

Market Analysis

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Inside Market Analysis

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Summary and Recommended Investment Strategy.

The Australian stockmarket has started to recover from the recent correction - which we believe offers an attractive buying opportunity. So add to positions in depressed Australian shares. The NZ stockmarket may remain depressed for a few months owing to political uncertainty.

Investment Outlook.

Our One-Year Forecast for the Australian stockmarket has improved significantly over the last month - up to a Bullish 83%, compared with the Neutral 55% in May. This is mainly the result of an improvement in Technical indicators as the stockmarket rallied sharply to retrace its decline of April.

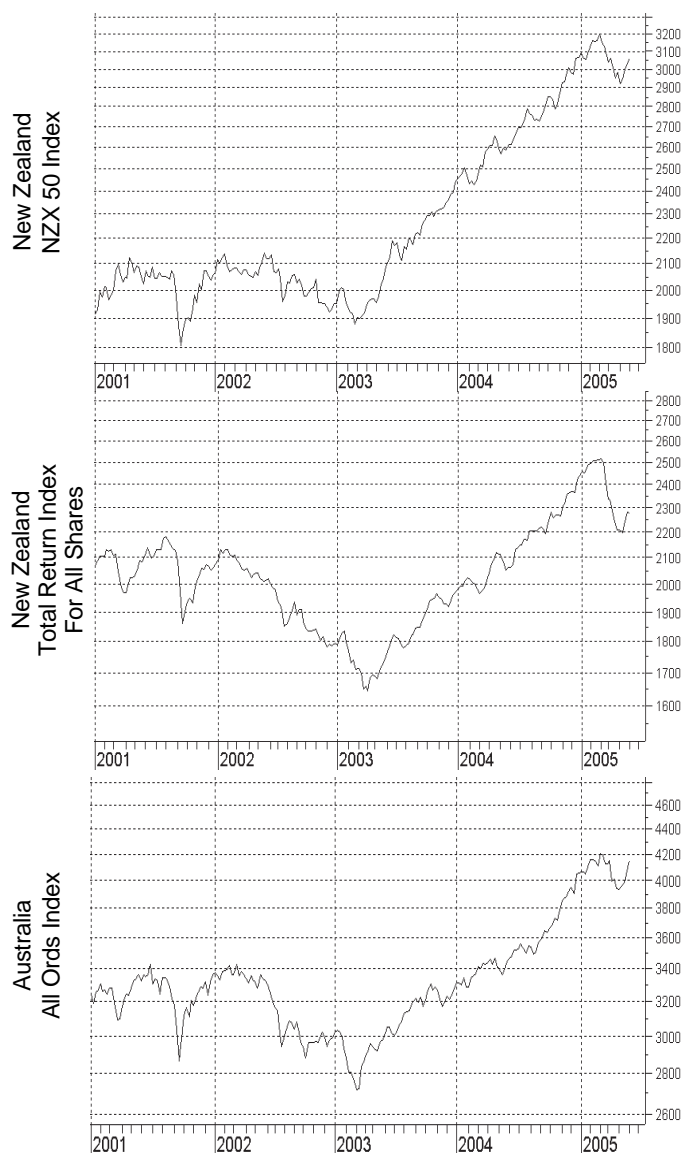
The NZ stockmarket managed only a weak rally - so Technically is still unfavourable. Our One-Year Forecast is Neutral at 42%. Political uncertainty ahead of this year's General Election - plus an expected slowing of economic growth - will probably keep the NZ stockmarket depressed over the next several months.

Major world stockmarkets have also recovered strongly over the last month. This all supports our previous belief that the decline over recent months was just a correction and that stockmarkets will return to new highs. As we stated in March "Our main concern over recent months was that stockmarkets were getting too buoyant and rising too rapidly" which could lead to a boom/bust situation. The recent correction removes this excessive optimism and the boom conditions, creates a less risky environment for steady, longer term growth - and also throws up some good buying opportunities in depressed shares!

We therefore believe the current situation offers an attractive buying opportunity for investors to build up investments in a number of Australian shares within our *Recommended Portfolio* which have either become depressed over the last few months and/or which offer good medium to long term profit growth potential. "Buy".

Stockmarket Forecasts

	One-Month	One-Year
Australia:	83% (Bullish)	74% (Bullish)
New Zealand:	70% (Bullish)	42% (Neutral)



Recommended Investments

CDL Investments reports that "2005 has started positively" and the directors are optimistic of "another good year" despite some slowdown in the property market. The company has purchased two new development sites - in Hamilton and Auckland - totalling 10.5 hectares.

Cavalier Corporation has downgraded its profit forecast for the year to 30 June from \$21-22 million to around \$19.5 million. That is 7% below the \$21 million profit in 2004. The downgrade is the result of a "more difficult trading environment" for the wool scouring and procurement business.

Richina Pacific reports a "solid performance for the first quarter of 2005". Revenues have risen 41% to US\$107 million and there has been a small profit of US\$138,000 - compared with a first quarter loss of US\$800,000 last year.

South Port NZ has upgraded its profit forecast from earlier expectations of \$1.65 million to \$1.85-1.9 million (7.1-7.3 cents per share) for the year to June 2005. This is still 7-9% below the 2004 result.

The improvement is the result of an excellent squid catch which has increased demand for cold storage, plus higher fertiliser import volumes.

(Continued on Page 4)

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Perform- mance 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 %
NZ Shares													
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	200.5	1.6	3.18	8	7.5	32	11.3	+73%
HOLD	Cavalier Corporation	CAV	05/12/95	156*	C	64.9	0.5	1.21	11	10.9	370	155.5	+237%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	C	27.9	0.5	0.21	10	9.8	304	271.3	+284%
BUY	Lyttelton Port Company	LPC	12/12/00	150	C	102.1	0.8	2.84	15	9.5	172	47.0	+46%
BUY	Metlifecare Ltd	MET	10/08/04	236	B	86.5	0.7	2.62	16	1.7	330	5.5	+42%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	46*	A	38.7	0.4	1.09	19	4.2	740	159.0	+1854%
BUY	Nuplex Industries Ltd	NPX	11/02/97	350	C	62.1	0.6	0.37	8	9.3	392	113.0	+44%
HOLD	Renaissance Corp	RNS	13/08/96	85*	C	38.2	0.9	0.34	18	10.3	107	25.9	+56%
HOLD+	Richina Pacific	RPL	03/11/95	94*	D	148.7	1.1	0.18	22	2.7	73	11.4	-10%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.9	1.94	14	8.8	110	77.3	+56%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	C	88.0	0.6	1.04	14	8.8	460	115.0	+294%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	A	24.3	0.6	0.96	14	6.8	242	50.0	+186%
Australian Shares (in Aust cents)													
HOLD+	AJ Lucas Group	AJL	13/05/03	120	B	51.2	0.8	0.65	8	5.2	155	20.5	+46%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	D	87.8	1.9	3.02	NE	Nil	20	7.0	-63%
BUY	Austin Group Ltd	ATG	08/02/05	93	B	62.2	1.0	0.84	11	7.8	77	4.0	-13%
BUY	Campbell Brothers Ltd	CPB	12/10/99	418*	B	41.3	0.4	0.80	18	4.5	935	153.5	+160%
BUY	Candle Australia	CND	08/04/03	86	B	39.6	0.8	0.43	17	4.6	194	15.5	+144%
HOLD+	Cellnet Group Ltd	CLT	12/02/02	152	B	49.8	1.0	0.14	7	9.0	128	31.5	+5%
HOLD+	Centennial Coal Ltd	CEY	16/01/01	70*	A	195.5	0.5	2.00	19	2.5	512	Nil	+631%
HOLD	Circadian Technologies	CIR	10/02/04	188	C	40.1	1.1	7.31	9	Nil	133	65.0	+5%
BUY	Citect Corporation Ltd	CTL	12/04/05	110	A	52.3	1.0	0.77	15	6.0	91	Nil	-17%
HOLD+	Commander Comm.	CDR	11/09/01	92	B	154.6	0.7	0.67	35	0.9	213	13.2	+146%
HOLD+	Computershare Ltd	CPU	12/08/03	189	A	542.4	0.7	3.30	45	1.4	575	15.5	+212%
HOLD	Int'l AllSports	IAS	11/02/03	180	D	52.5	1.8	0.02	NE	Nil	25	2.5	-85%
BUY	Iluka Resources Ltd	ILU	12/10/04	471	A	232.9	0.6	1.72	16	3.5	627	12.0	+36%
HOLD+	Keycorp Ltd	KYC	10/08/04	154	B	81.7	1.1	1.31	17	1.8	163	Nil	+6%
BUY	LongReach Group Ltd	LRX	11/01/05	24	C	174.5	2.0	0.92	0	Nil	19	Nil	-21%
HOLD+	Melbourne IT	MLB	10/02/04	53	A	52.8	0.8	1.12	18	4.3	128	7.5	+156%
HOLD	M.Y.O.B. Ltd	MYO	15/07/03	84*	B	386.1	0.9	3.25	39	2.1	106	2.3	+28%
BUY	Ross Human Directions	RHD	14/08/01	92	C	59.1	1.2	0.22	9	5.8	60	19.0	-14%
HOLD+	Skilled Engineering	SKE	12/03/02	126	B	95.6	0.7	0.31	14	6.7	240	47.5	+128%
HOLD+	Sonnet Corporation	SNN	07/09/04	32	C	82.0	1.7	0.74	6	18.8	24	3.0	-16%
HOLD+	Technology One Ltd	TNE	11/11/03	44	B	298.7	1.2	3.24	18	5.1	56	4.3	+37%
BUY	The Reject Shop Ltd	TRS	11/01/05	257	A	24.1	0.7	0.39	13	0.8	295	10.0	+19%
HOLD	Toll Holdings	TOL	08/09/98	60*	A	321.3	0.4	1.25	25	1.6	1294	75.0	+2182%
HOLD	UXC Limited	UXC	11/01/00	55*	B	144.8	1.0	0.60	13	6.4	78	26.3	+90%
BUY	Vision Systems Ltd	VSL	10/11/98	69*	B	173.4	0.9	1.35	17	3.8	110	30.3	+103%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +190.7%. This is equal to an average annual rate of +42.8%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 37 current and 130 closed out) is +32.7%, compared with a market gain of +8.9% (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.

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

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

AJ Lucas Group expects some revenue and profits will be deferred until the June 2006 financial year owing to delays in commencing some projects. Work on the **Sandwich Isles Communications** HDD contract has been delayed and will commence in June 2005, owing to US Government financial constraints. The successfully tendered \$47 million **Sai Noi Ring Main** project, in Bangkok, was cancelled "at the last minute" and awarded to another party. There have also been delays in negotiating HDD contracts in China. About \$30 million of expected 2005 revenues have been deferred into the next financial year. The company has a record order book of around \$428 million, so revenues and profits should improve strongly in the June 2006 year.

Campbell Brothers has lifted revenues 23.0% to \$482.5 million for the year to 31 March 2005. Profits are up 49.9% to \$21,947,000 (53.2 cents per share) and a 24.0 cents final dividend will lift the annual dividend rate 27.3% to 42.0 cents. The net operating cash surplus was 19.1% higher at \$30.0 million.

As previously discussed, this growth is coming from its **Laboratory Services** division owing to the global boom in minerals exploration. This division increased revenues by 28% to \$159.2 million and, owing to strong economies of scale (i.e. high fixed costs), earnings rose more rapidly, up 66% to \$35.6 million.

This business is "well placed" to benefit from further growth in mineral assaying where it is one of the largest global businesses. It is also looking to expand in the environmental monitoring sector, which is "growing strongly" but still "fragmented" with many small businesses - including Campbell Brothers which has only a 1% global market share in this sector. The company is seeking both new acquisitions and to establish new laboratories - especially in Africa, Europe and Asia - to further expand this division.

The **Consumer** division revenues fell 3% to \$124.1 million but earnings rose 27% to \$6.6 million. Consumer brands were sold to **Colgate Palmolive** in October 2004 (and contract manufacturing for that purchaser will cease on 31 July 2005), but that loss of revenue is being offset by acquisitions of pest control and washroom hygiene services businesses.

The **Industrial** division lifted revenues 9% to \$154.1 million but earnings slipped 11% to \$8.3 million. Acquisitions in the hospitality distribution unit helped improve revenues and profits. Further acquisitions are planned in the current half year to "complete a national distribution network" and should yield synergies in purchasing and administration. The chemical manufacturing and importing operations experienced difficult trading conditions, but these are expected to improve.

The **Laboratory Services** business now contributes over 70% of earnings. This is a business that can earn high profit margins and high free cashflows (i.e. cash not needed to maintain the business). High fixed costs create (1) a barrier to entry, making it expensive for new competitors to enter the market and (2) economies of scale, so it is cheaper for customers to outsource this work than to operate their own laboratory and 20-30%

revenue growth results in around 40-60% profit growth for Campbell Brothers. The global minerals exploration boom is likely to continue while environmental testing also offers long term growth potential.

The Consumer and Industrial divisions provide some diversification but Campbell Brothers is also moving these businesses towards *services* - which are less capital intensive and can adjust rapidly to fluctuations in demand.

At 935 cents, Campbell Brothers shares trade on a Price/Sales ratio of 0.80, a Price/Earnings ratio of 18 and offer a Dividend Yield of 4.5%. There have been four *insider* buys (and no sells) over the last year. With the potential for further strong profit growth, this is still an attractive valuation. "Buy".

Campbell Brothers

Cellnet Group downgraded its profit forecast for the year to June 2005 to \$7.3-7.5 million - down on the \$9.1 million earned last year. The first half profit was \$5.44 million, so profits for the *current* half year will be down sharply at \$1.8-2.1 million. This resulted in the share price dropping sharply.

The *next* day the share price rebounded . . . on news of winning a contract to distribute **Toshiba** mobile computers, data projectors, portable storage devices and associated accessories. This contract begins on 1 June and is expected to add around \$4 million per month to revenues.

Centennial Coal has increased its holding in **Austral Coal** to 85.19%.

Computershare has made a number of small acquisitions in Europe - costing a total of \$12.5 million and adding around \$25 million in annual revenues - which will form a base for further expansion. These businesses include **E-magine**, a German company providing AGM services, **CPVAG**, which has a "patented wireless voting system" for AGMs, **Acciontec**, a small German share registry, **Sopware**, a small German employee share plan manager, **Lettershop**, a high speed laser printing business and the remaining 54% of **Proxitalia**, the largest proxy solicitor in Italy and Spain.

Iuka Resources reports that the market for titanium minerals remains "extremely competitive" but that it has been able to "successfully reposition our high-titanium products and secure price increases". More of its Zircon is being sold on "longer term contracts" with prices currently around US\$600/tonne. That is 6-12 months ahead of our expectation at the time of our initial recommendation of last October when prices were expected to reach US\$600 during the June 2006

financial year. Group revenues for the March quarter were up 21% to \$198 million.

The \$270 million **Douglas** project is 50% complete, but the construction boom has resulted in shortages of skilled labour and materials, with some delays. The wet plant will now be completed in the middle of 2005 and the dry plant by year end - an overall delay of 2-3 months. Production and sale of "high-value" rutile and zircon will begin in "early 2006" - boosting group revenues and profits. The **Port of Portland** (50% owned by **Australian Infrastructure Fund**) is investing \$20 million to build a new 50,000 tonne storage facility for the mineral sands from the Douglas project plus infrastructure to transfer 1500 tonnes per hour to ships for export.

Further growth is likely from late 2007 from "either or both" of the **KWR** and **Euston** projects. Longer term the recently discovered **Eucla Basin** high grade zircon deposits offer the potential for Iluka Resources to "significantly expand zircon production and sales from around 2008" when "most industry commentators are forecasting there will be a significant global shortage". The Eucla Basin provides "supply certainty" for customers and reduces the need to seek product substitution. The inferred resource represents ten years supply and \$4000 million in total revenues (at current prices) for Iluka Resources.

Iluka Resources is an unusual mining company. Unlike many mining companies it has a profitable business, pays a dividend and has long term mineral reserves. It has a large global market share, giving it a strong position in a niche market. New projects are being developed, that will increase production volumes over the next few years. Selling prices are also rising rapidly - and expected to increase further - which will further boost revenues and profitability.

LongReach Group has reported for the year to 31 March 2005 - although the results *may* not be an accurate guide as its accounting *could* be a little too conservative. Overall the company reports revenues down 28.3% to \$36.2 million - but this is the result of transferring its *Manufacturing & Repair* into 40% owned **Startronics** where revenues are not consolidated. Revenues from the continuing *Networks/Wireless* business rose only 4.8% to \$13.2 million.

The net profit fell 67.1% to just \$232,000 (0.13 cents per share). This result was *after* about \$3.2 million of losses prior to the sale of the *Manufacturing & Repair* business and *after* a \$3.0 million provision to write down inventory and capitalised Research & Development in the *Networks/Wireless* division. Profits from on-going operations (excluding the write-down) rose 6.9% to \$6,391,000 (before tax).

The net operating cashflow was \$3.3 million.

Profits from the on-going business (before write-downs) of \$6.4 million - equal to a tax-paid profit of \$4.5 million (2.5 cents per share) - and the positive operating cashflows are perhaps the best indication of the *potential* value in this business.

The investment in Startronics is recorded in the balance sheet at no value - but *could* become a valuable asset. The business suffered from a number of "one-off" costs as a result of the merger and the rationalisation of

premises and factories - so traded unprofitably in the reporting period. Startronics is, however, still "on target to achieve annualised revenues of close to \$100 million and annual merger synergies of \$12 million". If so, LongReach Group's 40% interest *may* be worth around \$20-30 million - perhaps more.

LongReach Group



Ross Human Directions has renamed the **Spherion** business acquired last year. The recruitment business is now called **Verossity** and the technology and payroll operations **Ross Logic**.

The company reports that the integration of back office functions - and the expected cost savings - is taking longer than expected. This will depress the current second half profit to around \$2.2 million, with the annual profit to June 2005 expected around \$5.0 million (6.1 cents per share). The company forecasts a final 2.0 cents dividend, lifting the annual dividend 14% to 4.0 cents.

The shares recently dipped to a low of 52 cents, recovered to 71 cents and have since recovered to 60 cents. That puts them on a prospective P/E of 10 and Yield of 6.7%. That is a very attractive valuation and the company has strong growth potential. Back office cost savings will boost profits from the next financial year (i.e. to June 2006) and the tightening Australian job market is also attractive for the company as we discussed in March (*Market Analysis* issue 393, page 9). The shares, however, are very weak, with a Relative Strength rating of -5.7%, ranked 81. So we would expect Ross Human Directions shares to remain depressed over the next few months but start to recover strongly after that.

Ross Human Directions



Skilled Engineering has confirmed that it expects its trading profit to June 2005 will be around the \$12.8-14.8 million forecast in February. That is down from \$16.4 million in 2004 - and there is also an \$11.2 million gain on the sale of businesses. (Continued on Page 6)

Recommended Investments (Continued from Page 5)

The *Origin Healthcare* business is expected to generate steady revenues of around \$70 million - but then grow strongly with revenues rising about 35% to \$95 million for the year to June 2006.

The call centre business, now trading under the name *Excelior*, lifted revenues 58% to \$32 million in the half year to December 2004 - with full year revenues forecast to be 20% higher at \$63 million.

Sonnet Corporation has released information about its planned acquisition of a *Mobile Virtual Network Enabler* business. **Virtel Group** will be purchased by issuing 50,000,000 new Sonnet Corporation shares (worth about \$11.75 million) or 38,333,333 shares (\$9.0 million) and \$3.5 million in cash payable in July 2006 (i.e. if the Vendors exercise an option to re-sell 11,666,667 shares back to Sonnet Corporation).

Virtel Group is expected to generate annual revenues of around \$27 million and annual tax-paid profits of about \$2.2 million. This business mainly consists of reselling **Vodafone** mobile telephone services to 55,000 subscribers under the *Reward Mobile* brand. This business was originally built up and managed under an *Agent Service Provider* agreement by listed **Mobile Innovation** (since renamed **Engin**). Legal action resulted in Vodafone paying \$13.2 million to re-purchase this business - which was then on-sold to Virtel Group for about \$11.7 million of which \$10.7 million is to be paid from operating cash flows over 2-3 years.

Virtel Group will also seek to expand this business, offering its services to other organisations wishing to provide their own brand of telephone services.

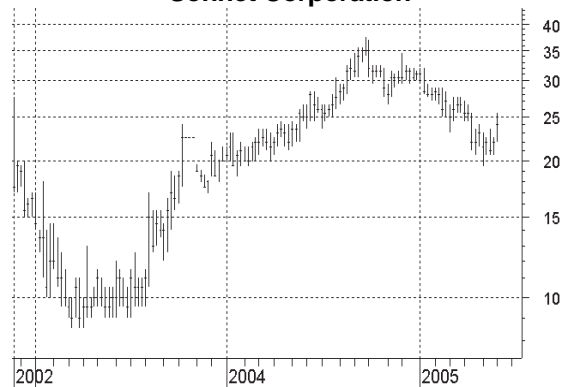
Based upon the \$11.75-12.5 million that Sonnet Corporation is paying for this business plus the \$10.7 million still owing to Vodafone the vendors are *doubling* the value of the business (i.e. making a significant capital gain on little initial outlay, other than the debt owing to Vodafone).

The "Independent Expert's Report" is the worst piece of misinformation your Editor has ever seen - and includes some completely illogical reasoning! The expert's paid opinion values Virtel Group assets at \$400-550 per subscriber - although the company bought this business from Vodafone only five months ago at a price of only about \$210 per subscriber! On this actual *cost* basis the business is worth about \$3.1 million after deducting net debt, not the \$13.8-22.1 million calculated by the expert. Virtel Group, however, appears to be a profitable business with estimated net profits of \$2.2 million. On the basis of profitability, the expert values the business at \$13.1-16.4 million, then adds a 20% premium for control. The expert then combines his valuations and deducts 20% as a discount for an unlisted company. This gives a valuation of \$11.0-17.6 million. We would consider that a little high - perhaps valuing the business around \$10-13 million.

The expert, however, then makes a totally illogical adjustment based on the amount of Sonnet that will be owned by *existing* Sonnet shareholders after the acquisition. This adjustment is totally irrelevant in valuing the business being sold to Sonnet, but gives an adjusted valuation of \$6.9-11.1 million.

The reasons for this nonsense adjustment become apparent when the expert's \$11-13 million cost to Sonnet is similarly reduced to \$4.1-4.9 million. These adjustments are absolute and total nonsense. The percentage of Sonnet shares held by the Virtel vendors *after* the acquisition has no impact whatsoever on the value of shares being offered to them to acquire Virtel.

Sonnet is *actually* paying \$11.75-12.5 million (in shares, or cash and shares, based upon their current market value) to acquire a business that the expert values at \$11.0-17.6 million and that we think is probably worth \$10-13 million. So this isn't a great deal for Sonnet Corporation but it is fair and does increase the size of the business, providing some economies of scale which will help to improve the viability of the group and could help to lead to some re-rating of the share price.

Sonnet Corporation

Technology One is planning to re-purchase up to 10% of its capital (i.e. up to 29,937,473 shares) on-market over the next twelve months. The stated reason for this is to minimise the "dilutive effect" of executive share options being exercised.

Toll Holdings reports that its 50% owned **Pacific National** rail business lifted revenues 25% to \$1,027.0 million over the nine months to 31 March. The acquisition of **Freight Australia** on 1 September contributed just over half of this revenue growth. Earnings (before interest and tax) rose 32% to \$139.7 million, while tax-paid profits were 39% higher at \$78.0 million.

Pacific National plans "significant capital expenditure" - but probably "under \$500 million" - to upgrade rail terminals to remove current "capacity constraints" on loading and unloading. The company is "struggling to keep up with demand" and is looking to "redefine how the business works".

Toll Holdings has opened its own \$20 million rail terminal in Townsville and will run a freight service between Brisbane and Cairns in competition with **Queensland Rail**.

Toll Holdings is also seeking to finalise an "important acquisition in Asia", spending up to \$500-600 million which will be financed from existing cash and debt facilities. The company is considering "a couple of options", but appears to favour an acquisition in China or India and in partnership with existing transport operators.

UXC has acquired Tasmanian based **Dytech Services**, a software development and systems integration business involved in the national education business.

"Neglect" Ratings of Australian Shares

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

Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (A\$ Mill.)
A.P. Eagers	1	166	Coal & Allied	2	3,463	Infomedia Ltd	3	175	Pro Maintenance	8	224
AMP Ltd	11	12,054	Coates Hire	7	893	Institute Drug	1	75	Publishing & Br	8	10,134
ANZ Bank	10	39,877	CocaCola Amatil	4	5,548	Insurance Aust.	11	9,822	Q.B.E. Insur.	10	11,515
APN News Media	10	2,456	Cochlear Ltd	9	1,847	Int Research	1	61	Qantas Airways	12	6,070
ARB Corporation	5	205	Coles Myer	12	11,586	Int'l Wine Inv.	1	168	Queens'd Cotton	1	122
AWB Limited	5	1,543	Collection Hse	2	138	Integrated Grp	2	126	Ramsay Health	8	1,038
AXA Asia Pac	11	8,066	Colorado Group	6	409	Investor Group	6	276	Rebel Sport	1	167
Adcorp Aust.	1	44	Com'wealth Bank	5	47,843	Investa Prop.	8	2,898	Reece Australia	1	1,246
Adelaide Bank	6	976	Commander Comm.	6	329	Iress Mkt Tech	6	448	Ridley Corp.	4	359
Adelaide Bright	12	965	Computershare	7	3,119	James Hardie	10	3,181	Rio Tinto Ltd	13	60,892
Adsteam Marine	5	529	Cons Rutile	1	169	Jubilee Mines	5	789	Roc Oil Company	3	323
Adtrans Group	1	82	Corp Express	9	1,050	K&S Corporation	4	184	Rural Press Ltd	8	1,230
Ainsworth Game	2	81	Count Financial	2	286	Keycorp Ltd	1	133	SMS Mgmt & Tech	1	110
Alesco Corp Ltd	5	398	Crane Group	4	442	Lafayette Min.	1	88	SP Telecom.	2	460
Alinta Limited	8	2,535	DCA Group Ltd	8	1,004	Leighton Hold	9	2,945	STW Comm Group	7	501
Altium Limited	1	19	David Jones	7	789	Lend Lease Corp	8	5,143	Santos Ltd	6	6,117
Amalgamated Hld	1	504	Deutsche Ind Tr	5	663	Lihir Gold	3	1,477	Servcorp Ltd	2	208
Ambrl Limited	1	26	Deutsche Office	5	1	M.Y.O.B. Ltd	2	407	Seven Network	10	1,576
Amcor Ltd	10	6,225	Deutsche Div Tr	5	1,306	Macarthur Coal	9	1,102	Sigma Company	10	1,197
Amrad Corp.	1	57	Downer EDI Ltd	5	1,489	Macquarie Infra	4	3,737	Sims Group Ltd	9	1,239
Aristocrat Leis	10	5,222	ETRADE Aust.	1	145	Macquarie C Tel	2	22	Skilled Group	4	229
Auspine Ltd	1	194	Ellex Medical	1	12	Macquarie C'Wde	6	1,929	Smorgon Steel	9	1,084
Aust Pipeline	7	1,036	Emperor Mines	1	45	Macquarie Good.	6	3,797	Sonic Health	8	3,210
Aust W'wide Exp	8	505	Energy Develop.	7	1,442	Macquarie Off.	5	1,263	Sons of Gwalla	1	217
Aust Agricult.	3	370	Energy Resource	1	1,572	Macquarie Leis.	2	268	Soul Pattinson	1	2,248
Aust Stock Exch	11	2,316	Envestra	7	870	Macquarie Bank	6	12,052	Southcorp Ltd	12	3,172
Aust Gas Light	10	6,524	EservGlobal Ltd	1	90	Macquarie G Mgt	3	1,134	Spotless Group	7	1,072
Aust Pharm. Ind	7	686	Evans & Tate	1	64	Mayne Group Ltd	7	2,907	St George Bank	9	13,379
Aust Infra.	8	599	FKP Limited	5	393	McGuigan Simeon	7	431	Stargames Ltd	2	97
Austal Limited	3	355	Fairfax (John)	9	3,909	Metabolic Phar.	1	167	Sthn Cross Brd.	10	745
Austar United	4	1,040	Fantastic Hold.	2	292	Metcash Trading	9	2,417	Stockland	8	7,176
Austereo Group	9	735	Flight Centre	6	1,365	Millers Retail	6	207	Straits Res.	1	246
Australand Prop	4	1,208	Foodland Assoc	10	3,092	Mincor Resource	1	141	Suncorp-Metway	11	10,609
BHP Billiton	14	65,481	Foster's Group	12	11,089	Mirvac Group	4	2,448	Sydney Aquarium	4	120
Bank of Q'land	9	1,068	Futuris Corp.	6	1,127	Nat'l Aust Bank	12	47,747	Symex Holdings	1	139
Baycorp Advant.	7	689	G.U.D. Holdings	7	413	Nat'l Foods	9	1,900	TV & Media Serv	1	38
Bendigo Bank	10	1,366	GWA Internat'l	6	793	Newcrest Mining	3	4,705	TVSN Limited	1	14
Billabong Int'l	9	2,596	Gandel R. (CFS)	8	3,228	Novogen Ltd	1	540	Tabcorp Holding	8	6,721
Biota Holdings	1	43	Gasnet Aust Grp	4	358	Nufarm Limited	6	1,614	Tap Oil	5	326
Boral Limited	10	3,682	General Prop Tr	8	7,280	Objective Corp.	1	417	Technology One	5	167
Brambles Ind.	11	13,950	Globe Int'l Ltd	3	153	Oil Search Ltd	9	2,831	Telstra	12	64,910
Brazin Limited	2	221	Graincorp	3	429	Onesteel Ltd	9	1,423	Ten Network	9	1,520
Brickworks Ltd	2	1,364	Grand Hotel	3	176	Open Telecom.	9	8	Thakral Holding	3	499
Bunnings W/hse	5	560	Gro Pep Limited	1	59	Optiscan Image	1	28	Ticor Ltd	2	426
Burns Philp	7	1,869	Gt Sthn Plant'n	2	973	Orica Ltd	7	4,405	Timbercorp	1	461
C'wth Prop Off.	7	1,898	Gunns Ltd	4	1,322	Origin Energy	10	5,617	Toll Holdings	10	4,158
C.S.R. Ltd	11	2,358	Gympie Gold	1	116	Oroton Group	2	108	Transfield Serv	6	973
CMI Limited	1	41	Hansen Tech.	1	34	PMP Limited	4	420	Transurban Grp	9	3,952
CPI Group	2	23	Harvey Norman	10	2,790	Pacific Hydro	6	768	United Group	6	873
CSL Limited	6	5,693	Healthscope	6	399	Pacific Group	5	283	Village Road.	3	861
Cabcharge Ltd	8	511	Henry Walker E.	4	100	Panbio Ltd	1	15	Villa World	1	163
Caltex Australia	8	4,320	Hills Motorway	8	1,979	Paperlin X Ltd	8	1,124	Vision Systems	3	191
Campbell Bros	1	386	Hills Indust.	4	599	Paprick Corp	8	3,514	Volante Group	2	152
Candle Aust.	1	77	Hpal Limited	3	194	Peptech Limited	1	236	Watpac Ltd	1	85
Capral Alum.	2	192	Hutchison Tel.	7	187	Perp Trust Aust	5	2,143	Wattyl Ltd	6	183
Cellnet Group	2	64	IBA Health Ltd	1	86	Portman Limited	5	660	Wesfarmers Ltd	10	14,038
Centennial Coal	9	1,001	ING Indust Trt	8	1,500	PowerTel Ltd	1	155	West Aust News	8	1,661
Chiquita Brands	3	114	ING Office Fund	8	1,222	Primary Health	5	866	Westpac Banking	11	34,733
Citect Corp Ltd	2	48	ION Limited	3	236	Prime TV	9	372	Woodside Petrol	13	17,833
Clough Limited	1	191	liNet	3	230	Pro Medicus Ltd	6	93	Woolworths Ltd	11	16,968
			Iluka Resources	11	1,460				Zimbabwe Plat.	1	260

"Neglect" Ratings of NZ Shares

"Neglected" Shares = 1-2 Brokers, "Moderately Followed" Shares = 3-4 Brokers, "Widely Followed" Shares = 5 or more Brokers.

Company	No. of Brokers Following Company	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (NZ\$ Mill.)
AMP NZ Office	4	386	Fletcher Build.	6	2,831	Michael Hill	2	286	South Port NZ	1	29
Air New Zealand	5	993	Guinness Peat	3	1,804	NZ Refining Co	2	864	Steel & Tube	5	405
Akd Int Airport	6	2,623	Hallenstein G.	1	220	Northland Port	1	120	Telecom Corp	10	11,757
Briscoe Group	4	265	Hellaby Hold.	2	278	Nuplex Indust	4	243	Toll NZ Ltd	1	645
Calan Hlthcare	4	136	Horizon Energy	2	106	Port Tauranga	3	155	Tourism Ltd.	2	177
Cap Properties	5	307	Ind Newspapers	2	2,225	Ports Auckland	6	840	Tower Limited	7	870
Carter Holt	7	2,355	Infratil NZ	3	794	Property F Ind.	5	220	Trans-Tasman	1	238
Cavalier Corp	1	240	Kiwi Property	5	783	Restaurant Brds	3	122	Trust Power Ltd	4	1,763
Contact Energy	6	4,002	Lyttelton Port	4	176	Sanford Limited	2	407	Warehouse Group	6	1,023
F & P Appliance	6	842	Mainfreight Grp	5	235	Sky City Ltd	8	1,836	Waste Mgmt NZ	5	605
F & P Health.	6	1,526	Metro. LifeCare	1	286	Sky Network TV	5	2,571	Wrightson Ltd	2	229

Readers Ask . . . about early Retirement and Suitable Investments

Question: Can you give us your thoughts and advice on early retirement and about investment strategies as my wife and I approach a stage of relying on our investments for income?

We are mid-50's. I may continue to work part-time to earn enough to cover basic living expenses (\$25,000 after tax) but we might want about \$40,000 to live comfortably and travel a bit. I may become involved in a start-up business (which may eventually yield some return) or voluntary work.

We have a \$300,000 home, but may want to move to a better house costing around \$400,000. We might also assist our son with a significant deposit when he buys his first home.

We have the following investments: NZ and Australian shares, from your portfolio, valued around \$240,000 and a rental property valued around \$600,000.

To avoid the hassles of managing the rental property we are thinking of selling.

We are thinking about making the transition from building up the portfolio to an early retirement and living off these investments. What types of investments should we be considering? What returns can we expect? And what are the risks?

Answer: The major consideration with early retirement is that you will have a long life expectancy. So while a person in their 70's, 80's and 90's can afford to consume capital a person in their 50's needs to ensure that they retain the value of their capital and protect it against several decades of inflation.

Moving to part-time work is certainly a good transitional stage. Firstly, you will meet half your living expenses from employment, so you should still have some excess investment income - and all capital gains - that can be re-invested to continue building your capital (albeit at a lower rate) over the years immediately ahead. Secondly, you do not become totally dependent upon your investments immediately and can review your position over the next few years based upon the performance of your investments. Thirdly, in this stage you can continue to invest a *little* more aggressively than when you are fully retired. So you can aim for *growth* (and some income) rather than *income* (with some growth) - which will also help to continue building up your investment wealth over the next few years.

Selling the rental property and investing in shares and fixed interest investments is appropriate in retirement (to avoid the work involved in property management). As a general rule, you can probably withdraw about 6% of a balanced, diversified portfolio each year while maintaining the real, inflation adjusted value of your portfolio. So from \$840,000 of investments you could budget on withdrawing around \$50,000. This is more than the \$40,000 you might need to "live comfortably" and with \$25,000 from part-time

employment you can continue to re-invest some investment income and capital gains to build up your capital and provide an additional margin of safety.

It would also be possible to withdraw \$100,000 to buy a better house and to help your son with a "significant deposit" (\$20,000? \$50,000?) on his first house.

In retirement (and in the years immediately ahead of retirement, or in semi-retirement) the most suitable investments would be fixed interest investments (for security of capital and income), property shares (for high income and some capital growth) and general shares (for capital growth and some income).

With smaller portfolios - and depending upon one's risk aversion - it is perhaps appropriate to invest around 50% in fixed income.

With over \$500,000 or so (and in your case, about \$700,000 after the house upgrade and a gift to your son) the fixed interest portion could be around 30-40%, with about 20-30% in high yielding property shares (and other high yielding, low risk shares) and 30-40% in other growth shares (i.e. from the *Market Analysis* portfolio).

Recommended Action

If you can live comfortably on \$40,000 (plus government superannuation, when you qualify), then you do have sufficient assets to (1) retire or semi-retire at your current age, (2) spend \$100,000 on a better house and (3) help your son with a deposit on a house. Of course, investment returns, inflation and your future personal expenditure can vary, so it is always a good idea to have some extra capital and income to provide a margin of safety.

Selling the rental property will reduce your management work. If this realises \$600,000 then around \$120,000 to \$150,000 should be invested in a short term interest earning account to finance your planned move to a better house and the gift.

The balance of \$450,000 to \$480,000 is available for longer term investment. Of this, around \$210,000 to \$280,000 should be invested in a range of fixed interest investments (see details below), \$140,000 to \$210,000 in property shares and other low risk, high yielding investments (again, see details below). Your existing share portfolio of \$240,000 is about right for the portion of a retirement portfolio that will seek growth.

The fixed interest investments will produce a current income yield of 6½-9%, involve little risk, but offer no growth in capital or income, so no protection against inflation. These investments provide a reliable income and security of your capital.

Property and other high yielding shares will provide an income yield of 7½-11% and long term capital and income growth averaging perhaps 2-3%. These shares can fluctuate in value from year to year, and in an economic downturn the income may also decline. As you will not be living off your capital there is no need to sell

when prices are depressed, so this portion of your portfolio is a good source of relatively reliable high income and offers some protection against inflation.

The remaining shares - which could consist of many of the *Market Analysis* recommended shares - aims for capital growth and some current income (i.e. perhaps 3-6% income). Annual capital returns may average 10-20% per annum but will vary widely from year to year. Capital appreciation can be around 50-100% in a good year, but prices may fall 20-40% in a bad year!

Expected Returns and Risks from a Balanced Portfolio

Overall this type of balanced portfolio should be able to produce a pre-tax income yield of around 6-7%, with capital and income growth averaging around another 6-7%. This will more than compensate for expected future inflation.

Owing to the fixed value interest bearing investments and the relatively stable property/income shares, most years the capital return will probably fluctuate between a 10-15% loss (with a maximum loss unlikely to exceed 20-25%) and a 20-25% gain (with a maximum gain of up to 40-50%).

Notes About Suitable Investments

Fixed Interest:

The main objective here is security of capital plus income. So stay with bank deposits and higher quality finance companies. Avoid riskier investments offering a higher interest rate. There is no point risking your investment capital for an extra 2-3% of taxable interest!

Investments should be diversified over several banks and several finance companies to minimise risk. There should also be a range of maturities to provide liquidity and to hedge interest rate fluctuations.

So (with \$100,000 or more to invest) one may make ten term investments, with perhaps 6-8 companies. About 20% could be invested over terms from "at call" to six months, with similar amounts invested for 2, 3, 4 and 5 years to take advantage of the higher rates usually

offered on longer term investments.

A good website to review current fixed interest rate investments is www.interest.co.nz and click on "Term Deposits 1-5 Years". This site also publishes a *SQP* score (i.e. based upon Safety, Quality and Profitability) and investors should probably stick with companies rated "A" or "B" for both Safety and Quality.

Property and other High Income Shares:

The objective here is to earn high current income *plus* some long term capital and income growth, but without too much exposure to risk. Good diversification is important to minimise individual company risk and provide a more reliable, diversified source of dividend income.

Investors should look at about 8-12 shares, including some high yielding, low risk Property shares (e.g. Capital Properties, Kiwi Income Properties, Macquarie Goodman Property, National Property Trust, Property for Industry), some of the higher yielding, lower risk shares from *Market Analysis* (e.g. Cavalier, Colonial Motors, Lyttelton Port, Nuplex) and perhaps a few other high yield shares (e.g. Hallenstein Glasson, Hellaby, Restaurant Brands).

Growth Shares:

The objective here is capital growth, plus some income. Capital growth is essential to offset the long term impact of inflation - and any real growth in the value of a portfolio over the medium to long term can help provide a more comfortable than expected level of retirement!

This sector of a portfolio can be built up from a selection of the *Market Analysis* recommended shares (and similar share investments). Diversification is again important as these shares can be individually quite risky. As a group these shares can also be very volatile from month to month or year to year - but that is the price we must accept in our search for higher investment returns. Investments in fixed interest and property/high yield shares should reduce the overall portfolio volatility to an acceptable level for comfort.

Taxation of Foreign Investments

The government is proposing an even more unattractive method of taxing foreign investments.

In January 2004 (*Market Analysis* issue 379) we reviewed proposals to tax investors based upon an assumed *real* (i.e. inflation adjusted), *risk free rate of return* of about 4%.

In December 2004 (*Market Analysis* issue 390) we reported the proposal to ignore inflation and increase that assumed return to about 6%.

The latest proposal is to tax all dividends and *unrealised* and realised capital gains. Before you panic (i.e. sell all your foreign investments or buy a one-way air ticket out of the country), please note the following:

1. Full details of *this month's* foreign tax proposal will be announced in the next few weeks. We shall review it in detail *next* month when we have the full facts.
2. This new tax will not become effective until 1 April 2007 - at the earliest.

3. The taxation of foreign investments has been under review since the mid-1980's. It may be *another* 20 years before any significant change is actually made.
4. A change of government in this year's election may see this month's proposals cancelled or significantly changed once again.

Based upon the carefully leaked rumours, the current foreign tax proposal would seek to tax capital gains at rates around 2-4 times *higher* than in Australia - and Australia is certainly not a low tax country! This proposed tax could also inflate the exchange rate and distort investment to produce the type of domestic property and stockmarket boom experienced in the early to mid 1980's!

Why would any NZ government wish to drive wealthier investors - and their income taxes - offshore? Or destroy the local economy with a boom/bust asset bubble? Your Editor does not understand politics!

Dividends

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Blue Chip NZ	5.00	17-06	30-06	Full
Cabletalk	3.00	15-07	28-07	Full
Capital Properties	1.75	30-05	10-06	0.500
Dominion Finance Holdings	4.71	27-05	07-06	4.710
Dorchester Pacific	5.75	10-06	24-06	Full
F&P Appliances	9.00	03-06	13-06	Full
F&P Healthcare	5.80	07-06	17-06	Full
Gullivers Travel	3.263	09-06	30-06	Full
Horizon Energy	12.00	17-06	24-06	Full
Horizon Energy special	4.00	17-06	24-06	Nil
Infratil	5.50	10-06	17-06	Full
ING Properties	1.937	10-06	17-06	1.937
Kingfish	2.00	30-05	10-06	Full
Kiwi Income Properties	3.492	03-06	17-06	0.822
Life Pharmacy	1.20	26-08	02-09	Full
Loan & Building Society	8.00	24-06	28-06	Full
Mainfreight	3.50	15-07	22-07	Full
Methven	2.54	17-06	30-06	Full
Mowbray Collectibles	1.50	08-07	15-07	Full
Mr Chips	2.50	23-09	30-09	Full
Restaurant Brands NZ	5.50	30-05	10-06	Full
Ryman Healthcare	6.50	10-06	24-06	Nil
Seeka Kiwifruit	10.00	02-06	07-06	Full
Speirs Group	4.00	10-06	27-05	Full
TrustPower	10.50	15-07	29-07	Full
Turners & Growers	12.00	27-05	08-06	Full
Urbus Properties	4.60	-	-	Nil
Wakefield Hospital	8.00	17-06	27-06	Full
Zintel	1.74	17-06	01-07	Full
<u>Australian Shares</u>				
AMP (capital return)	40.00	26-05	16-06	
AJ Lucas Group	3.50	07-03	24-06	

Current Issues

SHARE SPLIT

	Ratio	Ex-Date
Widespread Portfolio	11:10	-

NEW ISSUES

	Price	Date	EPS	DPS
Vector Ltd	-	Aug	-	-

Vector is planning a share float, probably in August. It will seek to raise around \$600 million by issuing new shares equal to 24.9% of the enlarged company. The **Auckland Electricity Consumers Trust** will retain the remaining 75.1%.

Very little of this New Issue, however, may be offered to institutional investors or private investors - so the shares will likely list on the stockmarket at a 10-15% premium above their issue price.

Around \$200 million of shares will be offered to existing customers, who have already been sent letters to register their interest, with a minimum investment of just \$500. Another \$150 million worth of shares may be offered to Vector *bondholders* who will receive an entitlement to buy shares in the offering. This entitlement is already reflected in an increase in the secondary market value of the Vector bonds which have been acquired by institutions seeking to obtain an entitlement to Vector shares. The bond price will likely fall back *after* going ex-entitlement. Another \$150 million worth of shares *may* be offered to the minority shareholders in listed **NCG Holdings**, *if* Vector seeks to purchase the remaining 33% of this company in a \$500 million cash and share takeover offer.

This may leave only around \$100 million worth of shares for regular investors - institutions and private stockmarket investors.

As stated above, these shares will probably list at a small premium of 10-15% - but it will probably be difficult to make anything more than a much too small \$500 investment in this float.

Total Return Index for All Listed Shares

May 9	2205.34	May 16	2205.92
May 10	2205.94	May 17	2214.81
May 11	2200.97	May 18	2216.62
May 12	2196.22	May 19	2226.77
May 13	2195.39	May 20	2244.11
May 23	2260.77	May 30	2283.53
May 24	2273.23	May 31	2285.44
May 25	2284.72	Jun 1	2275.42
May 26	2271.06	Jun 2	2275.15
May 27	2280.90	Jun 3	2276.98

Next Issue

The next issue of *Market Analysis* will be posted in five weeks time on Tuesday July 12, 2005 (and delivered in most areas on Wednesday 13).

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

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