

# Market Analysis

Issue No. 365

P.O. Box 34-162, Auckland

November 12, 2002.

## Inside Market Analysis

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## Summary and Recommended Investment Strategy.

The outlook for the general Australian and New Zealand stockmarkets is relatively Neutral, although many recommended shares are performing well. Remain close to fully invested, but accumulate a small cash holding (from dividends and new savings) in anticipation of new "Buy" recommendations in coming months.

## Investment Outlook.

**Telecom NZ, Tranz Rail and Tower Corporation** are the latest victims to meet the fate that appears to lie in wait for *all* large NZ companies.

While Telecom was very successful at holding back competition - and extracting monopoly revenues from its network - its recent and current problems were totally predictable. Regulated low interconnection fees improve the viability of other telecom companies, so competition will increase. Internet usage required Telecom to invest to expand network capacity adding little or nothing to revenues. Growth in mobile usage - and falling prices - led to the same situation in this sector. When costs rise faster than revenues a company has hit "Terminal Velocity" - and shareholder wealth quickly diminishes. Telecom accelerated this decline with the debt funded acquisition of cash hungry **AAPT** in 1999-2000 (see *Market Analysis*, September 2000, issue 339).

The long term decline by Tranz Rail was also totally predictable (see *Market Analysis*, June 1996, issue 288) as the business was (and is) under-capitalised and *too capital intensive*. For every dollar of profit earned, the company needs to re-invest *threedollars* to maintain the operating capacity of the business. That has led to the build up of interest bearing debts and off balance debt in the form of long term operating leases. A high number of staff deaths is another sign that something is badly wrong in this company. Tranz Rail wants to raise an additional \$66 million in new equity in a 5 for 7 issue at 75 cents. This will reduce bank debt, but does nothing to plug the company's cash sink-hole. Avoid. Don't throw good money after bad.

Tower Corporation is another sad case. The company has tried hard, but never been able to attract business and grow internally. Instead it turned to acquisitions. Invariably companies pay too much for strategic acquisitions - which also fail to help a business grow internally. Perhaps none of this (Continued on Page 16)

### Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	<b>70% (Bullish)</b>	<b>49% (Neutral)</b>
New Zealand:	<b>55% (Neutral)</b>	<b>36% (Bearish)</b>



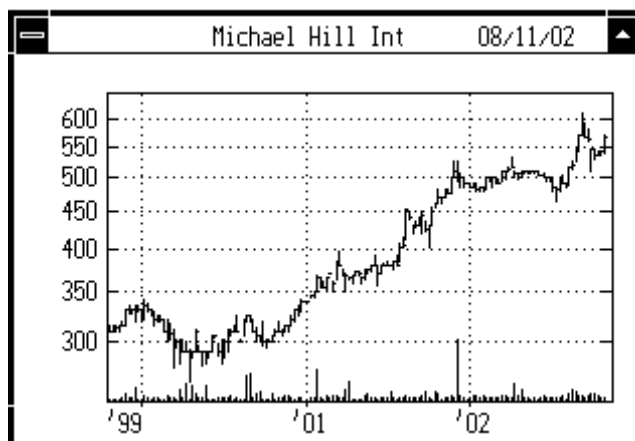


# Recommended Investments

**Michael Hill International** has opened its first two Canadian stores at Burnaby and Abbotsford, 40 km and 64 km outside Vancouver. These stores, plus a third to open on Vancouver Island next week, will capture the peak pre-Christmas selling season.

**Nuplex Industries** has started the new financial year very strongly - with first quarter profits up 50% on the same period last year! The company reports "favourable trading conditions, steady margins" in NZ and Australia and earnings from recently acquired **Asia Pacific Specialty Chemicals** "running ahead of expectations".

The Vietnam operations are also continuing to grow rapidly with plant improvements allowing production at "double original expectations". Despite this increase, demand is "racing ahead of supply". (Cont'd on Page 4)



## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	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 %
<b>NZ Shares</b>													
HOLD	CDL Investments Ltd	CDI	12/01/99	25	E	187.1	2.1	1.59	43	Nil	17	6.1	-7%
HOLD	Cavalier Corporation	CAV	05/12/95	312	A	31.5	0.6	1.22	15	8.4	640	198.0	+169%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	A	27.9	0.6	0.21	10	10.6	295	231.8	+251%
HOLD+	Lyttelton Port Company	LPC	12/12/00	150	B	101.8	0.8	2.41	9	11.2	147	21.3	+12%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	A	38.5	0.5	1.01	18	4.5	565	120.0	+1389%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	B	59.7	0.8	0.46	10	7.8	327	68.0	+13%
HOLD	Renaissance Corp	RNS	13/08/96	85*	D	37.1	1.9	0.07	NE	Nil	36	10.4	-45%
HOLD+	Richina Pacific	RCH	03/11/95	119*	D	72.2	1.6	0.07	13	Nil	60	11.9	-40%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.9	2.86	15	6.3	155	62.8	+81%
BUY	Steel & Tube Holdings	STU	08/08/00	146	A	87.9	0.9	0.85	16	8.9	318	52.0	+153%
HOLD+	Taylor's Group Ltd	TAY	09/11/99	102	C	24.3	0.9	0.73	12	7.9	160	21.5	+78%
BUY	Wrightson Limited	WRI	13/01/98	83	A	134.2	1.3	0.26	8	13.4	128	29.8	+90%
<b>Australian Shares (in Aust cents)</b>													
HOLD+	Abigroup Limited	ABG	09/03/99	265	B	47.7	0.8	0.18	15	3.7	219	49.0	+1%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	B	83.3	1.5	2.60	7	10.7	38	6.0	-40%
HOLD+	Auspine Limited	ANE	08/02/00	210	B	57.0	0.7	0.63	13	6.1	230	48.0	+32%
HOLD+	Austral Coal Ltd	AUO	16/01/01	19	C	154.4	1.2	0.52	10	Nil	50	Nil	+163%
HOLD	Biron Capital Ltd	BIC	12/04/94	171*	B	38.2	1.6	2.56	21	2.9	34	11.5	-73%
HOLD	Brazin Limited	BRZ	11/12/01	160	B	116.4	1.0	0.45	10	7.0	193	13.5	+29%
HOLD	Campbell Brothers Ltd	CPB	12/10/99	418*	C	39.0	0.6	0.52	16	6.4	470	72.5	+30%
BUY	Cellnet Telecommunicat	CLT	12/02/02	152	B	49.3	0.9	0.21	9	6.3	144	9.0	+1%
BUY	Commander Comm.	CDR	11/09/01	92	B	145.0	1.0	0.65	13	3.1	90	5.3	+4%
HOLD	C.S.R. Limited	CSR	11/07/00	436	B	937.6	0.7	0.75	10	4.2	576	36.0	+40%
HOLD+	Julia Ross Recruitment	JRR	14/08/01	92	B	57.4	1.1	0.33	9	6.8	88	9.0	+5%
HOLD+	McPherson's Ltd	MCP	10/10/00	125	A	39.2	0.6	0.32	9	5.7	210	24.0	+87%
HOLD	Nufarm Limited	NUF	11/02/97	418*	B	155.3	0.8	0.34	9	5.8	312	99.3	-2%
HOLD	OAMPS Limited	OMP	15/05/01	198	B	45.6	0.6	0.37	12	5.9	340	26.0	+85%
BUY	Skilled Engineering	SKE	12/03/02	126	A	86.4	0.8	0.23	13	6.6	152	10.0	+29%
HOLD	Toll Holdings <sup>1</sup>	TOL	08/09/98	60*	B	275.4	0.7	0.92	26	1.4	695	29.0	+1107%
HOLD	UXC Limited	UXC	11/01/00	55*	C	118.0	1.5	0.22	10	8.2	61	11.0	+31%
BUY	Villa World Ltd	VWD	11/06/02	68	A	102.9	1.0	0.32	5	13.2	68	5.0	+7%
HOLD	Vision Systems Ltd	VSL	10/11/98	69*	C	161.1	1.1	1.23	12	4.3	91	20.1	+61%
HOLD+	Volante Group Ltd	VGL	13/03/01	132	B	68.1	1.1	0.21	18	7.0	115	13.0	-3%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +116.6%. This is equal to an average annual rate of +29.6%, 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 117 closed out) is +29.2%, compared with a market gain of +8.8% (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.

(2) Toll Holdings notes (TOLG) last traded at 700 cents. **CONVERT Toll notes to ordinary shares.**

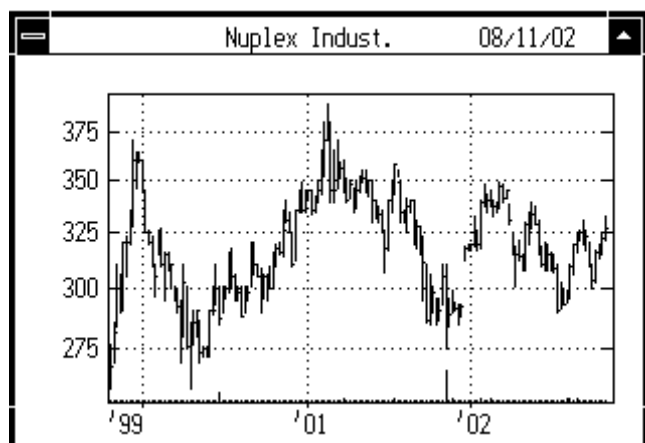
**Recommended Investments** (Continued from Page 3)

This is being satisfied by imports from other group operations until a second emulsion extractor becomes operational in Vietnam in April 2003. A high temperature resin plant will also begin producing polyester resins for the fibreglass industry and alkyd resins for solvent-based paints from next April.

Lower costs for petrochemical raw materials (which account for 60% of costs) and the higher NZ and Australian currencies against the US dollar have helped improve profit margins during the first quarter. Nuplex is also benefiting from lower "unit costs of manufacture" owing to the larger size of the business providing "critical mass" in addition to its investments to improve productivity.

Nuplex has negotiated the sale of its Australian medical waste business **Medihold**. This is a core business for Nuplex but they believe "there is more value for the purchaser than for Nuplex in operating this business". In other words, an Australian purchaser was prepared to pay more for the business than it is worth to Nuplex. Offsetting that sale, Nuplex has reached agreement with US based **Hercules Inc** to distribute its range of paper process chemicals, "adding significantly" to the group's paper industry business. Overall the sale of Medihold and the new paper business will "increase both revenues and earnings".

We are upgrading Nuplex shares to a "Buy". Two months ago we discussed how Nuplex shares are now under-valued. Strong growth in the current financial year further increases that under-valuation. Furthermore the share price trend appears to be improving. The Relative Strength rating is now +0.2%, ranked 38 (on a scale of 0-99). That *positive* strength rating qualifies the shares as a "Buy" under our *Comprehensive Share Selection Criteria* in both the *Under-Valued Shares* and *Best Performing* sections.



**Steel & Tube Holdings** reports profits up 21% for the three months to 30 September, helped by a greater than expected contribution from NZ Piping Systems.

Demand from the rural sector is expected to weaken in 2003, but repurchasing 10% of its capital over the next year will also help boost earnings per share and the value of our investment in this company. Steel & Tube shares are still a "Buy" for income and capital appreciation.

**Australian Shares**

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

**Abigroup's** WestLink consortium has been named the

preferred tenderer for the Western Sydney Orbital project. The consortium now has until the end of the year to negotiate final terms and conditions for the contract, with construction likely to start in mid-2003 and completed in 2007.

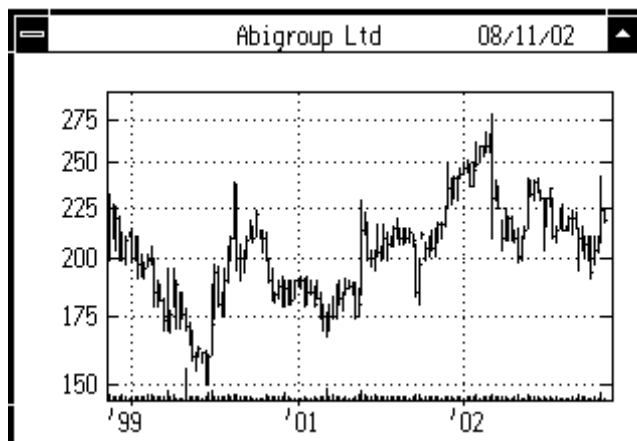
The consortium will build this 39 km, four lane motorway and operate it as a toll road for 34 years. The motorway will link to the M5, M4 and M2. Toll collection will be fully electronic - collected at freeway speeds - to improve traffic flows.

The consortium members are **Transurban** (with a 40% equity share), **Macquarie Infrastructure Group** (40% equity), **Leighton** (10% equity) and **Abigroup** (10% equity). An Abigroup/Leighton joint venture will design and construct the motorway, as well as maintain it over the next 34 years. So this \$1.5 billion project provides around \$180-200 million per annum of construction revenues to both Abigroup and Leighton over the next four years. This is a significant project, boosting Abigroup's total revenues by 20-30%, starting next financial year (i.e. to June 2004).

The 10% equity interest in the toll road should also be an attractive infrastructure investment for Abigroup. Its \$15 million investment in the similar Hills Motorway toll road now has a market value of \$74 million (before capital gains taxes) or 155 cents per Abigroup share.

Just a month ago Abigroup stated its intention to hold its Hills Motorway shares "for the short to medium term" but now intends to hold them for "the foreseeable future". The Western Sydney Orbital will link the M5 motorway to the western end of Hills Motorway's M2, while the proposed Lane Cove tunnel will connect to the eastern end. An Abigroup joint venture has also been shortlisted to build an \$850 million link from the M2 to the Gore Hill Freeway. All of these new roads will increase the traffic using the M2 and the revenues, dividends and share price of Hills Motorway - and in turn the value of our holding in Abigroup shares!

We are rating Abigroup shares as "Hold+" owing to its valuable Hills Motorway investment as well as the recovery and growth potential of its construction business. Technically the shares are a little weak, with a Relative Strength rating of -3.4%, ranked 43 (on a scale of 0-99). An improvement in the share price trend (i.e. a *positive* strength rating) would see us upgrade Abigroup to a "Buy".



**Atlas Pacific** has issued 4,156,917 new shares following the exercise of options (at 30 cents). This takes the issued capital to 87,805,893 shares and raises an

additional \$1.25 million in cash for the company.

Atlas Pacific's pearl farm is about 2,000 km from Bali, so recent terrorist bombings have little impact on the political risk involved in this Indonesian based pearl farm. In fact, the loss of overseas funds and employment as a result of the downturn in tourism can only make the local Indonesian population, as well as local and national governments more protective of this business.

Atlas Pacific's share price briefly dipped to 31½ cents and is still good buying at 37½ cents. As discussed previously, we expect the share price to reach 95-110 cents over the next 2-2½ years as well as paying high dividends. This investment is not without risk - no share investment is risk free - but the high profits, strong cash flows and low share price are too attractive to ignore. "Buy".

**Brazin** has expanded further in the United Kingdom with the purchase of 41 *V Shop* music stores from **Virgin Group** - in addition to the 77 *Our Price* shops acquired last year. Once again, these stores have been acquired at virtually no cost. This will increase UK revenues by about 50%.

Brazin will pay only £2.8 million to acquire the inventory (at cost), which will be partially funded by a vendor loan of £1.0 million repayable in early 2004. Fixtures, fittings and computer equipment will be acquired at no cost to Brazin, and Virgin will subsidise the rent payable on six stores until sales targets are achieved. The stores currently trade as *V Shop* but will be rebranded as *Sanity Entertainment*.

Thirteen *Our Price* stores have been rebranded as *Sanity Entertainment* and another two will be rebranded before Christmas. One new UK store was opened, with two more new stores planned ahead of Christmas. Four *Our Price* stores were closed. The UK operations have obtained local bank funding to finance the new stores and the rebranding of the old stores.

Brazin, the Australian parent company, has invested very little in acquiring these under-performing music stores from Virgin Group. Furthermore Brazin has not guaranteed the property rental obligations or the new bank borrowings of its UK business - so Brazin risks no more than its initial investments of about A\$30 million, most of which Virgin re-paid to Brazin's UK operations to restructure and rebrand the music stores.

For that relatively small investment, Brazin has significantly expanded its total revenues and profit potential - if it can duplicate its Australian success selling music CDs and DVDs in the UK market. To date the UK operations appear to be progressing well and the company hopes to have around 200 UK music stores within the next few years (up from the 118 at present).

Music sales in Australia are down slightly for the first quarter, but lingerie sales from the *BNT* division (which generated about 25% of group earnings last year) are up strongly.

Brazin's share price has weakened over the last six months, with the Relative Strength rating now -4.5%, ranked 47. So we rate Brazin as just a "Hold" at present. The shares, however, trade on low valuations (i.e. P/E of 10, Yield of 7.0%) and there is potential for significant growth in the UK over the next several years. Brazin also has the potential to realise cash through better

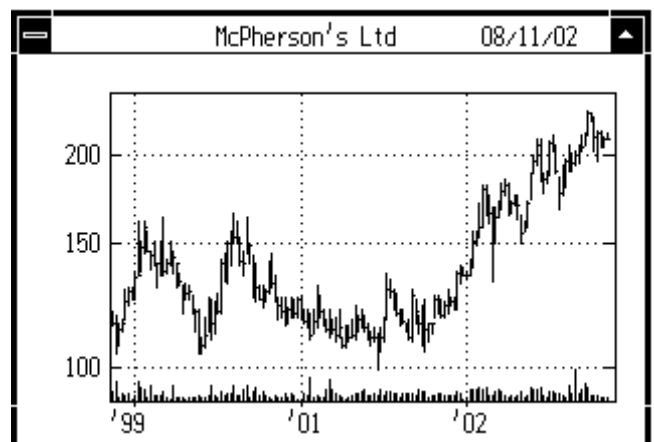
stock control - with the cash released from the business available to pay a special dividend, to re-purchase shares or to fund an acquisition. So while Brazin's share price may continue to drift sideways in the short term, the shares still hold plenty of future potential while continuing to produce a high dividend income.

**McPhersons** is predicting "double digit earnings per share growth" this financial year.

The **Houseware** division performed poorly last year until the June quarter when productivity improvements and a strong Australian dollar lifted profit margins. These higher margins have "continued strongly in the first quarter" and the company expects "divisional earnings in 2003 will show a significant increase over 2002".

The **Printing** division seeks to "consolidate" on last year's result with first quarter earnings "well in line with targets".

At 210 cents, McPhersons shares are up 87% since we bought in two years ago but they are still undervalued on a Price/Sales ratio of only 0.32, a low Price/Earnings ratio of 9 and a Dividend Yield of 5.7%. This business is growing and provides a strong cash flow. Over the last year one *insider* sold 125,000 shares (after exercising an executive option to buy 250,000 shares at \$1.00 each). The shares are in a strong uptrend, with a Relative Strength rating of +11.8%, ranked 8 (on a scale of 0-99). Therefore McPhersons shares are rated a "Buy" for new investors - and a strong Hold for those who followed our initial October 2000 recommendation.



**Nufarm** is to pay 12.3 million Euros to **Bayer Group Science AG** for the marketing rights to two crop protection products in Belgium and Germany. These herbicides, used to control weeds in cereal crops, currently generate annual sales of 11 million Euros and have patent protection until 2010. Nufarm will invest in "a larger sales and marketing force" in Germany, with these new products "facilitating strong growth" and "access to distribution" for other Nufarm products.

**OAMPS** has acquired the Melbourne based insurance broking business of **Bilmont Insurance Consultants** which will add over \$5 million in premium revenues for the group.

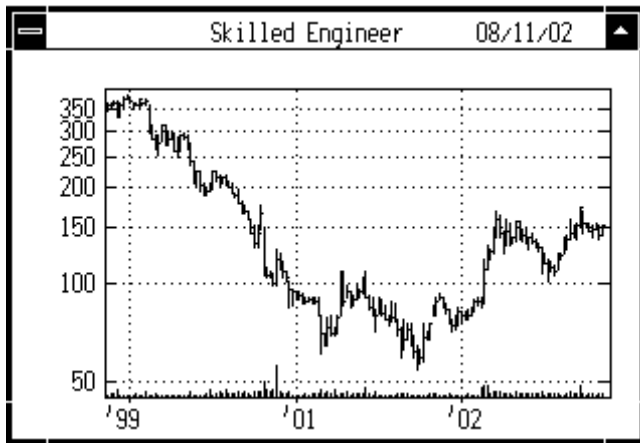
**Skilled Engineering** reports revenues up 10% for the first four months of the current financial year. The company is also focusing upon improving its profit margins - which will result in a higher rate of growth in profits.

This is a cyclical business (Continued on Page 6)

**Recommended Investments** (Continued from Page 5) in the early stages of a profit recovery. The shares are under-valued on a P/S ratio of 0.23, a P/E ratio of 13 and a Yield of 6.6%. The shares are also in the early stages of a new uptrend, with a Relative Strength rating of +14.1%, ranked 6. We are looking for the share price to peak around 400-500 cents at the top of the next cycle, in 2004-2006.

Skilled Engineering offers a high yield for investors requiring current income, plus the potential for a significant capital gain. So we rate Skilled Engineering shares a strong "Buy" suitable for all investors.

Of course, all shares involve risks, so investors need to maintain a diversified portfolio of at least 5-10 shares (with limited investment moneys), although 20-30 shares is better.



**Toll Holdings** is forcing the early redemption of its convertible notes. The ordinary shares and convertible notes were recently split 4 for 1 (i.e. we now hold four times as many notes as before the split). Each new note can either be repaid at \$4.25 in cash (equal to \$17 before the split) or converted into one ordinary share which has a current market value of \$6.95. Clearly the ordinary shares are more valuable - so investors need to complete the Conversion Notice sent out last week and return it to the company to convert the notes into ordinary shares.

Investors will receive a final interest payment for the period from 1 October to 27 November.

Although Toll Holdings is entitled to force this early redemption once the ordinary share price was up 35% on the issue price of the convertible notes, this early conversion is not what we wanted. The notes pay an annual interest income of 27.75 cents compared with an ordinary dividend rate of just 10.0 cents. In addition, the cash redemption option (at \$4.25 per note) acted to reduce our risk of loss.

The reduction in risk achieved by selling our ordinary shares (in April 2001) and re-investing in the convertible notes allowed us to safely let our profits run. The value of this investment has increased significantly over the last 18 months, while Toll Holdings has also made good progress expanding its business and increasing its profitability. So, although we are unhappy at the early redemption, the convertible notes have helped to boost our investment gains - so we are happy to again go back to holding an investment in the ordinary shares.

Toll Holdings has made two large acquisitions over

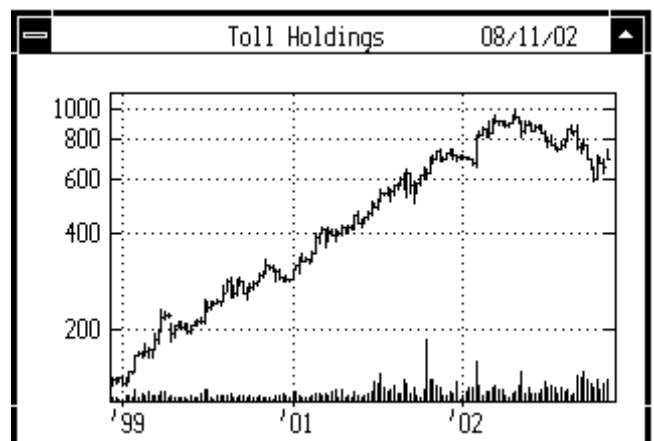
the last month. The Tasmanian shipping operations of **Brambles**, including the vessels *Tasmanian Achiever* and *Victorian Reliance*, have been acquired for \$73 million. This business will generate revenues in excess of \$100 million and increase Toll Holdings' earnings per share.

Toll Holdings has also acquired from **Mayne Group** the *Expresstransport* businesses which include express courier messenger, air freight, road priority and mail room management businesses. The consideration has not been disclosed, but is probably less than \$30 million for businesses generating in excess of \$320 million in annual revenues - which would be another outstanding acquisition for Toll Holdings! This acquisition is described as "an excellent outcome for Toll shareholders" that will "complement other Toll express activities".

After three years of negotiations, competing against five other bidders, a joint venture between Toll Holdings and **Tenix Defence, TenixToll Defence Logistics**, has been selected to manage the **Australian Defence Force's** logistics within Australia. This is a major contract, expected to generate \$880 million in revenues over ten years from providing warehousing, materials maintenance and distribution services. The joint venture will take over the management of 228 buildings, with 667,000 m<sup>2</sup> of indoor warehousing and 177,000 m<sup>2</sup> of external storage, covering 1.6 million line items valued at \$6,400 million. The venture will provide better inventory control, reduce warehouse space by 25%, reduce distribution costs by up to 50%, with an overall cost saving of 20-25% for the government.

Despite these potential cost savings the tender became very political. The original tender process was completed in late 2000 but suspended ahead of the 2001 election owing to the threat of job losses in regional areas. The tender specifications were then changed to preserve regional jobs "mainly in marginal electorates held by the Coalition". TenixToll "met and exceeded all requirements" for local community employment and has retained "more than 300 jobs in specific regional areas".

Toll Holdings reports that group results for the current financial year "are in line with expectations and well ahead of this time last year" and is "confident of producing another year of strong growth". The directors also "believe that the company is well positioned to continue to deliver outstanding performance for shareholders".



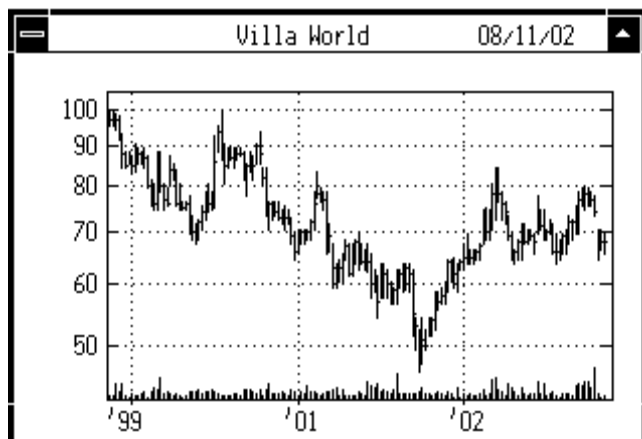
**UXC Limited** (code UXC) is to be the new name of **DVT/Utility Services Corporation**. The company has consolidated 18.6 shares into 1 new share - so we are back with the same number of shares that we had before the recent reverse takeover that merged Utility Services and DVT.

UXC has further increased its shareholding in listed **IT & E** by 1,416,675 shares to 7,537,700 shares (8.79% of the company).

**Villa World** is seeking to buy three undisclosed land development sites with a total value of about \$25 million. The acquisition of a Brisbane site and a Gold Coast site are expected soon, with the purchase of a Melbourne site likely to be completed in about five months.

Plans to re-develop the Dolphin Arcade, Surfers Paradise, will likely be finalised over the next year and will probably involve two towers with a total of 390 apartments, plus three or four floors of retail space. In the meantime the company is collecting \$3 million annually in rentals from this \$33 million property.

The Chinese joint venture - in which Villa World is investing US\$2.5 million in mezzanine funding and building expertise - has changed from planning 20 houses to 16 two-level homes in a security estate. Subject to pre-selling to expatriates and wealthy Chinese investors, construction will begin around March 2003 and be completed within a year - earning Villa World the first US\$3.95 million in profits.



**Vision Systems** has completed a three year, \$30 million project to develop a medical instrument for “a large US diagnostic company” and has now been awarded “a significant instrument supply agreement” to manufacture this instrument. This is estimated to generate revenues of about \$2 million this financial year, \$10-12 million in 2004 and around \$20 million in 2005.

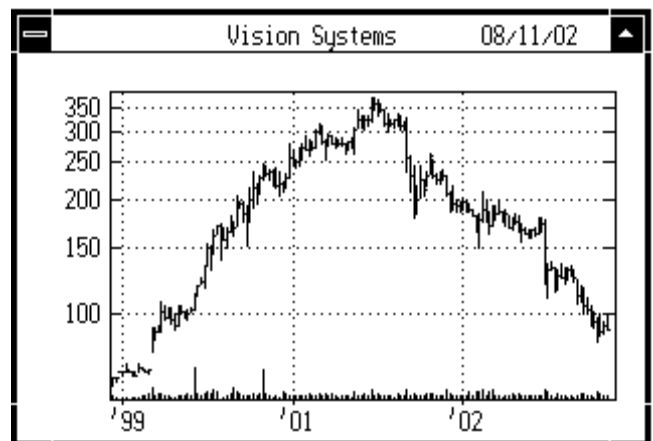
Vision Systems will, of course, earn even better profit margins on the medical instruments it develops, manufactures and markets for itself. Prototypes of the two new automated pathology laboratory instruments under development “received very strong responses” at recent trade shows in the US and Europe.

The Fire & Security division has recently released a new compact **VESDA** smoke detector that is “making a significant early contribution to sales”. Three more new products will be released before the end of this financial

year. One of these, **ADPRO Fastrace** (a security surveillance product for the banking and finance sector) is receiving “very positive pre-release market reaction”. This product will be on the market in a few weeks.

Vision Systems has sold all of its remaining 6,243,588 shares in **TTP Communications plc**. This realised A\$9.7 million bringing the total proceeds from the sales of these shares to \$69.7 million. Vision Systems originally invested A\$2 million for an 11.3% shareholding in UK based unlisted **TTP Group plc** - and still retains that investment. TTP Communications is a very successful business that was developed and spun-off to TTP Group shareholders ahead of listing on the UK stockmarket. TTP Group still retains 14,982,001 TTP Communications shares (worth £9.2 million) and continues to work on other research projects. According to Vision Systems, “More spin outs are planned by TTP Group in the future”.

We believe that Vision Systems has the potential to generate significant growth in shareholder wealth over the medium to long term. The share price, however, remains weak with a Relative Strength rating of -22.1%, ranked 88. Therefore we rate the shares as only a “Hold” at present - but will upgrade them to a “Buy” (and add to our existing shareholding) once that decline ends and the strength rating becomes positive!



**Volante Group** reports a good start to the current financial year. Revenues for the first quarter are up 3% to \$96 million with net profit up 85% to \$1.8 million. The company sees potential to increase its business at the expense of “struggling” competitors, with “enhanced products and services” and by making acquisitions.

Volante Group has acquired Western Australian based **SCS Strategic Computer**, a “leader in messaging and knowledge management products and services”. Volante has paid \$300,000 in cash, with a further \$300,000 to \$500,000 payable in one year (based upon the performance of the business). The business generates around \$3 million in revenues, mainly from services, and an undisclosed level of profits. Services businesses can be volatile, so usually trade at a low multiple to profits - which suggests profitability of around \$150,000 to \$250,000. SCS Strategic Computer's services business is “a perfect match” with Volante's existing Western Australia IT equipment business, so the two operations will merge to provide cross selling opportunities and a wider range of products and services.

# Company Analysis:

## Powerco

### **Powerco** (code PWC)

Powerco is currently involved in a major \$810 million acquisition that will double the size of the business and which requires it to raise \$150 million in new equity capital from investors. While there is some short to medium term risk of under-performing its forecasts, the shares offer a high current income yield with potential for moderate growth over the longer term.

### Company History

The current company named **Powerco** was formed in September 2000 with the merger of the original **Powerco** and **Central Power**.

To comply with the Electricity Industry Reform Act 1998, both of these companies had sold their electricity generating and electricity retail interests in late 1998 and had retained their electricity distribution networks (i.e. the lines that connect to consumers). The Act also made it impossible for the major shareholders, **Alliant International** and **Infratil**, to own significant interests in both electricity retail and distribution companies. As these two investors had a major shareholding in **Trustpower** (an electricity retailer) they sold Powerco in an initial public offering, at \$1.20 per share, in September 2000. Powerco listed on the NZ stockmarket in December 2000.

Since then the company has sought to expand through acquisition. In June 2001 the company paid \$118.0 million to purchase **AGL's** Hutt Valley and Porirua Basin retail gas networks. This included over 1000 km of gas pipes and doubled the size of Powerco's gas network. This acquisition was funded with bank debt, but re-financed in April 2002 when the company raised \$100 million through the issue of Capital Bonds paying interest at 8.4%.

In late 2001 the company sought to merge with **Horizon Energy** but that plan was abandoned in early 2002. Powerco, however, retains a 4.94% shareholding in Horizon Energy.

In May 2002 the company spent A\$7.5 million to acquire three Australian businesses involved in construction and maintenance for electricity network companies. These were merged with Powerco's similar existing Australian operations which are based around Brisbane, the Gold Coast and the Sunshine Coast.

In its largest acquisition, Powerco agreed in September 2002 to spend \$810 million to acquire the Bay of Plenty and Thames Valley electricity distribution assets (at a value of \$590 million) plus the lower North Island gas network (for \$220 million) from **United Networks**. 80% (\$660 million) of this is being funded by new bank borrowings, while the company will also raise \$150 million through a fully underwritten institutional share placement and issue to existing shareholders. In total the company will issue 93,750,000

new shares at \$1.60 per share. This has depressed the market value of the shares to around the same price.

### Recent Results

Powerco's first full year of operation was to March 2002 when revenues were \$163.1 million and profits \$32,965,000 (14.8 cents per share). The annual dividend rate was 13.1 cents (plus full imputation tax credits).

Powerco, however, has now distributed all of its imputation tax credits. Furthermore, the company will not pay income tax in the foreseeable future owing to high tax depreciation rates on its network assets. Future dividends will therefore not include imputation tax credits.

For the six months to September 2002, revenues rose 20.8% to \$94.0 million with profits up 6.5% to \$18,748,000 (8.4 cents per share). The dividend of 6.0 cents was 1.7% higher, but excluded imputation tax credits. So on a pre-tax basis the dividend fell 31.9%.

For the year to March 2003 the company is forecasting a profit of \$36.3 million (about 14.0 cents based upon the average number of shares on issue throughout the year or 11.5 cents per share based upon the fully diluted capital) and a final dividend of 8.0 cents, making 14.0 cents for the year. Based upon the current share price of 161 cents, that puts the shares on a Price/Earnings ratio of 11.5 and a Dividend Yield of 8.7%.

The year to March 2004 will include a full year's trading from the newly acquired electricity and gas assets, so profits are forecast to rise 47.7% to \$53.6 million (17.0 cents per share) when a 16.0 cents dividend is expected. That is a P/E ratio of 9.5 and a Yield of 9.9%.

### Investment Criteria

At 161 cents Powerco shares appear to offer good value and promise to produce a high 9.9% income for investors. The only dangers in this are that the company is (1) highly leveraged following its current major acquisition and (2) it is projecting a very high 95-100% payout of its profits. Any government regulation to lower prices, higher interest rates increasing its interest cost or under-performance of the business for any reason would lead to the company under-performing its profit forecasts. That in turn would probably result in a lower than forecast dividend rate.

The market capitalisation after the current share issue will be \$381 million making Powerco a larger NZ company which then expects to be included in the NZSE 40 Index.

The shares are *neglected* with only two brokers currently following the company closely enough to publish profit forecasts.

Technically the shares are a little weak with a Relative Strength rating of -3.7%, ranked 62 (on a scale of 0-99). Recent weakness, however, is the result of the current huge share placement and cash issue to existing

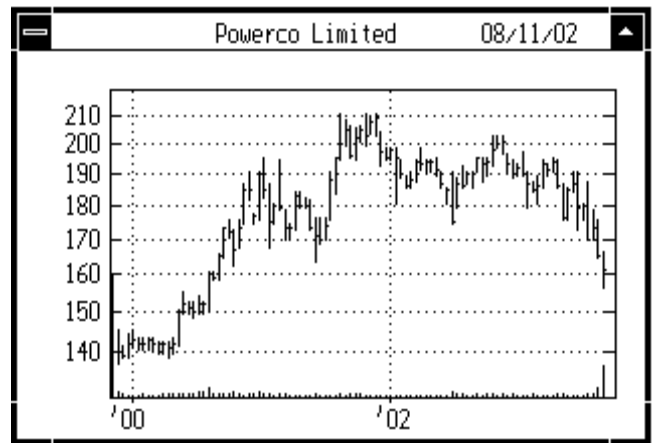


shareholders which has depressed the share price to the 160 cents issue price of the new shares.

### Summary and Recommendation

Electricity and gas distribution is a relatively low risk business that should be able to provide a high income for its shareholders. Powerco does face some short to medium term risks owing to high debt levels as a result of its current acquisition and its ability to achieve forecast dividend payouts. Nevertheless, the shares offer a high current income yield and should provide moderate growth over the medium to long term.

The shares should therefore appeal to retired investors requiring high income from a diversified portfolio of high yielding shares.



## *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				Price to NTA	Return on Equity	Volatility	Price/Earnings Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
		Current	4-Wk Chg.	Rank	Brokers Following							
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0												
Col Motor Co	295	+3.3	+3.1	20	-	1.0	10	0.6	10	10.6	0.21	82
Allied Farmers	215	+1.9	+2.8	27	-	1.3	19	1.0	7	11.1	0.23	23
Wrightsons Ltd	128	+10.8	+4.0	8	1	1.4	18	1.3	8	13.4	0.26	172
Williams Kettle	415	+3.5	+3.9	20	-	1.3	15	0.6	9	8.3	0.33	61
Fletcher Build.	304	+3.6	+2.2	19	5	1.9	16	1.0	12	6.9	0.36	1,054
Hellaby Hold.	275	+4.8	+2.0	17	1	1.7	17	0.8	10	9.8	0.40	136
CDL Hotel NZ	25	+1.5	-2.2	31	-	0.4	5	1.9	8	4.2	0.43	87
Nuplex Indust	327	+0.2	+2.1	38	4	1.5	15	0.8	10	7.8	0.46	195
Dorchester Pac	150	+8.5	-1.2	10	-	1.4	18	1.1	8	6.6	0.63	29
Kirkcaldie & St	410	+2.1	+0.5	27	-	1.8	10	0.6	19	4.4	0.77	31
Steel & Tube	318	+5.0	+3.0	16	5	2.3	15	0.9	16	8.9	0.85	279
Hallenstein G.	280	+2.3	+2.3	26	4	3.8	27	0.7	14	9.9	0.94	165
Mr Chips Hold	110	+0.2	+1.3	39	-	3.9	13	0.8	31	4.7	0.95	26
Michael Hill	565	+6.3	+1.6	14	3	4.9	28	0.5	18	4.5	1.01	217
Trust Power Ltd	365	+3.1	+0.4	21	2	1.2	-	0.6	NE	5.2	1.11	669
Warehouse Group	726	+1.1	-0.1	33	6	7.0	26	0.5	27	2.8	1.18	2,214
Shotover Jet	68	+21.4	+8.3	1	-	1.4	16	1.2	9	2.7	1.20	29
Cavalier Corp	640	+2.7	+1.3	22	1	3.6	23	0.6	15	8.4	1.22	202
Natural Gas	136	+11.6	+3.7	6	3	1.6	9	1.0	18	4.8	1.49	1,054
Scott Tech. Ltd	245	+7.6	+4.9	12	-	3.6	18	0.9	20	6.7	1.64	48

<b>BEST PERFORMING SHARES:</b> Strongest Shares, P/E < 20, P/S < 1.0												
A. Barnett Ltd	133	+34.3	+8.6	0	-	0.7	4	0.7	20	Nil	0.67	19
Sky City Leisur	176	+25.8	+1.7	1	-	18.1	-	1.4	16	Nil	0.20	11
Pacific Retail	300	+13.9	-2.9	3	1	2.0	22	0.9	9	Nil	0.34	152
Kingsgate Int'l	19	+10.8	-3.3	7	-	0.5	7	1.8	7	Nil	0.98	75
Wrightsons Ltd	128	+10.8	+4.0	8	1	1.4	18	1.1	8	13.4	0.26	172
Dorchester Pac	150	+8.5	-1.2	10	-	1.4	18	0.9	8	6.6	0.63	29
Steel & Tube	318	+5.0	+3.0	16	5	2.3	15	0.7	16	8.9	0.85	279
Hellaby Hold.	275	+4.8	+2.0	17	1	1.7	17	0.6	10	9.8	0.40	136
Fletcher Build.	304	+3.6	+2.2	19	5	1.9	16	0.8	12	6.9	0.36	1,054
Williams Kettle	415	+3.5	+3.9	20	-	1.3	15	0.5	9	8.3	0.33	61
Col Motor Co	295	+3.3	+3.1	20	-	1.0	10	0.5	10	10.6	0.21	82
Hallenstein G.	280	+2.3	+2.3	26	4	3.8	27	0.5	14	9.9	0.94	165
Kirkcaldie & St	410	+2.1	+0.5	27	-	1.8	10	0.6	19	4.4	0.77	31
Allied Farmers	215	+1.9	+2.8	27	-	1.3	19	0.8	7	11.1	0.23	23
CDL Hotel NZ	25	+1.5	-2.2	31	-	0.4	5	1.5	8	4.2	0.43	87
Nuplex Indust	327	+0.2	+2.1	38	4	1.5	15	0.7	10	7.8	0.46	195

Company	Share Price	STRENGTH RATING				Price to NTA	Return on Equity	Volatility	Price/Earnings Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
		Current	4-Wk Chg.	Rank	Brokers Following							
<b>INCOME SHARES:</b> Highest Yields, Capitalisation > NZ\$100 million												
Tower Limited	175	-15.0	-2.9	82	8	0.4	9	0.6	4	17.1	0.27	330
NZ Refining Co	1731	+1.8	+1.2	29	1	1.3	11	0.2	11	15.1	2.33	415
Wrightsons Ltd	128	+10.8	+4.0	8	1	1.4	18	1.0	8	13.4	0.26	172
Powerco Limited	161	-3.7	-2.1	61	2	0.9	8	0.6	11	12.1	2.20	358
Pyne Gould G.	108	-2.8	+0.5	56	-	1.1	12	0.7	9	11.7	0.42	108
Lytelton Port	147	-6.8	-0.9	71	3	5.3	58	0.5	9	11.2	2.41	150
Skellmax Indust	104	-5.6	+0.1	66	-	5.8	69	0.9	8	10.0	1.03	104
Hallenstein G.	280	+2.3	+2.3	26	4	3.8	27	0.5	14	9.9	0.94	165
Hellaby Hold.	275	+4.8	+2.0	17	1	1.7	17	0.6	10	9.8	0.40	136
Restaurant Brds	164	-5.4	-1.2	64	4	3.7	29	0.7	13	9.1	0.59	153

<b>OVER-VALUED SHARES:</b> Highest Price/Sales Ratios, Relative Strength < 0												
Opio Forestry	55	-0.8	+0.1	47	-	0.6	-	0.7	NE	Nil	9.86	8
F & P Health	1075	-0.5	+6.3	44	7	6.4	37	0.3	17	3.5	5.13	1,100
Sky Network TV	340	-8.8	+0.0	76	5	24.1	-	0.6	NE	Nil	4.54	1,324
Ports Auckland	630	-2.0	-0.5	52	5	1.9	13	0.5	15	7.1	4.21	668
Evergreen	53	-6.1	-0.7	69	-	0.6	5	0.7	11	Nil	3.54	77
Vending Tech.	190	-8.2	+0.8	74	-	3.6	34	0.6	10	Nil	2.75	57
NZ Oil and Gas	34	-9.6	+1.2	78	-	1.2	-	0.9	NE	Nil	2.71	39
Lytelton Port	147	-6.8	-0.9	71	3	5.3	58	0.5	9	11.2	2.41	150
Powerco Limited	161	-3.7	-2.1	61	2	0.9	8	0.6	11	12.1	2.20	358
AMP Limited	1390	-15.9	+0.7	84	-	1.4	7	0.4	19	4.5	2.16	15,686
Contact Energy	375	-0.8	+0.0	45	7	1.4	8	0.5	18	7.6	2.06	2,265

<b>WORST PERFORMING SHARES:</b> Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average												
Tranz Rail Hold	122	-30.4	-0.6	95	4	0.5	-	0.7	NE	Nil	0.27	160
Cert Organics	35	-26.4	+2.7	92	-	-	-	1.6	NE	Nil	N/A	8
Genesis Res.	152	-20.5	-2.5	91	-	0.8	-	0.8	NE	Nil	1.98	40
Software of Exc	125	-19.0	-1.8	90	-	4.1	-	0.7	NE	Nil	1.94	27
GDC Communicat.	125	-18.3	+4.9	89	-	2.9	22	0.8	13	4.2	0.69	47
Blis Technology	35	-17.7	-4.6	87	-	4.2	-	1.2	NE	Nil	N/A	22
Summit Gold Ltd	7	-17.6	-1.5	87	-	1.7	-	1.9	NE	Nil	N/A	7
Elect Trans Tec	3	-16.3	+4.0	85	-	-	-	3.3	NE	Nil	N/A	7
AMP Limited	1390	-15.9	+0.7	84	-	1.4	7	0.4	19	4.5	2.16	15,686
Advantage Group	34	-13.1	-1.4	80	3	1.8	14	1.4	13	Nil	0.47	29
NZ Oil and Gas	34	-9.6	+1.2	78	-	1.2	-	0.9	NE	Nil	2.71	39
Eldercare NZ	19	-9.3	+1.4	77	-	0.9	-	1.5	NE	Nil	0.89	36
Ind Newspapers	299	-8.9	+0.4	76	4	1.1	4	0.5	25	4.2	1.45	1,263
Sky Network TV	340	-8.8	+0.0	76	5	24.1	-	0.6	NE	Nil	4.54	1,324
AXA Asia Pac.	277	-8.4	+1.3	75	-	1.2	12	0.5	10	4.3	0.46	4,882
Vending Tech.	190	-8.2	+0.8	74	-	3.6	34	0.6	10	Nil	2.75	57
Cedenco Foods	184	-7.0	+2.7	72	-	1.0	15	0.5	7	Nil	1.06	29
Carter Holt	170	-6.7	-1.0	71	9	0.6	5	0.8	11	3.5	0.77	2,956

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

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Company	STRENGTH RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	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									Brokers Following	Share Price	Cur. rent	4-Wk Chg.	Rank								Insider Buy-Sell	Brokers Following	Share Price
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0													<b>BEST PERFORMING SHARES:</b> Strongest Shares, P/E < 20, P/S < 1.0															
Auto Group Ltd	61	+2.2	-0.4	21	1.0	-	6.1	55	1.0	11	6.6	0.04	20	Aircrus Aust	16	+43.0	+21.7	1	0.0	-	-	-	1.5	9	Nil	0.26	2	
Indophil Res.	25	+14.6	+2.9	6	0.0	-	-	-	1.7	NE	20.0	0.05	20	Kresta Holdings	18	+38.0	+4.6	2	3.7	-	1.8	38	1.3	5	Nil	0.38	24	
Catalyst Recmt	26	+3.3	+2.8	19	0.0	-	1.3	13	1.5	10	6.7	0.10	7	Ausdrill Ltd	38	+28.4	-6.3	2	2.0	-	0.8	28	0.9	3	4.0	0.16	23	
OM Holdings	26	+49.5	+2.4	1	0.0	-	1.3	4	1.5	30	1.9	0.11	12	Acma Engineer.	15	+27.7	+35.3	2	0.0	-	-	-	-	1.5	8	Nil	0.21	11
A.P. Eagers	500	+3.5	-0.4	18	4.1	1	1.1	9	0.4	13	5.6	0.12	85	Austin Group	47	+23.9	+11.1	3	0.2	-	2.4	25	0.7	9	4.3	0.56	27	
Devine	45	+4.0	-10.3	17	1.0	-	0.7	43	1.4	2	15.7	0.12	46	Gale Pacific	125	+22.5	-1.1	3	0.0	-	2.1	14	0.8	15	4.8	0.94	52	
Bridgestone	180	+3.9	-1.6	17	0.0	-	0.5	6	0.7	7	4.2	0.13	66	AHC Ltd	35	+18.8	-16.2	4	1.0	-	0.3	1	0.9	19	Nil	0.46	3	
Watpac Ltd	36	+0.3	-0.4	27	0.0	-	1.2	19	1.3	6	9.7	0.13	26	Mincor Resource	30	+17.5	+1.2	4	0.0	-	-	-	1.4	5	Nil	0.79	51	
Adtrans Group	270	+12.5	-0.7	7	3.1	1	2.2	26	0.5	9	7.2	0.13	62	Schaffer Corp	1135	+17.2	+1.0	4	2.3	-	3.3	32	0.3	10	5.3	0.72	154	
Ausdrill Ltd	38	+28.4	-6.3	2	2.0	-	0.8	28	1.2	3	4.0	0.16	23	Astron Ltd	97	+16.4	+11.1	5	0.0	-	0.6	21	0.8	3	Nil	0.18	12	
Danks Holdings	980	+7.8	-1.6	11	0.0	-	1.3	11	0.3	12	5.6	0.16	64	Joyce Corp.	61	+16.2	+8.4	5	4.0	-	1.0	14	0.7	7	Nil	0.15	11	
Raptis Group	24	+13.2	-0.2	7	0.0	-	1.2	16	1.6	8	3.1	0.17	17	General Publish	15	+16.1	+12.4	5	0.0	-	-	-	1.5	4	Nil	0.19	2	
Multispares Hld	25	+5.5	+2.2	14	0.0	-	0.8	10	1.4	8	4.1	0.17	5	Berklee Ltd	58	+15.8	+3.5	5	1.0	-	0.8	7	0.7	12	6.9	0.74	8	
Metcash Trading	211	+3.3	-1.6	18	0.0	5	10.6	48	0.7	22	2.4	0.21	1,290	Investor Info	15	+15.6	+10.0	5	1.1	-	-	-	1.9	11	6.7	0.67	8	
Cellnet Telecom	144	+2.9	+3.6	19	2.3	1	1.8	21	0.8	9	6.3	0.21	71	Coffey Int'l	255	+14.5	+4.0	6	2.0	-	2.8	31	0.5	9	5.9	0.26	29	
Volante Group	115	+0.2	+0.9	27	0.1	1	5.8	32	1.0	18	7.0	0.21	78	Maxi TRANS	23	+14.3	+4.1	6	6.0	-	2.3	20	1.1	11	6.7	0.33	29	
Lemarne Corp	175	+2.6	+6.7	20	4.0	-	0.9	-	0.6	NE	5.7	0.22	29	Skilled Eng.	152	+14.1	+3.8	6	2.3	3	7.6	60	0.6	13	6.6	0.23	131	
Embelton Ltd	210	+7.2	+1.5	12	0.0	-	0.8	7	0.7	11	4.3	0.22	5	Menzies Court	8	+14.1	-4.5	6	4.2	-	0.8	5	2.0	16	Nil	0.84	24	
Skilled Eng.	152	+14.1	+3.8	6	2.3	3	7.6	60	0.8	13	6.6	0.23	131	Wattyl Ltd	301	+14.1	+2.2	6	3.0	3	1.3	6	0.4	19	2.7	0.42	236	
Integrated Grp	100	+6.3	+5.4	13	1.0	1	5.0	50	0.9	10	6.5	0.24	44	Fleetwood Corp	295	+13.8	+1.3	7	1.1	-	4.2	29	0.5	14	4.4	0.65	108	
Roberts Ltd	359	+7.3	-0.7	12	0.0	-	1.4	19	0.5	7	8.4	0.25	39	Raptis Group	24	+13.2	-0.2	7	0.0	-	1.2	16	1.2	8	3.1	0.17	17	
Ridley Corp.	135	+5.1	-0.5	14	3.1	3	1.4	12	0.9	11	3.3	0.25	358	PMP Limited	93	+12.8	+2.1	7	8.0	6	4.7	47	0.9	10	Nil	0.18	270	
Coffey Int'l	255	+14.5	+4.0	6	2.0	-	2.8	31	0.6	9	5.9	0.26	29	Adtrans Group	270	+12.5	-0.7	7	3.1	1	2.2	26	0.4	9	7.2	0.13	62	
Onesteel Ltd	156	+10.8	-1.4	8	0.0	5	0.9	5	0.7	18	4.2	0.28	840	Heggies Bulk.	39	+12.4	+3.3	7	3.0	-	2.0	12	0.9	17	Nil	0.18	22	
Noni B Limited	100	+3.7	+2.2	17	0.0	-	3.3	30	1.4	11	7.0	0.30	23	McPherson's Ltd	210	+11.8	+0.2	8	0.1	-	5.3	62	0.4	9	5.7	0.32	82	
Monadelphous Gr	270	+9.3	+0.7	9	0.1	-	1.8	17	0.6	10	5.2	0.32	50	Commander Comm.	90	+11.6	-0.6	8	2.0	2	4.5	35	0.7	13	3.1	0.65	131	
McPherson's Ltd	210	+11.8	+0.2	8	0.1	-	5.3	62	0.6	9	5.7	0.32	82	AJ Lucas	126	+10.9	+9.9	8	1.0	-	2.5	23	0.7	11	6.0	0.69	46	
Alesco Corp Ltd	390	+3.4	-2.4	18	1.3	2	2.8	20	0.5	14	3.8	0.32	147	Onesteel Ltd	156	+10.8	-1.4	8	0.0	5	0.9	5	0.6	18	4.2	0.28	840	
CEMI Limited	155	+7.1	+4.2	12	0.0	1	1.9	24	0.7	8	6.5	0.32	42	White (J) Malt	327	+9.8	+0.3	9	0.0	-	1.8	11	0.5	16	10.2	0.98	140	
Villa World	68	+3.9	-0.1	17	2.0	1	1.1	22	0.9	5	13.2	0.32	70	Cash Converters	5	+9.8	+2.7	9	0.2	-	-	-	2.3	7	Nil	0.46	7	
Maxi TRANS	23	+14.3	+4.1	6	6.0	-	2.3	20	1.5	11	6.7	0.33	29	Monadelphous Gr	270	+9.3	+0.7	9	0.1	-	1.8	17	0.5	10	5.2	0.32	50	
Capral Alum.	276	+3.6	+2.2	17	2.0	1	1.2	0	0.6	NE	2.2	0.33	194	Tamawood Ltd	115	+9.1	+2.1	10	5.2	-	3.8	43	0.7	9	8.7	0.47	30	
Sigma Company	411	+0.8	+1.8	25	0.0	3	3.2	12	0.7	26	2.4	0.33	567	Orica Ltd	1021	+8.9	+1.2	10	2.0	6	2.4	18	0.5	13	4.3	0.67	2,849	
Korvest Ltd	145	+0.6	+1.5	26	0.0	-	1.2	16	0.7	8	6.9	0.34	11	Home Bldg Soc.	321	+8.6	+3.8	10	0.1	-	0.7	4	0.7	17	4.0	0.75	39	
Coventry Group	420	+4.4	+2.4	16	0.0	-	1.1	3	0.5	31	4.8	0.35	142	Green's Foods	42	+8.3	+6.5	11	1.2	-	1.4	8	1.0	17	Nil	0.27	44	
OAMPS	340	+6.6	-0.8	13	8.0	-	4.9	40	0.6	12	5.9	0.37	155	F.F.I. Holdings	140	+8.1	+0.4	11	0.0	-	1.3	7	0.5	18	5.0	0.61	8	
Shearer (John)	161	+2.6	+1.0	20	0.0	-	-	-	0.7	14	5.0	0.38	19	Housewares Int.	175	+7.9	-4.3	11	4.0	-	3.5	30	0.7	12	4.6	0.52	194	
Ludowici Ltd	235	+1.2	+0.9	24	3.0	-	1.2	19	0.6	6	5.1	0.39	34	Danks Holdings	980	+7.8	-1.6	11	0.0	-	1.3	11	0.3	12	5.6	0.16	64	
Vealls Ltd	120	+5.7	-1.7	14	0.0	-	-	-	0.7	4	6.3	0.39	6	Skansen Holding	32	+7.8	-7.7	11	0.0	-	3.2	23	1.0	14	1.6	0.46	25	
Canberra Invest	77	+5.6	+2.7	14	0.0	-	0.9	30	0.9	3	5.2	0.39	24	East African Co	600	+7.5	+3.7	12	0.0	-	-	-	0.4	12	3.0	0.65	39	
Wrigdways Aust	88	+3.3	-1.0	18	0.3	-	-	-	0.8	11	5.1	0.40	28	IT & e Limited	15	+7.4	+3.9	12	0.0	-	1.5	21	2.1	7	Nil	0.74	13	
Wattyl Ltd	301	+14.1	+2.2	6	3.0	3	1.3	6	0.5	19	2.7	0.42	236	Bolnisi Gold NL	16	+7.3	-3.4	12	0.0	-	0.8	13	1.4	6	4.7	0.50	25	
Simsmetal Ltd	689	+2.6	+0.5	20	0.2	5	2.5	19	0.5	13	5.2	0.44	624	Roberts Ltd	359	+7.3	-0.7	12	0.0	-	1.4	19	0.4	7	8.4	0.25	39	
Foodland Assoc	1889	+8.0	-0.3	11	2.0	9	7.9	37	0.4	21	4.0	0.44	1,857	Embelton Ltd	210	+7.2	+1.5	12	0.0	-	0.8	7	0.6	11	4.3	0.22	5	
Transfield Ltd	264	+2.2	-2.8	21	0.0	3	2.6	14	0.8	19	3.8	0.45	363	Boral Limited	419	+7.2	-0.8	12	4.0	7	1.4	11	0.6	12	4.5	0.68	2,395	
Adcorp Aust.	93	+4.6	-4.9	16	1.0	2	9.3	69	0.9	13	6.5	0.45	54	CMI Limited	155	+7.1	+4.2	12	0.0	1	1.9	24	0.6	8	6.5	0.32	42	
Skansen Holding	32	+7.8	-7.7	11	0.0	-	3.2	23	1.3	14	1.6	0.46	25	OAMPS	340	+6.6	-0.8	13	8.0	-	4.9	40	0.5	12	5.9	0.37	155	
Pacifica Group	370	+2.5	+0.8	21	0.0	7	1.8	-	0.7	NE	2.3	0.46	530	FKP Limited	135	+6.6	+1.8	13	5.1	2	1.0	11	0.5	9	7.4	0.77	153	
Tamawood Ltd	115	+9.1	+2.1	10	5.2	-	3.8	43	0.8	9	8.7	0.47	30	Integrated Grp	100	+6.3	+5.4	13	1.0	1	5.0	50	0.7	10	6.5	0.24	44	
Marybor'gh Suga	660	+4.7	+4.4	15	1.0	-	0.6	7	0.4	8	7.6	0.47	20	Vealls Ltd	120	+5.7	-1.7	14	0.0	-	-	-	0.5	4	6.3	0.39	6	
Spotless Group	506	+5.3	+3.0	14	6.0	1	-	-	0.6	33	4.3	0.48	1,035	Canberra Invest	77	+5.6	+2.7	14	0.0	-	0.9	30	0.7	3	5.2	0.39	24	
Q.B.E. Insur.	777	+2.0	+3.5	22	9.0	9	2.1	-	1.0	NE	3.9	0.48	4,669	Multispares Hld	25	+5.5	+2.2	14	0.0	-	0.8	10	1.0	8	4.1	0.17	5	
United Overseas	40	+2.9	-5.8	19	0.0	-	0.4	15	1.2	3	7.5	0.48	24	Ridley Corp.	135	+5.1	-0.5	14	3.1	3	1.4	12	0.7	11	3.3			

Company	STRENGTH RATING				Insider Buy/Sell	Price to Brokers Following	Return on Equity	Volatility	Price/Earn Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	
	Share Price	Current Chg.	4-Wk Rank	Rank 0-99									
<b>INCOME SHARES:</b>	Highest Yields,	Capitalisation	> AS\$250 million										
Anglogold Ltd	985	-0.4 +1.6	31	0	0	-	0.4	1	35.3	0.17	720		
Futuris Corp.	117	-10.4 +2.8	63	0	2	6	1.5	13	0.8	12	10.3	0.10	719
Envestra	93	+4.1 +1.9	16	1	0	5	-	0.5	NE	10.2	2.44	656	
Australand Hold	138	-5.7 +0.5	51	0	0	3	1.1	13	0.6	8	8.7	0.53	724
Graincorp	855	-11.2 -0.4	65	5	0	2	85.5	-	0.3	8	8.4	0.67	343
Sons of Gwalia	244	-21.3 -6.3	86	1	0	8	-	0.6	7	8.2	0.75	403	
Aust Pipeline	264	+2.0 +2.0	22	0	0	6	1.5	8	0.5	17	8.1	2.63	644
Centennial Coal	212	+8.3 +4.4	10	1	0	2	1.6	24	0.5	7	7.5	1.35	259
Adsteam Marine	210	-2.5 +1.1	39	1	0	5	21.0	-	0.5	16	7.1	1.35	481
GWA Internat'l	245	+2.1 -0.1	22	1	2	3	1.8	12	0.6	15	6.9	1.10	681
Oil Coy of Aust	348	+1.9 -7.5	23	0	0	-	-	0.3	14	6.9	3.69	409	
Djerriwarrh	320	-4.4 -0.9	46	1	0	-	1.0	6	0.5	16	6.7	N/A	455
Clough Limited	68	-7.3 -1.1	56	0	0	1	1.4	15	0.7	9	6.6	0.43	281
Hills Indust.	303	-1.0 -2.5	34	2	0	2	3.0	19	0.5	16	6.6	0.65	381
David Jones	108	-1.6 +1.4	36	1	0	4	1.1	2	0.6	66	6.5	0.25	435
Crane Group	787	-2.6 -0.9	40	1	0	3	1.4	12	0.4	12	6.4	0.24	398
Stm Cross Brd.	900	-4.3 +1.4	46	4	1	8	1.1	7	0.5	16	6.3	1.60	506
AWB Limited	350	-6.5 +1.6	53	8	0	3	1.2	12	0.5	10	6.3	0.44	957
Bristle Ltd	255	+2.1 +0.4	22	1	4	4	2.0	20	0.6	10	6.3	1.33	382
United Energy	275	+8.4 +1.5	10	2	1	8	2.5	10	0.5	25	6.3	2.37	1,157
Smorgon Steel	109	-1.4 +0.6	36	1	2	5	-	0.7	19	6.0	0.32	941	
Nufarm Limited	312	-2.5 +1.0	39	4	0	3	2.2	26	0.6	9	5.8	0.34	485
Ticor Ltd	140	-1.7 +2.8	36	0	0	6	0.8	13	0.6	6	5.7	0.96	344
Austereo Group	140	-8.1 +1.0	57	0	0	9	0.7	7	0.7	11	5.7	2.24	604
Tabcorp Holding	1122	+1.5 -2.5	23	0	2	6	-	0.4	16	5.6	2.12	4,172	

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

Eiffel Tech.	13	+2.4 -3.1	21	9	0	-	1.4	NE	Nil	N/A	14		
Q.B.E. Insur.	777	+2.0 +3.5	22	9	0	9	2.1	NE	3.9	0.48	4,669		
Loftus Capital	55	+0.1 +0.3	28	9	0	-	0.8	NE	2.7	6.18	21		
PMP Limited	93	+12.8 +2.1	7	8	0	6	4.7	47	0.8	10	Nil	0.18	270
Ancor Ltd	814	+4.0 -1.2	17	8	0	9	2.0	25	0.4	8	3.4	0.78	6,711
OAMPS	340	+6.6 -0.8	13	8	0	-	4.9	40	0.4	12	5.9	0.37	155
Perseverance	14	+8.3 -12.0	11	7	0	-	-	0.9	NE	Nil	5.19	31	
Wadepack Ltd	193	+30.1 +7.0	2	7	0	-	2.4	6	0.4	39	1.8	0.86	61
Finbar Intern'l	26	+5.7 +4.9	14	6	0	-	0.9	8	0.7	11	3.8	1.07	23
OPSM Group Ltd	347	+1.5 +1.1	23	6	0	3	5.8	32	0.3	18	4.2	0.95	463
Maxi TRANS	23	+14.3 +4.1	6	6	0	-	2.3	20	0.9	11	6.7	0.33	29
Spotless Group	506	+5.3 +3.0	14	6	0	1	-	0.5	33	4	0.3	0.48	1,035
Austminex NL	7	+14.3 +3.9	6	6	0	-	-	1.5	NE	Nil	N/A	4	
Equity Trustees	690	+8.0 -0.1	11	6	0	-	2.9	25	0.4	12	5.7	1.59	39
Port Douglas	10	+6.6 +2.4	13	9	3	-	0.5	-	1.4	NE	Nil	0.75	21
Payce Consol.	100	+9.8 +0.4	9	5	0	-	1.1	-	0.6	NE	Nil	N/A	34
Aust Gas Light	1063	+3.2 +0.7	19	5	0	11	3.3	14	0.3	23	4.9	1.43	4,608
City Pacific	164	+3.4 +4.2	18	5	0	-	16.4	69	0.5	24	3.1	N/A	23
Cullen Resource	4	+3.3 -0.2	18	5	0	-	-	1.9	NE	Nil	N/A	10	
FTR Holdings	38	+17.1 +4.3	5	5	0	-	1.0	-	1.9	NE	Nil	1.22	14
Lernar Corp	175	+2.6 +6.7	20	4	0	-	0.9	-	0.4	NE	5.7	0.22	29
Boral Limited	419	+7.2 -0.8	12	4	0	7	1.4	11	0.5	12	4.5	0.68	2,395
Westgold Res.	9	+9.2 -12.7	10	4	0	-	-	1.3	NE	Nil	N/A	6	
Joyce Corp.	61	+16.2 +8.4	5	4	0	-	1.0	14	0.5	7	Nil	0.15	11
Kingsgate Cons.	318	+22.3 -3.3	3	4	0	-	-	0.4	NE	Nil	N/A	229	
Benitec Ltd	30%	+153.0%	-130.5	0	4	0	-	-	1.3	NE	Nil	N/A	16
Housewares Int.	175	+7.9 -4.3	11	4	0	-	3.5	30	0.6	12	4.6	0.52	194
FKP Limited	135	+6.6 +1.8	13	5	1	2	1.0	11	0.4	9	7.4	0.77	153
Jupiters	479	+0.8 -4.3	25	3	0	5	2.8	23	0.6	12	4.4	1.21	964
Credit Corp	88	+6.5 +5.5	13	3	0	-	4.4	33	0.6	13	4.0	3.28	28
Wattly Ltd	301	+14.1 +2.2	6	3	0	3	1.3	6	0.3	19	2.7	0.42	236
Methanol Aust.	11	+5.4 -9.9	14	3	0	-	-	1.2	NE	Nil	N/A	13	
ICS Global Ltd	70	+90.4 -39.0	0	3	0	-	0.3	-	1.1	NE	Nil	N/A	43
Ludowici Ltd	235	+1.2 +0.9	24	3	0	-	1.2	19	0.4	6	5.1	0.39	34
Sydney Aquarium	445	+3.9 -2.2	17	3	0	3	6.4	41	0.4	15	6.3	3.90	96
Aust Foundation	326	+0.0 +0.4	28	3	0	-	1.1	4	0.5	29	4.4	N/A	2,537
Sam's Seafood	500	+38.4 +8.8	2	3	0	-	50.0	73	0.4	69	1.2	3.45	117
Essential Pet.	24	+15.8 +12.1	5	3	0	-	-	0.9	NE	Nil	N/A	13	
Heggies Bulk	39	+12.4 +3.3	7	3	0	-	2.0	12	0.7	17	Nil	0.18	22
Foster's Group	460	+0.3 +0.5	27	3	0	12	5.8	34	0.3	17	3.7	1.88	9,423
ANZ Bank	1860	+0.3 +0.5	27	4	1	14	3.0	24	0.6	13	4.6	1.75	27,964
Sun Resources	12	+11.0 +2.4	8	4	1	-	-	1.2	NE	Nil	N/A	11	
A.P. Eagers	500	+3.5 -0.4	18	4	1	1	1.1	9	0.3	13	5.6	0.12	85
Tele2000 Ltd	7	+13.4 +11.9	7	4	1	-	-	1.4	69	Nil	1.17	9	
Metroland Aust	15	+2.3 -4.8	21	4	1	-	1.5	37	1.0	4	10.3	1.34	11
Tamawood Ltd	115	+9.1 +2.1	10	5	2	-	3.8	43	0.5	9	8.7	0.47	30
Foodland Assoc	1889	+8.0 -0.3	11	2	0	9	7.9	37	0.3	21	4.0	0.44	1,857
Concept Systems	8	+69.2 +15.2	0	2	0	-	-	2.2	NE	Nil	0.52	14	
Villa World	68	+3.9 -0.1	17	2	0	1	1.1	22	0.5	5	13.2	0.32	70
Ventracor Ltd	81	+0.6 +9.4	26	2	0	-	8.1	-	0.8	NE	Nil	N/A	129
Capral Alum.	276	+3.6 +2.2	17	2	0	1	1.2	0	0.4	NE	2.2	0.33	194
Beach Petroleum	34	+80.5% +113.8	0	2	0	-	-	1.0	21	1.5	3.96	61	
TVSN Limited	30	+53.4 -72.7	1	2	0	-	-	2.0	NE	Nil	2.57	36	
Premier Invest	208	+2.2 +3.3	21	2	0	-	0.5	1	0.4	76	1.0	N/A	188
Argo Investment	442	+0.0 +0.3	28	2	0	-	1.1	4	0.4	28	3.4	N/A	1,709

Company	STRENGTH RATING				Insider Buy/Sell	Price to Brokers Following	Return on Equity	Volatility	Price/Earn Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	
	Share Price	Current Chg.	4-Wk Rank	Rank 0-99									
Incitec	725	+1.7 -0.4	23	2	0	-	2.4	16	0.3	15	5.1	0.97	955
Sonic Health	641	+3.2 +6.8	19	2	0	7	-	0.5	49	3.1	1.92	1,664	
Commander Comm.	90	+11.6 -0.6	8	2	0	2	4.5	35	0.6	13	3.1	0.65	131
Newcrest Mining	620	+2.4 -2.7	21	2	0	9	-	0.4	NE	0.8	3.65	1,764	
Orica Ltd	1021	+8.9 +1.2	10	2	0	6	2.4	18	0.4	13	4.3	0.67	2,849
National 1 Ltd	40	+0.1 +1.8	28	2	0	-	4.0	-	0.7	NE	Nil	0.18	25
Paperlin X Ltd	500	+0.5 +0.7	26	2	0	9	1.6	12	0.5	13	5.4	0.51	1,796
Trust Co of Aus	620	+4.3 +3.7	16	2	0	-	3.9	17	0.3	23	9.7	4.82	100
Flexi Property	117	+0.8 -1.3	25	2	0	-	0.8	14	0.4	6	8.5	3.40	73
Aviva Corp Ltd	4	+67.4 -3.3	0	2	0	-	-	-	2.1	NE	Nil	N/A	8
Santos Ltd	616	+0.3 -0.8	26	2	0	7	-	0.4	8	4.9	2.28	3,586	
Stockland Trust	460	+2.0 +1.6	22	2	0	5	1.5	10	0.3	15	6.5	4.57	3,828
Cromwell Corp	7	+1.9 -6.0	22	2	0	-	-	1.4	6	Nil	1.14	11	
Coffey Int'l	255	+14.5 +4.0	6	2	0	-	2.8	31	0.4	9	5.9	0.26	29
Dominion Mining	66	+4.9 +2.0	15	2	0	-	-	0.6	NE	Nil	7.84	50	

# Australian Warrant / Option Analysis

A large number of options expired over the last three months but these have been replaced by a larger number of new options issued by existing companies and by new companies listing on the Australian stockmarket. Nevertheless, there are still only a handful of potentially attractive options worth serious consideration:

## AP Eagers (codes APE and APEO).

AP Eagers options regularly featured in our *Warrant/Option Analysis* over recent years - often at prices of 12-20 cents! In May we featured the options in a *Company Analysis* article. At that stage the options traded around 46 cents.

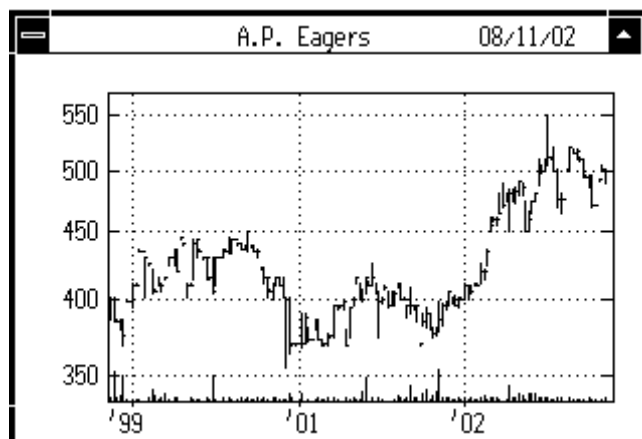
Unfortunately, the final exercise date is 31 January 2003, so we must now look at strategies to deal with this.

The shares trade well above the exercise price of \$4.00, so these options are valuable. Option holders therefore have two choices, either (1) pay \$4.00 per option to buy AP Eagers shares (which last traded at \$5.00, but are currently quoted at 483-499 cents) or (2) sell the options on-market *ahead* of the exercise date.

AP Eagers shares are an attractive investment, so exercising the options and continuing to hold the shares is a suitable strategy for investors. On the other hand, speculators who bought the options at 20-60 cents may not wish to increase their investment 7-40 fold by investing a further \$4.00 per option to buy the shares.

If you bought the options as a leveraged investment, then you probably will not want to exercise them and become a shareholder - so it will be necessary to sell the options *on-market* ahead of the exercise date.

The options should trade near their *intrinsic* value - which is \$4.00 less than the share price - over the next few months, so investors should watch fluctuations in the share price and value the options accordingly (i.e. at \$4.00 less than the share price). Remember that the options remain a leveraged investment in AP Eagers for another 2½ months - and that AP Eagers is an attractive share that *may* continue to appreciate over that period. Option holders should therefore seek to (1) sell into price strength (i.e. the shares could rise to about 520 cents and the options to around 120 cents over the next month) or (2) wait until late December or early January to benefit from further appreciation in the share and option prices and then sell on market ahead of the 31 January 2003 exercise date.



## Aberdeen Leaders (codes ALR and ALRO).

While these shares and options continue to weaken slightly they do offer a highly leveraged investment in a recovery of the Australian stockmarket.

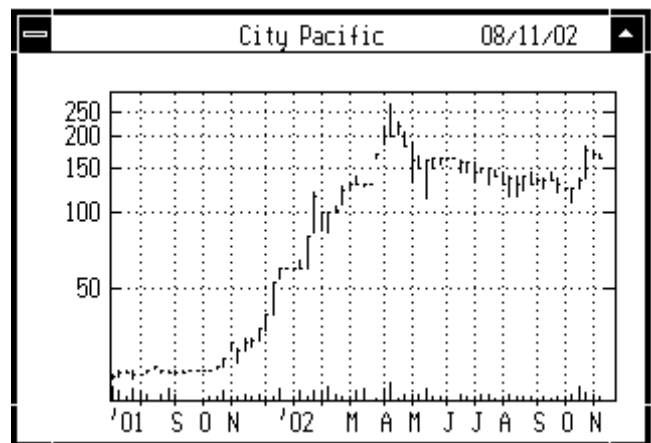
There is significant risk as the share price will need to appreciate *at least* 20% over the next 14 months to increase the value of these options. If the share price goes up 30%, however, the options will *triple* in value to 16 cents.

There is also a problem with limited marketability. At present there are only \$1200 worth of options on offer at 4.9 cents

## City Pacific (codes CIY and CIYOA).

The shares are up 18% to 164 cents and the options up 86% to 69 cents over the last three months, but City Pacific options still remain 40% under-valued and an attractive speculative holding.

One advantage of the higher price is that a larger volume of options are now offered for sale on the market - making it easier for investors to acquire a holding.



## Euroz (codes EZL and EZLO).

Euroz has raised a further \$2.75 million from a placement of shares at 50 cents. This gives the company around \$11 million in cash to fund its stockbroking and investment banking business. The options offer high leverage with two years until their final exercise date.

Although inactively traded at times, there are currently a large number of options on offer at 7.8 - 7.9 cents.

## Magna Pacific (codes MPH and MPHOB).

These warrants were first highlighted in our last *Warrant/Option Analysis* in August 2002. Since then the share price has risen 24% to 41 cents and the options are up 179% to 9.5 cents.

Despite this increase in price, the options are still very attractive as several factors have improved over the last three months:

Annual revenues rose 20.4% to \$14.0 million, although profits slipped slightly to \$709,000 (1.4 cents per share). The dividend was steady at 1.0 cent.

The first quarter of the new financial year, however, has started very strongly with the company reporting

November 12, 2002.

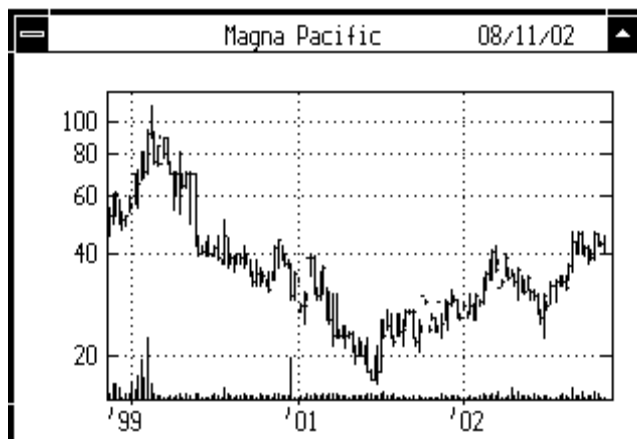
revenues up 72% to \$5.5 million with pre-tax profits up 122% to \$500,000. The cash holding is up to \$6.1 million (12 cents per share) and the company remains debt-free.

Three months ago we warned "the options are not actively traded" but "worth buying if you can pick some up". They are now more actively traded, with good volumes currently on offer at prices around 9½ - 12 cents - which is a discount to their *fair* value of around 15.7 cents.

These options have an *intrinsic* value of 9 cents (i.e. the value of the shares, 41 cents, less the cost of exercising the options in February 2004 at a cost of 32 cents). Trading near their intrinsic value the options have a break-even rate close to zero - so *any* appreciation in the share price above 41 cents will increase the value of the options at the final exercise date. They also offer a high *leverage*. If the shares were to rise just 21% to 50 cents over the period, then the options would appreciate 89% to 18 cents.

Magna Pacific is a very small company. Such

companies do involve high risks, but also have the potential to yield large capital gains. All of the factors discussed above make Magna Pacific an attractive, small cap company - while the options offer leveraged gains from a smaller initial investment.



Company	Share Price	Yr/Mth Exercise Price	Yr/Mth to Expiry	Option Price	Black Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
AGD Mining	1	1	0.4	0.1	0.2	-41	0.62	3.40	1.00	+0
AKD Limited	2	20	2.4	0.2	0.1	+144	0.82	2.54	1.00	+182
AP Eagers Ltd	500	400	0.2	85.0	103.2	-18	0.17	4.84	1.00	-17
Aberdeen Leaders	103	118	1.2	4.6	6.4	-29	0.22	6.64	1.00	+16
Acclaim Explor.	4	20	1.5	0.6	0.1	+999	0.65	3.97	1.00	+224
Adamus Resources	15	20	0.7	4.0	1.1	+255	0.54	4.49	1.00	+124
Adultshop.com	7	100	1.2	0.2	0.4	-43	1.28	2.39	1.00	+867
Adultshop.com	7	175	1.1	0.1	0.1	-11	1.28	2.78	1.00	+999
Adultshop.com	7	20	1.7	4.0	2.6	+51	1.28	1.57	1.00	+116
Advanced Engine	4	35	0.1	0.1	0.0	+999	0.88	9.99	1.00	+999
Aeris Technologies	20	20	2.7	5.0	8.0	-38	0.58	1.81	1.00	+9
Afminex Ltd	3	50	0.4	0.1	0.0	+999	0.86	9.99	1.00	+999
Afminex Ltd	3	10	2.6	1.3	0.5	+145	0.86	1.90	1.00	+83
Alkane Explor.	21	35	2.4	7.0	2.8	+154	0.43	2.99	1.00	+35
Allegiance Mining	4	20	1.1	0.6	0.1	+457	0.88	3.23	1.00	+388
Allied Mining	5	20	0.7	0.2	0.0	+782	0.76	5.53	1.00	+924
Amadeus Energy	9	25	2.0	2.5	0.2	+999	0.39	4.83	1.00	+75
Amadeus Energy Ltd	9	20	1.0	0.7	0.1	+999	0.39	7.13	1.00	+130
Amadeus Petroleum	9	20	1.0	0.7	0.1	+999	0.39	7.13	1.00	+130
Ambition Group	40	100	1.10	2.0	2.8	-29	0.55	3.21	1.00	+67
Ambri Ltd	110	135	0.0	1.7	2.8	-40	0.47	3.21	1.00	+999
Amity Oil Limited	49	100	1.9	11.0	3.1	+250	0.46	3.66	1.00	+60
Amlink Technologies	5	45	1.7	0.1	0.9	-88	1.29	1.84	1.00	+301
Anitsense Therapeutic	8	20	4.2	4.2	2.7	+55	0.70	1.66	1.00	+31
Antisense Therapeutics	8	20	4.2	9.6	2.7	+254	0.70	1.66	1.00	+38
Aquacarotene	3	5	0.2	2.0	0.1	+999	0.96	5.71	1.00	+999
Argonaut Resources	11	30	4.7	2.2	8.9	-75	1.51	1.08	1.00	+28
Arrow Energy NL	14	20	1.7	2.9	2.6	+10	0.57	2.60	1.00	+36
Astro Mining NL	5	75	7.1	0.9	5.0	-82	1.91	1.01	1.00	+46
Astro Mining NL	5	360	0.1	1.0	0.0	+999	1.91	9.99	1.00	+999
Audax Resources	35	30	1.1	16.0	10.7	+50	0.53	2.43	1.00	+29
Auridiam Consolidated	4	50	1.7	0.2	0.2	+20	1.06	2.46	1.00	+419
Auspine Ltd	230	400	0.1	0.1	0.0	+999	0.23	9.99	1.00	+999
Aust Food & Fibre	26	32	3.7	1.3	5.0	-74	0.27	3.03	1.00	+7
Aust Magnesium	47	125	2.8	9.5	1.4	+590	0.36	4.30	1.00	+48
Aust Mining Invest.	5	20	0.10	0.8	0.5	+75	1.13	2.57	1.00	+428
Aust Silicon	8	20	1.2	1.6	1.0	+62	0.85	2.55	1.00	+134
Aust United Gold	1	5	0.7	0.1	0.0	+999	1.01	4.55	1.00	+999
Autogen Ltd	44	125	7.3	10.0	23.7	-58	0.71	1.35	1.00	+17
Automotive Ind.	10	15	0.7	0.1	1.4	-93	0.87	2.93	1.00	+103
Aztec Resources	4	20	2.2	1.0	0.3	+221	0.80	2.39	1.00	+129
Bara Resources	19	25	0.9	3.0	1.3	+137	0.43	4.92	1.00	+68
Barlow (Tony)	0	10	2.1	0.1	0.0	+212	1.18	2.03	1.00	+371
Beach Petroleum NL	34	20	1.5	4.2	33.5	-87	7.75	1.00	1.00	-21
Bioprospect	7	20	3.2	2.8	1.1	+163	0.55	2.37	1.00	+44
Biotech Capital	30	50	0.10	2.2	0.1	+999	0.28	9.99	1.00	+98
Biron Capital	34	40	1.6	6.0	4.0	+52	0.31	4.15	1.00	+22
Blaze International	7	20	0.6	0.9	0.6	+41	1.33	2.65	1.00	+873
Blink Models Ltd	3	10	2.2	0.6	0.6	+6	0.90	1.92	1.00	+88
Blinks Models	3	20	0.1	0.1	0.0	+999	0.90	9.99	1.00	+999

Company	Share Price	Yr/Mth Exercise Price	Yr/Mth to Expiry	Option Price	Black Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
Bolhisi Gold	16	20	0.1	0.3	0.2	+53	0.65	9.99	1.00	+999
Bounty Oil	10	20	1.2	3.5	0.7	+378	0.63	3.30	1.00	+117
Bullion Minerals	7	20	1.7	1.2	1.2	-0	0.84	2.25	1.00	+94
Burns Philp	56	20	0.9	36.5	36.7	-0	0.30	1.53	1.00	+1
Cape Range Wireless	3	5	1.10	1.3	1.3	+4	1.00	1.61	1.00	+47
Captch Group	1	25	0.5	0.6	0.0	+999	1.33	8.57	1.00	+999
Cardia Technologies	8	20	1.7	2.5	1.3	+94	0.80	2.30	1.00	+92
Carnarvon Petroleum	7	20	0.1	0.3	0.0	+999	0.75	9.99	1.00	+999
Carnegie Corporation	1	20	0.1	0.1	0.0	+999	0.74	9.99	1.00	+999
Centamin	26	20	0.4	5.5	6.6	-17	0.54	3.23	1.00	+0
Central Kalgoorlie	4	20	0.1	0.1	0.0	+999	1.03	9.99	1.00	+999
Chariot Internet	23	100	0.1	0.1	0.0	+999	0.91	9.99	1.00	+999
Chiquita Brands	42	104	0.2	0.2	0.0	+999	0.53	9.99	1.00	+999
City Pacific	164	100	3.9	69.0	115.1	-40	0.80	1.26	1.00	+1
Clearwater Group Ltd	22	20	2.2	10.0	12.3	-19	0.95	1.43	1.00	+16
Clover	18	30	1.8	5.9	2.2	+169	0.53	2.97	1.00	+54
Cluff Resources	1	4	1.1	0.3	0.0	+999	0.64	4.24	1.00	+225
Cobra Resources	2	10	1.7	0.2	0.1	+145	0.80	2.88	1.00	+199
Cobra Resources NL	2	20	0.1	0.1	0.0	+999	0.80	9.99	1.00	+999
Cockatoo Ridge Wines	61	55	3.1	20.0	20.8	-4	0.34	2.24	1.00	+7
Conquest Mining	3	20	2.7	0.6	0.9	-33	1.08	1.64	1.00	+106
Cooper Energy	14	20	1.4	4.5	1.2	+279	0.40	4.07	1.00	+52
Customers Ltd	5	20	0.10	1.5	0.0	+999	0.68	5.34	1.00	+553
Datafast Telecom.	1	20	3.0	0.1	0.1	-30	1.32	1.54	1.00	+222
De Grey Mining Ltd	9	20	2.7	2.6	0.5	+451	0.39	3.71	1.00	+45
Didasko	6	10	1.11	2.0	1.8	+11	0.85	1.82	1.00	+47
Dioro Exploration NL	11	18	1.2	2.2	0.9	+141	0.53	3.56	1.00	+71
Dolomatrix Int'l	16	8	1.7	7.0	9.4	-26	0.66	1.55	1.00	-4
Dromana Estate	62	150	2.10	4.0	6.5	-39	0.48	2.83	1.00	+38
Dwyka Diamond	57	60	0.7	9.0	13.4	-33	0.81	2.58	1.00	+39
E-Star Online	5	50	0.7	0.1	0.0	+999	0.89	6.21	1.00	+999
Earth Sanctuaries Ltd	20	350	2.4	0.1	4.2	-98	1.30	1.65	1.00	+241
East Corporation	2	20	0.7	0.1	0.0	+999	1.09	4.72	1.00	+999
Eastern Star Gas	10	20	0.1	0.1	0.0	+999	0.59	9.99	1.00	+999
Eastland Medical	7	35	1.1	1.0	0.8	+22	1.19	2.22	1.00	+353
Echo Technology	5	35	2.7	0.5	1.7	-70	1.25	1.48	1.00	+119
Eftnet Technologies	2	20	1.10	0.4	0.5	-20	1.63	1.46	1.00	+315
Ellex Medical Laser	47	50	1.8	18.0	16.6	+9	0.71	1.91	1.00	+26
Ellex Medical Lasers	47	100	1.6	5.0	6.6	-24	0.71	2.55	1.00	+72
Empire Oil & Gas	3	20	0.1	0.1	0.0	+999	0.50	9.99	1.00	+999
Epitan Ltd	14	30	0.7	1.1	0.9	+22	0.88	3.46	1.00	+293
Eqitx Limited	17	20	4.7	6.1	16.5	-63	4.91	1.00	1.00	+11
Eurast Limited	1	20	0.4	0.1	0.0	+999	0.74	9.99	1.00	+999
Euroz	55	50	2.0	6.5	16.3	-60	0.39	2.47	1.00	+1
Evans & Tate	106	115	1.11	17.0	19.7	-14	0.33	3.24	1.00	+12
Exco Resources NL	6	20	3.9	3.5	0.8	+350	0.53	2.40	1.00	+44
Ezenet Ltd	4	10	0.8	0.7	0.5	+30	1.20	2.41	1.00	+354
Ezymage	2	20	8.0	0.3	1.1	-72	0.79	1.35	1.00	+31
FSA Group Limited	12	20	3.1	2.5	7.9	-68	1.20	1.24	1.00	+23
Federation Group Ltd	15	30	0.11	4.0	2.4	+64	0.94	2.42	1.00	+144

Company	Share Price	Yr/Mth Exercise Price	to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate	Company	Share Price	Yr/Mth Exercise Price	to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
First Australian Resources	8	20	0-8	0.4	0.0	+999	0.45	9.13	1.00	+340	Pi2 Limited	7	75	0-1	0.1	0.0	+999	1.00	9.99	1.00	+999
Flinders Diamonds	9	20	2-3	3.2	1.8	+78	0.68	2.17	1.00	+52	Pilbara Mines	12	20	2-4	4.2	4.0	+5	0.76	1.80	1.00	+35
Fox Resources Ltd	25	20	3-2	10.0	9.6	+4	0.32	2.15	1.00	+6	Platinum Australia	35	20	1-9	15.0	17.9	-16	0.48	1.78	1.00	+0
Gateway Mining NL	20	30	4-3	9.0	18.0	-50	1.64	1.05	1.00	+17	Prana Biotech	180	50	0-3	118.0	130.6	-10	0.93	1.38	1.00	-24
Giant Reef Mining	4	10	1-7	0.7	0.3	+180	0.62	3.15	1.00	+96	Precious Metals	7	200	3-0	0.4	0.2	+142	0.81	2.60	1.00	+202
Giralta Resources	9	15	1-4	3.0	2.7	+9	0.93	1.93	1.00	+63	Prima BioMed	44	20	1-7	27.0	26.8	+1	0.61	1.54	1.00	+4
Glengarry Resources Ltd	3	15	2-4	1.4	0.3	+459	0.67	2.63	1.00	+99	Psiron Limited	4	12	0-1	0.1	0.0	+999	0.89	9.99	1.00	+999
Global Business	2	20	3-1	0.6	0.3	+83	1.08	1.67	1.00	+134	Q-Mastor	16	25	3-1	3.0	3.1	-4	0.43	2.52	1.00	+20
Global Doctor	1	20	0-1	0.1	0.0	+999	0.80	9.99	1.00	+999	Q-Multimedia	3	11	0-4	0.9	0.0	+999	1.11	4.70	1.00	+999
Globe Securities	3	20	1-1	0.2	0.0	+942	0.79	4.11	1.00	+520	QED Corporation	8	20	1-9	1.3	1.2	+6	0.74	2.36	1.00	+75
Golden Cross Resources	8	20	0-1	0.1	0.0	+999	0.65	1.00	1.00	+999	Quadtel	1	10	0-2	0.1	0.0	+999	1.13	9.99	1.00	+999
Golden State Res	2	10	1-4	0.3	0.0	+995	0.67	3.97	1.00	+242	Quantum Resources	2	10	7-11	1.1	1.4	-20	1.17	1.10	1.00	+27
Golden Valley Mines	3	10	2-10	0.4	0.7	-42	0.78	1.90	1.00	+55	Quiktrak Networks Ltd	2	10	2-1	0.4	0.1	+173	0.67	2.79	1.00	+106
Gowitz Ltd	21	25	1-7	7.5	7.2	+5	0.77	1.91	1.00	+32	Quiktrak Networks Ltd	2	10	2-1	1.5	0.1	+924	0.67	2.79	1.00	+117
Gutnick Resources	10	375	0-5	1.0	0.0	+999	1.86	3.51	1.00	+999	RMG Limited	4	3	1-11	2.8	2.6	+6	0.92	1.41	1.00	+16
Gutnick Resources	10	125	7-10	2.5	9.7	-74	1.86	1.01	1.00	+38	Range Resources	3	20	0-7	0.5	0.0	+999	0.86	5.77	1.00	+999
Hamill Resources	22	20	1-1	8.5	7.8	+9	0.75	2.02	1.00	+27	Range Resources	3	10	1-7	1.5	0.4	+277	0.86	2.32	1.00	+134
Hillcrest Resources	3	20	2-2	0.3	0.0	+999	0.60	3.75	1.00	+163	Range River Gold NL	13	25	1-10	3.9	0.4	+855	0.34	5.03	1.00	+55
IGM Group	1	20	0-7	0.1	0.0	+999	1.00	5.92	1.00	+999	Red 5 Limited	10	20	1-2	1.6	0.5	+196	0.57	3.75	1.00	+100
Ilatia Ltd	9	25	3-4	3.2	1.0	+221	0.48	2.67	1.00	+41	Redflex Holdings	56	343	0-1	0.1	0.0	+999	0.81	9.99	1.00	+999
Imperial	1	20	0-8	0.1	0.0	+999	0.79	7.42	1.00	+999	Redflex Holdings	56	110	1-1	10.0	8.1	+23	0.81	2.58	1.00	+102
Imperial One	1	10	1-7	0.2	0.0	+999	0.79	3.41	1.00	+334	Reefton Mining NL	6	20	1-0	0.6	0.2	+257	0.77	3.59	1.00	+275
Impress Ventures	3	20	0-1	0.1	0.0	+999	0.79	9.99	1.00	+999	Resolute Mining Ltd	66	80	2-7	18.0	51.4	-65	1.56	1.14	1.00	+17
Independence Gold	29	20	2-2	18.0	13.3	+35	0.52	1.79	1.00	+14	Revesco Group Ltd	9	12	8-12	3.8	5.6	-32	0.52	1.35	1.00	+6
Indophil Resources NL	25	25	2-1	5.5	8.7	-37	0.56	2.02	1.00	+10	Rimfire Pacific	6	20	1-10	2.1	0.8	+170	0.84	2.23	1.00	+114
Integra Medical	2	20	2-1	1.0	0.6	+78	1.60	1.41	1.00	+255	Rusina Mining Ltd	0	1	2-2	0.1	0.1	+30	1.23	1.50	1.00	+100
Intercontinental Gold	1	20	0-7	0.1	0.0	+999	1.00	5.92	1.00	+999	S8 Ltd	205	300	4-5	25.0	73.7	-66	0.51	1.80	1.00	+11
JAM Developments	16	25	3-0	1.5	4.0	-62	0.51	2.18	1.00	+18	SP Telecommunications	79	25	3-6	55.0	59.6	-8	0.54	1.28	1.00	+0
Jackson Gold Ltd	13	20	2-2	3.0	2.3	+32	0.52	2.54	1.00	+33	Safe Effect Technologies	12	20	1-1	2.9	2.0	+48	0.75	2.59	1.00	+82
Jervois Mining Ltd	3	5	2-3	1.3	1.1	+22	0.78	1.77	1.00	+37	Sapphire Mines	17	12	3-0	8.0	7.7	+4	0.43	1.81	1.00	+7
Jervois Mining Ltd	3	10	0-3	0.1	0.0	+999	0.78	9.56	1.00	+999	Select-Tel	4	72	0-5	0.1	0.0	+403	1.62	3.64	1.00	+999
Jetset Travelworld Ltd	20	20	0-7	3.0	5.8	-48	1.00	2.18	1.00	+33	Select-Tel Ltd	4	20	4-2	2.2	3.6	-39	1.62	1.09	1.00	+47
Johnson's Well	6	260	0-7	55.0	1.3	+999	3.21	1.54	1.00	+999	Senetas Corporation	10	20	1-6	3.5	1.7	+103	0.74	2.38	1.00	+77
Julia Corporation	2	10	0-9	0.2	0.0	+999	0.67	6.69	1.00	+990	Simon Gilbert	11	100	2-1	1.0	0.3	+239	0.75	2.97	1.00	+190
KCG Mines	6	20	2-0	1.1	1.7	-34	1.06	1.71	1.00	+91	Solar Energy Systems	6	30	2-1	0.3	0.3	-7	0.69	2.84	1.00	+118
Kalrez Energy Ltd	0	3	2-3	0.1	0.1	+35	1.00	1.87	1.00	+130	Solbec Pharmaceuticals	11	20	0-7	1.2	0.3	+292	0.58	5.24	1.00	+208
Kalrez Energy NL	0	20	0-7	0.1	0.0	+999	1.00	1.00	1.00	+999	Sphere Investments	6	29	1-7	1.5	0.5	+230	0.85	2.57	1.00	+179
Kanowna Lights	3	20	2-7	0.8	0.1	+543	0.65	2.86	1.00	+112	Spinifex Gold	51	20	3-7	8.0	38.9	-79	0.77	1.22	1.00	-15
Kimberley Diamond	33	130	0-8	1.7	0.0	+999	0.42	9.99	1.00	+697	St Barbara Mines	10	30	1-3	3.4	0.1	+999	0.45	6.05	1.00	+162
Legend Mining Ltd	4	15	2-5	1.2	1.1	+6	0.97	1.71	1.00	+78	St Francis	2	20	0-6	0.1	0.0	+999	0.92	7.57	1.00	+999
Local Telecom	4	33	3-1	0.1	1.4	-93	1.16	1.48	1.00	+98	Strata Mining	1	20	0-1	0.1	0.0	+999	0.66	9.99	1.00	+999
Loftus Capital	55	110	0-1	0.1	0.0	+999	0.28	9.99	1.00	+999	Stratatel Limited	7	25	2-9	1.5	2.7	-45	1.05	1.51	1.00	+62
Lumacom	6	20	0-7	1.2	0.3	+280	1.10	3.13	1.00	+770	Sub-Sahara Resources	2	20	1-1	0.1	0.0	+256	1.01	3.23	1.00	+782
M2M Corporation	1	20	7-3	0.2	0.7	-72	1.25	1.14	1.00	+52	Subsorb Environmental	4	15	0-9	0.2	0.0	+999	0.62	6.55	1.00	+582
MEM Group	132	115	8-0	61.0	81.1	-25	0.46	1.39	1.00	+4	Sun Capital	2	20	0-10	0.4	0.0	+999	0.96	4.14	1.00	+999
MXL Limited	14	5	0-1	9.1	9.0	+1	0.85	1.55	1.00	+9	Sun Resources NL	12	15	2-7	5.5	4.8	+15	0.75	1.65	1.00	+25
Macmin	10	12	2-10	4.6	5.7	-19	1.03	1.33	1.00	+21	Sunshine Gas Ltd	16	20	1-7	3.0	2.1	+43	0.37	3.58	1.00	+26
Magna Pacific	41	32	1-3	9.5	15.7	-39	0.63	2.02	1.00	+2	Swiftel Ltd	6	10	2-4	1.6	1.5	+4	0.68	2.01	1.00	+35
Majestic Resources	1	20	0-7	0.1	0.0	+999	0.70	1.00	1.00	+999	Sylvannia	13	20	2-7	4.0	4.8	-18	0.80	1.66	1.00	+29
Matrix Metals Ltd	4	20	0-3	0.5	0.0	+999	0.53	9.99	1.00	+999	Synergy Equities Group	1	20	1-7	0.3	0.0	+815	0.97	2.81	1.00	+441
Maxe-Tec Australia	1	20	0-4	0.1	0.0	+999	0.99	9.99	1.00	+999	Tasman Resources	12	20	3-3	7.4	6.0	+23	0.94	1.40	1.00	+31
Medical Monitors	4	20	2-7	0.7	0.3	+118	0.73	2.37	1.00	+99	Tawana Resources	69	50	0-7	23.0	21.2	+9	0.36	3.00	1.00	+10
Medical Monitors	4	80	0-7	0.1	0.0	+999	0.73	1.00	1.00	+999	Technology Inv Fund	45	80	0-6	0.7	0.1	+420	0.41	9.99	1.00	+266
Metabolic	67	20	0-8	48.0	47.6	+1	0.42	1.41	1.00	+2	Techstar	26	80	0-1	5.0	0.0	+999	1.03	1.00	1.00	+999
Metal Storm Ltd	54	65	1-9	25.0	14.7	+70	0.60	2.22	1.00	+34	Tectonic Resources	5	20	1-7	2.0	0.4	+394	0.78	2.69	1.00	+149
Metex Resources	6	20	1-7	1.6	0.5	+228	0.75	2.70	1.00	+129	Telezon	6	20	2-1	1.8	0.0	+999	0.00	9.99	1.00	+86
Midware Ltd	3	20	0-10	1.0	0.1	+999	0.97	3.57	1.00	+856	Terraplanet Ltd	1	10	2-6	0.1	0.0	+429	0.89	2.44	1.00	+233
Mikoh Corporation Ltd	5	20	1-8	1.5	0.6	+134	0.91	2.24	1.00	+143	Terraplanet.com	1	100	2-0	0.2	0.0	+999	0.89	4.46	1.00	+999
Millepede International	17	20	3-1	4.1	7.6	-46	0.68	1.62	1.00	+12	Tiger Resources	5	10	2-7	2.0	2.0	-1	0.91	1.57	1.00	+40
Mineral Commodities Ltd	12	25	1-6	3.0	0.7	+356	0.49	3.83	1.00	+76	Timemac	4	200	1-7	1.0	0.0	+999	0.00	9.99	1.00	+999
Minerals Corporation	20	40	0-2	0.3	0.0	+999	0.42	9.99	1.00	+999	Travelshop	3	140	0-10	0.1	0.0	+999	0.86	1.00	1.00	+999
Minotaur Resources	70	20	1-1	50.0	52.3	-4	0.91	1.30	1.00	+0	Travelshop Ltd	3	20	2-0	0.6	0.2	+217	0.86	2.43	1.00	+176
Molopo Australia NL	4	20	0-10	0.2	0.0	+999	0.62	6.87	1.00	+719	Tuart Resources	0	20	0-7	0.1	0.0	+999	1.02	1.00	1.00	+999
Mt Gibson Iron	16	25	1-1	4.0	15.4	-74	4.12	1.02	1.00	+73	Union Capital	1	10	2-4	0.1	0.0	+999	0.66	3.97	1.00	+263
Mt Grace Resources	11	20	0-7	1.5	1.4	+10	0.98	2.83	1.00	+215	Universal Resources Ltd	9	20	2-8	3.2	0.2	+999	0.29	5.13	1.00	+43
Namakda Diamonds	12	40	0-8	2.7	0.1	+999	0.72	5.06	1.00	+571	VRI Biomedical	72	75	3-3	27.5	26.1	+5	0.46	1.96	1.00	+11
New Horozon Energy Ltd	7	20	3-7	1.5	3.8	-60	1.07	1.33	1.00	+37	Valderra Resources Ltd	5	25	2-6							

# Readers Ask . . .

**Question:** I was wondering if you could comment on my current portfolio. I am a long term investor looking for capital growth. My goal is security in retirement, in about 20 years time, when I would like to earn about \$50,000 per annum from investments.

As you can see I have mainly tech stocks, \$10,000 cash to invest at present. My income fluctuates but I would like to aim to save \$200 to \$400 per month to add to investments.

I would value your suggestions.

**Answer:** The good news is that your goal of a retirement income of \$50,000 is very achievable.

It is possible to draw out about 6% from a diversified portfolio each year and still leave the capital value of a portfolio intact (to offset inflation and to preserve its real value). So to be able to draw \$50,000 per year in retirement, while maintaining the real value of your investments, then you will need to build up an investment portfolio of around \$800,000 to \$850,000.

With fewer financial resources, a person can draw against both income and capital to provide for retirement. Drawing out 10-12% of the starting value of a retirement fund could exhaust it after about 15-20 years. So, if you live longer than that you will have consumed all of your capital! Nevertheless, if necessary a person could budget to consume 10-12% of their retirement fund each year. So to provide \$50,000 per year would require retiring with at least \$420,000 to \$500,000.

Can your current cash of \$10,000 and shares of \$135,000 plus new savings of \$72,000 (i.e. an average of \$300 per month over 20 years) provide the sum required? If you go to the "Financial Planning Calculator" on the website ([www.stockmarket.co.nz](http://www.stockmarket.co.nz)) and play around with the fourth option (i.e. With Current Investments, find the Annual Savings Needed to Accumulate a Future Value) then you can discover that you need only earn an average annual return of about 8% per annum to build up a retirement fund of \$850,000. That is less than the average long term return from investing in stockmarkets - and significantly less than the return earned from investments recommended by this newsletter.

Your current portfolio is reasonably well diversified with fifteen holdings covering NZ, Australian and United States shares and international funds, but is over-weighted towards technology and telecommunications shares which currently account for over 50% of its value.

This indicates a selection bias towards buying popular shares which are usually over-valued. *Market Analysis* seeks to take a *contrary opinion* approach - buying unpopular, out of favour shares when they are depressed. For example, buying an *old economy* transport company like Toll Holdings in 1998 instead of *new economy* technology shares. Current examples of out of favour shares would include a home builder (i.e. Villa World) and recruitment/labour hire companies (i.e. Julia Ross, Skilled Engineering) when this sector is depressed.

For changes to your portfolio I would suggest:

1. Sell Telecom NZ and Telstra. Telecommunication

network companies are not attractive owing to the cost of expanding capacity and falling sales prices, which requires them to make new capital investments for no extra revenue. Niche companies like Cellnet Telecommunications and Commander Communications are better placed to profit from growth in the sector, by providing products and services, but not needing to finance the expansion of network capacity.

2. Sell Smart Trans and Pan Palladium. Both are too speculative, with no significant revenues. You will do better to invest in companies with businesses producing revenues and profits.
3. Sell about half of the Waste Management NZ shares. This is a fine company, but a bit pricey and you have a quite large holding.
4. Leave most of the other holdings alone, although perhaps cut back the larger holdings in Cisco and Microsoft at some stage.
5. The money from the sales above, plus your \$10,000 cash, will give you around \$36,000 to re-invest mainly in Australian shares for long term capital appreciation. I would suggest investing about \$4-6,000 in each of seven new holdings. My suggestion would be shares like Atlas Pacific, Austral Coal, Cellnet, Commander Communications, Julia Ross, Skilled Engineering and Villa World.

Your new savings, plus cash dividends, will finance about one new investment per year (of around \$4-6,000). Most future changes to your portfolio will result from the need to occasionally cut losses or realise profits from investments and to re-invest the proceeds.

## Current Issues

### SHARE SPLIT

	Ratio	Ex-Date
Port of Tauranga	2:1	11-11

### SHARE RECONSTRUCTIONS

Newcall will spin-off 1 share in NCL Finance, its unlisted finance subsidiary, for every share held.

### SHARE REPURCHASES

	Details
Auckland Int'l Airport	7 in 25 @ \$1.80
Sky City Entertainment	2½-3¾%, on-market
Steel & Tube	9.99%, on-market

### CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Tranz Rail Holdings	5:7	75	25-11	13-12

### NEW ISSUES

	Price	Date	EPS	DPS
Royal & SunAlliance	-	-	-	-

# "Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held	
				Before	After
<b>11/10/2002</b>					
F & P Appliances	AMP Henderson	Buy	+0.866	5.40%	6.73%
Fletcher Building	CBA	Buy	+33.525	0.0%	8.59%
Nuplex Industries	AMP Henderson	Buy	+0.665	4.93%	5.62%
<b>18/10/2002</b>					
Certified Organics	JC Wallis	Buy	+1.000	0.0%	6.28%
F & P Appliances	Caledonia Investments	Sell	-0.995	5.12%	3.59%
Fletcher Building	AXA Asia Pacific	Sell	-5.561	7.67%	6.25%
Rubicon Ltd	Tower	Buy	+3.013	5.37%	6.45%
Vertex Group	AXA Asia Pacific	Sell	-0.615	6.16%	4.24%
<b>25/10/2002</b>					
Certified Organics	EVJ Stevens	Sell	-0.235	6.60%	5.30%
DB Breweries	ACC	Buy	+4.239	0.0%	8.41%
Rubicon Ltd	GPG	Buy	+2.988	20.00%	21.07%
Waste Management (NZ)	ACC	Buy	+5.067	0.0%	5.16%
<b>01/11/2002</b>					
Certified Organics	JC Wallis	Buy	+0.400	6.28%	7.96%
IT Capital	Snider Capital	Sell	-6.250	7.76%	5.77%
Telecom NZ	Franklin Resources	Sell	-26.115	9.24%	7.85%
<b>08/11/2002</b>					
Auckland Airport	CBA	Buy	+4.250	13.93%	14.94%
DB Breweries	Palo Alto Investors	Sell	-4.997	10.02%	0.11%
Kirkcaldie & Stains	ING (NZ)	Buy	+0.532	0.0%	7.09%
Mr Chips Holdings	Sinclair LT Holdings	Buy	+0.671	48.52%	51.07%
Mr Chips Holdings	RN Macassey, MG Valentine	Sell	-0.517	5.09%	0.0%
Tower Ltd	Perpetual Trustee	Sell	-6.463	9.96%	6.28%

## Dividends

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Calan Healthcare	1.34	11-11	02-12	Full
DB Breweries	14.50	25-11	04-12	Full
F & P Healthcare	23.00	25-11	29-11	Full
Fletcher Building	8.00	28-10	14-11	Full
Hallenstein Glasson	9.50	09-12	16-12	Full
Independent Newspapers	4.50	21-10	01-11	Full
Horizon Energy Distribution	10.00	12-12	05-12	Full
Kirkcaldie & Stains	12.00	02-12	09-12	Full
Northland Port Company	4.00	18-11	22-11	Full
Northland Port Co (special)	5.00	18-11	22-11	Full
Property For Industry	1.35	04-11	08-11	0.30
Restaurant Brands NZ	4.50	11-11	22-11	Full
Sanford Ltd	12.00	18-11	05-12	Full
Scott Technology	8.00	02-12	05-12	Full
Sky City Entertainment (1)	20.00	25-11	29-11	Full
Warehouse Group	4.00	18-11	25-11	Full
(1) Special dividend				
<u>Australian Shares</u>				
Abigroup	4.00	25-10	15-11	
DVT Holdings (USC)	3.00	13-11	21-11	
Toll Holdings conv notes (1)		-	04-12	
Villa World	5.00	21-10	08-11	
(1) Two months interest to conversion, about 4.6 cents.				

## Investment Outlook

(Continued from Page 1)

would matter if Tower could invest the way Warren Buffett manages the insurance funds of Berkshire Hathaway. Unfortunately a media report on Saturday quotes Tower as saying "We have every intention of taking up our entitlement" to Tranz Rail shares, and "We were shareholders at \$1.30, we'd certainly want to be shareholders at 75 cents". Enough said?

Despite all of this, New Zealand is still the greatest country in the world for stockmarket investors! Here's why: (1) These large shares will drag down the performance of the share index - but you don't need to invest *your* money in them. (2) There has been no shortage of outstanding investments among *medium sized* and *smaller* NZ companies (e.g. NZ Refining, Michael Hill, Steel & Tube on three occasions, Radio Otago twice, RadioWorks and 20 other shares that doubled, tripled or quadrupled in value for us. And we *missed* many, many other attractive investment opportunities). (3) There is no compulsory super-annuation. So we have no money tied up in under-performing, high fee schemes that own Telecom, Carter Holt and Brierley shares. (4) There are no foreign exchange controls - so we can invest *anywhere* in the world. (5) From NZ it is very easy to invest in Australia - which has *nine* times as many listed companies. We are on similar time zones, have similar investment laws and all NZ brokers can buy or sell Australian shares. (6) NZ has no capital gains tax - so we get to keep (and re-invest) all of our profits!

While our forecasts for the New Zealand and Australian stockmarkets are relatively Neutral - we continue to see excellent opportunities for many of the shares that we have carefully selected. Many of these companies are reporting strong first quarter results - well ahead of their peer group.

In the meantime, continued weakness in *others* shares that we are watching is creating excellent value among potential future "Buy" recommendations.

### Total Return Index for All Listed Shares

Oct 14	1838.80	Oct 21	1842.05
Oct 15	1839.98	Oct 22	1847.06
Oct 16	1835.64	Oct 23	1844.38
Oct 17	1830.84	Oct 24	1841.66
Oct 18	1833.24	Oct 25	1840.59
Oct 28	Holiday	Nov 4	1844.18
Oct 29	1840.46	Nov 5	1833.46
Oct 30	1836.23	Nov 6	1830.03
Oct 31	1844.48	Nov 7	1829.62
Nov 1	1841.97	Nov 8	1820.39

## Next Issue

The next issue of *Market Analysis* will be posted in four weeks time on Tuesday December 10, 2002 (and delivered in most areas on Wednesday 11).

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](http://www.stockmarket.co.nz) or [www.australia-stockmarket.com](http://www.australia-stockmarket.com) Email: [james@stockmarket.co.nz](mailto:james@stockmarket.co.nz)). Subscription Rate NZ\$265 (including GST) per year.

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