority shareholders to approve existing loans *and* is asking them to approve future loans up to a total of US\$5 million. These loans are unsecured, repayable on five days notice and at an interest rate not to exceed 18%. Until such time that Richina Pacific can arrange more favourable funding, these loans are in the best interest of minority shareholders and should be approved.

Growth in the Chinese business will probably need additional financing - but hopefully that can at least be partially funded from growing profitability. Overall Richina Pacific's financial position has improved considerably over the last year with asset sales and debt repayments. The sale of its *Mobil-on-the Park* property

would allow all NZ debt to be repaid and leave the company in a strong position to fund growth in China from cashflows.

Richina Pacific shares have started to recover strongly over the last month and the Relative Strength rating has improved to +0.6%, ranked 50 (on a scale of 0-99). The Price/Sales ratio is an extremely low 0.08, the Price/Earnings ratio a low 15, but there is no dividend.

The shares offer good value, strong growth potential (although with volatility), the company's financial position is improving and the shares are again appreciating in value. Therefore we are upgrading our recommendation to "Buy".



Many subscribers are clearly wondering about the impact of the higher exchange rate on companies like **Wrightson**. Clearly the higher dollar is not favourable for the rural sector which Wrightson services. Nevertheless, Wrightson has sought to move away from businesses that are directly related to fluctuations in the exchange rate. And, of course, investment decisions are never as simple as looking at movements in the exchange rate!

Wrightson has a strong balance sheet and the shares trade at a low valuation. At 105 cents, the shares trade at only 8½ times this year's expected profits and should offer about a 14% gross yield. We would rather "Buy" and "Hold" such an under-valued share as a long term investment - even if the higher exchange rate is a short term negative factor.

Australian Shares

(This section is in Australian currency, unless stated.)

Abigroup has won a \$100 million contract to construct the 19 level, twin tower, 339 apartment *Watergate Apartments* at Batmans Hill Precinct in Melbourne's Docklands. Construction will begin later this month with completion expected in mid 2004. This contract is well timed, with work nearing completion on the \$47 million *Liberty Tower* project.

Abigroup has also been selected by **Mitre 10** to build four *Mega Mitre 10* stores, at a total cost of about \$20 million, over the next year.

The company has also been awarded a \$17 million contract related to the **Suncorp Metway Stadium** redevelopment. Over the next year Abigroup will upgrade the Milton Station, construct a walkway from the station to Lang Park Stadium, a bridge over Milton Road and a large plaza over Hale Street.

Austral Coal has arranged new loan facilities. These will be used to "restructure existing foreign

June 11, 2002.

exchange contracts” which will “accelerate cash generation from operations over the next two years”. The new loans will also “assist in funding the infrastructure and new asset purchases” to begin mining of the Tahmoor North coal deposits in 2004.

Biron Capital shares and rights were suspended from trading after the Australian Securities and Investment Commission (ASIC) expressed some concerns about the recent prospectus. The final result is that the recently announced cash issue has been cancelled - to be replaced by another similar cash issue (and a new prospectus).

Investors who applied for shares under the first cash issue will have their money returned - and can later send it back to Biron Capital to buy shares and options in the new cash issue.

Trading in the old rights will stand - with the new rights delivered to the purchasers.

Investors who followed our recommendation to sell the rights (rather than invest new money in Biron Capital) therefore need to take no action as the broker will deliver the new rights to the purchaser. Investors unable to sell their rights prior to Biron's securities being suspended from trading are now able to sell the new rights on-market

Campbell Brothers has reported revenues up 9.5% to \$351.1 million for the year to 31 March 2002. Trading profits were down 10.5% to \$11,234,000 - mainly as a result of having to move its manufacturing operations out of Brisbane to make way for a new road. Earnings per share were down 24.4% at 29.0 cents - owing to capital increased in a 1 for 5 cash issue last year - but the annual dividend remains steady at 30.0 cents.

The **Consumer** division recorded revenues down 2% to \$151.9 million owing to the sale of the Soap business but earnings (before interest and tax) were steady at \$10.2 million. Operations in Brisbane were consolidated with the rest of this division in Smithfield, NSW, which is expected to lead to improved efficiencies in the new financial year.

The **Industrial** division lifted revenues 5% to \$101.1 million while earnings fell 13% to \$6.2 million. Relocation from Brisbane to Darra (in Queensland) also impacted on operations and high fixed costs at the new facilities depressed earnings - but are also expected to produce manufacturing efficiencies this year.

Laboratory Services recorded 41% growth in revenues to \$96.8 million and a 32% rise in earnings to \$11.5 million - aided by acquisitions and by winning “a number of significant environmental analysis contracts”.

The Consumer division is involved in the manufacture and distribution of consumer products and cleaning agents, while the Industrial division manufactures and distributes cleaning agents and chemicals to businesses. Both divisions are relatively stable and provide a steady cash flow to the company.

Laboratory Services offers the potential for high profit margins, higher returns on equity and strong cash flows. This division holds the greatest potential for profit growth. The expansion of this division - both from acquisition and internally - should also help Campbell Brothers to be viewed as something more than “just another cleaning chemical company” and could lead to

the shares being re-rated by the market.

At present Campbell Brothers shares are very *neglected*. Only one broker follows the company closely enough to publish profit forecasts. A recovery in group profits in the March 2003 year, and growth in the Laboratory Services business, could eventually lead to the company being *discovered* by brokers and institutional investors and significantly re-rated in value. In the meantime, Consumer and Industrial divisions make this a relatively low risk investment that offers an attractive dividend income. “Hold+” for income and long term capital growth.

CSR lifted revenues 2.2% to \$7,194.8 million for the year to March 2002. Trading profits rose 9.4% to \$552.6 million (59.0 cents per share). The final dividend will be 1.0 cent higher at 13.0 cents, lifting the annual rate 4.3% to 24.0 cents.

While CSR is not making any definite announcement, it is widely believed that the company is close to finalising plans to spin-off its Sugar business (or its Sugar and Aluminium businesses) in a separate listed company. Legislation is expected in July that would make this split non-taxable to Australian investors. The stockmarket invariably values two separate businesses at more than the value of a conglomerate, so this demerger should increase the value of our investment in CSR.

We originally bought into **McPhersons** in October 2000 attracted by its low valuation and its strong cash flow businesses - particularly its **Houseware** division. Since then the decline in the Australian dollar eroded profitability from its imported Houseware products but boosted the competitiveness and profitability in its **Printing** division.

With the shares on such a low valuation we have frequently referred to McPhersons as a “must have” share for *value* investors. While the share price went nowhere for the first year, we did receive a very high income yield. Over the last six months, however, the shares have started to appreciate strongly in value. In February we pointed out that the shares were at a four-year high of 178 cents and how shares at new highs can continue to perform well.

Like the NZ dollar, the Australian dollar has appreciated strongly over the last few months. While that may lower the competitiveness of McPhersons' book printing business its will boost the profitability and growth potential of the Housewares division. This division sources goods from overseas - mainly China - which it imports, distributes and markets in Australia. This is a strong cash flow business with no investment in manufacturing plant and machinery or work in progress. The business can expand rapidly, providing it can source and market products. Profits and cashflows are available to pay high dividends to shareholders or to fund acquisitions.

Therefore, despite the 29% increase in McPhersons share price over just the last month, the shares remain a very attractive - and still very under-valued - long term investment. If management can find suitable acquisitions to re-invest free cash flows then McPhersons could become a five-bagger or ten-bagger investment over the next 5-8 years. “Buy”. (Continued on Page 6)

Recommended Investments (Continued from Page 5)

Nufarm is seeking to expand its crop protection product sales in the United Kingdom and has increased its ownership of **Nufarm-Whyte Agriculture** (to be renamed **Nufarm Agriculture UK**) from 50% to 100%. Nufarm has 120 crop protection products and hopes to expand its share of the £350 million UK market.

OAMPS has acquired West Australian based **Austwide Insurance Brokers** which generates annual premium revenues of around \$7 million.

Toll Holdings has won major contracts to provide logistics to both **Holden** and **Ford Motor Company**.

Utility Services Corporation has made its largest acquisition to date with the purchase of **Eclipse Computing (Australia)**. The business sells Accounting, Financial and Customer Relationships Management packages for medium to large businesses,

generating annual revenues of around \$10 million. About half of this revenue comes from one-off software sales and half is generated from maintenance and services. Eclipse has grown strongly but has been "held back by a lack of cash" to finance expansion.

Utility Services will pay \$2.1 million cash to the vendors, plus an earn-out fee based on growth in pre-tax profits. Utility Services will also invest \$1.3 million in Eclipse to repay existing debt. The vendors will retain ownership of Eclipse Asia, but Utility Services will have pre-emptive rights should the vendors wish to sell that business in the future.

Vision Systems has sold a further 650,000 TTP Communications shares for A\$1.5 million. This boosts the company's cash holding to about \$92.5 million and leaves it with 6,243,588 TTP Communications shares (2.77% of the company).

Share Recommendations: Sell Central Equity

Sell Central Equity (code CEQ)

We are recommending the sale of our long term investment in Central Equity to help fund an investment in another residential developer that offers a higher income and better potential for capital appreciation.

Our overall return from Central Equity has been relatively modest. The shares are up just 22 cents (14%), but we have collected 100 cents (65%) in dividends over the last eight years - for a total return of 79%. That return could have been significantly higher had we not made the mistake of buying into the company too early and paying too much in February 1994. Over the next year the shares lost two-thirds of their value.

Had we bought in eighteen months later at around 75 cents our total return would be around 250%. Since then, of course, we have developed our *Comprehensive Share Selection Criteria* to improve the timing of share purchases and help avoid the problem of buying into recovery situations too early.

Nevertheless, after losing two-thirds of their value Central Equity shares recovered and performed very strongly from 1995 (when the shares were around 60-85 cents) through to 1999 (when the shares traded at 220-240 cents). Unfortunately, Central Equity has underperformed again over the last three years.

Recent under-performance probably relates to the impact of GST on profit margins. Unable to raise selling prices to include GST, the company had to absorb this tax as a reduction in profit margins. Labour rates have also risen sharply, pushing up construction costs and depressing profit margins.

Profits peaked at \$30.3 million in the year to June 2000 when an 18.0 cents annual dividend was paid. Profits fell 30.4% to \$21.1 million in the June 2001 year, with the dividend cut 16.7% to 15.0 cents.

Margins *should* be improving this year but the half year profit fell 25.9%. All of the three quarterly dividends so far announced this year have also been cut 25.0% to 3.0 cents each. These continued dividend cuts suggest

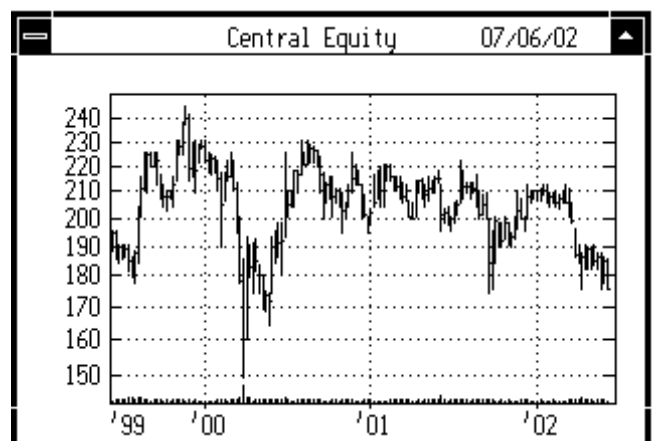
that profitability is not showing any signs of improvement.

Central Equity recently raised \$7.1 million in new capital from a 1 for 20 cash issue at 175 cents. This was to help fund "an increased number of larger projects" with "an increased time scale between the acquisition of sites and the completion of developments". Unfortunately, in property development - like in retailing - *stock turnover* is important. A two year project earning a 20% return is less attractive than funding two consecutive one year projects that each earn a 15% return.

Summary and Recommendation

Central Equity is a sound company but its business appears to have matured with less growth and lower levels of profitability. The high annual dividend has been cut from 18.0 cents in 2000 to probably only 12.0 cents this year (which will yield 6.8%).

We believe that we can earn a higher income yield - and better capital appreciation - from other shares that have (1) better cyclical recovery potential and/or (2) better long term growth potential. Consequently we are recommending the sale of Central Equity to realise cash to finance new investments.



Buy Villa World

BUY Villa World (code VWD)

Villa World is a “no-growth” company that will never become our next ten-bagger investment - but it still has the potential to be an attractive investment. Lacking growth opportunities enables the company to distribute all of its earnings to shareholders - so this is a high income share. Its business and the share price are also *cyclical*.

Investing in cyclical companies is not without risks, but purchased as the *right time*, at the *right price*, cyclical shares can offer very high income and excellent capital appreciation. Villa World now appears to be in the early stages of a recovery and *insiders* are buying shares. We believe the shares will produce a high income and appreciate 50-100% over the next two years.

Our *Comprehensive Share Selection Criteria* rates the shares a “Buy” under both the *Under-Valued Shares* and *Insider Buying* sections.

Company History

This business was formed in 1984 to develop residential sub-divisions, to construct affordable housing and to provide mortgage financing. Operations were centred around the Gold Coast, Northern NSW and South East Queensland. The company was incorporated in 1986 and floated on the stockmarket - at 20 cents per share - in mid 1987.

Initially the shares performed very well, rising to a peak of 173 cents (i.e. up 8½ fold) by 1993 but have since under-performed.

The company expanded into the Melbourne residential market in 1997 and into Sydney in 1998. Villa World entered a joint venture development project with **Citie Centre** in April 1999 and a year later the two companies merged, with Villa World taking over Citie Centre.

Recent Results

Villa World grew strongly during the 1980's and early 1990's, but profits peaked in the June 1994 year at \$15,082,000 (21.1 cents per share) and revenues peaked the following year at \$172.8 million. By this time the shares had already fallen over 50% from their peak as the company moved from a *growth* business to become an established *cyclical* business.

Year	Revenue (million)	Net Profit	Earnings per Share	Dividends per Share
A growth business . . .				
1992	\$60.7	\$6,260,000	11.1	6.3
1993	\$115.7	\$11,846,000	17.5	9.0
1994	\$143.2	\$15,082,000	21.1	11.0
. . . turns cyclical . . .				
1995	\$172.8	\$11,417,000	14.9	11.0
1996	\$95.5	\$4,835,000	6.3	11.0
1997	\$109.5	\$6,266,000	8.1	8.0
1998	\$142.5	\$11,134,000	14.5	12.0
1999	\$141.4	\$7,592,000	9.9	10.0
2000	\$158.7	\$7,084,000	9.2	11.0
2001	\$170.9	\$5,198,000	5.1	3.5

The year to June 2001 was a particularly difficult period owing to the slowdown in residential property sales after the introduction of GST. The figures include

results from Citie Centre, but also reflect the 34% increase in issued capital and its impact on earnings per share.

Villa World appears to have recovered strongly in the current financial year. For the six months to December 2001, revenues rose 26.9% to \$118.2 million while profits soared 138.4% to \$5,533,000 (5.4 cents). The interim dividend was also raised 60.0% to 4.0 cents.

In May the company estimated that profits for the full year will be “at least \$12.0 million” (11.7 cents) and that the June 2003 profit would be “equivalent to, or slightly exceeding” \$12 million.

Investment Criteria

At 68 cents, Villa World shares trade on a low Price/Sales ratio of 0.41, an historical Price/Earnings ratio of 13 and a Dividend Yield of 5.1%. The low P/S ratio rates the shares a “Buy” under the *Under-Valued Shares* section of our *Comprehensive Share Selection Criteria*.

The recovery in profits to around \$12 million will reduce the P/E ratio to a very low 5.8 and an annual dividend rate of 8.0 cents would Yield 11.8%. Although there is little long term growth potential, Villa World shares are an under-valued, high *income* investment with the potential for some capital appreciation as the shares are re-rated off their recent cyclical lows.

Villa World has relatively high debt levels at \$105.4 million compared with Shareholders Equity of \$61.3 million (as at December 2001). This, however, is an appropriate debt level for this type of business and more than covered by houses under construction (\$112.4 million) and houses sold but not yet settled (\$49.7 million).

With a market capitalisation of \$71 million this is a medium sized Australian listed company.

The shares are *neglected* by brokers, with only one firm publishing a profit forecast - or at least agreeing with management that profits will be \$12 million this year and next!

The shares are also *neglected* by institutional investors who hold no significant investments in this company.

Management have a very large investment in Villa World. AW Bawden - one of the company founders and now a non-executive director - continues to hold 14,365,096 shares (14.0% of the company). JN Potter, the Chief Executive Officer, holds 27,643,254 shares (26.9%). These large shareholdings align management's interests with those of shareholders and usually leads to the company being run for the benefit of all shareholders - not simply to maximise executive salaries and bonuses.

Chairman JS Humphreys owns 50,200 shares. Two directors have purchased shares on-market over the last year, making three buy trades. The *Insider Buying* section of our *Comprehensive Share Selection Criteria* rates Villa World a “Buy” owing to these three *insider* trades. Non-executive director JS Young made two purchases totalling 63,071 shares in November 2001 to raise his holding to 160,645 shares. Another non-executive director, GAlambert, purchased 15,000 shares in October 2001 to build his holding to 30,056 shares.

Technically, the shares appear in the early stages of a recovery from the long term decline which hit a low of 47 cents in September 2001. The shares rose strongly to a high of 84 cents in March this year and have since eased back to around 64-71 cents. The Relative Strength Rating is +5.6%, which ranks them at 30 (on a scale of 0-99). This appears to be the start of a recovery that should see the share price recover to around 100-140 cents (i.e. 50-100%) over the next two years.

Summary and Recommendation

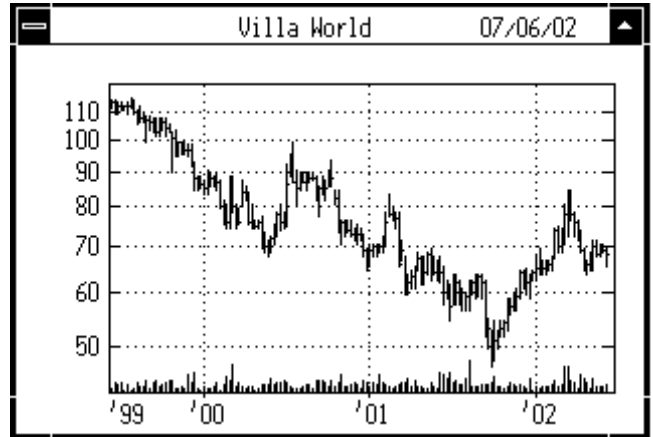
While Villa World is a *no-growth* and cyclical company it can still be an attractive investment. With no growth to finance, the company can distribute all of its profits to shareholders - so these shares offer a high income yield. Cyclical shares can also yield substantial capital appreciation if purchased at low prices at the beginning of a recovery.

The return to historical profit levels should allow annual dividends to return to around 8-12 cents - offering investors an income yield of 11.8-17.6% per annum. This level of profitability and dividends should

also see the share price rise to 100-140 cents over the next two years, a capital gain of 20-40% per annum.

Villa World shares offer good potential to generate above average returns from a high income yield and a recovery in the share price over the next two years.

All shares involve risks, but as part of a diversified portfolio, Villa World should appeal to a wide range of investors as they offer both a high income and potential for a high rate of capital appreciation.



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

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

Company	STRENGTH RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank 0-99	Brokers Following							
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0												
Wrightsons Ltd	105	+0.8	-3.8	46	2	1.2	9	1.4	13	11.4	0.20	141
Col Motor Co	285	+2.5	+1.4	34	-	1.0	7	0.6	16	7.3	0.23	79
Hellaby Hold.	272	+9.2	-2.8	12	1	1.8	17	0.8	10	8.2	0.36	135
Fletcher Build.	283	+1.2	-2.4	42	6	1.2	4	1.0	29	6.3	0.43	975
CDL Hotel NZ	25	+14.6	+3.6	4	-	0.4	5	2.0	8	4.2	0.43	87
Goodman Fielder	197	+5.2	-1.9	23	-	1.5	10	0.6	14	5.1	0.59	2,514
AXA Asia Pac.	358	+3.7	-1.0	29	3	1.6	12	0.7	13	3.3	0.60	6,310
Dorchester Pac	143	+7.4	-1.3	18	-	1.4	18	1.1	7	6.9	0.60	27
Steel & Tube	290	+12.8	-3.1	6	5	2.0	11	0.9	17	8.2	0.65	255
Restaurant Brds	207	+9.8	-1.6	10	4	4.7	29	0.9	16	7.2	0.75	193
Ebos Group Ltd	325	+0.8	-2.9	46	-	2.3	14	0.7	16	6.4	0.82	88
Guinness Peat	167	+11.2	+0.5	8	2	0.8	14	1.0	6	2.0	0.85	991
Taylor's Grp Ltd	160	+7.5	-4.3	17	1	1.8	14	0.9	13	6.5	0.87	39
Carter Holt	200	+4.7	-0.7	27	7	0.7	5	1.1	13	3.0	0.91	3,478
BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0												
Kingsgate Int'l	18	+15.7	+6.4	3	-	0.5	7	1.8	7	Nil	0.94	72
Broadway Ind	44	+15.2	-0.2	4	-	1.3	10	1.0	12	Nil	0.24	9
CDL Hotel NZ	25	+14.6	+3.6	4	-	0.4	5	1.5	8	4.2	0.43	87
Pacific Retail	301	+14.2	+4.3	5	2	2.0	22	0.9	9	Nil	0.34	152
Steel & Tube	290	+12.8	-3.1	6	5	2.0	11	0.8	17	8.2	0.65	255
Guinness Peat	167	+11.2	+0.5	8	2	0.8	14	0.8	6	2.0	0.85	991
Restaurant Brds	207	+9.8	-1.6	10	4	4.7	29	0.8	16	7.2	0.75	193
Hellaby Hold.	272	+9.2	-2.8	12	1	1.8	17	0.7	10	8.2	0.36	135
Taylor's Grp Ltd	160	+7.5	-4.3	17	1	1.8	14	0.7	13	6.5	0.87	39
Dorchester Pac	143	+7.4	-1.3	18	-	1.4	18	0.9	7	6.9	0.60	27
Goodman Fielder	197	+5.2	-1.9	23	-	1.5	10	0.5	14	5.1	0.59	2,514
Cube Capital	35	+4.9	-3.6	25	-	1.3	9	1.2	14	Nil	0.56	4
Carter Holt	200	+4.7	-0.7	27	7	0.7	5	0.9	13	3.0	0.91	3,478
AXA Asia Pac.	358	+3.7	-1.0	29	3	1.6	12	0.6	13	3.3	0.60	6,310
Col Motor Co	285	+2.5	+1.4	34	-	1.0	7	0.5	16	7.3	0.23	79
Shotover Jet	46	+2.4	+0.4	35	-	1.1	12	1.1	9	Nil	0.80	20
Wrightsons Ltd	105	+0.8	-3.8	46	2	1.2	9	1.2	13	11.4	0.20	141
Ebos Group Ltd	325	+0.8	-2.9	46	-	2.3	14	0.6	16	6.4	0.82	88
Richina Pacific	70	+0.6	+4.9	49	-	0.7	5	1.3	15	Nil	0.08	51

Company	STRENGTH RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank 0-99	Brokers Following							
INCOME SHARES: Highest Yields, Capitalisation > NZ\$100 million												
NZ Refining Co	1675	+0.0	-2.3	53	2	1.2	11	0.2	11	15.6	2.25	402
Wrightsons Ltd	105	+0.8	-3.8	46	2	1.2	9	1.1	13	11.4	0.20	141
Hallenstein G.	274	-2.3	-1.3	65	6	4.0	29	0.5	14	10.1	0.94	159
Powenco Limited	200	+1.0	+0.3	44	1	1.1	8	0.6	13	9.8	2.73	445
Steel & Tube	290	+12.8	-3.1	6	5	2.0	11	0.7	17	8.2	0.65	255
Hellaby Hold.	272	+9.2	-2.8	12	1	1.8	17	0.6	10	8.2	0.36	135
Lyttelton Port	188	+4.8	+1.0	25	4	4.4	32	0.5	14	8.1	3.28	191
Cavalier Corp	630	+4.8	-0.9	26	2	3.6	22	0.5	16	7.6	1.05	198
Sky City Ltd	650	+3.4	+1.5	30	6	2.8	15	0.4	19	7.2	2.95	1,303
Restaurant Brds	207	+9.8	-1.6	10	4	4.7	29	0.7	16	7.2	0.75	193
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0												
Utilico Int'l	66	-7.7	-1.9	79	-	1.5	16	0.8	9	Nil	6.12	27
F & P Health.	900	-22.6	+1.6	92	6	5.4	37	0.4	15	4.1	4.29	921
Genesis Res.	268	-8.5	+1.1	80	-	1.4	-	0.8	NE	Nil	3.50	70
Elect Trans Tec	5	-19.4	-2.3	89	-	7.4	-	3.3	NE	Nil	3.46	6
Vending Tech.	195	-4.0	+2.7	71	-	5.7	40	0.7	14	Nil	3.44	58
IT Capital Ltd	5	-19.9	-2.2	89	-	8.5	-	2.9	NE	Nil	3.16	9
AMP Limited	1980	-4.3	-2.9	72	3	1.9	7	0.4	27	3.1	3.07	22,344
Dairy Brands	61	-1.3	-0.6	60	-	1.0	9	0.7	11	Nil	2.80	30
United Networks	770	-1.0	-0.5	58	5	1.3	13	0.3	10	6.8	2.56	1,166
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average												
Cert Organics	1	-24.3	-0.2	94	-	2.4	-	6.2	NE	Nil	N/A	14
F & P Health.	900	-22.6	+1.6	92	6	5.4	37	0.3	15	4.1	4.29	921
WN Drive Tech.	25	-21.3	-1.3	90	-	6.9	-	1.2	NE	Nil	N/A	26
IT Capital Ltd	5	-19.9	-2.2	89	-	8.5	-	2.7	NE	Nil	3.16	9
Elect Trans Tec	5	-19.4	-2.3	89	-	7.4	-	3.1	NE	Nil	3.46	6
Advantage Group	45	-16.6	+2.8	88	2	5.2	14	1.3	36	Nil	0.40	30
Cadmus Tech Ltd	8	-16.3	-0.0	87	-	0.7	3	1.7	24	Nil	1.42	11
GDC Communicat.	130	-16.1	-1.9	86	-	3.0	22	0.8	14	4.0	0.72	49
Blis Technology	50	-13.0	+1.8	84	-	-	-	1.1	NE	Nil	N/A	31
Genesis Res.	268	-8.5	+1.1	80	-	1.4	-	0.8	NE	Nil	3.50	70
Southern Cap	64	-7.8	-0.2	80	-	1.6	4	0.8	37	Nil	N/A	50
Utilico Int'l	66	-7.7	-1.9	79	-	1.5	16	0.7	9	Nil	6.12	27
Summit Gold Ltd	12	-5.9	+1.2	75	-	2.8	-	1.6	NE	Nil	N/A	11
FC - Forests	26	-5.2	+1.6	75	6	0.5	-	1.3	NE	Nil	1.12	723
Sanford Limited	550	-5.2	-1.7	74	4	1.3	7	0.5	20	5.4	1.46	526
Ryman Health.	180	-5.1	-0.3	73	1	1.9	15	0.5	13	3.1	3.01	180
Natural Gas	112	-4.3	-2.5	73	5	0.7	7	0.7	10	Nil	1.15	504
AMP Limited	1980	-4.3	-2.9	72	3	1.9	7	0.4	27	3.1	3.07	22,344
Vending Tech.	195	-4.0	+2.7	71	-	5.7	40	0.6	14	Nil	3.44	58
Waste Mgmt NZ	295	-4.0	+0.0	70	4	1.7	8	0.6	22	3.8	1.87	289

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

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

Company	STRENGTH/RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	
	Share Price	Cur. rent	4-Wk Chg.	Rank	Insider Buy/Sell								
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0													
Pro Medicus Ltd	97	-5.6	-8.6	63	0.0	1	9.7	41	0.5	24	2.3	9.45	97
Hills Motorway	503	-1.2	-1.3	50	0.0	8	2.4	-	0.3	NE	3.4	9.21	931
Gro Pep Limited	110	-27.7	-7.6	93	1-1	1	2.2	0	0.6	NE	Nil	9.04	47
Progen Indust.	130	-0.5	+0.8	47	0-0	-	1.6	-	0.8	NE	Nil	8.93	32
Pacific Hydro	322	-6.7	-2.7	66	0-0	5	2.5	16	0.5	15	0.9	8.68	414
Canada Land	7	-0.3	-0.4	46	0-0	0	0.2	-	1.8	NE	Nil	8.43	7
Cochlear Ltd	3590	-5.3	-1.2	62	0-1	11	32.6	54	0.3	60	1.1	8.40	1,885
Austereo Group	163	-6.8	-2.7	67	0-0	9	0.9	2	0.6	56	2.1	8.25	713
Huntley Invest	60	-1.5	-1.7	50	4-1	-	0.9	7	0.6	12	5.0	7.87	44
Infomedia Ltd	87	-15.9	-0.3	82	0-0	6	8.7	40	0.6	22	2.9	7.71	282
Peptech Limited	268	-12.4	-6.8	76	2-0	1	8.9	69	0.6	13	Nil	7.41	405
Electrometals	13	-1.6	-6.0	51	2-0	-	-	-	1.0	NE	Nil	7.30	8
Neighbourhood C	11	-13.8	-7.5	79	1-0	-	-	-	1.5	NE	Nil	7.27	8
Gradipore Ltd	185	-17.6	-0.6	84	3-0	-	1.9	-	0.7	NE	Nil	7.16	87
BresaGen Ltd	91	-4.8	+1.0	61	1-0	-	2.3	-	0.6	NE	Nil	7.00	50
Institute Drug	310	-10.0	-1.1	72	4-2	1	6.2	18	0.8	35	1.3	6.76	132
Dolomatrix Intl	27	-2.1	-10.0	52	0-0	-	-	-	1.5	NE	Nil	6.55	20
Sharon Austen	10	-15.3	+9.4	80	3-0	-	-	-	1.7	NE	Nil	6.45	11
Westfield Hold.	1543	-0.1	-1.8	46	4-5	8	6.2	13	0.5	48	1.0	6.43	8,691
Senetas Corp	17	-5.0	+13.6	61	2-0	-	1.7	-	1.8	NE	Nil	6.37	44
CSL Limited	3549	-8.8	-2.5	70	4-1	10	18.7	27	0.4	68	0.7	6.22	5,624
Earth Sanct.	30	-26.9	+4.4	92	1-0	-	0.4	-	1.3	NE	Nil	5.64	9
Bligh Oil & Min	14	-10.5	-3.5	73	1-1	-	-	-	1.2	NE	Nil	5.42	49
Cent. Kalgoorie	3	-5.0	+1.8	61	0-1	-	-	-	2.7	NE	Nil	5.36	5
Collection Hse	328	-10.5	-3.9	73	1-0	6	5.5	16	0.4	33	2.0	5.14	312
Gasnet Aust Trt	194	-2.5	-0.2	54	1-0	2	0.9	3	0.5	26	0.9	5.02	252
Baycorp Advant.	353	-17.7	-2.8	84	0-0	5	35.3	-	0.7	29	2.8	4.87	805
Energy Develop.	445	-26.1	-1.7	91	3-1	9	1.5	6	0.5	24	1.2	4.74	474
Q-Vis Limited	17	-47.3	-3.3	99	0-0	-	1.7	-	1.5	NE	Nil	4.70	5
Aust Sandstone	7	-5.1	-0.3	61	0-0	-	-	-	1.4	NE	Nil	4.68	5
Globe Int'l Ltd	195	-1.4	-2.9	50	2-0	4	19.5	27	0.7	72	Nil	4.60	710
Technology One	56	-17.0	-2.3	83	0-0	6	5.6	25	0.9	23	4.2	4.44	178
Charter Pacific	68	-9.3	+0.8	71	1-0	-	6.8	24	0.8	28	Nil	4.43	44
Harvey Norman	294	-6.5	-2.0	66	0-5	8	4.2	15	0.9	28	1.4	4.34	3,104
Tasmanian Perp	735	-2.3	-1.1	52	0-0	4	3	14	0.3	31	3.9	4.17	40
Tox Free Sol	12	-4.9	-3.7	61	0-1	-	1.2	-	1.0	NE	Nil	4.17	16
Palm Springs	30	-8.7	-2.3	70	0-0	-	-	-	0.7	NE	Nil	4.14	44
Autogen Limited	50	-11.5	-2.5	74	0-0	-	5.0	-	0.6	NE	Nil	4.04	19
Adsteam Marine	202	-4.1	-3.8	59	3-0	6	10.1	43	0.5	24	7.4	3.98	456
Zeolite Aust.	16	-11.7	-0.5	75	0-0	-	-	-	1.2	NE	Nil	3.97	5
Beach Petroleum	5	-2.4	+1.4	53	1-0	-	-	-	1.8	14	Nil	3.95	63
E-Bet Limited	17	-1.0	-6.2	49	3-0	-	-	-	1.0	NE	Nil	3.86	17
Beston Wine Ind	82	-1.7	-2.2	51	0-0	1	1.0	14	0.5	8	11.6	3.83	29
Primary Health	405	-7.2	-2.3	67	1-0	2	10.1	19	0.4	53	1.8	3.75	398
H-G Ventures	60	-5.4	-0.3	62	0-0	-	0.8	-	0.7	NE	13.3	3.66	22
Union Capital	1	-33.1	+0.4	96	4-0	-	0.1	-	3.4	NE	Nil	3.57	7
Int Research	62	-1.6	+0.3	51	0-0	3	-	-	0.8	20	2.4	3.55	102
Aristocrat	593	-4.8	+0.7	60	1-2	9	29.7	95	0.6	31	2.0	3.44	2,683
Neverfall Spr.	245	-12.8	+0.0	77	1-1	6	-	-	0.4	25	3.3	3.43	230
Bendigo Bank	703	-0.5	-1.7	47	5-1	6	2.2	9	0.3	24	5.8	3.42	836

WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average													
Renew. Energy	14	-47.9	+0.8	99	1-0	3	0.7	-	1.2	NE	Nil	1.88	20
Q-Vis Limited	17	-47.3	-3.3	99	0-0	-	1.7	-	1.4	NE	Nil	4.70	5
China Converg.	1	-46.4	+1.6	99	0-0	-	-	-	4.0	NE	Nil	1.79	14
Redflex Holding	57	-44.7	+0.9	99	0-4	-	0.9	-	0.8	NE	Nil	0.90	25
Open Telecom.	5	-44.3	+1.4	98	0-0	1	0.5	-	2.3	NE	Nil	0.46	32
Stockford Ltd	16	-37.2	+1.2	98	2-0	1	1.6	-	0.9	NE	Nil	0.46	37
PowerTel Ltd	7	-37.0	-1.3	98	0-0	2	0.7	-	2.1	NE	Nil	1.20	60
BMCMedia Ltd	3	-36.2	-1.1	97	2-0	-	-	-	2.6	NE	Nil	2.33	5
Austar United	25	-36.1	+0.7	97	1-1	4	-	-	1.3	NE	Nil	0.48	179
E.R.G.	35	-35.4	+3.3	97	0-1	6	1.7	5	1.3	37	2.9	0.75	320
Westel Group	2	-35.1	-3.5	97	0-0	-	-	-	2.4	NE	Nil	1.21	7
Anaconda Nickel	35	-33.8	-3.3	96	2-1	2	-	-	1.3	NE	Nil	3.07	162
Union Capital	1	-33.1	+0.4	96	4-0	-	0.1	-	3.1	NE	Nil	3.57	7
Advanced Engine	7	-32.6	-2.3	96	0-0	-	-	-	1.4	NE	Nil	2.22	9
SSH Medical Ltd	20	-32.3	-0.9	95	0-0	-	2.0	-	1.2	NE	Nil	N/A	17
Kaz Group Ltd	30	-31.2	-6.0	95	3-1	6	3.0	20	1.3	15	2.2	1.27	234
TVSN Limited	5	-30.4	+2.9	95	0-0	-	-	-	2.7	NE	Nil	0.36	6
Uecomm Limited	12	-30.1	+2.6	94	1-0	2	0.6	-	1.2	NE	Nil	1.76	58
Matrix Oil NL	9	-30.1	-4.0	94	0-0	1	-	-	1.3	NE	Nil	1.64	37
Orbital Engine	36	-28.5	+1.1	94	3-0	1	-	-	1.0	NE	Nil	2.07	128
Pinnacle VRB	20	-28.1	+3.4	94	0-0	-	-	-	0.9	NE	Nil	N/A	12
Computer Share	217	-28.0	+0.3	93	9-1	9	-	-	0.9	31	0.5	1.57	1,201
Gro Pep Limited	110	-27.7	-7.6	93	1-1	1	2.2	0	0.6	NE	Nil	9.04	47

Company	STRENGTH/RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	
	Share Price	Cur. rent	4-Wk Chg.	Rank	Insider Buy/Sell								
Axon Instrument	32	-27.1	-5.1	92	0-0	3	1.6	2	1.3	103	Nil	2.18	150
West Oil NL	3	-27.0	-1.9	92	5-4	-	-	-	2.0	NE	Nil	N/A	5
Cosmos Limited	6	-27.0	+0.2	92	1-0	-	-	-	1.7	NE	Nil	1.61	13
Earth Sanct.	30	-26.9	+4.4	92	1-0	-	0.4	-	1.2	NE	Nil	5.64	9
Vita Life Sci.	71	-26.8	-6.1	92	1-0	-	1.2	3	1.0	44	2.1	0.94	37
Envirostar E.	17	-26.7	+4.3	92	0-0	-	1.7	-	0.8	NE	Nil	N/A	10
Kingstream St'l	2	-26.5	+3.9	92	1-0	-	-	-	2.0	NE	Nil	N/A	12
Biota Holdings	45	-26.3	+0.2	92	2-0	3	0.9	-	1.3	NE	Nil	2.62	34
Cape Range Wire	5	-26.2	+3.3	91	0-0	-	-	-	2.0	NE	Nil	2.33	30
Aust Magnesium	48	-26.2	+1.8	91	3-1	1	-	-	1.2	NE	Nil	0.72	83
Energy Develop.	445	-26.1	-1.7	91	3-1	9	1.5	6	0.5	24	1.2	4.74	474
Found'n Health.	36	-26.1	+0.7	91	6-3	2	-	-	0.6	NE	Nil	0.68	57
RMG Limited	7	-25.4	-9.3	91	0-3	-	-	-	1.3	NE	Nil	N/A	46
Provalis	16	-25.4	-7.5	91	0-0	-	-	-	1.1	NE	Nil	N/A	41
Voxson Limited	11	-25.2	-0.9	90	0-0	-	0.5	-	0.9	NE	Nil	0.36	12
E-Sec Limited	9	-25.0	-5.7	90	0-0	-	-	-	1.9	NE	Nil	1.59	5
Majestic Res.	5	-25.0	-4.1	90	3-0	-	-	-	1.4	NE	Nil	N/A	7
SecureNet Ltd	80	-24.8	-0.5	90	1-0	2	0.5	2	1.5	24	Nil	1.53	60
Keycorp Ltd	107	-24.4	+1.6	90	2-0	1	-	-	1.1	NE	Nil	0.83	87
Amcom Telecom.	12	-24.3	+7.9	90	1-0	-	-	-	1.3	NE	Nil	1.37	25
Con Broken Hill	6	-24.2	-7.5	90	1-0	-	-	-	1.5	NE	Nil	N/A	8

Company Review: Air New Zealand

Some things are going right for Air New Zealand. Its aircraft maintenance engineering business is booming, although it cut back staff last year and has had to turn away some business and joint venture plans to service V2500 engines with Pratt & Whitney appear to have stalled. Air NZ is increasing the number of aircraft on international routes to meet higher demand. Three ski-fields have been sold, realising \$27 million from these non-core assets. The company is reducing costs with plans to cut meals and to stop paying travel agents commissions - although that does look to be a rather risky business strategy!

Of particular interest to investors, the Air NZ share price has risen from the 26-39 cents range where it had traded since last September to hit recent highs around 75 cents. Unfortunately, there is little justification for this.

The jump in the share price in late April has been caused by index fund buying. For some undisclosed and illogical reason, the NZ Stock Exchange has *included* the NZ Government's ordinary shares when determining the weighting of Air NZ in the NZSE40 index. Only 757 million shares are held by the public, a further 2167 million ordinary shares and 1250 convertible notes are held by the government. All 2924 million ordinary shares are included in the index, although only 757 million (26%) of these are available to be traded on the market.

Index funds that seek to match the NZSE40 Index - both to avoid having to make investment decisions and to avoid capital gains taxes - were therefore forced to increase their holding in Air NZ by purchasing shares on-market. This created a tight scrip situation as 74% of the ordinary shares are not available to be traded.

The share rose in response to this index fund buying - and have since been pushed higher as *momentum* investors buy on this price strength in anticipation of further rises. In this tight scrip situation, a share price can appreciate to an extreme of over-valuation. Of course, a large number of momentum investors probably lost most of their money when the Technology boom ended . . . but there is always a plentiful supply of *new* investors with new money to lose!

Including the convertible shares, the issued capital of Air NZ is 4174 million. So the current share price of 57 cents values this company at \$2.4 billion. Air NZ's balance sheet is still weak after last year's losses, so the company is planning to raise around \$200 million from a pro-rata cash issue. This is most likely to be made in September, following the release of the annual report. At current market prices the company *could* raise \$200 million from a 1 for 8 issue at 40 cents. That would require issuing around 520 million shares, taking the fully diluted issued capital to around 4695 million shares.

In the past Air NZ has earned annual profits of \$150-350 million. A quick return to profitability is unlikely as

the airline struggles with its current five-year recapitalisation plan. Even after that period it is unlikely that the airline - with its wings clipped by offshore losses and new competition in NZ - will be able to achieve profits this high. Yet \$150-350 million equates to earnings per share of just 3-8 cents. Reflecting the cyclical and capital intensive nature of this business, Air NZ shares have historically traded on a Price/Earnings ratio of 6-12. That suggests a final recovery value for Air NZ shares of about 35-50 cents.

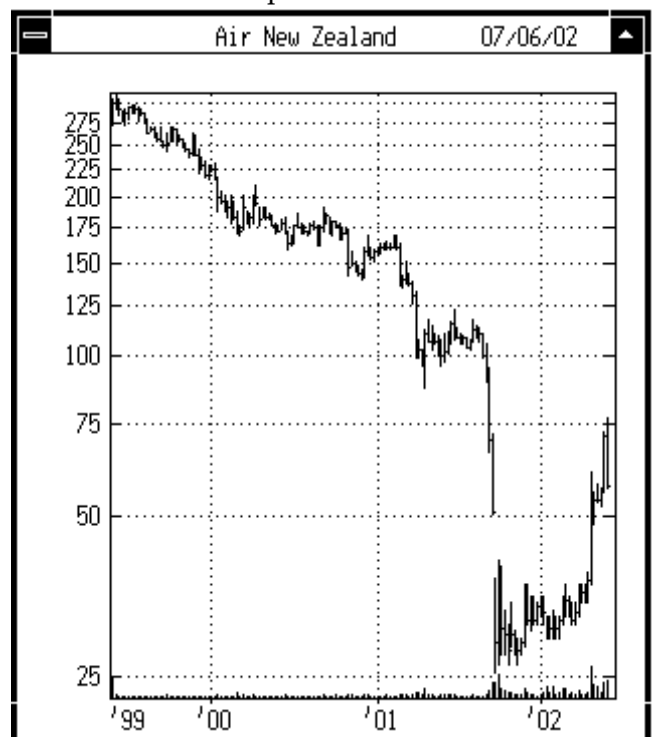
Summary and Recommendation

In the short term, share prices can fluctuate to extremes of under-valuation or over-valuation. Just look back at Technology shares which rose to a peak - then lost 95-100% of their value.

The Air NZ share price has been driven firstly by the "no investment decision" nature of Index funds which passively buy or sell whatever shares are put in or taken out of the NZSE40 index and secondly by the trend following momentum investors. Investors don't buy the shares because they are under-valued or pay a dividend, but because "the share price is going up" and they hope to sell to a bigger fool in a few months at a higher price.

These factors, however, can only drive the stockmarket for a short time. Holding a share while its price rises to an extreme of over-valuation (rather than selling too soon) is a good way to maximise profits. But in the long term, share prices are determined by the value of the company's business. When the share price far exceeds the current or potential future of the business then investors should be selling.

Air NZ shares clearly fall into this situation. Sell to the index funds and speculators.



Book Review: *Engines That Move Markets*

Engines That Move Markets by Alasdair Nairn (Hard cover. 494 pages. Published by John Wiley & Sons).

Alasdair Nairn, a Fund Manager, has produced this book to research the impact of technological change on the stock market. To do so he has studied and documented ten historical periods of change:

1. *The 1840's railway boom in the UK.*
2. *The early US railroads.*
3. *The development of the Automobile industry.*
4. *The electric light.*
5. *The discovery and development of crude oil.*
6. *The emergence of the telegraph and the telephone.*
7. *The early history of wireless communication, radio and TV.*
8. *The early Computer industry.*
9. *The emergence of PCs.*
10. *The Internet and dot-com bubble.*

Several common themes emerge from each of these important technological changes.

Firstly, while all of these technologies appear obvious with the aid of hindsight, that was seldom the case at the time. Crude oil, for example, for first exploited as a source of kerosine for lighting. Gasoline was a worthless by-product.

Wireless communication was originally viewed as a one to one "wireless telegraph" with limited military applications (i.e. communicating with navy ships at sea). Broadcast radio (and later TV) emerged initially only as a means of selling appliances (i.e. radio receivers) to the mass market. It was long time after the technology was developed that media companies emerged as profitable businesses earning significant revenues from advertising.

Secondly, successful technology does not guarantee that the public investors will make money. One of the most successful technologies was the Railway. To meet the demand for transportation during the Industrial Revolution, canals were built in the UK. Up until 1824, 60 companies had raised £12 million (US\$12 billion in today's money). During the 1830's, railways (i.e. a faster and cheaper transportation technology) began to undercut and displace canals. As a result, the large infrastructure investment in canals never recouped its cost and investors lost money. Railways remained the dominant form of transportation for over 100 years - making them one of the most successful new technologies examined in this book. Yet public investors in Railways also failed to earn a positive return. Why? Early railways enjoyed good profits, leading to a stock market boom in railway shares in the 1840's - not unlike the 1999-2000 internet boom. Hundreds of new railway companies were formed and investors *over-invested* in this industry. Some of this money was lost to stock promoters and in fraud, but much was also wasted in *unnecessary infrastructure* (i.e. duplicate track that was later abandoned or pulled up) and this *excess capacity* and excess competition pushed down freight rates and undermined the profitability of the whole industry. Nairn writes "In aggregate, over a very long period of time, there is no question that, for all their economic impact, the railways provided negative returns" for investors.

Thirdly, it is usually easier to pick the companies and industries that will lose from technology change than it

is to pick the winners. For example, by 1830 it was quite clear the canals would decline with the emergence of the railways. It was less obvious that despite superior technology, railways would also prove to be a poor investment! The emergence of the Automobile industry was similar. The railways and horse drawn carriage manufacturers went into a decline, but it was difficult to pick the winners. Over 500 automobile manufacturers were established in the US - and most failed. Henry Ford's first two business ventures also failed - while the third was so successful that it didn't need to raise capital from the public and bring in outside investors (i.e. growth was funded from high profits and internal cash flows - so public investors never had the chance to participate as owners).

Therefore investors seeking above average returns will probably do best by simply avoiding industries and companies that will suffer from technology change. Picking winners is difficult and seldom successful.

Nairn's work also leads to several conclusions:

1. "All new technologies veer from capital starvation to capital surplus and back again". Investors should avoid the boom when capital is abundant (and share prices high) and look to invest during periods of "retrenchment, industry consolidation and recapitalisation" when "it is possible to invest on more favourable terms".
2. "New technology and over-promotion have always gone hand in hand". In fact, over-promoting the benefits of new technologies is necessary to overcome skepticism and raise the necessary development capital! If stock market and liquidity conditions are favourable, this can lead to an investment bubble.
3. "Investing in early stage technology companies is a loser's game". He goes on to explain "Successful companies do eventually emerge, but are rarely the ones that appeared first. Many times they are companies that failed... and have been recapitalised to try again. Recessions act as powerful filters in this process".

Conclusion

While many investors seek to buy into technology companies early, this is a high risk game as most will fail. It is better to watch while an industry becomes established to invest *after* companies begin to generate meaningful revenues and profits. The best time to buy is usually during or after a recession - when many companies have failed, others have been forced to merge and companies are seeking new money to recapitalise their businesses. In this depressed environment there is a shortage of new capital - preventing over-investment and excessive competition - and share prices will be low.

Engines That Move Markets is an interesting and easy to read book, suitable for both new and experienced investors. Its historical perspective of the impact of technologies on companies should help investors to better understand and analyse current investment situations and determine a rational criteria for stock market investment.

This book was published this year, so may be available in your local bookstore. I have imported some copies which are available at NZ\$70 incl. GST (or A\$60 for Australian subscribers).

New Issue: Skellmax Industries

Skellmax Industries is seeking to raise \$115 million from the issue of 100 million shares at 115 cents each. The money raised - plus \$30 million of bank borrowings - will be used to acquire the Skellerup and Flomax business from Viking Pacific. In addition, both businesses have just distributed all of their accumulated cash of \$16.4 million to Viking Pacific as a dividend.

The net asset value of the businesses being acquired is only \$48.4 million, but these businesses are expected to generate strong cash flows. Profit for the year to June 2002 is expected to be \$11,105,000 (11.1 cents per share) from revenues of \$100.7 million. For the year to June 2003 revenues are forecast to rise 2.9% to \$103.6 million and profits 12.0% to \$12,437,000 (12.4 cents per share) when a 7.0 cents dividend is expected. The dividend payout ratio is expected to be around 40-60% of net profits.

At 115 cents Skellmax Industries are priced on a Price/Sales Ratio of 1.14, a Price/Earnings ratio of 9.3 and will offer a gross Dividend Yield of 9.1%. Net asset backing per share, however, will be only 18 cents.

While the shares look reasonable in terms of profitability and forecast dividends, the business has been asset stripped *ahead* of this public share issue. Viking has taken \$46.4 million of cash (i.e. all of the \$16.4 million in the bank *and* \$30 million raised from new debt) out of Skellerup and Flomax - and is then selling the asset stripped businesses to the public for another \$115 million.

None of the \$115 million raised from the public will go to Skellmax to finance future growth or expansion. In fact, as the company's cash has been extracted (and replaced by debt) Skellmax is in a weakened financial position. This will lower its ability to take advantage of future expansion opportunities or re-invest in its existing

business. It will also probably require the company to retain much of its profit to rebuild the balance sheet, repay debt and fund capital expenditure. So while the company forecasts a 56% payout in 2003, that payout ratio will probably decrease over the next several years (i.e. dividends will likely be steady or, at best, grow more slowly than profits).

Skellerup and Flomax are probably best described as "income" generating businesses rather than "growth" businesses. Skellmax should therefore be the sort of company that would appeal most to income investors seeking a high dividend yield from their investment, rather than capital appreciation. While the shares *do* offer a high dividend yield, actual payments do not start until March 2003 - and then only 2.5 cents of the forecast annual payout of 7.0 cents. Furthermore, the weakened financial position suggests the company would not be able to maintain this dividend rate if it suffered a downturn in business.

This float is a good example of how a vendor can maximise its returns from the sale of a business: extract all of the existing cash plus new cash raised from taking on new debt, then sell the company (with the debt) to outside shareholders at a price based upon its expected profitability.

Summary and Recommendation

We therefore do not consider Skellmax Industries shares particularly attractive. Other listed shares provide a more reliable source of dividend income and/or better potential for long term capital appreciation. Avoid.

Note: This Review was emailed to subscribers on 30 May. If you are not receiving e-mails, log in and update your account record or send your email address to: sandy@stockmarket.co.nz

"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	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)
AMP Limited	3	22,344	F & P Appliance	6	630	Michael Hill	4	194	Sky Network TV	6	1,790
AMP NZ Office	5	435	FC - Forests	6	723	NZ Refining Co	2	402	South Port NZ	3	44
AXA Asia Pac.	3	6,310	Fletcher Build.	6	975	Natural Gas	5	504	Steel & Tube	5	255
Advantage Group	2	30	Force Corp.	1	102	Northland Port	3	110	Taylor's Grp Ltd	1	39
Air New Zealand	4	431	Guinness Peat	2	991	Nuplex Indust	5	186	Telecom Corp	7	9,655
Akd Int Airport	7	1,839	Hallenstein G.	6	159	Owens Group Ltd	3	62	Tourism Hold.	4	88
Brierley Invest	1	807	Hellaby Hold.	1	135	Pacific Retail	2	152	Tower Limited	3	904
Briscoe Group	4	475	Horizon Energy	1	82	Port Tauranga	6	518	Trans-Tasman	3	168
Cap Properties	3	110	Ind Newspapers	6	1,658	Ports Auckland	6	723	Tranz Rail Hold	6	411
Carter Holt	7	3,478	Infratil NZ	1	359	Powerco Limited	1	445	Trust Power Ltd	3	623
Cavalier Corp	2	198	Kiwi Property	5	311	Property F Ind.	6	155	United Networks	5	1,166
Col FS Property	1	157	Lion Nathan Ltd	5	3,083	Restaurant Brds	4	193	Warehouse Group	5	2,313
Contact Energy	6	2,422	Lyttelton Port	4	191	Ryman Health.	1	180	Waste Mgmt NZ	4	289
DB Breweries	3	298	Mainfreight Grp	5	93	Sanford Limited	4	526	Wrightsons Ltd	2	141
F & P Health.	6	0				Sky City Ltd	6	1,303			

"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	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (A\$ Mill.)
AMP Diver. Prop	6	1,294	Centro Prop.	5	1,488	Investa Prop.	6	1,273	Publishing & Br	10	5,964
AMP Ind Prop Tr	8	406	Challenger Int.	4	816	Investor Group	3	132	Q.B.E. Insur.	9	4,140
AMP Ltd	7	19,186	Clarity Int'l	1	18	Iress Mkt Tech	3	280	Qantas Airways	13	6,990
AMP Office Trt	6	1,120	Clough Limited	1	341	James Hardie	8	2,819	Queens'd Cotton	3	109
AMP Shop Centre	8	1,000	Coal & Allied	2	2,446	Jubilee Mines	2	201	RG Capt'l Radio	5	123
ANZ Bank	13	29,751	Coates Hire	5	433	Julia Ross Rec.	3	62	Ramsay Health	9	533
APN News Media	8	1,603	CocaCola Amatil	11	4,244	Jupiters	7	1,059	Ranger Minerals	1	42
ARB Corporation	3	185	Cochlear Ltd	11	1,885	K&S Corporation	2	76	Rebel Sport	1	139
AWB Limited	2	1,156	Col FS Property	6	1,400	Kaz Group Ltd	6	234	Reece Australia	1	727
AXA Asia Pac	9	5,411	Coles Myer	11	7,802	Keycorp Ltd	1	87	Renew. Energy	3	20
Adacel Tech.	1	48	Collection Hse	6	312	Leighton Hold	7	2,871	Ridley Corp.	2	332
Adcorp Aust.	2	43	Colorado Group	3	269	Lend Lease Corp	5	4,511	Rio Tinto Ltd	13	17,508
Adelaide Bright	3	341	Corn'wealth Bank	15	42,662	Lihir Gold	9	1,759	Roc Oil Company	2	158
Adelaide Bank	7	658	Commander Comm.	3	105	M.I.M. Holdings	12	2,597	Rock Build Soc.	1	48
Adsteam Marine	6	456	Computer Share	9	1,201	M.Y.O.B. Ltd	2	197	Rural Press Ltd	7	538
Adtrans Group	1	51	Cons Rutile	1	218	MTM Entert'ment	1	23	SMS Mgmt & Tech	2	149
Ainsworth Game	3	76	Corp Express	7	848	Macarthur Coal	1	154	STW Comm Group	3	559
Alesco Corp Ltd	1	123	Count Financial	2	103	Macquarie Off.	4	958	Santos Ltd	9	3,620
Alintagas Ltd	7	674	Crane Group	4	432	Macquarie C'Wde	7	673	SecureNet Ltd	2	60
Altium Limited	4	108	Cranswick Wines	3	44	Macquarie Bank	4	5,894	Servcorp Ltd	3	187
Amalgamated Hld	1	329	DCA Group Ltd	3	239	Macquarie Good.	7	1,126	Seven Network	11	1,558
Ambri Limited	1	49	David Jones	5	442	Macquarie G Mgt	1	379	Sigma Company	7	591
Amcor Ltd	6	5,575	Deutsche Office	5	1,550	Macquarie Bank	4	5,985	Silex Systems	2	380
Amrad Corp.	1	111	Deutsche Div Tr	7	1,092	Macquarie Leis.	2	99	Simeon Wines	6	224
Anaconda Nickel	2	162	Deutsche Ind Tr	5	506	Matrix Oil NL	1	37	Simsmetal Ltd	5	625
Aristocrat	9	2,683	Downer EDI Ltd	4	694	Mayne Group Ltd	5	3,450	Skilled Eng.	4	115
Asia Pac Spec	1	47	E.R.G.	6	320	McGuigan Wines	4	210	Smorgon Steel	5	916
Aurion Gold Ltd	7	2,005	ETRADE Aust.	1	54	Mermaid Marine	1	27	Snack Foods Ltd	4	249
Ausdoc Group	4	170	Ecorp Limited	3	257	Metabolic Phar.	2	111	Solution 6	5	125
Auspine Ltd	1	136	Ellex Medical	2	79	Metcash Trading	5	1,444	Sonic Health	5	1,357
Aust Pipeline	6	598	Emperor Mines	2	91	Mia Group Ltd	3	615	Sons of Gwalia	9	1,085
Aust Infra.	4	209	Energy Resource	1	271	Micromedical	1	113	Soul Pattinson	2	1,391
Aust Oil & Gas	1	152	Energy Develop.	9	474	Millers Retail	7	590	Southcorp Ltd	5	4,137
Aust Agricult.	2	131	Envestra	7	599	Mirvac Group	6	2,588	Spotless Group	3	887
Aust Pharm. Ind	5	657	EservGlobal Ltd	1	26	Mosaic Oil NL	1	44	St George Bank	9	9,873
Aust Gas Light	11	3,734	Evans & Tate	3	74	Murchison Un.	2	55	Stargames Ltd	3	103
Aust W'wide Exp	2	175	FKP Limited	2	120	Nat'l Telecoms	2	202	Starpharma Pool	2	37
Aust Stock Exch	6	1,408	Fairfax (John)	9	2,557	Nat'l Aust Bank	15	56,322	Sthn Cross Brd.	2	511
Aust Magnesium	1	83	Fantastic Hold.	3	106	Nat'l Foods	5	960	Sthn Star	1	74
Austar United	4	179	Flight Centre	3	2,461	Nautronix Ltd	2	40	Stockford Ltd	1	37
Austal Limited	4	266	Foodland Assoc	8	1,845	Neverfall Spr.	6	230	Stockland Trust	7	3,702
Austereo Group	9	713	Foster's Group	11	9,583	Newcrest Mining	10	2,327	Strathfield Grp	1	35
Austrim Nylex	1	50	Found'n Health.	2	57	News Corporatio	4	25,643	Suncorp-Metway	10	6,461
Australand Hold	2	807	Freedom Group	6	206	Normandy NFM	5	1,319	Sydney Aquarium	2	107
Axon Instrument	3	150	Futuris Corp.	7	895	Norwood Abbey	1	41	Symex Holdings	3	103
BHP Billiton	5	38,500	G.U.D. Holdings	2	188	Novogen Ltd	2	239	TAB Ltd	5	1,625
BRL Hardy Ltd	7	1,595	GWA Internat'l	3	658	Novus Petroleum	4	371	TAB Queensland	8	484
BT Office	7	0	Gandel Retail T	8	1,638	Nufarm Limited	3	621	Tabcorp Holding	10	4,684
Bank of W.Aust	7	2,615	Gasnet Aust Trt	2	252	OPSM Group Ltd	1	466	Tap Oil	5	238
Baycorp Advant.	5	805	General Prop Tr	8	5,329	Objective Corpo	2	27	Technology One	6	178
Bendigo Bank	6	836	Globe Int'l Ltd	4	710	Oil Search Ltd	8	892	Telemedia Serv.	6	0
Beston Wine Ind	1	29	Goodman Fielder	8	2,112	Onesteel Ltd	4	695	Telstra	15	29,214
Billabong Int'l	8	1,889	Graincorp	2	507	Open Telecom.	1	32	Tempo Services	6	254
Biota Holdings	3	34	Grand Hotel	4	128	Optiscan Image	1	60	Ten Network	9	838
Blackmores Ltd	2	99	Gribbles Group	3	316	Orbital Engine	1	128	Thakral Holding	4	369
Boral Limited	7	2,258	Gro Pep Limited	1	47	Orica Ltd	7	2,593	Ticor Ltd	6	364
Brambles Ind.	8	8,739	Gt Sthn Plant'n	1	95	Origin Energy	9	2,228	Timbercorp	1	132
Brandrill	3	18	Gunns Ltd	4	606	Oroton Int'l	1	85	Toll Holdings	7	2,399
Brazin Limited	3	271	Gympie Gold	1	185	PMP Limited	6	258	Transfield Ltd	2	393
Breakwater Is.	1	46	Hansen Tech.	1	36	Pacific Hydro	5	414	Transurban Grp	7	2,091
Brickworks Ltd	2	880	Harvey Norman	8	3,104	Pacificca Group	7	593	Uecomm Limited	2	58
Bristile Ltd	4	401	Healthscope	4	195	Pan Pharmaceut.	3	284	United Group	3	271
Bunnings W/hse	2	310	Henry Walker E.	4	179	Panbio Ltd	1	70	United Energy	9	905
Burns Philp	3	525	Hills Motorway	8	931	Paperlin X Ltd	9	1,710	Village Road.	5	346
Burswood Ltd	7	383	Hills Indust.	3	393	Patrick Corp	6	3,048	Villa World	1	70
C'wth Prop Off.	6	763	Horizon Energy	1	60	Peptech Limited	1	405	Vision Systems	3	260
C.S.R. Ltd	10	5,926	Hpal Limited	2	164	Perm Trustee Co	1	106	Volante Group	2	81
CI Technologies	3	117	Hutchison Tel.	8	261	Perp Trust Aust	8	1,720	W.M.C. Limited	13	10,501
CMI Limited	1	35	ING Indust Trt	7	981	Peter Lehman W.	5	150	Wattyl Ltd	3	187
CPI Group	4	41	ING Office Fund	7	977	Polartechnics	2	114	Wesfarmers Ltd	8	10,324
CSL Limited	10	5,624	ION Limited	4	637	Portman Limited	4	320	West Aust News	8	1,055
Cabcharge Ltd	5	391	Iluka Resources	7	1,123	Powerlan Ltd	4	58	West'n Metals	4	32
Caltex Australia	3	462	Infomedia Ltd	6	282	PowerTel Ltd	2	60	Westfield Trust	7	6,804
Campbell Bros	1	213	Institute Drug	1	132	Primary Health	2	398	Westfield Hold.	8	8,691
Candle Aust.	3	34	Insurance Aust.	10	4,577	Prime Retail	1	114	Westfield Amer.	5	5,992
Capral Alum.	1	194	Int Research	3	102	Prime Life Corp	1	104	Westpac Banking	14	29,047
Carindale Prop	2	161	Int'l Wine Inv.	1	150	Prime TV	5	248	Woodside Petrol	12	8,967
Cellnet Telecom	2	68	Int. Workforce	2	37	Pro Maintenance	5	161	Woolworths Ltd	12	13,847
Centennial Coal	2	156	Intellect Hold	1	108	Pro Medicus Ltd	1	97	Yates Limited	1	50
									Zimbabwe Plat.	1	101

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held	
				Before	After
10/05/2002					
Mainfreight	Harris Associates	Buy	+0.831	8.52%	9.66%
Tranz Rail Holdings	CBA	Buy	+1.312	11.42%	12.50%
17/05/2002					
Mainfreight	NZ Guardian Trust	Sell	-1.045	5.89%	4.46%
Warehouse Group	SR Tindall	Sell	-0.575	28.27%	27.59%
31/05/2002					
Affco Holdings	GAM Int'l Growth	Buy	+17.834	0.0%	6.59%
Rubicon Limited	Tower Asset Mgmt	Buy	+3.750	6.29%	7.64%
Waste Management	AXA Asia Pacific	Sell	-1.394	10.23%	8.81%
07/06/2002					
Calan Healthcare	ING NZ	Buy	+1.641	5.01%	6.26%
F & P Appliances	AXA Asia Pacific	Sell	-1.612	10.02%	7.54%
Feverpitch Int'l	DG Handley	Buy	+0.474	11.83%	11.94%
Feverpitch Int'l	J Handley	Buy	+0.155	5.87%	5.97%
Fletcher Building	Tower Asset Mgmt	Buy	+0.100	4.98%	5.01%
Lyttelton Port	AMP Henderson	Sell	-1.025	10.75%	9.75%
Tower Corporation	Perpetual Trustees	Buy	+11.587	0.0%	6.43%
Tranz Rail Holdings	ING NZ	Sell	-2.819	6.12%	3.80%
Tranz Rail Holdings	The Capital Group	Buy	+1.058	5.04%	6.29%

Dividend\$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Capital Properties	2.175	10-06	19-06	0.35
Col First State Property	2.21	17-06	28-06	0.4274
DB Breweries	12.50	27-05	05-06	Full
Dorchester Pacific	3.60	24-06	05-07	Full
F & P Healthcare	25.00	17-06	27-06	Full
Horizon Energy	30.00	17-06	20-06	Full
Horizon Energy special	45.00	17-06	20-06	Full
Infratil	3.00	24-06	28-06	Full
National Property Trust	1.80	27-05	07-06	0.45
Northland Port	7.50	27-05	30-05	Full
Powerco	7.20	17-06	28-06	Full
Richmond	5.00	17-06	21-06	Full
Telecom NZ	5.00	03-06	14-06	Full
Tower Corporation	14.00	15-07	30-07	1.00
Trustpower	10.00	19-08	30-08	Nil
<u>Australian Shares</u>				
Central Equity	3.00	27-06	10-07	
C.S.R.	13.00	31-05	04-07	

Total Return Index for All Listed Shares

May 13	2021.29	May 20	2020.33
May 14	2020.35	May 21	2023.01
May 15	2022.90	May 22	2014.97
May 16	2004.59	May 23	2014.81
May 17	2007.26	May 24	2014.30
May 27	2011.84	Jun 3	Holiday
May 28	2011.83	Jun 4	2013.40
May 29	2004.69	Jun 5	2012.32
May 30	2004.87	Jun 6	1999.11
May 31	2022.66	Jun 7	1998.28

Current Issues

SHARE SPLITS

	Ratio	Ex-Date
Horizon Energy	5:1	24-06

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Heritage Gold (1)	2:3	10	-	-
(1) Issue of warrants. 1 cent payable on application, 1 cent within 1 year, 1 cent in 2 years and a final 7 cents within 5 years to convert warrants to ordinary shares.				
NZ Oil & Gas (2)	1:2	2	10-06	05-07
(2) Options to buy shares at 60 cents in 2005.				
Rocom	5:14	18½	17-06	12-07
Summit Gold (3)	-	12	20-05	21-06
(3) Summit Gold will offer each shareholder 10,000 to 30,000 shares at NZ\$0.12 or A\$0.10.				

NEW ISSUES

	Price	Date	EPS	DPS
Vertex Group Holdings	205	28-06	-	-

Readers Ask . . .

Question: I've had a good run in Australia going with some of your picks, but I bought some **Village Roadshow** "A" Class Preference shares as an income stock and it seems to have turned to custard.

Should I hang in there or bail out?

Answer: Village Roadshow is cutting the dividend on the ordinary shares (which have voting rights and which are mainly held by management) to "reinforce the strength of the balance sheet" and provide funds to "pursue growth opportunities". The Preference shares will continue to receive the 10.175 cents dividend.

If dividends are not paid on the Preference shares for six months then they will receive voting rights (i.e. effectively become ordinary shares). Management would lose control of the company and probably be forced to cut their very large, multi-million salaries!

Cutting the ordinary dividend is actually favourable to the Preference shareholders who will (1) continue to receive dividends and (2) receive the benefit of extra funds retained in the business to fund future growth. Preference shares receive the higher of (1) 10.175 cents dividend or (2) a dividend 3.0 cents higher than paid on the ordinary shares.

The ordinary and preference share prices fell on Friday in response to the dividend cut announcement, but the preference shares remain attractive as an income investment. Hold.

Next Issue

The next issue of *Market Analysis* will be posted in four weeks time on Tuesday July 9, 2002 (and delivered in most areas on Wednesday 10).

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

MARKET ANALYSIS is published 12 times per year by Securities Research Company Limited, P.O. Box 34-162, Birkenhead, Auckland. (66 Stanaway Street. Telephone 64-9-4199 427 Facsimile 64-9-4199 428 Internet: www.stockmarket.co.nz or www.australia-stockmarket.com Email: james@stockmarket.co.nz). Subscription Rate NZ\$265 (including GST) per year.

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