

# Market Analysis

## Inside Market Analysis

Higher Interest Rates:  
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Campbell Brothers expect favourable market  
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Founder: James R Cornell (B.Com.)

## Summary and Recommended Investment Strategy.

Higher interest rates - contrary to the expectations of the Reserve Bank - could *sustain* NZ's consumer spending boom, but depress the outlook for the stockmarket. Eventually the boom will end - depressing economic activity and the exchange rate - so diversification into Australia and other international markets is an important investment strategy.

## Investment Outlook.

We just don't understand this. Where is the logic?

When import prices (e.g. oil) increase the Reserve Bank raises interest rates to offset this imported inflation. And when the *opposite* occurs and export prices (e.g. milk) increase the Reserve Bank again raises interest rates - this time to offset the inflationary pressure from high farm incomes.

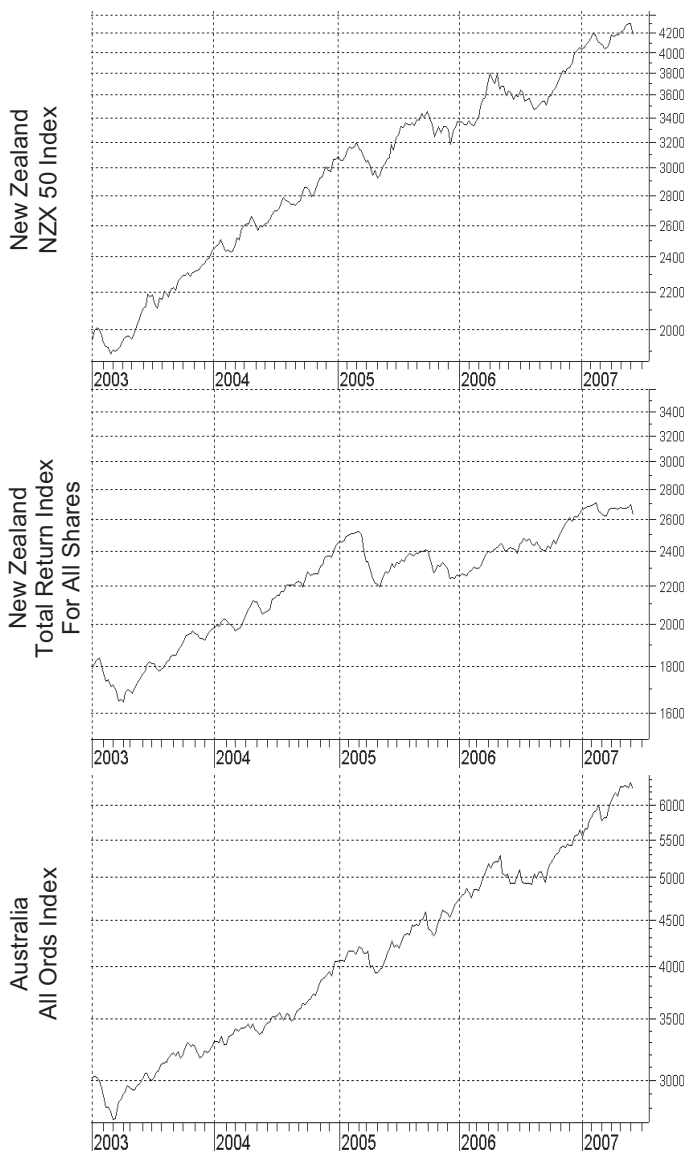
Of course, no increase in interest rates can change import prices which are set on international markets. At best, higher interest rates can depress a sector of the domestic economy. Charges from central government, local government and infrastructure service providers (e.g. water, power, airports) keep increasing faster than the general rate of inflation - so the impact falls on the household or business sector. Unfortunately the consumer sector keeps spending like there is no tomorrow . . . probably because there isn't. This debt fuelled consumer boom is not sustainable! Spend while you can!

In fact, high interest rates are probably not the solution to the consumer spending and residential property boom but an essential part of the problem! NZ is a small economy and higher interest rates enable the country to attract additional interest bearing loans from foreign investors to finance the consumer spending boom, while at the same time inflating the exchange rate. Consumers are offered easy credit (i.e. increased mortgage debt, hire purchase debt, interest free terms, no deposit - no payments for 12 months) *owing to this availability* of foreign debt capital, while consumers enjoy the lower import prices resulting from the higher exchange rate. A larger economy may avoid this debt trap by failing to attract sufficient capital to fuel such a long term consumer spending boom.

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### Stockmarket Forecasts

	One-Month	One-Year
Australia:	53% (Neutral)	62% (Bullish)
New Zealand:	39% (Bearish)	51% (Neutral)



# Performance Forecasts

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

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A2 Corporation	C	15	N/A	NE	Nil	Just Water Int.	C	93	2.25	16	5.7	Rakon Ltd	C	507	5.83	58	Nil
AMP Onyx Mgmt	B	125	6.26	17	6.0	Kermadec Prop.	D	107	N/A	NE	Nil	Renaissance	C	93	0.22	6	16.9
AMP Limited	B	1125	1.54	23	3.2	KiwiCorp	E	23	0.91	NE	Nil	Restaurant Brds	D	88	0.27	8	17.0
Abano Health.	C	335	1.18	47	Nil	Kingfish Ltd	A	155	N/A	3	5.8	Richina Pacific	C	48	0.10	7	Nil
Affco Holdings	D	39	0.20	9	2.6	Kirkcaldie & St	C	320	0.73	56	Nil	Rubicon Limited	D	100	0.42	31	Nil
Air New Zealand	A	305	0.80	32	2.4	Kiwi Property	B	159	N/A	19	6.0	Ryman Health.	B	242	6.36	29	1.7
Akd Int Airport	A	265	N/A	31	4.6	Life Pharmacy	E	72	4.32	NE	1.0	Salvus Strat.	C	105	N/A	NE	3.6
Allied Work.	C	125	0.40	19	6.6	Lion Nathan Ltd	B	1000	2.55	21	3.9	Sanford Limited	D	460	1.10	17	7.1
Allied Farmers	C	184	0.35	22	5.7	Livestock Imp.	A	170	0.50	7	14.4	Satara Co-op	B	120	0.35	26	6.2
Apple Fields	C	5.0	2.33	9	Nil	Loan & Building	A	501	1.60	19	4.5	Savoy Equities	E	3.5	N/A	NE	Nil
Barramundi Ltd	D	111	N/A	NE	Nil	Lombard Group	E	2.1	1.49	10	Nil	Scott Tech. Ltd	D	217	1.97	NE	2.1
Blis Technology	D	9.2	N/A	NE	Nil	Lytelton Port	B	225	2.90	23	3.3	Sealegs Corp	D	89	N/A	NE	Nil
Botry-Zen Ltd	E	3.0	N/A	NE	Nil	MDSnews	E	0.3	N/A	NE	Nil	Seeka Kiwifruit	B	415	0.55	18	7.2
Brierley Invest	D	135	3.13	29	2.6	MG Property Trt	B	147	N/A	18	6.9	Skellerup Hold.	C	99	0.65	8	12.1
Briscoe Group	C	175	1.00	14	6.8	Mainfreight Grp	B	735	0.73	13	3.0	Sky City Ltd	C	496	2.83	18	7.8
Broadway Ind	C	85	0.43	21	4.7	Media Tech.	E	4.0	0.20	NE	Nil	Sky Network Tvp	C	558	3.96	36	2.1
CACI Group Ltd	D	26	0.37	5	Nil	Methven Limited	A	230	1.67	16	7.4	Smartpay NZ Ltd	D	4.1	0.23	NE	Nil
CDL Investments	C	42	2.96	8	8.2	Metro. LifeCare	A	824	N/A	62	1.1	Smiths City	C	70	0.15	7	7.9
Cabletalk Group	C	43	0.38	13	6.9	Michael Hill	B	930	1.18	23	3.7	Software of Exc	D	268	2.81	NE	Nil
Cadmus Tech Ltd	E	20	1.83	NE	Nil	Mid-Cap Index	D	350	N/A	NE	Nil	Sol. Dynamics	E	50	0.38	NE	Nil
Calan Hlthcare	C	130	9.64	17	7.1	Millennium & C.	B	84	1.57	11	4.4	South Port NZ	A	230	4.07	25	5.0
CanWest Media.	B	230	2.05	21	5.5	Mowbray Collect	D	175	4.24	NE	2.1	Speirs Group	C	90	0.22	NE	5.0
Canty Bldg Soc.	B	501	1.44	13	4.5	Mr Chips Hold	A	120	0.62	11	5.0	Steel & Tube	C	460	0.92	13	10.4
Cavalier Corp	D	321	1.04	15	8.4	NZ Exchange Ltd	B	1145	N/A	60	3.3	Sthn Travel	C	38	0.15	10	11.8
Cavotec MSL	C	530	1.55	26	Nil	NZ Experience	C	29	1.24	13	10.3	Summit Gold Ltd*	N/R	515	N/A	NE	Nil
Cert Organics	E	8.2	2.02	NE	Nil	NZ Finance Hold	C	110	2.12	26	2.4	Tag Pacific Ltd	D	32	0.36	7	1.7
Charlie's Group	E	18	3.42	NE	Nil	NZ Invest Trust	B	1095	N/A	NE	0.8	Taylor's Grp Ltd	B	200	0.72	13	9.0
Col Motor Co	B	365	0.22	15	9.8	NZ Oil & Gas *	N/R	102	N/A	94	Nil	TeamTalk Ltd	C	260	2.57	17	10.9
Comvita	B	385	1.74	45	1.9	NZ Refining Co	B	720	4.28	13	9.3	Telecom Corp	C	461	1.55	11	11.5
Connexion	E	28	3.39	NE	Nil	NZ Wine Company	A	255	2.34	22	4.1	Tenon Ltd	D	270	0.30	14	Nil
Contact Energy	B	869	2.15	18	4.5	NZ Windfarms	C	123	N/A	NE	Nil	Toll NZ Ltd	C	293	0.89	12	Nil
Cynotech Hold.	D	20	1.74	10	3.8	NZ Wool Service	C	44	0.23	11	10.2	Tourism Hold.	A	275	1.53	25	6.0
Delegat's Group	C	249	2.92	48	1.0	NZSX 10 Fund	D	131	N/A	NE	Nil	Tower Limited	C	248	0.65	8	Nil
Dominion Fin.	A	228	2.01	8	5.6	NZSX 50 Port.	D	194	N/A	NE	Nil	Training Sol.	D	0.6	0.01	NE	Nil
Dorchester Pac	C	192	0.70	23	7.0	NZX Aust MidCap	D	735	N/A	NE	Nil	Trans-Tasman	D	59	2.03	NE	Nil
Eastern Hi-Fi	D	28	0.18	NE	Nil	Nat Property Tr	C	76	5.05	18	5.4	Trust Power Ltd	B	820	4.13	27	4.9
Ebos Group Ltd	C	530	0.52	14	6.3	New Image Group	D	11	1.89	NE	Nil	Turners & Grow.	B	232	0.39	13	9.0
F & P Health.	C	338	4.85	30	5.5	Northland Port	B	325	N/A	71	2.8	Turners Auction	C	106	0.39	9	16.2
F & P Appliance	C	377	0.76	17	7.1	Nuplex Indust	B	695	0.42	14	6.4	Utilico Int'l	E	51	4.00	NE	Nil
Feltex Ltd	E	3.0	0.02	NE	Nil	Oyster Bay	B	262	2.21	26	5.7	VTL Group Ltd	D	85	0.53	11	Nil
Finzsoft Sol'ns	C	104	1.15	47	6.5	Ozzy (Tortis)	D	365	N/A	NE	Nil	Vector Ltd	B	278	N/A	62	6.4
Fletcher Build.	B	1250	1.06	15	4.8	PGG Wrightsons	C	170	0.56	18	8.8	Viking Capital	E	26	5.08	6	Nil
Freightways Ltd	B	430	2.15	23	6.0	POD Ltd	E	48	0.30	NE	Nil	WN Drive Tech.	E	37	N/A	NE	Nil
Genesis Res.	D	28	3.50	NE	Nil	Pac Edge Bio.	E	14	N/A	NE	Nil	Wakefield Hlth	C	795	1.69	29	3.2
Guinness Peat	D	223	0.66	25	1.3	Plus SMS Hold.	E	14	N/A	NE	Nil	Warehouse Group	C	605	0.98	19	3.9
Hallenstein G.	C	496	1.50	14	10.5	Port Tauranga	A	685	7.50	30	4.4	Widespread Port*	N/R	1.7	N/A	NE	Nil
Hellaby Hold.	C	380	0.37	8	12.2	Postie Plus Grp	C	79	0.25	8	13.2	Windflow Tech.	C	390	N/A	NE	Nil
Heritage Gold *	N/R	7.0	N/A	NE	Nil	Property F Ind.	B	147	N/A	21	6.0	Wool Equities	E	62	0.53	NE	Nil
Horizon Energy	B	370	3.08	18	7.7	Propertyfinance	D	135	N/A	NE	Nil	World Index Fd	E	143	N/A	NE	Nil
ING Property	C	123	8.79	19	8.5	Provenco Group	D	69	0.54	22	5.6	Xero Live Ltd	E	114	N/A	NE	Nil
Infratil NZ	A	660	2.07	42	2.8	Pumpkin Patch	D	380	2.03	22	3.3	Zintel Comm.	C	44	0.55	8	6.8
Jasons Media	D	69	0.95	19	6.5	Pyne Gould Corp	B	474	1.01	12	5.7	<b>Ave of 155 Cos</b>	C	251	0.37	21	3.9
ABB Grain Ltd	A	881	1.11	19	3.4	Corp Express	A	656	1.06	18	2.7	News Corp.	B	2830	2.81	31	0.6
ABC Learning	B	703	4.38	34	1.6	DB Rreef Trust	B	198	3.79	5	5.6	Nufarm Limited	A	1354	1.38	19	2.2
AMP Ltd	B	1007	1.57	23	3.2	DUET Group	B	365	2.20	NE	6.4	Oil Search Ltd	B	389	5.08	8	2.7
ANZ Bank	B	2911	5.27	14	4.3	David Jones	C	517	1.24	28	3.1	Onesteel Ltd	A	648	0.92	20	2.2
APA Group	C	423	3.70	23	5.7	Deutsche Div Tr	C	131	6.10	14	7.1	Orica Ltd	C	2990	1.96	17	2.5
APN News Media	C	577	2.07	17	1.7	Downer EDI Ltd	C	718	0.49	NE	2.8	Origin Energy	B	870	1.16	21	2.1
ASX Limited	B	4850	N/A	37	2.5	Dyno Nobel Ltd	B	250	1.25	19	2.2	Oxiana Ltd	C	332	N/A	NE	2.4
AWS Limited	B	370	0.26	12	5.4	Energy World	C	105	N/A	NE	Nil	Pacific Brands	C	355	1.10	18	4.2
AXA Asia Pac	B	744	2.13	19	2.5	Energy Resource	B	2122	N/A	93	0.8	Paladin Res.	E	850	N/A	NE	Nil
Abacus Property	B	205	N/A	19	5.8	FKP Limited	A	726	5.87	12	2.0	Paperlin X Ltd	C	384	0.23	26	2.6
Adelaide Bank	B	1505	1.01	17	3.9	Fairfax Media	B	468	2.30	19	4.2	Perpetual Ltd	C	7783	7.55	23	4.2
Adelaide Bright	B	365	2.50	19	3.4	Flight Centre	C	1820	1.72	22	2.9	Portman Limited	C	830	4.11	17	Nil
Ainta Ltd	A	1507	5.02	44	3.1	Fortescue Metal	E	3600	N/A	NE	Nil	Primary Health	C	1270	6.47	33	3.3
Allico Finance	B	1114	N/A	33	3.7	Foster's Group	C	644	2.54	11	3.3	Promina Group	B	732	1.57	14	3.3
Alumina Ltd	B	770	N/A	18	3.1	Futuris Corp.	B	255	0.55	21	3.5	Publishing & Br	B	1948	3.66	21	3.0
Amcor Ltd	B	713	0.58	18	4.8	GPT Group	B	496	N/A	7	5.5	Q.B.E. Insur.	B	3115	2.14	17	3.0
Aneka Tambang	B	620	N/A	NE	1.8	GWA Internat'l	A	421	1.89	21	4.3	Qantas Airways	B	570	0.82	23	3.9
Ansell Ltd	B	1210	1.59	16	1.0	Gandel R. (CFS)	B	194	N/A	19	5.4	Queensland Gas	D	242	N/A	NE	Nil
Aquarius Plat.	A	3392	6.71	33	0.7	Goodman Fielder	B	238	2.07	21	2.3	Ramsay Health	B	1120	0.97	22	2.1
Argo Investment	B	807	N/A	32	3.0	Guinness Peat	B	185	0.63	36	1.3	Reece Australia	A	2800	2.50	32	1.6
Aristocrat Leis	B	1505	6.55	29	2.4	Gunns Ltd	B	333	1.77	13	4.8	Rinker Group	B	1877	2.52	17	2.7
Aust Foundation	B	570	N/A	30	3.0	Harvey Norman	A	510	2.38	24	1.6	Rio Tinto Ltd	A	9197	1.24	4	1.6
Aust Infra.	B	317	8.98	11	4.6	Havilah Res.	C	210	N/A	NE	Nil	SP Ausnet	B	139	3.83	9	2.3
Australand Prop	B	230	2.01	9	7.2	Healthscope	B	552	1.15	23	2.6	Santos Ltd	B	1337	2.89	12	3.0
Austar United	B	165	4.16	10	Nil												

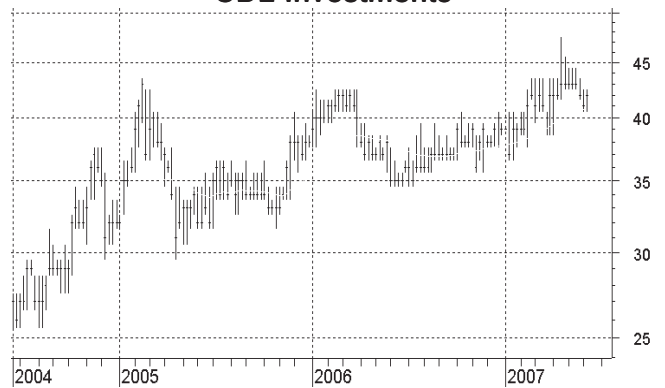
# Recommended Investments

**CDL Investments** predicts its current half year to the end of June will "be an improvement" on the same period in 2006 and expects "another satisfactory" result for the full year to December 2007. The company has acquired property in Hawkes Bay and Nelson totalling 6.1 hectares and is seeking to acquire another 21.1 hectares in Hawkes Bay and Christchurch.

At 42 cents, CDL Investments shares trade on a Price/Earnings ratio of 8 and offer a gross Dividend Yield of 8.2%. That is good value, so we continue to rate the shares "Hold+".

**Nuplex Industries** now expects earnings (before interest, tax and depreciation) (Cont'd on Page 4)

### CDL Investments



## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Performance Forecast	Issued Shares (mil.)	Volatility Ratio	Price/Sales Ratio	Price/Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
<b>NZ Shares</b>													
HOLD+	CDL Investments Ltd	CDI	12/01/99	25	C	218.9	1.4	2.96	8	8.2	42	15.6	+130%
BUY	Cavalier Corporation	CAV	05/12/95	156*	D	65.5	0.9	1.04	15	8.4	321	196.5	+232%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.5	0.22	15	9.8	365	302.8	+345%
HOLD	Lytelton Port Company	LPC	12/12/00	150	B	102.3	0.8	2.90	23	3.3	225	60.6	+90%
HOLD+	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	39.2	0.4	1.18	23	3.7	930	206.0	+2369%
HOLD	Nuplex Industries Ltd	NPX	11/02/97	350	B	78.4	0.5	0.42	14	6.4	695	176.5	+149%
BUY	Postie Plus Group	PPG	08/05/06	71	C	40.0	1.0	0.25	8	13.2	79	6.0	+20%
HOLD+	Renaissance Corp	RNS	13/08/96	85*	C	39.0	1.0	0.22	6	16.9	93	46.4	+64%
BUY	Smiths City Group	SCY	09/10/06	64	C	53.0	1.2	0.15	7	7.9	70	1.5	+12%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.7	4.07	25	5.0	230	89.3	+166%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	C	88.1	0.7	0.92	13	10.4	460	179.0	+338%
HOLD	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	0.6	0.72	13	9.0	200	68.0	+163%
<b>Australian Shares (in Aust cents)</b>													
HOLD	AJ Lucas Group	AJL	13/05/03	120	B	52.0	1.2	0.51	29	Nil	167	20.5	+56%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	A	89.3	1.3	3.22	14	7.4	47	13.5	-17%
HOLD	Austin Group Ltd	ATG	08/02/05	93	B	62.2	2.1	0.21	NE	16.7	18	7.0	-73%
HOLD+	Campbell Brothers Ltd	CPB	12/10/99	406*	A	51.6	0.3	2.27	28	2.5	2795	262.6	+653%
BUY	Candle Australia	CND	08/04/03	86	B	49.8	0.8	0.63	14	5.0	342	42.5	+347%
BUY	Cellnet Group Ltd	CLT	12/02/02	152	B	51.5	1.0	0.08	30	2.2	92	33.5	-17%
HOLD+	Centennial Coal Ltd	CEY	16/01/01	70*	B	295.1	0.8	1.18	19	4.0	322	26.0	+397%
BUY	Circadian Technologies	CIR	10/02/04	188	D	40.1	0.9	N/A	NE	Nil	143	65.0	+11%
HOLD	Commander Comm.	CDR	11/09/01	92	C	222.9	1.0	0.44	13	2.6	157	25.2	+97%
BUY	Computershare Ltd	CPU	12/08/03	189	A	599.3	0.6	4.08	36	1.2	1100	42.5	+504%
BUY	Devine Ltd	DVN	13/11/06	94	C	136.0	0.9	0.32	10	6.0	134	4.0	+47%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	B	61.2	1.2	1.56	27	Nil	90	Nil	+83%
HOLD+	Housewares Int'l	HWI	13/11/06	171	B	128.2	0.7	0.88	28	4.5	290	Nil	+70%
HOLD	Int'l AllSports	IAS	11/02/03	180	B	66.4	1.7	0.02	17	4.7	32	4.0	-80%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	C	232.9	0.8	1.25	11	3.8	575	54.0	+34%
HOLD	Keycorp Ltd	KYC	10/08/04	123*	C	82.2	1.5	0.37	NE	Nil	43	Nil	-65%
HOLD-	LongReach Group Ltd	LRG	11/01/05	71*	B	52.2	4.7	0.19	3	Nil	4	Nil	-94%
HOLD+	M2 Telecommunications	MTU	09/10/06	33	A	59.4	1.2	1.21	19	2.9	68	1.0	+109%
HOLD	Melbourne IT	MLB	10/02/04	53	A	76.0	0.6	2.85	46	2.1	383	23.0	+666%
HOLD	M.Y.O.B. Ltd	MYO	15/07/03	84*	B	385.3	0.9	2.75	29	3.2	132	9.3	+68%
HOLD+	Namoi Cotton Co-op Ltd	NAM	14/03/06	65	B	107.8	1.1	0.19	5	8.7	63	3.5	+2%
BUY	Ross Human Directions	RHD	14/08/01	92	C	82.3	1.3	0.15	10	6.7	60	27.0	-5%
HOLD+	Skilled Engineering	SKE	12/03/02	126	B	103.9	0.6	0.54	21	3.8	503	84.5	+366%
HOLD+	Technology One Ltd	TNE	11/11/03	44	A	296.7	1.0	5.04	27	3.0	113	10.9	+182%
BUY	TFS Corporation Ltd	TFC	08/01/07	44½	A	157.8	1.3	4.27	10	2.8	76	0.9	+73%
HOLD	The Reject Shop Ltd	TRS	11/01/05	257	A	25.1	0.5	1.38	36	1.8	1312	64.5	+436%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +208.2%. This is equal to an average annual rate of +39.3%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 38 current and 137 closed out) is +35.1%, 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.

## Recommended Investments

(Continued from Page 3)

for the current year to June 30 to be “at the bottom, or marginally below” its previous forecast of \$103-110 million. The company has suffered a \$2 million bad debt after a French automotive company went into voluntary administration and experienced delays in closing sites at Seven Hills in Australia and manufacturing operations in Brazil (which were losing around \$3 million annually). The company will supply Brazilian customers from other regional manufacturing operations. The exchange rate has also impacted on profitability.

Increased manufacturing capacity in Europe will “contribute significantly to next year's performance” and the company is “confident of a substantial lift in profits” for the year to June 2008.

### Nuplex Industries



**Postie Plus Group** reports sales for its third quarter to the end of April of \$31.9 million - up 9.1% on the same period in 2006. More importantly, profit margins have recovered after its first half loss.

### Australian Shares

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

**Campbell Brothers** has reported a 31.0% lift in revenues from continuing businesses to \$635.9 million with trading profits up 55.9% to \$51,013,000 (98.8 cents per share). In addition there was an \$8.0 million gain on the sale of its pest control and cleaning businesses. The final dividend will be raised 44.8% to 42.0 cents, lifting the annual dividend rate 40.0% to 70.0 cents.

The net operating cash surplus was \$58.1 million.

The Laboratory Services business contributed over 50% of revenues and over 80% of group earnings.

Demand for its environmental and minerals testing services is expected to “remain buoyant for some time, at least in the near term to 2010” so the company should continue to experience favourable market conditions for at least the next three years. Over the last year the company acquired five laboratory businesses and established - or is in the process of establishing - 15 new laboratories. Two of these new Australian laboratories will diversify the group into coal analysis services and this new business will then be expanded in South Africa and Russia.

At 2795 cents, Campbell Brothers shares trade on a Price/Sales ratio of 2.27, a Price/Earnings ratio of 28 and offer a Dividend Yield of 2.5%. That is looking a little expensive, but this business is growing rapidly and that is likely to continue for at least the next three years. Investors who are over-weighted in Campbell Brothers

could consider some partial profit-taking to improve their portfolio diversification, but otherwise we are happy to rate the shares a “Hold+” for further capital appreciation and income growth over the coming years.

### Campbell Brothers



**Cellnet Group** has completed the demerger of **Mercury Mobility**, spinning off this company to its own shareholders. Investors registered as owning Cellnet Group shares on 7 June have been issued 1.5 Mercury Mobility shares for every Cellnet Group share. So if you owned 1000 Cellnet Group shares you now own 1000 Cellnet Group shares and 1500 Mercury Mobility shares of, as yet, uncertain value. Mercury Mobility will soon seek to raise \$3 million through a non-renounceable cash issue, the terms of which have yet to be disclosed. Mercury Mobility will then list on the Australian stockmarket. As previously stated, we would tend to favour taking up the entitlement to the additional Mercury Mobility shares subject, of course, to the final pricing of the cash issue.

**Centennial Coal's Anvil Hill** mine has received final approval from the NSW Government. This development will cost over \$250 million, with first coal production expected in early 2009 and full production of 10.5 million tonnes from 2012. At that rate of production the mine life will be around 21 years. Centennial Coal is also negotiating with one or more parties to take a stake in the mine. **Korea Electric Power** has stated it is negotiating for a 10% stake in *Anvil Hill*.

Regulatory consents were also received for the sale of 50% of the *Angus Place* mine and related projects to **SK Corporation** and **Korea Resources Corporation** - which expands Centennial Coal's joint venture with these companies at the *Springvale* mine. Centennial Coal has received \$65 million in cash from this sale.

### Centennial Coal



**Devine** has acquire one business and many large properties for development over the last month: The

company is to pay \$13.5 million (i.e. about \$11 million in cash and \$2.5 million in shares) to acquire **Stewart Silver King and Burns (SSKB)**, a specialist body corporate and community management company. This business already provides body corporate services for a number of apartment towers developed by Devine, but it manages a total of around 400 bodies corporate for 21,000 members. SSKB also provides bulk electricity and gas services as well as expanding in the property management sector. This business will provide a steady stream of recurring revenues and profits for Devine.

Devine has also announced deals worth \$82.5 million to acquire development properties. The company will pay \$22.4 million for a 42 hectare site at Cranbourne, 49 km south-east of Melbourne, which will be developed into a 560 lot residential sub-division with an end value (for houses and land) of \$170 million. It has agreed to acquire a 27.5 hectare site in Willow Vale, Pimpama, at the northern end of the Gold Coast for \$23.5 million payable over two years. Development approval will be sought for 385 residential lots, with an end value of up to \$135 million. In South Australia, Devine has acquired 18.85 hectares at Mount Barker in the Adelaide Hills for \$13.9 million where it plans 200 lots with a value up to \$65 million. Also in South Australia it has agreed to acquire Lot 23 and Lot 100, totalling 3.5 hectares for \$1.6 million in Munno Para West, north of Adelaide - and just 500 metres north of the group's current *Oakwood* development. These properties would support the development of 64 lots, with a total end value up to \$20 million. The final \$21.1 million in this property acquisition buying spree was to acquire two Brisbane commercial properties. On the 4,900m<sup>2</sup> Butterfield Street development site the company will build an 11,000m<sup>2</sup> office building to be completed by the end of 2008. A 1,100m<sup>2</sup> building at 99 Mary Street in the CBD will be re-developed into a 10,000m<sup>2</sup> office building with around 32 separate strata-titles for sale to owner-occupier businesses.

**Iluka Resource's** current year profit is likely to be depressed owing to the high Australian dollar exchange rate. Every 1 cent movement against the US dollar has an \$8 million impact on earnings. The company has forecast earnings of \$90-100 million but that was based upon an exchange rate of 0.7500 and the average exchange rate has been around 0.8000 - reducing earnings by around \$40 million annually.

Nevertheless, Iluka Resources is focused upon improving its returns to shareholders, lifting its return on capital, improving profit margins and developing longer life ore bodies.

A feasibility study is underway to develop the *Kulwin* deposit in the northern part of the Murray Basin. Mine development and a second concentrator could be built during 2008 with production starting in early 2009. The heavy mineral concentrate would be further processed at the Hamilton minerals separation plant which would be expanded. The total cost of development and expansion would be around \$280 million.

The development of the *Eucla Basin* zircon deposits at Jacinth and Ambrosia, including mining, concentrating and minerals separation facilities is estimated to require capital expenditure of around \$600 million - which is "a

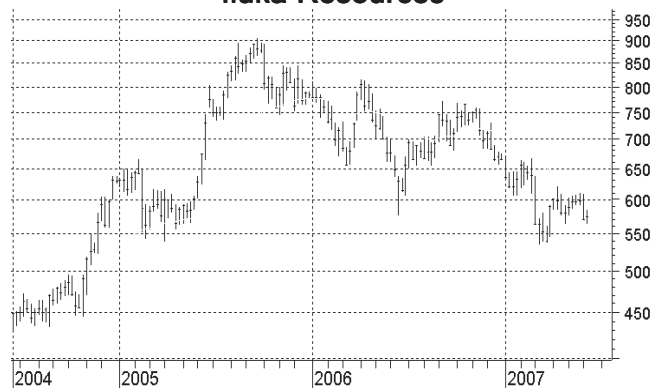
material reduction from previous internal estimates". The company, however, now favours a "more likely development approach" with final heavy minerals concentration "initially at one or more of Iluka's existing MSP facilities". This would reduce the capital expenditure to around \$400 million, allow more flexible production to meet demand and slightly bring forward production from around the middle of 2010. A feasibility study will be completed by the second quarter of 2008 - when a development decision will be made.

Iluka Resources is also looking at two other areas to "create additional or new sources of value for shareholders - uranium exploration and land management". The company has been approached by other explorers seeking joint ventures or farm-ins to explore for other minerals including uranium - but will "commence a relatively low level and focused exploration program" to evaluate uranium prospects *prior* to entering arrangements with other companies.

The company also has significant land holdings totalling 51,181 hectares. A valuation of 6,674 hectares in the south-west of Western Australia indicated a value of \$70 million based upon rural land use, compared with a book value of around \$35 million. Other land has the potential for re-zoning and development, possibly through joint ventures. A detailed review of the land holdings will be completed by the end of this month and provide a "clearer picture" of "potential value enhancement opportunities".

Iluka Resources will fund some capital expenditure from cashflow, additional debt and assets sales (i.e. its coal interest and land sales) but will probably also need to raise additional equity. Additional equity could either come from issuing new shares (i.e. through a share placement, cash issue and/or share purchase plan) or by taking in an equity partner to develop some projects as joint ventures.

### Iluka Resources



**Keycorp** is to change its accounting treatment for recognising revenues and profits on multi-year *managed payment services transactions*. For the June 2007 year this will have the impact of reducing the company's total revenues by \$5 million to \$97 million and lowering earnings (before interest and tax) \$3 million to a *loss* of \$14 million. The company still anticipates a return to profitability for the year to June 2008.

Keycorp has signed a managed payment services agreement with **First Data Resources Australia** which is expected to generate revenues of \$11 million over five years. The smartcard division has won a \$6 million contract to supply

(Continued on Page 6)

## Recommended Investments

(Continued from Page 5)

smartcard chips for e-passports. Integration of the Canadian business, **Optimal Services Group**, "has progressed better than planned", with a 25% reduction in headcount and better than expected cost reductions. Transition to a managed payment services business is "a challenge".

**M2 Telecommunications'** *M2 Wholesale* subsidiary has signed three further *mobile virtual network operators*: Sydney based **Australian Telecommunications** (trading as *Arrow Voice & Data*), **Worldtel Corporation** and **Castle Networks**. Furthermore, the company anticipates signing agreements with another 3-5 wholesale customers before the end of June 2007. This division - which was started in the current financial year - is now expected to generate revenues of around \$20 million annually. This virtual mobile network business will be launched in New Zealand over the next year and the company is investigating launching it in South East Asia in alliance with **Singtel/Bridge Alliance**.

M2 Telecommunications is Australia's largest independent telecommunications wholesaler but still only has a 1% share of telecommunications services in its target market - so there is still huge potential for growth.

**Melbourne IT** is predicting a significant increase in profits this financial year. First half earnings (i.e. before tax) are predicted to be "better than \$8.5 million", up 150% on the \$3.4 million earnings for the first half of 2006 and ahead of last year's *full* year profit of \$6.4 million. Furthermore the second half "will outperform the first" so annual earnings should be around \$17-18 million - equal to an after tax net profit of \$13-14 million (17-18 cents per share).

The company has also decided to retain **For The Record**, the world leader in courtroom and parliamentary recording systems.

### Melbourne IT



**TFS Corporation** is expecting to sell 375 hectares of sandalwood plantation this year, consisting of 2,250 lots of one-sixth of a hectare with 85 trees per lot. Lots will be sold for \$11,000 + GST (but discounted to \$10,500 for 6 or more lots and to \$10,000 for 30 or more lots). That will generate revenues of around \$23-24 million. Equally importantly, each lot sold will generate recurring annual management fees of \$1000 and annual lease fees of \$200 - or add \$2.7 million to future recurring revenues.

The Australian government will also allow secondary trading in this type of forestry managed investment

scheme from 1 July 2007, after an initial holding period of four years. So TFS Sandalwood units purchased before 1 July 2003 will become tradable. This should increase the demand for this type of investment, especially from institutional investors who require some liquidity and an independent market value for their investments. Sandalwood takes 13-14 years from planting to harvesting, so a secondary market valuing lots with maturing trees will "prove" a value for the plantation during that period of growth. The lots are expected to generate a 15% rate of return, yielding around \$110-125,000 pre-tax return to investors at harvest. If returns significantly exceed expectations then TFS Corporation will receive an incentive fee equal to 30% of proceeds *in excess* of \$200,000.

Investing in the TFS Sandalwood lots may be a good long term investment, but if this project is successful then investing in TFS Corporation shares will be a significantly more profitable investment. The company currently earns revenues and profits from *establishing* the plantation and selling the investment lots. Over the years it will build a large *recurring* revenue and profit from the on-going management of the expanding plantation. Longer term it will earn revenue and profits from establishing *value-added processing* of the sandalwood to be harvested. Most importantly, TFS Corporation owns the know-how and the land. Once the sandalwood has been harvested, TFS Corporation can re-plant the land and either (1) re-sell the new investment lots to new investors (for another initial gain and on-going management fees) or (2) retain ownership of the new trees to profit from their annual growth in value.

TFS Corporation is earning a profit (and paying dividends) now, but more importantly is building a large and valuable plantation in which the *company* retains the ultimate ownership and the right to replant. The potential for long term profit growth therefore remains very favourable. Long term readers of this newsletter will remember how in March 1999 we warned against taking profits on Toll Holdings shares which had doubled in value over just six months. Holding on to Toll Holdings shares for a little bit longer proved successful as we eventually realised a 23-fold gain over 7½ years. While there is no guarantee what return we shall ultimately realise on TFS Corporation it is guaranteed that you will never get rich selling your best investments for small gains! TFS Corporation - like Toll Holdings - is a situation where the company is performing well, has excellent *potential* for further growth - so this is a situation where we do not wish to take profits or reduce our holding, but retain all of our shares as a long term investment.

## Vision Systems Repayment

The Australian Tax Office has finally determined the status of the 40 cents per share repayment paid by **Vision Systems** in August last year. 21.5 cents is a (non-taxable) return of capital and 18.5 cents is a (taxable) unfranked dividend. The share registry deducted 15% foreign withholding tax from the full payment, but has now refunded the amount relating to the non-taxable capital repayment.

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

For an explanation of this table see the Share Selection Methods report sent to all new subscribers or available from our website. 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.

Table containing 12 columns of financial data for various NZ shares, categorized into Under-Valued Shares, Best Performing Shares, Insider Buying, Over-Valued Shares, and Worst Performing Shares. Columns include Company, Share Price, Strength Rating, Price/Sales Ratio, etc.

Strongest NZ Shares

Table with 12 columns of financial data for the 'Strongest NZ Shares' category, including Company, Share Price, Strength Rating, Price/Sales Ratio, etc.

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

For an explanation of this table see the *Share Selection Methods* report sent to all new subscribers or available from our website. These shares are not formal “buy” and “sell” recommendations, but the “Under-Valued”, “Best Performing” and “Income” shares should be considered for purchase, while the “Over-Valued” and “Worst Performing” shares can generally be sold to release money for re-investment in more attractive shares.

Company	STRENGTH RATING							Price to Earnings Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n	Company	STRENGTH RATING							Price to Earnings Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n				
	Share Price	Current Rent	4-Wk Chg.	Rank	Buy/Sell	Brackets	Following						Price to NTA	Return on Equity	Vola-ity	Price to Earnings Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n					Share Price	Current Rent	4-Wk Chg.	Rank
<b>OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength &lt; 0</b>																											
Tomahawk Energy	30	-7.4	+2.6	81	0-0	-	-	1.1	NE	Nil	9.71	23	Goldlink Growth	22	-29.1	-7.0	98	1-0	-	0.3	31	0.9	1	Nil	0.53	7	
Haoma Mining NL	3	-23.4	-0.5	96	0-0	-	-	2.6	NE	Nil	9.66	5	Highland Pac.	20	-27.8	-1.5	98	0-0	1	-	-	1.4	NE	Nil	N/A	96	
Anzon Australia	126	-5.7	+4.6	79	2-0	4	-	0.8	41	Nil	9.63	467	BMA Gold Ltd	11	-27.6	+3.9	98	1-0	-	-	-	1.6	NE	Nil	N/A	21	
Strike Oil Ltd	21	-3.1	-1.8	72	3-0	-	-	1.4	NE	Nil	9.38	47	Eurogold Ltd	2	-27.6	+2.3	98	3-0	-	-	-	2.6	NE	Nil	N/A	6	
Sunshine Heart	19	-5.0	-2.7	78	2-0	2.1	-	0.9	NE	Nil	9.22	16	Gulfex Ltd	10	-27.2	+8.3	98	4-0	-	-	-	1.2	NE	Nil	N/A	5	
Uscom Limited	42	-19.5	-6.5	94	2-0	2.3	-	0.6	NE	Nil	9.18	16	Tow Way Ltd	16	-27.0	-1.6	98	0-2	0.9	-	-	1.0	NE	Nil	4.31	9	
Gage Road Brew.	24	-15.6	-1.8	92	0-0	1.8	-	1.1	NE	Nil	9.11	11	Capital Health	10	-26.7	+5.6	98	0-0	9.5	-	-	1.4	NE	Nil	N/A	5	
Biosignal Ltd	14	-11.0	+4.3	86	1-0	-	-	1.2	NE	Nil	9.03	12	Austin Explor.	37	-26.7	-6.2	98	0-0	-	-	-	0.9	NE	Nil	N/A	22	
Oaks Hotel	201	-1.7	-1.2	69	0-0	3	20.1	24	0.6	82	1.0	304	Genetic Tech.	16	-26.7	-3.9	98	5-0	5.2	-	-	1.0	NE	Nil	5.22	56	
Safe Effect	5	-13.8	-2.2	90	0-0	0.8	-	1.8	NE	Nil	8.68	19	Verus Investm't	8	-25.8	+4.9	98	1-1	2.7	3	1.3	82	Nil	N/A	20		
Optiscan Image	41	-4.4	-2.4	76	0-0	5.1	-	0.9	NE	Nil	8.67	41	B & B Env. Inv.	84	-25.8	+0.7	97	2-2	2	0.9	-	0.7	NE	Nil	1.90	107	
Impress Venture	7	-4.9	+0.4	77	10-0	-	-	1.9	NE	Nil	8.50	28	Montec Int'l	4	-25.6	-6.5	97	1-0	2.0	-	-	2.1	NE	Nil	4.40	5	
Babcock & B Cap	181	-0.2	+0.0	64	0-0	-	-	0.5	NE	Nil	8.14	361	First Capital	11	-25.2	-6.7	97	3-0	1.3	-	-	2.3	NE	Nil	5.74	6	
Meditech Global	19	-3.4	-4.9	73	1-0	1.3	-	1.8	NE	Nil	8.12	19	Emperor Mines	13	-25.2	+6.2	97	4-0	1	3.1	-	1.6	NE	Nil	1.00	130	
Lafayette Min.	7	-11.3	-3.5	87	0-0	1	-	1.7	NE	Nil	8.07	26	Genepharm Aust.	57	-24.8	-2.0	97	1-0	-	-	-	0.8	NE	Nil	N/A	50	
Medical Corp	3	-0.3	-3.2	64	0-0	0.9	-	3.1	NE	Nil	8.00	7	Bounty Indust.	10	-24.8	+0.9	97	0-0	-	1.4	69	1.5	2	Nil	0.40	9	
Adv Nanotech.	16	-4.5	-3.3	76	2-0	4.0	-	1.4	NE	Nil	7.84	24	Senetas Corp	14	-24.3	-1.2	97	0-2	1	3.5	51	1.5	7	Nil	2.72	64	
Quantum Energy	9	-0.4	-2.0	65	0-0	-	-	1.4	NE	Nil	7.76	92	Toodyay Res.	2	-24.1	+4.5	97	3-0	-	-	-	2.4	NE	Nil	N/A	8	
Macarthurcook P	109	-0.2	+0.0	64	3-0	1	1.0	11	0.5	9	9.6	7.66	135	Lion Energy Ltd	20	-24.0	-1.1	97	0-0	1.0	35	1.0	3	Nil	0.93	6	
Tanam Gold NL	14	-6.9	+6.4	80	5-0	2	-	1.3	NE	Nil	7.61	80	Elixir Petrol.	24	-23.6	-1.7	97	0-0	-	-	-	1.0	NE	Nil	N/A	17	
DenX Ltd	7	-0.4	+0.1	65	0-0	0.7	-	1.5	NE	Nil	7.55	12	Haoma Mining NL	3	-23.4	-0.5	96	0-0	-	-	-	2.3	NE	Nil	9.66	5	
Allico Max Sec.	82	-0.7	-2.7	66	1-0	3.9	3	0.6	34	3.0	7.44	140	Eastern Corp	3	-23.4	+3.1	96	1-0	-	-	-	2.3	NE	Nil	4.31	20	
Community Life	22	-6.1	+1.4	79	6-0	0.4	1	1.1	79	Nil	7.28	10	Bow Energy Ltd	10	-22.9	-1.1	96	4-0	-	-	-	1.9	NE	Nil	N/A	7	
Sun Resources	9	-11.9	+1.3	87	0-0	-	-	1.7	NE	Nil	7.26	13	Ritract Limited	5	-22.9	-3.8	96	0-0	5.0	-	-	1.7	NE	Nil	N/A	7	
Samson Oil/Gas	22	-17.7	-2.1	93	1-0	-	-	1.3	NE	Nil	7.14	41	Redisland Aust.	14	-22.6	+1.3	96	0-0	2.3	-	-	1.0	NE	Nil	2.80	11	
ASF Group Ltd	2	-0.0	+0.0	62	0-0	-	-	3.1	9	Nil	7.08	24	Greenvale Min'g	61	-22.4	-1.7	96	0-0	-	-	-	0.7	NE	Nil	N/A	13	
Bravura Sol.	171	-4.7	-4.4	77	1-0	6	3.9	4	0.6	107	Nil	6.93	210	Baraka Petrol.	13	-22.0	-0.3	96	0-0	-	-	-	1.5	NE	Nil	N/A	38
Bendigo Mining	32	-32.6	+3.7	99	3-0	4	1.5	-	1.1	NE	Nil	6.72	54	CFK Childcare	11	-21.9	-7.9	96	0-0	-	-	-	1.4	NE	Nil	0.49	10
Macquarie DDR	128	-0.7	-0.7	66	2-0	7	1.1	8	0.5	14	7.8	6.57	1,173	AFT Corporation	1	-21.7	-6.5	96	0-0	0.5	-	-	6.0	NE	Nil	2.72	10
Marine Produce	3	-9.2	-3.2	84	0-0	1.3	-	2.6	NE	Nil	6.55	11	Livingstone Pet	20	-21.4	+7.4	96	1-0	-	-	-	1.1	NE	Nil	N/A	11	
Kimberley Diam.	71	-12.8	-3.4	89	4-1	1.6	-	0.9	NE	Nil	6.54	234	Aust Ren. Fuels	44	-21.3	+4.0	95	0-0	2.3	-	-	0.8	NE	Nil	N/A	38	
Primary Health	1270	-1.2	+0.9	68	2-0	6	97.7	-	0.2	33	3.3	6.47	1,564	Powertan Ltd	27	-21.1	-2.0	95	2-0	-	-	-	1.2	NE	Nil	0.46	11
Coonawarra Aust	58	-1.3	+0.5	68	0-0	0.6	8	0.6	8	11.4	6.44	10	Objective Corp.	64	-20.8	+2.0	95	0-1	4.9	41	0.6	12	3.5	2.26	86		
Agri Energy Ltd	36	-9.1	+4.4	84	2-0	1.0	0	1.1	888	Nil	6.24	28	Environ. Clean	22	-20.7	+5.4	95	0-0	-	-	-	0.7	NE	Nil	N/A	53	
Proteome Syst	32	-0.4	+5.1	65	1-0	6.4	-	1.3	NE	Nil	6.24	44	Eureka Energy	25	-20.0	-0.6	95	0-0	-	-	-	1.2	NE	Nil	N/A	10	
API Fund	190	-0.3	-1.3	65	0-0	0.9	5	0.5	16	8.4	6.20	23	Wedgetail Min.	14	-20.0	-0.9	95	1-1	-	-	-	1.2	NE	Nil	N/A	178	
Medivac Ltd	6	-14.8	-4.4	91	1-0	-	-	2.1	NE	Nil	6.19	6	Buka Gold Ltd	13	-19.7	-0.4	95	0-0	-	-	-	1.4	NE	Nil	0.87	8	
Rubicon Europe	102	-1.0	-0.5	67	1-1	4	0.9	17	0.5	5	9.2	5.89	438	Prima Biomed	3	-19.6	-4.4	95	0-0	1.5	-	-	2.8	NE	Nil	1.32	5
Adv. Ocular	8	-17.3	+3.7	93	0-0	-	-	1.6	NE	Nil	5.86	10	<b>INSIDER SELLING: Most Insider Selling, Relative Strength &lt; 0</b>														
BioLayer Corp.	10	-18.4	-3.0	94	1-0	10.0	-	2.0	NE	Nil	5.81	5	CBH Resources	57	-4.3	-1.0	76	0-7	3	3.1	-	1.3	NE	0.9	4.04	348	
First Capital	11	-25.2	-6.7	97	3-0	1.3	-	2.4	NE	Nil	5.74	6	Cadence Capital	115	-0.2	-2.9	64	0-5	0.9	13	0.6	7	2.6	0.29	7		
Cytopia Ltd	65	-1.3	+0.9	68	5-0	3.1	-	0.9	NE	Nil	5.73	48	Global Petrol.	16	-39.1	+1.5	99	0-5	-	-	-	1.7	12	Nil	N/A	27	
Jumbuck Enter.	135	-9.9	-2.3	85	2-1	3	7.9	52	0.6	15	Nil	5.61	65	Jupiter Mines	21	-10.4	-11.0	86	1-6	-	-	-	1.1	NE	Nil	N/A	13
Apa Financial	55	-0.8	-2.7	67	7-0	3.7	-	0.8	NE	Nil	5.58	10	Commander Comm.	157	-8.3	-3.7	83	0-4	7	-	-	0.6	13	2.6	0.44	349	
Bentley Int'l	40	-2.2	-0.1	71	1-0	0.8	10	0.7	8	5.0	5.55	16	E.R.G.	16	-14.8	-6.1	91	0-2	1	1.1	-	1.0	NE	Nil	0.71	137	
Medical Monitor	11	-17.0	-1.5	93	0-0	1.8	-	1.3	NE	Nil	5.37	7	Unilife Medical	28	-0.7	-6.7	66	0-2	-	-	-	1.4	NE	Nil	N/A	36	
Mirvac REIT	136	-0.7	-0.9	66	0-0	2	1.1	13	0.3	8	7.6	5.32	853	Diatreme Res.	22	-7.3	-0.3	81	0-2	-	-	-	0.9	NE	Nil	N/A	20
Bass St Oil Coy	8	-4.6	-0.9	76	3-0	-	-	1.6	NE	Nil	5.31	10	PMP Limited	175	-0.2	-2.0	64	0-2	5	3.5	23	0.6	16	Nil	0.41	516	
Genetic Tech.	16	-26.7	-3.9	98	5-0	5.2	-	1.1	NE	Nil	5.22	56	Tow Way Ltd	16	-27.0	-1.6	98	0-2	0.9	-	-	1.0	NE	Nil	4.31	9	
Dolomatrix Intl	54	-5.0	-12.8	77	0-0	18.0	-	0.9	NE	Nil	5.17	62	Senetas Corp	14	-24.3	-1.2	97	0-2	1	3.5	51	1.5	7	Nil	2.72	64	
<b>WORST PERFORMING SHARES: Weakest Shares, P/S Ratio &gt; 0.25, Yield &lt; Twice Average</b>																											
Metabolic Phar.	14	-45.7	-0.9	99	0-0	1.7	-	1.3	NE	Nil	N/A	38	Southern Gold	35	-1.7	-10.2	70	0-2	-	-	-	1.2	NE	Nil	N/A	16	
Aust Biodiesel	7	-43.9	-4.6	99	2-0	0.4	-	1.6	NE	Nil	0.51	9	JV Global Ltd	18	-10.7	+3.2	86	1-3	-	8.8	-	0.8	NE	Nil	N/A	8	
Global Petrol.	16	-39.1	+1.5	99	0-5	-	-	1.8	12	Nil	N/A	27	Centrepoint All	76	-16.0	-1.5	92	1-3	3.8	19	0.4	21	6.6	2.75	53		
Chemex Ltd	8	-36.4	+3.1	99	0-0	-	-	1.6	NE	Nil	2.03	8	Perilya Mines	440	-1.4	-1.5	68	1-3	5	6.7	53	1.0	13	1.1	2.44	842	
Wentworth Hold.	23	-35.3	-1.9	99	8-0	-	-	0.7	NE	Nil	2.21	20	RCR Tomlinson	212	-0.7	+3.5	66	1-3	2	2.7	20	0.5	13	1.9	0.77	210	
Clinical Cell	4	-34.6	-4.4	99	0-0	0.9	-	2.5	NE	Nil	4.44	8	National Hire	158	-4.3	+1.7	76	0-1	1.5	14	0.6	11	3.5	0.81	188		
Mooter Media	20	-34.5	-10.0	99	0-1	0.8	-	1.3	NE	Nil	N/A	7	Trafalgar Corp.	236	-3.5	-2.1	73	0-1	1	0.8	10	0.4	8	11.8	3.18	164	



# "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	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers	Market Capitalisation (NZ\$ Mill.)
A.P. Eagers	1	397	Codan Ltd	5	162	Jubilee Mines	7	2,241	Record Realty	3	162
ABB Grain Ltd	3	1,273	Coffey Int'l	6	409	Jumbuck Enter.	3	65	Redflex Holding	4	271
ABC Learning	6	2,764	Coles Group Ltd	12	19,712	Just Group Ltd	10	879	Renison Cons	1	37
AED Oil Ltd	6	799	Collection Hse	1	78	K&S Corporation	7	230	Resolute Mining	1	311
AI Limited	1	20	Colorado Group	1	592	Kagara Zinc Ltd	7	1,372	Resource Pac.	2	320
AMP Ltd	11	18,830	Com'wealth Bank	16	68,869	Keycorp Ltd	2	35	Retail Food Grp	2	108
ANZ Bank	16	53,463	Commander Comm.	7	349	Kingsgate Cons.	5	456	Reverse Corp	3	468
APA Group	6	1,744	Computershare	11	6,592	Korvest Ltd	1	49	Ridley Corp.	3	338
APN News Media	10	2,656	ConnectEast Grp	4	2,002	Kresta Holdings	1	38	Rinker Group	8	16,800
APN Property	1	350	Cons Minerals	7	613	Lafayette Min.	1	26	Rio Tinto Ltd	14	42,013
ARB Corporation	4	308	Cons Rutile	2	238	Legend Corp.	1	46	Riversdale Min.	1	325
ARC Energy	3	361	Cooper Energy	1	92	Leighton Hold	8	11,868	Roc Oil Company	6	984
ASX Limited	11	4,983	Corp Express	13	1,219	Lend Lease Corp	7	7,614	Ross Human Dir.	1	49
AWB Limited	6	1,281	Count Financial	6	704	Lihir Gold Ltd	11	4,020	Rubicon Europe	4	438
AXA Asia Pac	11	12,970	Coventry Group	3	161	Lindsay Aust	1	35	Rubicon America	1	444
Abacus Property	2	1,092	Crane Group	6	985	Lipa Pharm.	2	75	SAI Global Ltd	9	524
Acrux Ltd	1	180	Credit Corp	5	475	Lycopodium Ltd	5	142	SDI Limited	3	60
Acorp Aust.	1	21	Cromwell Group	2	186	M.Y.O.B. Ltd	6	507	SMS Mgmt & Tech	10	366
Adelaide Bank	14	1,614	DB Reef Trust	7	5,548	MFS Limited	3	1,534	SP Ausnet	9	2,898
Adelaide Bright	9	1,979	DKN Financial	2	102	MacMahon Hold	7	545	SP Telecom.	2	348
Aditya Birla	6	950	DUET Group	4	1,802	Macarthur Coal	11	1,142	STW Comm Group	9	573
Aevum Ltd	1	313	DWS Adv Bus Sol	4	314	Macarthur Cook	1	74	Sally Malay Min	6	748
Ale Property	1	381	Dark Blue Sea	1	69	Macarthurcook P	1	135	Salmat Ltd	8	482
Alesco Corp Ltd	8	972	David Jones	11	2,260	Macquarie DDR	7	1,173	Santos Ltd	11	8,002
Allico Finance	5	3,195	Dexion Ltd	3	177	Macquarie AIR.	9	7,046	Schaffter Corp	2	111
Altium Limited	1	110	Dominion Mining	1	267	Macquarie C Tel	1	21	Sedgman Ltd	2	405
Alumina Ltd	12	8,991	Domino's Pizza	7	194	Macquarie Bank	10	22,645	Seek Ltd	11	2,050
Amalgamated Hld	1	799	Downer EDI Ltd	7	2,256	Macquaries C&I	4	2,504	Select harvest	4	428
Amcom Telecom.	2	85	E.R.G.	1	137	Macquarie Infra	10	9,112	Senetas Corp	1	64
Ancor Ltd	12	6,374	Emeco Holdings	7	281	Macquarie Good.	6	11,095	Servcorp Ltd	2	383
Ansell Ltd	6	1,831	Emperor Mines	1	130	Macquarie Prol.	7	1,229	Seven Network	11	2,499
Antares Energy	1	166	Energy Develop.	7	610	Macquarie C'Wde	8	2,718	Sigma Pharm.	14	2,249
Anzon Australia	4	467	Energy Resource	9	4,047	Macquarie Off.	8	3,267	Sims Group Ltd	10	3,362
Aristocrat Leis	11	7,039	Envestra	4	924	Macquarie Leis.	4	594	Sino Gold Min.	7	895
Arrow Energy	1	630	Equity Trustees	2	238	Magna Pacific	1	46	Sirtex Medical	1	190
Aspen Group Ltd	2	459	Equigold NL	4	321	Marybor'gh Suga	1	46	Skilled Group	4	523
Atlas Grp Hold.	1	93	Espreon Ltd	1	65	Matrix Metals	1	55	Smorgon Steel	9	2,421
Ausdrill Ltd	2	357	FKP Limited	5	1,388	Maxi TRANS	4	112	Sonic Health	11	4,295
Aust Infra.	6	1,179	Fairfax Media	11	4,395	McGuigan Simeon	6	263	Soul Pattinson	1	2,315
Aust Agricult.	3	649	Fantastic Hold.	8	390	McMillan Shake.	2	342	Spotless Group	6	98
Austbrokers	5	231	Felix Resources	5	976	McPherson's Ltd	4	217	St Barbara Ltd	2	410
Austereo Group	12	750	Fleetwood Corp	5	445	Melbourne IT	4	291	St George Bank	14	19,231
Aust Education	5	161	Flight Centre	5	1,719	Mermaid Marine	3	255	Staging Connect	3	137
Australand Prop	2	2,132	Fone Zone Group	1	88	Mirana Resource	8	3,628	Sthn Cross Brd.	11	1,137
Aust Pharm. Ind	1	597	Forest Ent Aust	1	258	Mincor Resource	5	911	Stockland	5	11,782
Austar United	11	2,089	Fortescue Metal	3	8,557	Mineral Deposit	2	404	Straits Res.	4	740
Aust Wealth Mgt	6	1,420	Foster's Group	10	13,008	Mirvac Ind Trt	2	392	Stuart Petrol.	1	60
Aust W'wide Exp	13	1,476	Frigrite Ltd	1	28	Mirvac REIT	2	853	Suncorp-Metway	13	11,895
Austal Limited	4	712	Funtastic Ltd	5	239	Mirvac Group	7	5,166	Sunland Group	2	917
Austindo Res	1	31	Futuris Corp.	6	1,838	Monadelphous Gr	6	1,091	SuperCheap Auto	8	493
Avexa Limited	2	170	G.R.D. NL	2	441	Mortgage Choice	5	386	Sydney Attract.	4	127
Avoca Resources	6	193	G.U.D. Holdings	8	521	Multiplex Group	7	4,187	Sydney Gas Ltd	1	135
B & B Wind Part	2	1,107	GBST Holdings	3	176	Multiplex Acum.	1	461	Symbion Health	11	2,754
B & B Env. Inv.	2	107	GPT Group	9	10,126	Murchison Metal	3	1,179	Tabcorp Holding	11	9,197
B & B Infrast.	6	2,642	GWA Internat'l	7	1,172	Nat'l Aust Bank	16	63,664	Talent2 Int'l	2	312
B&B Japan Prop.	3	776	Gale Pacific	1	22	New Hope Corp.	3	1,594	Tanamai Gold NL	2	80
BHP Billiton	14	%114,905	Gandel R. (CFS)	6	3,954	Newcrest Mining	13	7,877	Tap Oil	7	283
Babcock & Brown	5	8,436	Geodynamics Ltd	1	203	Nexus Corp.	4	92,456	Tassal Group	4	344
Bank of Q'land	15	1,902	Gindalbie Met.	3	411	Nexus Energy	3	473	Tattersall's	11	3,286
Beach Petroleum	3	782	Globe Int'l Ltd	2	114	Nick Scali Ltd	3	211	Technology One	6	335
Becton Prop Grp	4	1,095	Gloucester Coal	5	384	Noni B Limited	1	138	Telstra	13	59,105
Bemax Resources	2	231	Goodman Fielder	6	3,154	Nufarm Limited	9	2,322	Ten Network	12	1,241
Bendigo Mining	4	54	Graincorp	5	678	Oaks Hotel	3	304	Terramin Aust	1	212
Bendigo Bank	13	2,231	Grange Resource	1	199	Oakton Limited	12	482	The Reject Shop	6	329
Billabong Int'l	11	3,641	Guinness Peat	1	2,115	Oceana Gold Ltd	4	554	Timbercorp	7	575
Blackmores Ltd	2	336	Gunsns Ltd	7	1,129	Oil Search Ltd	11	4,356	Tishman Speyer	6	770
Bluescope Steel	14	7,636	HFA Holdings	3	462	Onesteel Ltd	11	3,689	Toll Holdings	11	8,509
Bolnisi Gold NL	1	802	Harvey Norman	10	5,395	Orica Ltd	11	9,295	Tox Free Sol.	2	155
Boom Logistics	9	600	Hastie Group	3	385	Origin Energy	11	6,911	Trafalgar Corp.	1	164
Boral Limited	11	5,214	Hast Div Util	2	596	Oroton Group	1	139	Transurban Grp	11	6,587
Bradken Ltd	6	1,003	Healthscope	10	1,282	Oxiana Ltd	15	4,597	TransPacific Inv	8	2,826
Brambles Ltd	10	21,322	Heartware Ltd	1	136	PCH Group	3	149	Transfield Serv	8	1,980
Bravura Sol.	6	210	Henderson Group	6	9,189	PMP Limited	5	516	Treasury Group	2	331
Brickworks Ltd	2	1,871	Highland Pac.	1	96	Pacifica Group	1	255	Trinity Group	3	500
Bunnings W/hse	5	696	Hills Indust.	4	935	Pacific Brands	11	1,786	Trust Company	1	393
C'wth Prop Off.	7	2,781	Home Bldg Soc.	1	251	Pan Australian	2	829	Tutt Bryant Grp	1	249
C.S.R. Ltd	10	2,944	Horizon Oil Ltd	1	265	Paperlin X Ltd	10	1,713	UXC Limited	2	376
CBH Resources	3	348	Housewares Int.	7	372	Peet Ltd	3	800	United Group	9	2,222
CDS Tech	1	45	Hpal Limited	3	311	Penrice Soda	1	61	Unwired Group	2	71
CPI Group	2	21	Hutchison Tel.	7	98	Peplin Ltd	2	141	VDM Group Ltd	2	175
CSL Limited	11	15,448	IBA Health Ltd	3	492	Perilya Mines	5	842	Valad Property	7	1,175
Cabcharge Ltd	12	1,470	IBT Education	5	658	Perpetual Ltd	9	3,171	Veda Advantage	6	800
Caltech Austria	10	6,952	ING Office Fund	7	1,882	Perseverance	7	186	Ventracor Ltd	1	212
Campbell Bros	4	1,443	ING Indust Trt	5	2,095	Petsec Energy	2	224	Village Road.	1	488
Candle Aust.	7	170	ING Real Estate	1	417	Pharmaxis Ltd	3	591	Virgin Blue	9	2,560
Cardno Ltd	7	284	IOOF Holdings	6	620	Photon Group	7	359	Viridis Clean E	2	135
Carindale Prop	2	343	liNet	6	252	Pipe Networks	3	130	Vision Group	5	203
Cathrx Ltd	1	72	Iluka Resources	13	1,339	Portman Limited	3	1,458	W'bool Cheese	1	173
Cellnet Group	1	47	Imdex Limited	3	202	Prime TV	9	469	WHK Group Ltd	7	572
Centro Property	9	7,129	Incitec Pivot	11	3,283	Primary Health	6	1,564	Watpac Ltd	1	430
Centennial Coal	11	950	Independ. Group	6	924	Pro Maintenance	9	409	Wattyl Ltd	8	281
Centro America	7	1,238	Indophil Res.	1	387	Pro Medicus Ltd	2	140	Wellcom Group	3	121
Centro Retail	6	1,711	Infomedia Ltd	1	212	Publishing & Br	11	13,115	Wesfarmers Ltd	11	14,505
Centrebet Int'l	2	145	Insurance Aust.	12	9,522	Q.B.E. Insur.	12	25,308	Westfield Group	9	37,482
Chal Financial	11	3,051	Int Research	2	76	QNT Technologies	1	142	Western Areas	5	779
Chal Infra Fund	3	312	Integrated Grp	1	189	Qantas Airways	12	11,144	West Aust News	12	2,982
Chandler McLeod	1	153	Investa Prop.	7	4,607	Queens'd Cotton	1	167	Westpac Banking	16	47,616
Clive Peeters	3	399	Invocare Ltd	9	559	Queensland Gas	2	1,161	Willmott Forest	2	99
Clough Limited	2	265	Iress Mkt Tech	10	949	RCR Tomlinson	2	210	Woodside Petrol	14	28,900
Coal & Allied	2	6,495	JB Hi-Fi Ltd	13	1,026	Ramsay Health	10	1,938	Woodworths Ltd	11	32,530
Coates Hire	14	1,461	Jabiru Metals	5	451	Realestate.com	2	761	Worley Group	8	6,606
CocaCola Amatil	10	6,765	James Hardie	9	4,292	Reckon Limited	4	162	Wotif.com Hold.	8	1,057
Cochlear Ltd	10	3,278						Zinifex Ltd	13	8,710	

# “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 Onyx Mgmt	4	601	Fletcher Build.	5	5,868	Nuplex Indust	4	545	Skellerup Hold.	4	104
Abano Health.	1	77	Freightways Ltd	5	552	PGG Wrightsons	5	478	Sky City Ltd	9	2,129
Air New Zealand	5	3,061	Guinness Peat	3	2,553	POD Ltd	1	22	Sky Network TV	5	2,171
Akd Int Airport	5	3,234	Hallenstein G.	5	295	Port Tauranga	7	918	Software of Exc	1	69
Allied Work.	1	33	Hellaby Hold.	2	188	Postie Plus Grp	1	32	South Port NZ	1	60
Briscoe Group	4	371	Horizon Energy	1	92	Property F Ind.	5	307	Steel & Tube	5	405
Cabletalk Group	1	14	ING Property	2	666	Provenco Group	2	83	TeamTalk Ltd	1	52
Calan Hlthcare	4	179	Infratil NZ	2	1,450	Pumpkin Patch	6	633	Telecom Corp	10	9,040
CanWest Media.	4	521	Kiwi Property	4	1,135	Rakon Ltd	2	619	Tenon Ltd	3	181
Cavalier Corp	4	210	Lytelton Port	4	230	Renaissance	1	36	Tourism Hold.	4	270
Comvita	1	69	MG Property Trt	4	924	Restaurant Brds	3	85	Tower Limited	5	466
Contact Energy	5	5,011	Mainfreight Grp	5	710	Rubicon Limited	2	252	Trust Power Ltd	3	2,585
Delegat's Group	4	249	Methven Limited	2	118	Ryman Health.	4	1,210	Turners & Grow.	1	214
Ebos Group Ltd	1	195	Michael Hill	3	365	Sanford Limited	4	431	Turners Auction	2	29
F & P Health.	5	1,728	NZ Exchange Ltd	2	263	Scott Tech. Ltd	1	54	Vector Ltd	5	2,780
F & P Appliance	5	1,069	NZ Refining Co	2	1,728	Seeka Kiwifruit	1	52	Wakefield Hlth	1	113
			Nat Property Tr	4	93				Warehouse Group	6	1,848

## Company Analysis: Australian listed CPT Global

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

### CPT Global (code CGO).

CPT Global is a small Australian based IT consulting group helping large Australian and international customers reduce the cost of using mainframe computers. Revenues and profits have been relatively steady over the last six years but the company has developed its business model, expanded its Intellectual Property and entered some important joint ventures to market its services. CPT Global is now seeking to expand its revenues four-fold over the next five years (i.e. by over 30% per annum compounded) with even greater growth in profits and dividends.

Unfortunately, CPT Global is a very small company and its shares are not actively traded. So we cannot formally recommend these shares, but investors *could* consider a small investment in the company if the shares are available on the market.

### Company History

The business was established in 1993 and listed in late 2000 after an Initial Public Offering of 5,987,951 shares (18.1% of the company) at \$1.00 per share to raise funds for expansion.

### Recent Results

The company grew rapidly through to the year ended June 2001 (i.e. during the Technology boom) but results

have since been relatively flat.

For the year to June 2006, revenues rose 7.4% to \$31.1 million although profits fell 11.0% to \$2,053,000 (6.0 cents per share) but the annual dividend rate was raised 9.1% to 6.0 cents.

For the six months to December 2006, revenues rose 15.3% to \$18.7 million while profits were up 16.5% to \$1,280,000 (3.7 cents per share) while the interim dividend was raised 18.2% to 3.25 cents.

### Current Business and Growth Potential

CPT Global is an independent IT consultant offering its services worldwide, mainly to very large corporations (i.e. banks and telecommunications companies) and government organisations using mainframe computers. The company's clients operate about 1% of the world's mainframe computers, so the potential to grow its market share is enormous. To supplement its own direct sales, CPT Global entered marketing alliances with **Macro 4 plc** and **Tori Global** in November 2006. Macro 4 is a global vendor of systems software and document management systems with over 1000 clients worldwide using mainframe computers. Tori Global is a management consultancy business focusing upon large financial services companies in North America and Europe. At present the company is engaged in a

“substantial” alliance project in Europe and a smaller project in the United States. The company reports that “a number” of alliance projects will commence this month and others are being evaluated by clients to commence in the second half of the 2007 calendar year.

In recent years, CPT Global has developed a “*Risk/Return*” service for clients where CPT Global investigates a client's IT environment at its own expense or on a small retainer and then shares in a percentage of future cost savings that it can generate for the client. This “success fee” business incurs expenses (or low profit margins) initially but then generates recurring revenue streams with increasing profit margins over the period of the contract. So these contracts build in future profit growth potential for the company.

Repeat work for new international clients also incurs “much lower costs than the original engagements” so as the company builds its customer base and reputation, profit margins will increase.

CPT Global now aims to increase revenues to \$120 million over the next five years (i.e. to 2011). That is an annual compound growth rate of over 30% per annum. International revenues are expected to increase from around 23% of total revenues at present to over 50% and - most importantly - the company expects to maintain its 2½ times higher margins on international business. That would result in a five-fold increase (i.e. about 40% p.a.) growth in profits!! Profit margins are higher on international business owing to the higher labour costs overseas (i.e. and therefore higher contract rates for work), although work can be conducted both locally with clients (i.e. offshore) or from Australia via virtual private networks.

The company claims a Research & Development “break through” that will allow the performance tuning tools used on mainframe computers be applied to a much larger potential corporate market using SAP mid-range systems. This is currently being trialed with German and Australian clients.

There is some concentration of business, with the top 10 clients currently generating 80% of revenues - but that percentage should decline (and reduce risk) as the business expands.

#### **Investment Criteria**

At 94 cents, CPT Global shares trade on a Price/Sales ratio of 1.03, a Price/Earnings ratio of 16 and offer a Dividend Yield of 6.4%. That would be a fairly low valuation for a company with little growth potential (i.e. CPT Global's performance over the last five years), but extremely good value for a company that now expects to grow rapidly in the years ahead.

The business is not capital intensive. So CPT Global will not dilute earnings per share by needing to issue new shares to finance growth. The company should also be able to continue to distribute most of its profits, providing investors with a high income yield. Any future growth in profits should flow straight through to growth in dividends and appreciation in the share price.

The issued capital is 34,155,583 shares, giving the company a market capitalisation of just \$32 million. This is a very small Australian listed company. CPT Global is not included in any share index, so NZ investors will be taxed based upon the “fair dividend” rate of 5% (on years when their portfolio shows a positive total return), not the higher actual dividend yield of 6.4%.

The directors own a few shares in this company. Founder and Managing Director G Tuddenham owns 11,474,635 shares or 33.6% of the company. Chairman FS Grimwade has 708,200 shares (2.1%), Executive Director P Wright has 164,500 shares and Non-Executive Director I MacDonald has 330,000 shares.

There has been one *insider* buy on-market over the last year - when I MacDonald bought 130,000 shares on-market at 72 cents in October 2006.

The shares are relatively *neglected* by institutional investors, although three funds own about 20% of the company. The shares are totally *neglected* by stockbrokers (i.e. none publish profit forecasts).

The shares *doubled* in value in late 2006, peaking at 122 cents in February and have since eased back to trade around 88-105 cents. The Relative Strength rating is +1.2%, ranked 56, so the shares are probably best described as “drifting sideways” at the present time.

#### **Summary and Recommendation**

Smaller company shares can involve higher than normal risk - so an investment in these shares must be part of a diversified portfolio to minimise individual company risk. CPT Global appears to have a competitive advantage which should allow it to steadily expand and gain market share. It seeks to build long term relationships with customers, recurring revenue streams and improving profit margins. Plans to increase revenues four-fold, and profits five-fold, over the next five years look ambitious but could be achievable. If so, CPT Global shares would offer strong capital appreciation and strong income growth in addition to their current high income yield.

The only negative factor is that the shares are too inactively traded for us to be able to consider them as a formal “Buy” recommendation. Nevertheless, investors with well diversified share portfolios, seeking long term capital growth, could well consider purchasing a few shares in this micro-cap niche business - when shares become available on-market.

**CPT Global**



# Company Analysis: Australian listed ITL Ltd

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

## ITL Limited (code ITD)

ITL is an emerging growth company manufacturing medical supplies. The company invests heavily in Research & Development to expand its product range and as a result its revenues and profits have grown strongly over the last two years, although the shares still trade at a low valuation. The company is currently seeking to significantly increase its manufacturing capacity in Australia and Malaysia - but has suffered delays in commissioning new facilities in Australia, resulting in a sharp decline in profits for the current half year. As a result of these short term problems, the share price has dipped significantly over recent months. *If* the company recovers from this growth glitch - and achieves its long term growth forecasts - then the shares *could* increase many-fold in value over the next several years. The shares, however, will likely remain depressed over the next 3-6 months.

We briefly reviewed ITL in October 2005, when the shares traded around 23 cents, owing to high *insider* buying.

### Company History

The business was established in 1994 to produce blood collection equipment. In late 2003 the company offered 50,000,000 shares to the public at 50 cents to raise \$25 million and listed on the Australian stockmarket. This money was raised to purchase **Surgicare** - a company established in 1978 which manufactured procedure kits for operating theatres - for \$8.9 million and to finance new product development and expansion.

In January 2006 the company acquired **Heal Marketing**, which distributes surgical and critical care products to Malaysian hospitals, for \$2.4 million.

In November 2006 the Australian manufacturing was moved to a new facility at Chelsea Heights, Melbourne. This *tripled* its cleanroom manufacturing capacity. ITL had also experienced production limitation owing to the use of third party sterilisation, but planned to install its own 35m<sup>3</sup> Ethylene Oxide steriliser in March. Delays with this steriliser have resulted in production constraints, with commissioning now described as "imminent".

ITL has been manufacturing in Malaysia since March 2000 but has acquired 63,000m<sup>2</sup> of land where it is currently building a new, enlarged factory.

### Recent Results

After its Initial Public Offering in late 2003 the shares rose to a peak of 72 cents in early 2004. Unfortunately, the merger and integration of Surgicare did not proceed smoothly and ITL significantly *under-performed* its prospectus forecasts. Revenues for the year to June

2004 increased 100.6% to \$17.6 million but the company recorded a *loss* of \$2,032,501 (*minus* 2.0 cents per share) and no dividend was paid. The prospectus had forecast profits of \$5.0 million and a 1.0 cent dividend. By early 2005 the share price had fallen 82% to a low of 13 cents!

ITL sought to restructure but while revenues grew 37.4% to \$24.2 million in the year to June 2005 the company still made a small loss of \$139,043 (*minus* 0.1 cent per share). There was a small operating cash surplus of \$0.5 million.

For the year to June 2006, revenues rose 29.2% to \$31.3 million and the company earned a profit of \$3,257,385 (3.2 cents per share). A maiden dividend of 1.0 cent was paid. The net operating cash surplus was a healthy \$5.1 million. This profit was after expensing \$2.78 million of new product development (i.e. these costs were not capitalised to boost reported profits).

For the six months to December 2006 the business continued to grow. Revenues were up 52.0% to \$20.3 million while profits rose 109.1% to \$1,892,999 (1.8 cents per share). An interim dividend of 0.5 cent was paid. The cash surplus from operations was \$1.4 million.

The second half year, however, has been "adversely affected by capacity problems at its third party sterilisation contractor". This production problem has resulted in a "flat" second half with the company performing at little better than break-even. ITL intended to commission its own sterilisation facility in March but this has been delayed and now expected this month. As a result of these problems, ITL is now predicting that its current full year result to June 30 will show revenues only 9-12% higher at \$34-35 million and net profits 32-42% *lower* at \$1.9-2.2 million (with fully diluted earnings per share 44-53% lower at 1.5-1.8 cents).

### Growth Strategy and Forecasts

ITL seeks to expand its business through organic growth, new product development and acquisitions. Over the next four years (i.e. to June 2011) the company is seeking to grow revenues to \$100 million and profits to \$10 million.

Achieving those forecasts would see revenues and profits growing at over 25% per annum over the next several years. That would result in significant growth in Shareholders wealth *provided that growth is not diluted through new share issues.*

Historically, ITL has not issued new shares to finance growth, but did place 16.0 million shares at 52 cents in April 2007 to raise \$8,320,000. This increases the issued capital around 16%.

The new equity will help finance the new

manufacturing facilities in Malaysia. Large future dilutive capital raisings are unlikely as after the current expansion ITL will have surplus manufacturing capacity to meet future growth and the company is in a strong financial position to finance future growth internally from its strong cashflows or from borrowings. Interest bearing debts (at December 2006) were only \$4.27 million compared with Shareholders Equity of \$30.9 million (which has since increased to around \$39 million).

#### **Investment Criteria**

At 35 cents, ITL shares trade on a historical Price/Sales ratio of 1.13, a Price/Earnings ratio of 11 and a Dividend Yield of 2.9%. *This year's forecast result will improve the P/S ratio to around 1.00 but the drop in profits (and increased capital) will raise the P/E to 19-23.*

All of those statistics offer exceptional value if the company can achieve a future growth rate of 25% per annum over the foreseeable future! On the other hand, the company *failed* with its acquisition of Surgicare in 2004 and has recently failed to commission an essential sterilisation facility in a timely manner. Rapid growth involves many risks which can result in a company failing to achieve its potential.

The Price/Research ratio is 12.6. That is a reasonable valuation, but some of our best growth share investments have been purchased on Price/Research ratios of 5-10.

The issued capital (following the recent share placement) is 123,211,972 shares - giving the company a market capitalisation of just \$35 million. This makes ITL a *smaller* listed Australian company which is not included in any share index.

Director and Chief Executive Bill Mobbs is the largest shareholder with 22,335,000 shares or 18.1% of the company. The Chairman Julian Grosse has 300,000 shares, non-executive director R England owns 571,272 shares and non-executive director R Rose has 584,344 shares.

There have been three *insider* buys (and no sells) over the last year. R Rose bought 150,000 shares on-market at 37½ cents in August 2006 and 20,000 shares on-market at 53 cents in March 2007. R England bought 147,500 shares at prices around 49-52 cents in January 2007.

Until recently there were no significant institutional investors in ITL, but **Thorney Holdings** has emerged with 9,505,000 shares (7.71% of the company) following the recent share placement. ITL, however, is still *neglected* by institutional investors - and *neglected* shares tend to be under-valued and offer higher *future* returns.

ITL shares can also be considered *neglected* by stockbrokers as only two firms follow the company closely enough to issue profit forecasts. While we are sceptical of brokers forecasts - the brokers are expecting profits to rise 19-25% for the current financial year (but obviously subject to review after last weeks profit

warning) and 34-55% for the year to June 2008.

Technically ITL shares were in a two year uptrend from early 2005 until January - or even May - this year. Now the situation is less certain. The Relative Strength rating is still *positive* at +2.6%, ranked 51 (on a scale of 0-99), but falling rapidly owing to the recent sharp decline in the share price. The Relative Strength rating will likely turn *negative* within the next month or so.

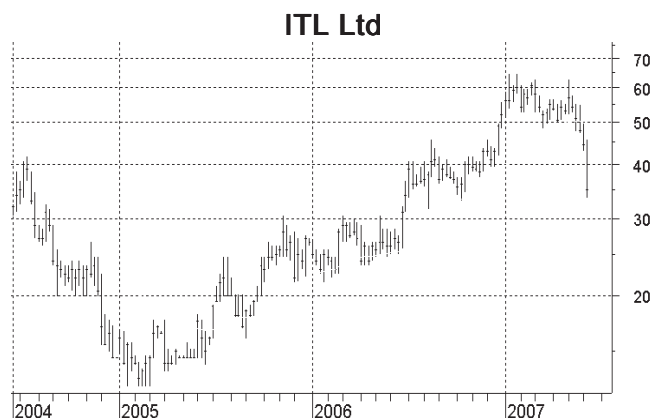
*If* the company announcements are positive in the future, then the shares will likely start to recover, although probably only slowly over the next six months. The fall in profits this year makes increasing the dividend unlikely and financing growth more difficult. Any *negative* news could see the share price marked down lower. For example, short term investors who bought into ITL in the April placement at 52 cents may decide to quit their holding and cut their losses, which would place further pressure on the share price in the immediate future. The company has a reasonably strong balance sheet and relatively low debt, so there is little risk of the company failing in the near future, even if it experienced further problems.

#### **Summary and Recommendation**

ITL appears to hold strong growth potential over many years - but rapid growth involves higher than average risks. One critical expansion glitch has destroyed the company's profitability for the current half year period. From a different perspective, the glitch has also lowered the share price, so if the company can get its expansion back on track then this *may* lead to an attractive buying opportunity for investors in the near future.

There are, however, investment risks involved in buying shares which are falling in price. Some just never recover, but even when they do, picking the bottom of the decline is never easy. Usually it is better to wait and seek to buy in the early stages of the recovery. To *help* with this *timing* of investment purchases our *Comprehensive Share Selection* criteria requires shares have a *positive* Relative Strength rating.

ITL is a *potential* "recovery and growth" share which justifies watching closely over the next 3-9 months with a view to making an investment .



## Investment Outlook

(Continued from Page 1)

Please note that we are suggesting that lower interest rates could reverse the inflow of foreign debt capital and cut off the easy credit to consumers. Consumers would like to borrow more at the lower interest rates but the supply of credit would be restricted and therefore rationed to more credit-worthy borrowers. Banks would be reluctant to re-mortgage houses to facilitate “equity withdraws”. Retailers would be less able to offer easy credit terms.

This foreign debt financed consumer spending boom is clearly not sustainable - but has been going on for a long time and may continue for many years more. Welfare that helps beneficiaries with problem debts - or targets assistance to the biggest consumers - *may* have some social value, but perpetuates and worsens the economic imbalances. Meanwhile the productive, tax paying sector of the NZ economy is eroded - reducing the country's future wealth and government policy options.

What does this mean for the investor? Firstly, like all booms it is very difficult to pick where it will end and when the situation will reverse. Secondly, the end and reversal *may* happen extremely suddenly. Therefore, investors need to start positioning their portfolios to anticipate the eventual rebalancing of the economy.

The change in the economic situation may be triggered by some unexpected “shock”. Government policies and high interest rates attracting foreign capital should be able to sustain the consumer spending boom for some time. Nevertheless, a shock to either the NZ economy (e.g. a collapse in export prices, or disruption to exports owing to a natural disaster, drought, disease, etc) or a global shock (e.g. an oil shortage, bird flu, etc) could suddenly end the inflow of foreign capital. Or eventually debt servicing costs will grow sufficiently to stop the flow of new foreign capital. Or a decline in the productive sector and a drop in tax receipts may lower the government's ability to underwrite high levels of consumer spending. Whatever the future holds it will likely be unwise to hold only NZ investments (and that would also apply to the many people who hold only NZ property investments). Investors need to diversify overseas - to Australia and beyond.

Secondly, the high exchange rate is not sustainable - but inflated by the current high interest rates and capital inflows. Of course, part of the apparent rise in the NZ dollar is caused by the depreciation of the US dollar (which is finally reacting to that country's low savings rate and excess consumer spending). The US dollar will

likely continue to weaken (with some volatility along the way) so is not a particularly attractive currency into which one can diversify and hedge against future weakness of the NZ dollar. The UK, European and Asian economies are all performing well, so these stockmarkets would be attractive investments and provide good currency diversification. Japan is a potential counter-cyclical investment. The economy, stockmarket and currency are depressed - so there is potential for recovery at some stage. The Japanese Yen is depressed for exactly the opposite reason that the NZ dollar is inflated. Japanese interest rates are low. The economy and stockmarket are depressed as Japanese consumers are not spending - partly owing to fears of unemployment and loss of income, but this situation should improve as the economy is slowly recovering. Fortunately, the high value of the NZ dollar makes it a good time to move some of your capital overseas - or to divert future cashflow and savings to increase overseas investments.

There is a strong case for investors to reduce exposure to NZ based investments and exposure to investments valued in NZ dollars and to ensure that portfolios have adequate Australian and international diversification. Older investors - seeking current income - could hold around 40-60% of their portfolio in NZ, 30-50% in Australia and 0-20% internationally. Younger investors - with longer term investment horizons - could have 20-30% in NZ, 40-60% in Australia and 20-30% internationally.

Higher interest rates have lowered our One-Year Forecast for the New Zealand stockmarket to a Neutral 51%, while the short term forecast is slightly Bearish (i.e. unfavourable) at 39%.

Australia has similar rising interest rates but a stronger economy not driven solely by a consumer spending boom. Our One-Year Forecast for the Australian stockmarket is slightly Bullish (i.e. favourable) at 62% and a Neutral 53% in the short term.

### NZ Dollar Exchange Rate (vs. US Dollar)



# Dividend \$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Allied Workforce	3.00	09-07	23-07	Full
CanWest MediaWorks	10.00	05-06	08-06	Full
Dorchester Pacific	4.25	15-06	29-06	Full
Finzsoft Solutions	3.00	11-06	14-06	Full
F & P Appliances	9.00	08-06	15-06	Full
F & P Healthcare	7.00	20-06	29-06	Full
Horizon Energy	9.00	22-06	29-06	Full
ING Property	2.01	15-06	22-06	0.99
Infratil	7.50	07-06	18-06	Full
Jason Travel Media	1.50	20-07	02-08	Full
Kingfish	3.50	05-06	15-06	Full
Kiwi Income Properties	4.00	01-06	15-06	0.85
Mainfreight Grp	8.00	13-07	20-07	Full
MG Property	2.50	01-06	15-06	0.75
Methven	5.69	21-06	29-06	Full
Mr Chips Holdings	4.00	30-07	03-08	Full
Mowbray Collectibles	2.50	27-07	03-08	Full
Ryman Healthcare	2.20	08-06	22-06	Nil
Sanford	9.00	11-06	20-06	Full
Seeka Kiwifruit	10.00	15-06	20-06	Full
Southern Travel	3.00	13-06	15-06	Full
Wakefield Healthcare	10.00	18-06	25-06	Full
Zintel Communications	1.00	15-06	29-06	Full
<b>Australian Shares</b>				
Campbell Brothers	42.00	06-06	02-07	
TFS Corporation	0.90	01-06	21-06	

# Current Issues

## BONUS ISSUES

	Ratio	Ex-Date
Infratil (1)	1:10	07-06

1. After the share split, Infratil will distribute bonus warrants to its shareholders and existing warrant holders. The new warrants can be exercised at 425 cents until 29/06/2012.

## SHARE SPLIT

	Ratio	Ex-Date
Infratil	2:1	07-06

## SHARE CONSOLIDATIONS

	Ratio	Ex-Date
Lombard Group	1:100	-

### Total Return Index for All Listed Shares

May 14	2663.02	May 21	2675.57
May 15	2672.77	May 22	2678.07
May 16	2673.93	May 23	2685.80
May 17	2675.59	May 24	2685.06
May 18	2672.55	May 25	2677.88
May 28	2676.15	Jun 4	Holiday
May 29	2676.13	Jun 5	2674.89
May 30	2678.34	Jun 6	2661.32
May 31	2676.51	Jun 7	2650.59
Jun 1	2693.03	Jun 8	2624.97

## Next Issue:

The next issue of *Market Analysis* will be emailed in four weeks time on Monday July 9, 2007.

The print version will be delivered later that week, depending upon printing and postal delivery times.

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