

# Market Analysis

Issue No. 447

www.stockmarket.co.nz

September 14, 2009

## Inside Market Analysis

Recommended Portfolio soars on market recovery ..... 1, 16  
 Taylors Group receives low Takeover Offer ..... 5

Mercury Mobility to merge with unlisted m.Net ..... 9  
 TFS Corporation to "accelerate" growth ..... 11  
 Neglect Ratings ..... 14, 15

Founder: James R Cornell (B.Com.)

## Summary and Recommended Investment Strategy.

Stockmarkets are recovering and our *Recommended Portfolio* is performing extremely well! Why change a winning strategy? These shares remain at very low valuations and have good long term growth potential, so remain fully invested.

## Investment Outlook.

Interests associated with this newsletter have seen their Australian share portfolios recover to *close* to peak values of mid-2007. New Zealand and International investments have also recovered over the last six months, but remain further below earlier peaks. Fortunately, we had around 70% invested in Australia and just 15% in both NZ and international investments. Several subscribers report similar results.

Obviously, our portfolios have significantly outperformed the general stockmarket over the last two years. The Australian index has performed best, but has recovered only about 50% of the previous decline (see the charts on the right of this page). The sceptics will say we have just been lucky . . . and that our luck "might be about to run out soon" . . . but they have been saying that for 28 years!

We, of course, like to think that it is our consistent approach to investing through good and bad times, the use of proven share selection techniques, sensible and intelligent analysis and our focus upon the medium to long term that has built our successful track record of stockmarket investment - and built our personal wealth in the stockmarket.

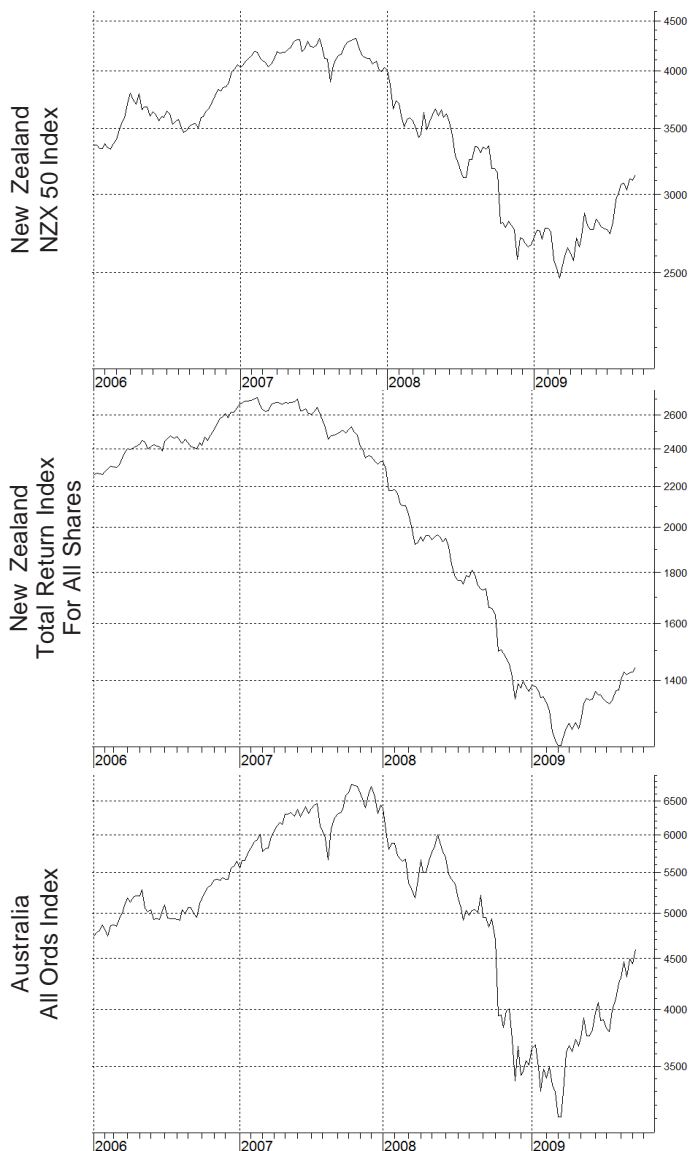
We believe that stockmarket fluctuations - either up or down - will generate opportunities for investors to build long term wealth. Rather than obsessing on how many tens of thousands (or millions) of dollars that your portfolio has gone up or down in a fluctuation - and becoming manic-depressive with all the other investors - we suggest you focus upon the relative *value* and *future potential* of existing share investments and other listed shares (i.e. potential investments).

In the recent decline, for example, we sold off a few non-performing shares but more importantly realised significant quantities of cash from the sale of Centennial Coal (up 9½-fold) and Computershare (up 5-fold) which were looking fully-valued. That gave us the cash needed to take advantage of the opportunity to buy severely under-valued, high quality growth companies at attractive prices. Even when we recommended new shares too early and too high (i.e. CPT Global at 88

(Continued on Page 16)

### Stockmarket Forecasts

	One-Month	One-Year
Australia:	92% (Bullish)	74% (Bullish)
New Zealand:	81% (Bullish)	76% (Bullish)



# 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
AMP Limited	B	800	4.71	23	5.6	Jasons Media	C	65	0.94	13	3.4	Pumpkin Patch	A	195	0.89	12	6.9
AMP Onyx Mgmt	D	84	6.27	NE	8.2	Just Water Int.	C	40	0.97	69	13.4	Pyne Gould Corp	A	109	0.54	NE	6.6
Abano Health	A	667	0.83	16	4.7	Kermaced Prop.	D	50	2.96	NE	10.0	Rakon Ltd	C	135	1.24	38	Nil
Affco Holdings	E	39	0.21	NE	Nil	Kirkcaldie & St	B	95	N/A	NE	4.7	Renaissance	C	29	0.07	4	15.4
Air New Zealand	E	125	0.29	63	7.4	Kiwi Property	D	225	0.50	20	6.6	Restaurant Brds	C	100	0.31	12	10.4
Akd Int Airport	E	181	6.01	53	6.5	Life Pharmacy	D	102	4.36	NE	8.9	Rubicon Limited	C	110	0.55	NE	Nil
Allied Farmers	E	30	0.10	NE	Nil	Lion Nathan Ltd	B	54	5.03	NE	Nil	Ryman Health	C	188	N/A	14	2.3
Allied Work.	D	85	0.29	10	11.4	Livestock Imp.	B	1467	3.75	31	2.7	Salvus Strat.	A	80	1.86	2	10.3
Apple Fields	B	5.0	1.48	3	Nil	Lombard Group	B	190	0.42	3	32.9	Sanford Limited	D	500	1.27	24	6.6
Barramundi Ltd	B	67	N/A	NE	2.6	Lyttelton Port	C	6.1	0.80	NE	Nil	Satara Co-op	D	64	0.17	5	Nil
Blis Technology	E	8.5	N/A	NE	Nil	Mainfreight Grp	B	246	2.98	25	2.8	Savoy Equities	C	1.5	N/A	NE	Nil
Botry-Zen Ltd	E	2.0	N/A	NE	Nil	Marlin Global	B	513	0.40	14	5.4	Scott Tech. Ltd	A	117	0.99	10	11.5
Briscoe Group	E	118	0.64	22	5.7	Media Tech.	E	80	N/A	13	3.6	Sealegs Corp	C	24	1.63	NE	Nil
Broadway Ind	D	30	0.39	NE	Nil	Methven Limited	A	2.0	0.31	2	Nil	Seeka Kiwifruit	B	275	0.32	9	6.5
Burger Fuel	B	27	3.03	NE	Nil	Metro. LifeCare	D	159	0.77	11	11.0	Skellerup Hold.	C	66	0.49	10	5.4
CDL Investments	E	128	N/A	41	Nil	Michael Hill	C	205	4.29	NE	Nil	Sky City Ltd	C	328	2.25	16	6.8
CER Group Ltd	E	1.2	0.63	NE	Nil	Mid-Cap Index	C	75	0.69	16	3.9	Sky Network TV	C	475	2.67	21	4.2
Canty Bldg Soc.	C	325	1.07	20	3.7	Millennium & C.	C	215	N/A	NE	Nil	Smartpay NZ Ltd	B	4.0	0.30	NE	Nil
Cavalier Corp	A	247	0.67	12	8.7	Mowbray Collect	E	38	1.07	7	4.7	Smiths City	D	33	0.08	17	6.1
Cavotec MSL	D	302	0.65	10	Nil	NZ Experience	E	99	2.64	NE	Nil	Sol. Dynamics	C	35	0.30	NE	Nil
Charlie's Group	D	7.8	0.73	NE	Nil	NZ Exchange Ltd	E	27	1.13	11	11.9	South Port NZ	A	280	3.76	22	5.2
Col Motor Co	B	240	0.14	13	8.9	NZ Finance Hold	E	785	6.55	21	4.0	Speirs Group	C	46	0.11	NE	Nil
Comvita	B	119	0.47	44	Nil	NZ Farming Sys.	E	25	0.49	NE	Nil	Steel & Tube	B	355	0.65	12	7.6
Connexion	D	12	0.80	NE	Nil	NZ Oil & Gas *	N/R	45	4.49	NE	Nil	Sthn Travel	C	20	0.09	5	22.4
Contact Energy	C	606	1.30	30	6.6	NZ Refining Co	C	161	4.50	12	4.4	Tag Pacific Ltd	D	20	0.13	9	4.7
Cynotech Hold.	D	14	0.84	6	13.3	NZ Wine Company	A	490	2.96	9	13.7	Taylor's Grp Ltd	A	212	0.73	12	8.8
Delegat's Group	B	230	1.01	8	5.0	NZ Windfarms	D	225	1.56	15	2.5	TeamTalk Ltd	B	210	1.39	11	13.6
Dominion Fin.	C	1.0	0.01	0149	3.7	NZ Wool Service	D	64	N/A	NE	Nil	Telecom Corp	B	272	0.90	13	8.8
Dorchester Pac	E	16	0.24	NE	Nil	NZSX 50 Port.	C	27	0.13	13	Nil	Tenon Ltd	C	87	0.12	NE	Nil
Eastern Hi-Fi	E	8.0	0.08	NE	Nil	NZX Aust MidCapC	C	86	N/A	NE	Nil	Tourism Hold.	E	59	0.34	NE	Nil
Ebos Group Ltd	A	606	0.22	15	5.9	Nat Property Tr	C	128	N/A	NE	Nil	Tower Limited	E	161	0.63	9	5.6
F & P Health.	C	337	3.74	28	5.5	New Image Group	B	510	N/A	NE	Nil	Training Sol.	E	0.1	5.00	NE	Nil
F & P Appliance	C	78	0.24	NE	Nil	Northland Port	B	49	2.85	NE	10.2	Trust Power Ltd	C	750	3.01	23	6.6
Finsoft Sol'ns	D	16	0.17	NE	Nil	Nuplex Indust	C	75	1.78	11	2.9	Turners & Grow.	C	152	0.27	12	9.8
Fletcher Build.	B	795	0.68	14	5.9	Opus Int'l Cons	D	195	N/A	30	4.0	Turners Auction	B	110	0.39	27	3.9
Freightways Ltd	B	318	1.40	14	7.4	Oyster Bay	C	236	0.30	27	2.1	VTL Group Ltd	D	1.5	0.01	0	Nil
Genesis Res.	D	9.0	2.04	NE	Nil	Ozzy (Tortis)	C	164	N/A	NE	Nil	Vector Ltd	C	200	1.70	11	9.8
Goodman Prop.	C	98	6.39	NE	10.6	Pac Edge Bio.	C	240	1.83	14	4.2	WN Drive Tech.	E	9.9	2.92	NE	Nil
Guinness Peat	C	80	0.36	NE	3.1	PGG Wrightsons	C	332	N/A	NE	Nil	Wakefield Hlth	B	910	1.50	13	4.1
GuocoLeisure	B	48	1.06	6	3.3	Pike River Coal	E	71	0.18	NE	Nil	Warehouse GroupB	B	425	0.75	11	6.1
Hallenstein G.	A	298	0.89	17	5.4	Pike SMS Hold.	D	18	N/A	NE	Nil	Widespread Port*/N/R	B	18	N/A	N/A	Nil
Hellaby Hold.	A	159	0.17	15	5.4	Port Tauranga	D	95	0.36	NE	Nil	Windflow Tech.	E	125	3.08	NE	Nil
Heritage Gold *	N/R	2.2	N/A	NE	Nil	Postie Plus Grp	D	667	6.22	20	5.8	Wool Equities	D	8.9	0.10	NE	Nil
Horizon Energy	C	295	2.43	14	8.6	Propertyfinance	D	38	0.12	NE	Nil	World Index Fd	D	106	N/A	NE	Nil
ING Property	C	77	3.79	NE	10.4	Property F Ind.	D	10	7.46	NE	6.3	Xero Ltd	C	134	N/A	NE	Nil
ING Med. Prop.	D	119	3.00	NE	7.1	ProvencoCadmus D	D	114	0.26	NE	Nil	Zintel Comm.	A	28	0.36	6	16.0
Infratil NZ	D	167	0.50	NE	5.6			3.5	0.04	NE	Nil	<b>Ave of 142 Cos</b>	C	171	0.00	6	5.4
Inv Research Gr	D	2.4	0.92	NE	Nil												
ABB Grain Ltd	A	935	0.72	33	2.2	Dexus Property	D	74	4.47	NE	9.9	OM Holdings	A	180	1.50	7	3.6
AGL Energy Ltd	B	1349	1.02	8	4.0	Djerriwarrh	C	418	N/A	NE	6.2	OZ Minerals Ltd	C	112	3.98	NE	4.5
AMP Ltd	B	640	4.43	22	5.9	Downer EDI Ltd	A	828	0.47	14	3.5	Oil Search Ltd	B	655	6.43	22	1.7
ANZ Bank	A	2268	1.13	14	6.0	East'n Star Gas	C	101	N/A	NE	Nil	Onesteel Ltd	B	332	0.61	19	3.0
APA Group	A	303	1.59	19	3.9	Emeco Holdings	A	89	1.06	42	4.5	Orica Ltd	B	2335	1.28	16	3.8
APN NewsMedia	B	200	0.82	NE	11.3	Energy Resource	B	2631	9.96	23	1.1	Origin Energy	B	1505	1.63	25	3.3
ASX Limited	A	3330	6.82	18	5.0	Energy World	D	53	6.94	NE	Nil	Pacific Brands	B	112	0.52	NE	7.6
AXA Asia Pac	B	417	1.18	NE	4.4	Envestra	B	52	1.73	2	14.1	Paladin Energy	D	457	N/A	NE	Nil
Abacus Property	C	40	4.31	NE	19.6	EquinoxMin.	D	327	N/A	NE	Nil	Panaust Ltd	D	48	4.82	NE	Nil
Adelaide Bright	B	268	1.45	12	5.6	Extract Res.	C	1039	N/A	NE	Nil	Panoramic Res.	C	254	N/A	NE	Nil
Alumina Ltd	B	167	N/A	12	7.2	Fairfax Media	C	165	1.49	NE	1.2	Peet Ltd	B	178	2.96	17	3.9
Amalgamated Hld	A	546	1.00	10	5.9	Flight Resources	A	1760	4.58	13	3.0	Perpetual Ltd	B	3943	4.47	44	2.5
Ancor Ltd	B	561	0.53	24	6.1	Flight Centre	B	1362	0.79	36	0.7	Pharmaxis Ltd	C	245	N/A	NE	Nil
Andean Res.	C	245	N/A	NE	Nil	Fortescue Metal	B	425	5.79	21	Nil	Platinum Asset	A	549	N/A	24	3.6
Aneka Tambang	C	102	N/A	NE	11.8	Foster's Group	B	562	2.31	25	4.9	Primer Invest	B	710	N/A	16	4.0
Ansell Ltd	C	915	0.92	10	3.1	G.U.J.D. Holdings	A	875	1.12	15	6.9	Primary Health	B	637	2.07	23	2.2
Aquarius Plat.	E	566	6.60	NE	Nil	GPT Group	C	61	2.95	NE	29.3	Q.B.E. Insur.	B	2272	N/A	19	5.5
Aquila Res.	C	707	N/A	NE	Nil	GWA Internat'l	B	283	1.24	17	6.4	Qantas Airways	B	269	0.42	52	2.2
Argo Investment	C	656	N/A	NE	4.1	Goodman Group	C	61	N/A	NE	15.8	REA Group Ltd	A	746	5.66	NE	1.3
Aristocrat Leis	B	451	1.90	20	5.3	Goodman Fielder	B	164	0.90	13	6.4	Ramsay Health	A	1099	0.60	18	3.5
Arrow Energy	B	435	N/A	9	Nil	Graincorp	D	797	0.33	NE	Nil	Reece Australia	B	2200	1.45	23	2.3
Asciano Group	C	167	0.68	NE	Nil	Guinness Peat	C	65	0.33	NE	3.1	Rio Tinto Ltd	B	5923	0.42	5	3.2
Aust United In	A	685	N/A	50	3.6	Gujarat NRE Min	C	64	2.53	NE	Nil	Riversdale Min.	C	618	N/A	NE	Nil
Australand Prop	B	54	1.20	6	20.4	Gunns Ltd	B	97	0.83	11	4.1	S/Tracks ASX200	B	4337	N/A	NE	4.2
Austar United	C	114	N/A	NE	Nil	Harvey Norman	B	401	2.96	20	2.7	SAI Global Ltd	A	336	1.58	20	3.4
Austal Limited	A	291	1.09	60	2.1	Healthscope	B	459	0.71	16	4.7	SP Ausnet	B	83	1.50	12	14.3
Aust Infra.	B	160	7.92	9	8.1	Henderson Group	B	255	N/A	NE	4.9	SP Telemedia	B	84	1.29	NE	Nil
Aust Foundation	C	500	N/A	47	4.2	I-SOFT Group	B	88	1.65	25	1.1	Salmat Ltd	B	391	0.69	18	5.6
Aust W'wide Exp	C	249	2.20	15	Nil	ING Office Fund	C	59	4.51	NE	16.5	Santos Ltd	B	1588	3.59	18	

# Recommended Investments

**Cavalier Corporation's** revenues fell 1.3% for the year to 30 June 2009 and trading profits were 23.9% lower at \$13,661,000 (20.4 cents per share). An 8.0 cents final dividend results in a 25.0% lower annual distribution of 15.0 cents (plus full imputation tax credits).

The net operating cash surplus was 10% lower at \$26.6 million.

This result is an improvement on its forecast profit of \$11-13 million, helped by a "better than expected

performance" by the Australian carpet operations.

The company predicts a profit of \$13.5-15.5 million (20-23 cents per share) for the year to June 2010, with the residential carpet market expected to "remain relatively flat" but with some "softening in the commercial sector". Cavalier Corporation has completed an "efficiency and cost reduction" program in its carpet division, while the wool scouring industry restructuring has improved capacity utilisation in that business.

(Continued on Page 4)

## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial - Date -	Recommendation 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 %
<u>NZ Shares</u>													
HOLD	CDL Investments Ltd	CDI	12/01/99	25	E	243.4	1.3	15.73	41	Nil	28	17.9	+84%
HOLD+	Cavalier Corporation	CAV	05/12/95	156*	A	67.1	0.8	0.67	12	8.7	247	230.0	+206%
HOLD	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.5	0.14	13	8.9	240	344.8	+290%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	C	102.3	0.7	2.98	25	2.8	246	69.9	+111%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	C	382.5	0.8	0.69	16	3.9	75	26.4	+1928%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	131*	C	189.8	0.7	0.30	27	2.1	236	89.6	+149%
HOLD	Postie Plus Group	PPG	08/05/06	71	D	40.0	1.4	0.12	NE	Nil	38	8.5	-35%
HOLD	Renaissance Corp	RNS	13/08/96	85*	C	44.9	1.6	0.07	4	15.4	29	53.9	-2%
HOLD	Smiths City Group	SCY	09/10/06	64	D	53.0	1.6	0.08	17	6.1	33	11.0	-31%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.7	3.76	22	5.2	280	108.3	+224%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	B	88.2	0.7	0.65	12	7.6	355	222.0	+295%
HOLD	Taylors Group Ltd	TAY	09/11/99	102	A	24.3	0.7	0.73	12	8.8	212	92.0	+198%
<u>Australian Shares (in Aust cents)</u>													
HOLD+	AJ Lucas Group	AJL	13/05/03	120	A	64.9	0.6	0.62	25	3.4	477	41.0	+332%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	C	120.1	2.4	0.53	NE	22.0	9	17.5	-64%
HOLD	Breville Group Ltd	BRG	13/11/06	171	A	129.5	0.8	0.37	10	4.4	125	14.5	-18%
HOLD	Campbell Brothers Ltd	CPB	12/10/99	406*	A	53.0	0.3	1.40	12	4.1	2435	457.6	+612%
HOLD	Cellnet Group Ltd <sup>1</sup>	CLT	12/02/02	147*	C	76.8	1.4	0.25	NE	Nil	28	32.4	-53%
BUY	Challenger Wine Trust	CWT	12/01/09	30	C	170.3	1.3	1.56	NE	23.3	31	2.4	+10%
HOLD-	Charter Hall Group	CHC	06/04/09	30*	C	698.0	1.0	6.73	NE	8.4	59	1.0	+100%
HOLD	Circadian Technologies	CIR	10/02/04	188	D	45.2	0.9	10.69	NE	Nil	73	65.0	-27%
BUY	Clarius Group Ltd	CND	08/04/03	86	B	79.7	0.9	0.18	30	Nil	82	68.5	+75%
BUY	CPT Global Ltd	CGO	10/03/08	88	A	36.8	0.8	0.65	13	7.1	78	4.3	-7%
HOLD+	Devine Ltd	DVN	13/11/06	94	C	315.5	1.1	0.34	9	6.3	48	19.0	-29%
HOLD+	Ellex Medical Lasers	ELX	14/03/06	49	D	84.9	1.9	0.23	32	Nil	16	Nil	-67%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	B	32.4	0.9	2.36	16	4.2	160	13.3	-33%
HOLD	Iluka Resources Ltd	ILU	12/10/04	471	D	380.7	0.6	2.79	26	Nil	419	64.0	+3%
BUY	Integrated Research	IRI	14/01/08	40	A	166.8	1.2	1.39	8	11.3	36	7.0	+6%
HOLD-	Int'l AllSports	IAS	11/02/03	180	C	66.7	1.1	0.91	NE	Nil	59	4.0	-65%
HOLD	M2 Telecommunications	MTU	09/10/06	33	A	108.5	0.8	0.63	17	4.7	117	10.5	+286%
HOLD	Mercury Brands Ltd	MCB	08/02/05	93	D	154.2	9.0	0.05	NE	Nil	1	7.0	-92%
HOLD	Mercury Mobility <sup>1</sup>	MMY			C	105.3	3.0	1.17	NE	Nil	6	Nil	
BUY	Melbourne IT	MLB	10/02/04	53	B	78.0	0.6	0.73	8	8.7	173	51.0	+323%
HOLD+	Photon Group Ltd	PGA	10/11/08	140	A	154.3	0.7	0.29	7	7.2	173	12.5	+32%
HOLD+	Probiotec Ltd	PBP	11/02/08	116	A	47.1	0.6	1.32	13	1.3	245	5.8	+116%
BUY	Prophecy International	PRO	08/09/08	26	A	45.8	1.1	4.14	13	7.3	58	4.3	+139%
HOLD+	Ross Human Directions	RHD	14/08/01	92	A	83.5	1.2	0.08	8	4.6	38	33.3	-23%
BUY	Skilled Group Ltd	SKE	12/03/02	126	B	123.6	0.7	0.12	8	5.6	189	130.5	+154%
HOLD	Technology One Ltd	TNE	11/11/03	44	B	298.9	0.9	2.07	13	5.4	77	17.2	+113%
BUY	TFS Corporation Ltd	TFC	08/01/07	45	B	191.3	0.9	2.07	6	4.1	103	5.2	+139%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	25.8	0.3	0.83	18	4.1	1331	158.5	+480%
BUY	Village Roadshow PREF	VRLPA	10/08/09	77	B	224.9	0.8	0.18	4	11.1	115	Nil	+49%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +151.8%.

This is equal to an average annual rate of +23.9%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 40 current and 144 closed out) is +29.9%, compared with a market gain of +4.9% (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.

(1) Cellnet Group includes 1½ shares of Mercury Mobility distributed to shareholders.



## Recommended Investments

(Continued from Page 3)

At 247 cents, Cavalier Corporation shares have *doubled* from their low in February to trade on a Price/Sales ratio of 0.67, a Price/Earnings ratio of 12 and a gross Dividend Yield of 8.7%. That looks to offer sound investment value - with potential for capital appreciation as the business steadily recovers from the economic downturn.

**Colonial Motor Company** saw revenues fall 6.9% to \$487.3 million over the year to 30 June. *Trading* profits - including a \$1.8 million decline in a property value - were 28.3% lower at \$5,177,000 (18.6 cents per share). The annual dividend will be 34.7% lower at 15.0 cents (plus tax credits), with the payment of a final dividend of 9.0 cents.

The business generated a net operating cash surplus of \$17.0 million, compared with a *deficit* of \$7.2 million in 2008.

**Lyttelton Port Company** lifted revenues 1.2% to \$84.4 million for the year to June 2009, but profits slipped 2.8% to \$10,056,000 (9.8 cents per share) - mainly as a result of \$590,000 (after tax) spent on "ongoing merger discussions" with **Port Otago**. A final dividend of 3.4 cents will make a 3.9% lower annual payout of 4.9 cents per share (plus full imputation tax credits).

The business continued to generate a strong net operating cash surplus of \$19.1 million (down 21% on the previous year). Once again, this financed *all* of the capital expenditure of \$12.9 million, the dividend distributions *and* allowed a small \$1.4 million repayment in interest bearing debts (to \$57.1 million). Shareholders Equity is \$129.9 million, so Lyttelton Port Company has a conservative balance sheet with little debt. This type of infrastructure business, with reliable revenues and strong cash flows *could* support significantly higher debt levels.

Lyttelton Port Company has also signed a five-year contract with **Fonterra** for "a substantial increase" in dairy products from the *Clandeboye* plant to be exported through its container terminal. Overall this will boost the port's container volumes by about 10%.

**Michael Hill International** managed to lift revenues 9.1% to \$412.9 million over the difficult year to 30 June 2009, but at the expense of profit margins. The *trading* net profit was 29.7% lower at \$17,733,000 (4.6 cents per share). The final dividend of 1.5 cents (with no imputation tax credits) will result in a 21.9% lower payout of 2.5 cents.

In addition, the company recorded a \$51.8 million gain on tax restructuring but, more importantly, this will reduce future income taxes - boosting reported profits and net cashflows. There will, however, be little or no NZ imputation tax credits to attach to future dividends.

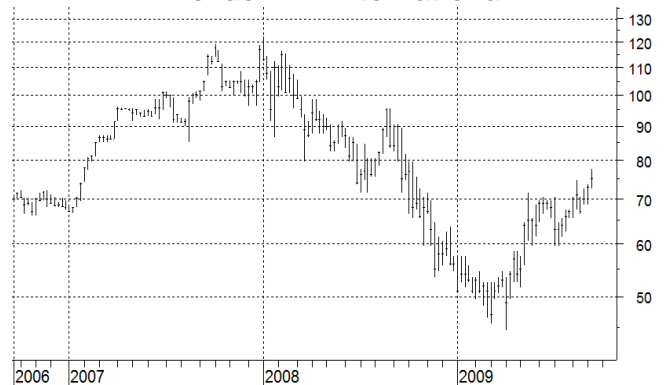
The *trading* result was also depressed by start-up losses of NZ\$5.3 million from the United States operations.

The net operating surplus was up six-fold to \$47.6 million but has been volatile over recent years (i.e. just \$7.8 million in 2008, \$41.1 million in 2007 and a *deficit* of \$2.4 million in 2006).

Of the 17 United States stores, four will be refurbished prior to Christmas in the company's new corporate

design. The company is still learning about the US market, "trying new store concepts and experimenting with stock", so plans no new stores during the next two years, but may look to open six new stores in the year to June 2012.

### Michael Hill International



**Nuplex Industries** reports a 2.5% drop in revenues to \$1,493.7 million for the year to June 2009, with profits down 65.4% to \$16,729,000 (8.8 cents per share). A final 5.0 cents dividend - plus a special 3.5 cents dividend - will be paid. That will distribute 67% of profits. These dividends will include no imputation tax credits.

Shareholders may remember that Nuplex Industries got itself into financial trouble by paying *too much* in dividends instead of reducing interest bearing debts over the last several years. So instead of retaining profits to repay debt, the company paid partially imputed or unimputed dividends to its shareholders. The shareholders paid up to 39% of those cash distributions to the government in taxes. Shareholders then had to return that cash to Nuplex Industries in its recent cash issue to allow it to repay debts. Nuplex is *again* paying out a large proportion of its profits as unimputed dividends - so a lot of that *wealth* will again be siphoned off by the government as income tax on investors! Nuplex Industries' directors don't appear to have a very good understanding of "capital management" or tax issues.

The net cash operating surplus rose 61% to a massive \$123.2 million. That was obviously helped by the decline in inventory and debtors as the business contracted in the economic downturn - but there really is no excuse for a company like Nuplex Industries that can generate strong cashflows to get itself into a financial crisis!

Nuplex Industries has experienced a "very strong" recovery in demand in Asia - in line with economic activity in that region - stability in Europe, some weakness in the US and the Australian and NZ markets have remained weak.

**Postie Plus Group** has reported fourth quarter revenues up 12.9% to \$34.9 million. This lifts annual revenues 3.0% to \$110.4 million. As previously predicted, the company expects to report a "modest profit" for the year to 31 July 2009.

**South Port NZ** reports revenues 27.0% higher at \$19.5 million for the year to 30 June 2009. *Trading* profits were 31.4% higher at \$3,308,000 (12.6 cents per share) plus there were other one-off gains totalling \$810,000 (i.e. the profit on the liquidation of **Hardwood Forests**, depreciation recovered on the sale of a backup mobile crane and foreign exchange gains).

The company will pay a final 9.0 cents dividend, taking the annual dividend to 13.5 cents. 3.25 cents of this, however, relates to the one-off gains and should be termed a “special dividend”. That would leave the ordinary (i.e. likely to be repeated in the future) annual dividend rate 7.9% higher at 10.25 cents.

The net operating cash surplus was 75% higher at \$6.5 million. South Port NZ has no interest bearing debt and cash in the bank of \$1.8 million (6.7 cents per share).

South Port NZ and **NZ Aluminium Smelters** have renewed their agreement for a further term of 35 years (from April 2008) but unable to “determine an appropriate ongoing charge” will “revert to an arbitration process”.

Profits for the coming year are at this stage forecast at around \$3.0 million. The directors believe that “the southern regions' next growth cycle is most likely to stem from the energy sector including offshore oil and gas exploration” - which would generate significant new revenues and profits for the company.

**Steel & Tube Holdings** reports revenues down 3.9% to \$485.1 million for the year to 30 June 2009, but profits rose 15.9% to \$26,129,000 (29.6 cents per share).

The company experienced strong growth in the first half (i.e. profits up 143% to \$20.8 million), but second half profits were down 62% (compared with the second half of the previous year) at \$5.3 million.

A final dividend of 9.0 cents maintains a steady annual dividend of 19.0 cents (plus full imputation tax credits).

There was a net operating cash surplus of \$57.0 million, up 168% for the year (and up from a *deficit* of \$8.8 million in the first half). This surplus enabled the company to repay interest bearing debts of \$36.3 million to end the year at \$47.5 million. Shareholders Equity is \$150.1 million.

For the first half of the current year the company expects a continuation of the “soft volumes and pressure on margins”, but with “some prospect of an improvement in 2010”.

**Taylors Group** recorded a 2.4% increase in revenues to \$70.4 million for the year to 30 June 2009, but profits recovered and grew 82.0% to \$4,307,000 (17.7 cents per share). A final 7.0 cents dividend will lift the annual dividend 8.3% to 13.0 cents (plus tax credits).

The net operating cash surplus was 67% higher at \$16.6 million. This has allowed the company to repay virtually all of its interest bearing debt - down \$9.0 million to just \$2.5 million.

Taylors Group plans to invest \$6.5 million in new washing, finishing and handling equipment, and predicts “some modest improvement in profitability” over the coming year.

Australian listed **Spotless Group** - which currently owns 66.01% of Taylors Group - is seeking to takeover the whole company with a cash offer of 208 cents per share. That is just a 10.7% premium to the market price of 188 cents prior to announcing the takeover. In fact, the *best* thing that Spotless Group can say about their takeover offer is that it will allow the minorities to sell out of a company whose shares are inactively traded.

But why would we want to sell out or to *trade* Taylors Group shares? We hold a very diversified portfolio, so if

we need to raise some cash we could sell any number of other companies, or perhaps a few Taylors Group shares. Taylors Group operates in an industry where it *constantly* struggles to win business, improve efficiency, hold down costs and remain profitable - but it is a high cashflow business and that cashflow helps the company re-invest, expand, diversify and/or pay high dividends to its shareholders.

In the ten years we have held this unglamorous company it has (with the final dividend of 7.0 cents, payable on 2 October) distributed 99.0 cents in fully imputed dividends - repaying *almost* all of our original cost of 102 cents. Over the decade of our ownership, revenues have grown 84% (or 6.3% per annum), profits are up 137% (9.0% per annum) and dividends per share have risen 189% (11.1% per annum). At 188 cents (i.e. the pre-takeover price) the shares are up only 84% (6.3% per annum). At 208 cents the shares are up 104% (7.4% per annum).

*Excluding* the additional return that could be earned re-investing the annual dividends, we have *tripled* our money in a decade or earned 11.6% after tax. That is *below* the average return earned by this newsletter, but probably in excess of the returns earned by most investors. At an 11.6% return, \$10,000 would grow to over \$272,000 over 30 years.

What is more, Taylors Group's share price (up 104%) has grown *slower* than profits (up 137%) and dividends (up 189%), so the shares have not become over-valued and offer better value today than they did a decade ago. So there is no reason why we shouldn't be able to again *triple* our current investment in Taylors Group over the next decade.

This newsletter could probably earn a higher return taking the money and investing elsewhere, but most investors would fail to triple their money in a decade!

The 10.7% premium on this takeover looks rather small to us. A 20-25% premium (225-235 cents per share) would look to be a more fair price - sharing some of the synergies and cost savings that Spotless Group will earn from integrating this business with its other NZ operations.

Spotless Group states its offer is a 35% premium to the average price over the last six months - but world stockmarkets have recovered from a severe low over that period and most shares now trade at a significant premium to their average price over the last six months!

As with most takeovers, shareholders should sit back and see how this develops. We are certainly in no hurry to accept this offer and sell at 208 cents. We are happy to remain shareholders in Taylors Group. On the other hand, we should have little trouble finding somewhere else to invest the proceeds of a sale, and perhaps at an even higher rate of return! We would be less keen (but not necessarily sell) if Spotless Group *increased* its holding above 66% but failed to reach the 90% necessary to take full control.

So we are happy to remain a shareholder or we might be forced to sell - but would consider accepting a slightly improved offer. The small 10.7% premium on this takeover makes its success or failure for Spotless Group of little interest to us!

(Continued on Page 6)

## Recommended Investments

(Continued from Page 5)

### Taylor's Group



### Australian Shares

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

**AJ Lucas Group** lifted revenues 17.6% to \$499.2 million for the year to 30 June 2009. Trading profits were 13.4% lower at \$12,154,000 (18.7 cents per share). In addition, the sale of coal seam gas assets for \$221 million realised an after tax profit of \$153 million.

A final 5.5 cents dividend lifts the annual dividend rate by 31.3% to 10.5 cents.

There was a net operating cash deficit of \$11.9 million, compared with a surplus of \$50.1 million the previous year.

While the company expects a "challenging first half" for the current financial year the second half should be "very good" with further improvements in the year to June 2011. In addition, AJ Lucas Group expects its gas and water investments will yield "substantial one-off capital gains in 2010 and 2011".

**Atlas South Sea Pearl** reports revenues of \$9.1 million for the six months to 30 June, down 19.0%. Profits, however, fell 77.3% to just \$970,603 (0.8 cent per share). Revenues and profits were boosted by a \$2.6 million gain on a financial asset. No dividend will be paid. There was a net operating cash surplus of \$381,000 compared with a deficit of \$1.0 million in the same period of the previous year.

Pearl sales were down 55% in volume and 41% in price, for a 62% drop to just \$2.7 million over the six months. Jewellery sales rose 62% to \$350,962.

Pearls sales, revenues and profits are likely to remain depressed in the immediate future, so Atlas South Sea Pearl is seeking to minimise costs while maintaining its business. Employee numbers have declined 32% over the last year to 385, mainly with a reduction in day labourers.

The spawning season has been very successful with the company holding 1,011,559 juvenile oysters (up 71.6% on last year). For the first time, some of these were bred from oysters selected from the company's genetic research program. 211,000 oysters were seeded during the half year - giving the company 758,411 nucleated oysters (up 4.7%) - and more will be nucleated in the second half of the year.

**Breville Group** lifted revenues 5.3% to \$431.9 million for the year to June 2009, but profits fell 43.7% to \$11,755,000 (9.1 cents per share). A final 1.5 cents dividend will be paid, resulting in a 47.6% drop in the

annual dividend to 5.5 cents.

The business continued to generate a healthy net cash operating surplus, down 13% to \$27.3 million.

The company has a "strong pipeline of new product launches" planned for both its major markets of Australia and North America. In addition, the company is seeking to develop new markets in China and South America. Breville Group expects "increased earnings" in the new financial year but has not provided a forecast at this stage.

**Cellnet Group** recorded a 61.7% drop in revenues to \$85.7 million from continuing operations for the year to June 2009 - mainly as a result of selling off or closing down unprofitable businesses. The loss (from continuing operations) increased to \$6,159,000 (minus 8.0 cents per share) plus there was a loss of \$9.6 million from discontinued businesses. No dividend will be paid.

Closing down businesses (i.e. selling off stock and collecting from debtors) helped boost the cash operating surplus to \$19.7 million, up from an already large surplus of \$4.4 million the previous year.

This is becoming an *asset situation*, with net tangible assets of \$32.5 million (42.3 cents per share), most of which is cash of \$20.4 million (26.5 cents per share). Cellnet Group is debt-free. Another \$2.4 million (3.2 cents per share) is working capital (i.e. debtors and stocks, less creditors) of the discontinued businesses, which will be realised in cash in the near future. The company has working capital of \$5.3 million and fixed assets of \$2.4 million invested in the continuing businesses, plus tax assets of \$3.0 million.

Continuing businesses are forecast to earn a net profit of \$1.0-1.2 million (1.3-1.6 cents per share) in the current financial year which is a 13-15% return on equity... plus \$20 million in cash (and \$2.4 million in soon-to-be cash) that *could* be invested in a new business or returned to shareholders. That \$20-22½ million invested in a business at a 15-20% return would add a further \$3.4-4.0 million, potentially taking future profitability to around \$4.4-5.2 million (5.7-6.7 cents per share).

At 28 cents, Cellnet Group shares are selling for less than their surplus cash on hand. This company hasn't been a great investment and we are not sure how things will work out, but the shares should be worth closer to net asset backing of 42 cents. The business could be liquidated at around that value, or could earn around 6 cents per share and be valued on a P/E of 7.

**Charter Hall Group's** revenues fell 32.7% to \$61.2 million for the year to 30 June 2009. Profits (before writing down property investments) were 42.8% lower at \$28,182,000 (with earnings per share down 66.1% - owing to the increase in capital - to 4.0 cents).

The decline in the market value of investment properties took the bottom line to a loss of \$82.2 million.

The net operating cash surplus was just 9% lower at \$41.1 million.

The group will pay a final 1.0 cent dividend, taking the annual rate to a 60.6% lower 4.96 cents.

Of course, we bought into Charter Hall Group recently knowing that the whole property investment sector would be making massive writedowns in asset values and that annual distributions would be cut sharply. That situation had severely depressed the market value of the company's stapled securities which have already



recovered 83% in value over just five months!

Net asset backing is currently around 69 cents and the company predicts earnings per share (before property revaluations) of 3.75-4.0 cents per share and an annual dividend of 3.0-3.2 cents for the year to June 2010. At 59 cents the units still trade at a slight 15% discount to net property investments, but there should also be some value (perhaps 10-20 cents per share) for its funds management business. The units are also trading at 15-16 times depressed earnings and offer an income yield of 5.1-5.4%. These shares are getting towards being "fairly valued" - so we may look to realise profits in the future, but for now will let our profits run as the shares continue to be re-rated.

**Clarius Group** suffered an 8.7% overall drop in revenues to \$293.4 million for the year to 30 June 2009. Trading profits were 84.1% lower at \$1,798,000 (2.9 cents per share). No dividend will be paid for the year.

There was a net cash operating surplus of \$8.4 million (up from a deficit of \$0.3 million last year).

The company is seeking to repay virtually all of its \$15.6 million in interest bearing debts via a share placement (of 4.7 million shares at 64 cents to raise \$3.0 million) plus a 1 for 3½ renounceable cash issue at 64 cents (which will raise a further \$12.2 million).

The shares traded ex-entitlement on 3 September and the payment for the new shares is due by 25 September. We recommend that investors take up their entitlement to the new shares, but in cases where that is not possible this is a renounceable issue and shareholders will be able to sell some or all of their rights on-market.

Clarius Group reports an "improvement in business confidence" in the fourth quarter which should lead to a recovery in the extremely depressed permanent recruitment sector of its business. Following the cash issue the company will be debt-free and "well positioned to pick up opportunistic acquisitions", to "capitalise on consolidation opportunities" and "other growth opportunities through the recovery".

**CPT Global** experienced a 0.9% fall in revenues to \$44.2 million for the year to 30 June, but profits recovered 31.7% to \$2,171,000 (5.9 cents per share). A final 3.0 cents dividend lifts the annual dividend 10.0% to 5.5 cents.

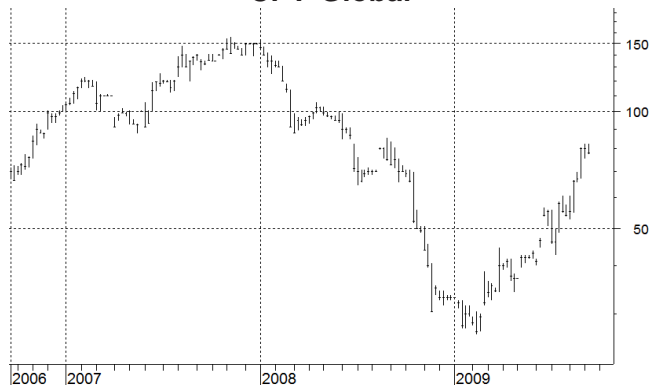
The net operating cash surplus increased three-fold to \$4.3 million.

Australian revenues fell 13%, but higher margin International revenues were up 43%.

We bought into CPT Global (in February 2008 at 88 cents) as this business had the potential to grow revenues and profits by 30-40% over many years. The global financial crisis caused a glitch in those international growth plans but things appear to be back on track for strong growth over future years. The company is "currently in discussion with numerous potential international alliance partners" which should lead to significantly higher future revenues and profits.

At 78 cents, CPT Global shares trade on a low P/S ratio of 0.65, a P/E of 13 and offer a Yield of 7.1%. That looks to be a good valuation for a low-growth business, so if CPT Global can become a high-growth company and resume its former growth path and quadruple profits over the next four years then the share price should also at least quadruple! "Buy".

## CPT Global



**Devine** experienced a 23.7% decline in revenues to \$440.5 million for the year to June 2009 and profits fell 47.6% to \$16,699,000 (5.3 cents per share). No final dividend will be paid, so the annual dividend payout will be down 62.5% at 3.0 cents.

The net operating cash surplus (which is extremely volatile in this business) was down 26% but still very high at \$69.3 million.

The body corporate and property management business acquired in September 2007 was sold in August 2009 "following a strategic review" of the group's businesses.

The company reports a "strong level of work in hand" but this year's profit is expected to recover just 15%.

**Ellex Medical Lasers** managed to lift revenues 14.8% to \$59.5 million for the year to 30 June 2009, but trading profits fell 91.1% to \$424,000 (0.5 cent per share) after foreign exchange losses of \$3.0 million. The company has not yet paid dividends. The company also wrote down goodwill (of \$22.4 million) to a zero value in its balance sheet.

The business generated a strong operating cash surplus of \$4.0 million, up from a deficit of \$1.2 million the previous year.

It is always difficult to value a loss making business or one operating around break-even level - as the company hovers between losses (and eventual failure) or profitability and growth. Potentially, Ellex Medical Lasers *could* develop a very profitable and growing niche market. Or it *could* be valuable to a competitor seeking to rationalise the industry (i.e. remove excess competition) and develop a dominant market position. In either situation it could easily be worth a Price/Sales ratio of at least 1.0 - or about 70 cents per share based upon current levels of sales.

With the lack of meaningful current profitability and other uncertainties, the stockmarket heavily discounts that potential valuation. So *if* Ellex Medical Lasers can improve its financial position, improve profitability and grow revenues and market share with the release of its new products *then* the shares have the potential to be significantly re-rated in value. An investment in these shares does involve higher risks, but also the potential for higher returns. And that, of course, is the reason we hold a well diversified portfolio of shares!

**Fiducian Portfolio Services'** revenues fell 23.0% to \$22.0 million for the year to June 2009, leading to a 47.6% decline in net profits at \$3,284,000 (10.1 cents per share). A final 3.0 cents dividend will make 6.75 cents for the year, down 48.1%. (Continued on Page 8)

## Recommended Investments

(Continued from Page 7)

The net operating surplus was 47.0% lower at \$3.2 million. The company remains debt-free, with cash in the bank of \$7.8 million (24.1 cents per share).

Financial Planning revenues were down 13% to \$7.2 million (including inter-segment revenues of \$4.6 million), while Funds Management & Administration revenues fell 26% to \$19.4 million reflecting the drop in the value of funds under management.

The recovery in the stockmarket over the last six months will have increased the market value of managed investments and therefore the monthly management fee income which is a percentage of that market value.

**Iluca Resources** suffered a 57.2% drop in revenues over the six months to 30 June as demand dropped sharply. *Trading* profits were 24.4% lower at \$11,800,000 (2.8 cents per share). The company also wrote down asset values by \$67.6 million. No dividend is payable.

The net operating cash *deficit* was \$88.8 million.

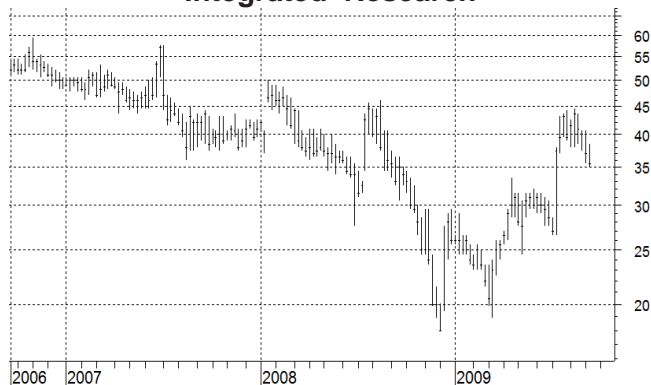
**Integrated Research** lifted revenues 14.2% to \$42.7 million for the year to June 2009. Profits rose 36.1% to \$7,863,000 (4.7 cents per share). A 2.5 cents final dividend will lift the annual dividend 33.3% to 4.0 cents.

The net operating cash surplus rose 29% to \$7.6 million. Integrated Research remains debt-free, while cash at the bank increased 30% to \$14.5 million (8.7 cents per share).

Much of the growth came from the company's new IP Telephony monitoring software where revenues were 47% higher at \$10.8 million.

At 35½ cents, Integrated Research shares trade on a Price/Sales ratio of 1.39, a low Price/Earnings ratio of 7½ and offer a high Dividend Yield of 11.3%. Software companies can earn high profit margins, so can trade at higher P/S ratios, perhaps around 2-4. The P/E ratio and Yield clearly show a low valuation. This is a high quality, cash rich/debt-free company with recurring revenues and good growth potential. At current valuations the shares remain a strong "must Buy" and will be attractive to both investors requiring a high current income and to investors seeking capital growth.

### Integrated Research



**M2 Telecommunications** reported an 85.6% increase in revenues to \$202.7 million for the year to June 2009, with profits up 45.0% at \$7,476,000. The issued capital also increased 37.5% with the acquisition of People Telecom in April 2009. So fully diluted earnings per share were therefore only about 6% higher at 6.9

cents - although this profit includes only two month's trading from People Telecom which will make a larger contribution in the current financial year.

The company will pay a final dividend of 3.0 cents, lifting the annual rate 10.0% to 5.5 cents per share.

The net operating cash surplus was 14% higher at \$8.3 million.

More important than the recent result, M2 Telecommunications predicts profits will rise 95-110% to \$14.5-15.5 million (13.3-14.3 cents per share), from revenues up 82-97% at \$370-400 million, for the current year to June 2010. The company's policy is to distribute 70% of net profit as a dividend, so that would indicate a payout of around 9.5-10.0 cents per share. At 117 cents, that values the shares at 8-9 times this year's forecast profit and a likely dividend yield of 8.1-8.5%. Our investment in M2 Telecommunications has increased over 3½-fold in value in just three years but still offers good value owing to the rapid growth in revenues and profits, helped by several excellent acquisitions.

M2 Telecommunications shares have appreciated strongly over the last seven months and, from a *short term* perspective, may be a little high. We are downgrading the shares from a "Buy" to a "Hold" as, at current prices, other shares in our portfolio are probably more attractive for new purchases. Investors overweighted in M2 Telecommunications shares *may* also consider some partial profit taking (i.e. perhaps sell 20-25%?) - especially if cash is needed to take up other cash issues or to re-invest to improve portfolio diversification.

Nevertheless, from a medium to long term perspective, M2 Telecommunications remains an attractive business with strong growth potential - so remains an important investment in our share portfolio.

### M2 Telecommunications



**Mercury Brands** - an unsuccessful investment which we still hold as they just aren't worth selling - recorded a 34.1% drop in revenues to \$28.3 million and a 44.9% larger *loss* of \$11,369,000 (*minus* 7.4 cents per share). The net operating cash *deficit* improved significantly to just \$191,000.

The company has *negative* Shareholders' Equity of \$9.2 million (i.e. owes more than it owns). Current assets (i.e. mainly debtors and inventory) of \$6.2 million are *less* than current liabilities of \$6.6 million *and* the company has borrowings of \$8.5 million. That borrowing includes \$6.0 million of convertible notes and the note holders have agreed to redeem the notes for just \$575,000 in cash (plus some options to buy shares at 2 cents). Mercury Brands is also hoping to raise \$2.1 million from the issue of 175 million new shares (plus 52 million



options) to **Biron Capital**. If completed, those two transactions would reduce the *deficit* in Shareholders' Equity to \$1.7 million and more than double the issued capital to around 330 million shares.

**Mercury Mobility's** revenues were 16.6% lower at \$5.4 million for the year to 30 June 2009. The company *lost* \$582,608 (*minus* 0.6 cent per share), compared with a loss of \$1.6 million in 2008.

In addition, the company wrote off all intangible assets (\$1.1 million) and wrote off deferred tax assets (\$1.1 million).

There was a net operating cash *deficit* of \$369,000.

Mercury Mobility has agreed to merge with unlisted **m.Net Corporation** - subject to approval by shareholders of both companies. These companies appear to be of similar size and Mercury Mobility will issue around 105 million new shares, increasing the issued capital to 210 million shares (i.e. existing Mercury Mobility shareholders will own 50% of the merged group). m.Net Corporation's Chief Executive Officer will become the CEO of the merged company, with Mercury Mobility's Managing Director becoming an Executive Director.

These are both small companies, with little in the way of assets and limited revenues, but with potential to grow in an emerging industry. The merger therefore makes sense to remove duplicated overheads, to expand product offerings and merge technologies - but it is still difficult to value the relative value of each business, or the ultimate success (or failure) of the individual businesses or the merged entity. We recommend voting in favour of the merger which should improve the potential for survival, growth and future profitability.

**Melbourne IT** lifted revenues 20.7% to \$104.1 million for the six months to 30 June 2009, but profits slipped 19.9% to \$6,256,000 (8.0 cents per share). A steady 7.0 cents interim dividend will be paid.

The net operating cash surplus was 41% lower at \$8.1 million.

The company expects full year earnings (before interest and tax) to be similar to 2008, but higher interest expenses (on the \$57 million borrowed to acquire **Digital Brands Management Services** from **VeriSign**) will result in a net profit around \$1.0 million lower at around \$15 million (19 cents per share).

Despite a slight profit decline this year - caused by the difficult global economic situation and higher interest costs of the debt funded acquisition - Melbourne IT is a high quality business and the shares are trading at a low valuation. At 173 cents, Melbourne IT shares trade on a Price/Sales ratio of 0.73, a Price/Earnings ratio of 8 and offer a Dividend Yield of 8.7%. Lower earnings this year would take the P/E to 9, but this is still an attractive valuation and offers a high current income yield. That low valuation leads us to upgrade Melbourne IT shares to a "BUY".

**Photon Group** lifted revenues 13.7% to \$654.7 million for the year to 30 June 2009, while *trading* profits were 18.1% higher at \$25,623,000. Earnings per share were 15.9% *lower* at 24.9 cents owing to the increase in capital following the 1 for 3 cash issue in July 2008.

A final 6.5 cents dividend takes the annual dividend to 12.5 cents. That is a 56.1% decline on the unsustainable 28.5 cents paid in 2008 and brings the payout ratio to a

relatively low 50% of profits, allowing the company to retain cash for debt repayment. Over the longer term - when the company doesn't require cash for debt reduction or new acquisitions - this business should be able to increase the dividend payout ratio to around 75-85%.

The net operating cash surplus rose 53% to \$37.3 million.

The company has raised \$26.6 million from the placement of 14.4 million shares at 185 cents and is now making a non-renounceable 1 for 2 cash issue to existing shareholders at 150 cents to raise a further \$87.9 million.

This new capital will be used to reduce interest bearing debts from \$273 million to \$165 million, and puts the company in a sound financial position to meet earn-out liabilities of \$67.6 million payable this financial year. Future earn-out liabilities then fall rapidly with an estimated \$33.9 million payable in the year to June 2011, \$14.5 million to June 2012 and only \$0.4 million beyond that date.

The placement and cash issue will increase the issued capital almost 70% to 175.8 million shares, which can *dilute* earnings per share growth. The company predicts "high single digit" earnings growth this financial year, but lower interest costs following the debt repayment will also make a strong contribution to net profits which we estimate could be about 40% higher at around \$40 million or 23 cents per share on the increased capital.

At 172½ cents the shares are valued at about 7½ times expected 2010 profits. Advertising and marketing is also a cyclical industry so should benefit from any improvement in general economic activity over the next few years, while medium to long term Photon Group should experience above average growth owing to its exposure to the faster growing "non-traditional" sectors of its industry.

We therefore recommend that investors take up their entitlement to the 1 for 2 cash issue and buy the new shares at 150 cents. The shares are trading ex-entitlement to this issue which is payable by 14 September. As the issue is non-renounceable, investors cannot buy or sell rights to this cash issue. Investors not wishing to invest further cash in Photon Group should therefore sell some existing shares on-market and subscribe for their entitlement to new shares (at 150 cents) to realise the value in this issue.

**Probiotec** has continued to grow rapidly. For the year to 30 June 2009, revenues grew 31.2% to \$87.2 million, while profits were up 41.1% at \$8,900,922 (18.9 cents per share). A final dividend of 2.0 cents lifts the annual payout 30% to 3.25 cents.

The net operating cash surplus was 9.8% higher at \$9.0 million.

Revenues from the company's higher margin branded products rose 67.8% to \$66.8 million, accounting for 76.7% of total revenues. That is up from 60.8% of revenues in 2008 and 40.2% in 2007.

Probiotec invested just under \$7.0 million in new property, plant and equipment over the last year to increase capacity and efficiency at its pharmaceutical manufacturing facility at Laverton and to *triple* capacity at its Nowra manufacturing facility - both of which are running for almost 24 hours per day, five days per week. Despite the 31% growth in revenues, manufacturing costs increased only 13% (Continued on Page 10)

## Recommended Investments

*(Continued from Page 9) and this lifted gross profit margins which resulted in the higher net profits.*

A further \$2.1 million was invested in new product development, while expenditure on sales and marketing grew 89% to \$15.1 million to help build its brands which is expected to contribute to future revenue growth. Warehouse and distribution costs also increased 97% (to \$6.5 million), possibly owing to the higher costs of export sales which have begun to make a “material” contribution to revenues and profits.

Strong operating cash flows and a low dividend payout ratio means the company is retaining 83% of its income to finance this growth and expansion. Interest bearing debts increased just \$1.9 million to \$29.0 million and the business “can comfortably service its debt obligations” and has a further \$17.1 million of undrawn credit facilities. So this company has the cashflow and credit facilities to finance continued strong growth, does NOT need to raise additional capital from shareholders (unless it was to make a major acquisition) and is likely to significantly increase dividend payments to shareholders over the next few years.

The directors anticipate profit growth of around 20% this year.

At 245 cents, the shares trade on a Price/Sales ratio of 1.32, a Price/Earnings ratio of 13 and offer a Dividend Yield of only 1.3%. The low Yield obviously reflects the small percentage of profits distributed, with most retained to finance growth. The P/S of 1.32 is low for a business capable of earning high profit margins on branded products, while a P/E of 13 is good value for a company growing profits 20-40% annually. Probiotec appears to be in a strong growth phase, so remains a “Hold+” for further growth over many more years.

**Prophecy International** lifted revenues 9.5% to \$6.4 million for the year to June 2009. Trading profits were 4.2% higher at \$2,041,358 (4.5 cents per share) plus the company recognised future tax benefits worth \$1.6 million. A final 2.25 cents dividend increases the annual dividend 6.3% to 4.25 cents (unfranked).

The net cash operating surplus was just 3% lower at \$1.9 million.

Cash in the bank increased 2% to \$5.4 million (11.8 cents per share) and the company has no interest bearing debts.

More importantly, Prophecy International has won a “very significant deal” in Egypt. **Giza Systems** has won the contract to supply billing systems to the Egyptian state owned **Holding Company for Water and Wastewater**, using the *basis2* system from Prophecy. This contract has an initial value of A\$1.5 million to Prophecy International (i.e. contributing around one-quarter of the company's annual revenues) with Giza Systems establishing water accounts for 2.5 million users. Expanding the billing system to 9.5 million users over the next four years would generate a further \$6.0 million in revenues for Prophecy International. So this contract should add around \$1.5 million in revenues for each of the next five years or \$7.5 million in total. Software is an economy of scale business, where additional sales contribute revenues but result in little increase in expenses - so profits can grow rapidly.

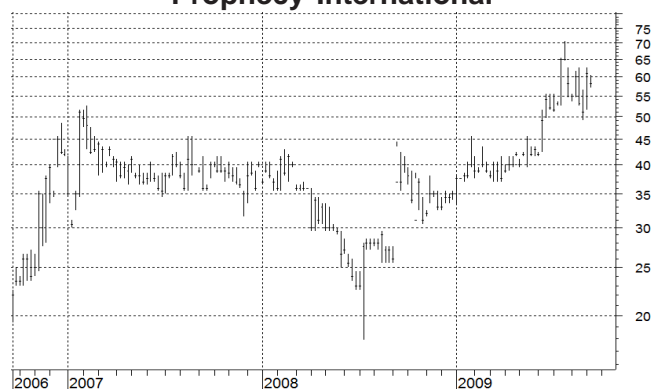
Giza Systems is also promoting and actively marketing

the *basis2* billing system throughout the Middle East.

Prophecy International shares have more than doubled in value over the last year. That dilutes the protection of its cash holding and increases investment risks. Nevertheless, there is still the potential for very strong growth in profits from expanding sales of its utility billing software. Clearly the Egyptian contract will make a strong ongoing contribution to revenues and profits over the next five years. The company's alliance with US giant **Computer Sciences Corporation** (see *Market Analysis*, Issue 444, June 2009) could lead to significantly greater growth in revenues and profits. While small businesses do involve high risks, this company continues to offer the potential for very high growth and very high investment returns - which warrants a continued position in our diversified share portfolio.

At 58 cents the shares trade on a Price/Sales ratio of 4.14, a Price/Earnings ratio of 13 and a Dividend Yield of 7.3%. That is an attractive valuation, but the potential for significant future investment gains will come from the company selling its software to more users.

### Prophecy International



**Ross Human Directions** suffered just a 3.4% decline in revenues for the year to June 2009 and profits actually increased 1.7% to \$4,073,000 (4.9 cents per share). With the payment of a final dividend of 1.0 cent, the annual dividend rate will be cut 50.0% to 1.75 cents. This is a low payout ratio of 36% - so dividends should recover strongly in the future (i.e. to a more normal payout of 75-80%) - but the directors consider it prudent in the current environment.

The net operating cash surplus was an extremely strong \$22.7 million (up from a deficit of \$1.7 million in 2008) and this has allowed the company to reduce interest bearing debts from \$32.2 million to just \$12.7 million. Unlike its competitors, Ross Human Directions is not needing to raise additional equity from its shareholders!

The shares have jumped from a low of 15 cents in March but at 38 cents still look very under-valued. The Price/Sales ratio is 0.08, the Price/Earnings ratio 8 and - even at the low dividend payout - the Dividend Yield is 4.6%.

**Skilled Group's** revenues were virtually unchanged (i.e. up 0.7%) at \$1,943.3 million for the year to June 2009 as new businesses added to revenues but existing businesses suffered in the economic downturn. Profits fell 28.2% (as revenues fell ahead of reductions in costs) to \$28,254,000 (22.9 cents per share). The company paid a steady interim dividend, but will cut the final dividend to just 1.5 cents (from a 14.0 cents final for 2008),

reducing the annual dividend rate 54.4% to 10.5 cents.

The company generated a very strong net operating cash surplus of \$121.7 million (up from just \$14.7 million the previous year) - but largely boosted by a \$77 million reduction in receivables reflecting the lower volume of business.

The company has raised \$80.9 million from the placement of 53.9 million shares at a relatively low 150 cents per share. It also plans a Share Purchase Plan offering up to \$15,000 worth of shares (i.e. up to 10,000 shares at 150 cents) to each shareholder (payable by 18 September) - but that will be scaled back if applications exceed \$10 million. Given that Skilled Group has almost 6300 shareholders, the Share Purchase Plan applications *could* be scaled back to as low as \$1600 per person!

This is a relatively low priced share placement and Share Purchase Plan, so has significant value. It is therefore disappointing to see virtually all of these shares being offered to *outside* investors (through the placement - which was increased by \$10 million above the directors' initial plans) and few shares left for the *existing* shareholders! We recommend that shareholders apply for new shares (at a 24.6% discount to market value) in the Share Purchase Plan, but applications will likely be scaled back significantly.

We would also suggest that investors appoint and instruct a proxy to vote against the two resolutions at the Extraordinary General Meeting on 25 September which will authorise the placement to the outside investors. Shareholders can appoint the Chairman and instruct him how to vote via the internet by following the instructions in a letter that you will receive from the company. Interests associated with the Managing Director have enough votes to authorise both resolutions - so our voting will have no impact on the outcome - but if the public minority shareholders vote against the resolutions then *perhaps* we can send the directors a message. Allocating 90% of the cheap new shares to outsiders and only 10% to existing shareholders isn't really the sort of "capital management" skills that build shareholder wealth!!

**Technology One** has downgraded its profit forecast for the year to 30 September 2009. Revenues are now expected to rise 14% (down from a 15-18% increase previously predicted), while expenses will rise 19% (up from the previous forecast of 15-18%). As a result of the lower revenue growth and higher expenses, the net profit is now expected to be 6-12% *lower* than last year.

The company is continuing to invest heavily in Research & Development rather than cutting back to save money in the short term by laying off skilled staff. This should improve the company's competitive position, with profitability recovering when market conditions improve. The shares trade on a reasonable valuation and this is a good business, so we are happy to hold our shares in the meantime.

**TFS Corporation** has adopted an accounting change in how it recognises profits on MIS and other forestry sales. Previously, profits were recognised at the time of sale, even if the plantation was not fully developed. The change will tend to *defer* some profit recognition to future years, effectively *lowering* current profits (especially when the business is growing rapidly) but also smoothing out some fluctuations.

Under the new standards (i.e. with the 2008 result re-

stated), revenues for the year to June 2009 were 49.5% higher at \$94.9 million and profits 44.3% higher at \$34,838,000 (18.2 cents per share). A steady final dividend of 3.0 cents will be paid and, with the higher interim dividend, the annual payout will be 6.3% higher at 4.25 cents.

Without the accounting change profits would have been \$37.1 million.

The net operating cash surplus was 58% lower at \$11.2 million.

The company has raised \$28.0 million from the placement of 28,000,000 shares at 100 cents and will make a Share Purchase Plan to shareholders. It would appear that this new capital will help to accelerate future growth. TFS Corporation is conducting due diligence to determine the suitability of over 8000 hectares owned by **Consolidated Pastoral Company (CPC)**, with first right of refusal over any land that CPC may wish to lease or sell. That would significantly increase the company's land bank. At present it has 2555 hectares planted and 2600 hectares suitable for planting. CPC's "high quality land would under-pin future planting requirements, allowing the company to push the accelerator on attracting further institutional investment" in its plantations.

The Share Purchase Plan will allow existing shareholders to buy up to \$15,000 worth of shares (payable by 2 October). The total amount of shares to be issued is not disclosed, but the issue may be subject to scaling. The shares will be issued at the *lower* of 100 cents or the average market price over the five days before the issue closes. While TFS Corporation remains a "Buy" in our portfolio - and this SPP offers the opportunity to acquire further shares - this is a very small discount from market (unless the shares rise strongly before the closing date) so has little immediate value.

The joint venture with the **Emirates Investment Group** has been named **Gulf Natural Supply** and is investigating the production and distribution of pan/mouth freshening products, containing sandalwood oil, from 2010. Annual sales of this product in India is estimated at A\$15 billion, with 300-350 million users.

Emirates Investment Group will also promote and "underpin" institutional investment in a minimum of 200 hectares of new plantations (worth \$20.0 million) annually.

**The Reject Shop** experienced a 16.7% lift in revenues to \$412.3 million for the year to 28 June 2009, while profits were 13.9% higher at \$18,995,000 (73.6 cents per share). A final dividend of 23.0 cents will lift the annual dividend 14.6% to 55.0 cents per share.

The net operating cash surplus rose 34% to \$25.5 million.

The company had 171 stores at balance date and plans to open a further 23 stores in the first half of the current financial year. Profits are predicted to rise 13-14% this year to around \$21.4-21.6 million.

At \$13.31, The Reject Shop shares trade on a Price/Sales ratio 0.83, a Price/Earnings ratio of 18 and offer a Dividend Yield of 4.1%. There are other shares that are cheaper, but this company has a very sound business with significant potential for above average growth... so remains an attractive "Hold+" in our portfolio.

**Village Roadshow** experienced a 7.8% lift in revenues to \$1,414.2 million for the year to 30 June 2009 and *trading* profit rose 15.5% (*Continued on Page 12*)



**Recommended Investments***(Continued from Page 11)*

to \$71,849,000 (32.0 cents per share), which included mark-to-market losses of \$20.5 million on interest rate hedges. In addition, the company made a goodwill impairment charge of \$59.2 million

The company, however, will pay final dividends of 6.0 cents per ordinary share and 9.0 cents per preference share, taking the annual payouts to 9.75 cents per ordinary share (down 40.9%) and 12.75 cents per preference share (down 34.6%).

The net operating cash surplus was very high at \$187.6 million - compared with just \$1.9 million the previous year.

The company's share price was manipulated by the major shareholder announcing its "substantially incomplete" proposal for the "potential privatisation" of the company and then that it had been unable to arrange acceptable financing and was no longer proceeding.

Village Roadshow has also announced an agreement to sell its cinema, film distribution and film production businesses in Greece. This will realise around A\$80 million in cash and a profit of \$10-20 million after tax (4-9 cents per share) but with "no material impact" on future profitability. The sale will also remove around \$22 million of debt from the consolidated balance sheet. If the \$80 million proceeds were also used to repay debt then this sale would reduce group debts by around 10%.

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

For an explanation of this table see the *Share Selection Methods* report 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.

STRENGTH RATING													STRENGTH RATING																									
Company	Share Price	Cur- rent	4-Wk Chg.	Rank	Insider Buy/Sell	Relative Strength	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	Company	Share Price	Cur- rent	4-Wk Chg.	Rank	Insider Buy/Sell	Relative Strength	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n											
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld>0, RelStrength>0													<b>INSIDER BUYING:</b> Most Insider Buying, Relative Strength>0																									
SmithsCity	33	+0.6	-4.6	54	0-0	-0.4	2	1.6	17	6.1	0.08	17	HellabyHold.	159	+24.6	+14.6	3	15-0	-1.0	6	0.5	15	5.4	0.17	81	GuccoLeisure	48	+3.5	+1.1	40	13-0	-0.4	7	0.7	6	3.3	1.06	657
EbosGroupLtd	606	+10.3	+2.0	18	0-0	1.8	12	0.5	15	5.9	0.22	297	RestaurantBrds	100	+13.9	-4.2	13	10-0	-2.6	22	0.5	12	10.4	0.31	97	JustWaterInt.	40	+0.9	+2.5	53	7-0	-1.4	2	0.7	69	13.4	0.97	30
Turners&Grow.	152	+3.6	-2.4	40	1-0	-0.5	5	0.7	12	9.8	0.27	152	Comvita	119	+2.5	+9.0	45	5-0	-0.6	1	0.6	44	Nil	0.47	33	RubiconLimited	110	+20.2	+5.6	4	6-1	-1.3	-0.5	NE	Nil	0.55	274	
AlliedWork.	85	+10.8	+1.5	17	0-0	-1.3	12	1.1	10	11.4	0.29	22	TurnersAuction	110	+17.1	+9.6	8	4-0	-1.5	5	0.4	27	3.9	0.39	30	ScottTech.Ltd	117	+17.0	+9.8	8	4-0	-1.6	17	0.4	10	11.5	0.99	29
AirNewZealand	125	+6.3	+3.6	31	0-1	0.8	1	0.9	63	7.4	0.29	1,333	PortTauranga	667	+5.2	+0.7	34	3-0	-1.4	7	0.4	20	5.8	6.22	894	InfratilNZ	167	+1.6	-0.3	51	3-0	-1.1	-0.8	NE	5.6	0.50	869	
RestaurantBrds	100	+13.9	-4.2	13	10-0	-2.6	22	0.9	12	10.4	0.31	97	AMPOnyxMgmt	84	-4.6	+3.6	72	2-0	-0.9	-0.5	NE	8.2	6.27	838	AkdIntAirport	181	-1.2	+3.2	59	0-0	1	1.2	2	0.6	53	6.5	6.01	2,218
SeekaKiwifruit	275	+7.0	+4.1	28	2-0	-0.6	7	0.4	9	6.5	0.32	35	NZ FarmingSys.	45	-18.6	+1.2	90	8-1	-0.4	-0.8	NE	Nil	4.49	110	Metro.LifeCare	205	-8.0	+4.2	78	0-0	-0.6	-0.3	NE	Nil	4.29	251		
ZintelComm.	28	+14.2	+4.6	11	1-0	-1.3	20	1.8	6	16.0	0.36	14	WindflowTech.	125	-18.2	-1.7	89	0-0	-1.8	-0.4	NE	Nil	3.08	11	BurgerFuel	27	-6.9	-0.8	76	0-0	-3.1	-0.9	NE	Nil	3.03	14		
TurnersAuction	110	+17.1	+9.6	8	4-0	-1.5	5	0.7	27	3.9	0.39	30	LytteltonPort	246	-0.1	+0.4	56	0-0	-1.9	8	0.4	25	2.8	2.98	252	KermadecProp.	50	-1.4	+3.8	60	1-0	-0.6	-0.7	NE	10.0	2.96	39	
MainfreightGrp	513	+1.8	+3.6	49	0-14	-1.8	12	0.6	14	5.4	0.40	505	NZ RefiningCo	490	-5.0	-7.5	74	0-0	-2.0	21	0.4	9	13.7	2.96	1,176	WDriveTech.	10	-16.7	-5.0	88	0-0	-2.1	-1.2	NE	Nil	2.92	42	
InfratilNZ	167	+1.6	-0.3	51	3-0	-1.1	-1.0	NE	5.6	0.50	869	WNBrayCollect	99	-15.8	-2.6	86	0-2	-2.6	-0.3	NE	Nil	2.64	11	HorizonEnergy	295	-3.4	-1.1	67	0-0	-1.5	11	0.2	14	8.6	2.43	74		
TowerLimited	161	+6.1	-2.5	33	2-0	1.2	13	1.0	9	5.6	0.63	400	<b>OVER-VALUED SHARES:</b> Highest Price/Sales Ratios, Relative Strength<0																									
BriscoeGroup	118	+17.3	+0.1	7	0-0	-2.1	10	0.8	22	5.7	0.64	250	AMPOnyxMgmt	84	-4.6	+3.6	72	2-0	-0.9	-0.5	NE	8.2	6.27	838	AkdIntAirport	181	-1.2	+3.2	59	0-0	1	1.2	2	0.6	53	6.5	6.01	2,218
Steel&Tube	355	+5.1	+3.3	35	0-4	-2.1	17	0.7	12	7.6	0.65	313	NZ FarmingSys.	45	-18.6	+1.2	90	8-1	-0.4	-0.8	NE	Nil	4.49	110	Metro.LifeCare	205	-8.0	+4.2	78	0-0	-0.6	-0.3	NE	Nil	4.29	251		
CavalierCorp	247	+12.6	+7.0	15	0-0	1.9	16	0.8	12	8.7	0.67	166	WindflowTech.	125	-18.2	-1.7	89	0-0	-1.8	-0.4	NE	Nil	3.08	11	BurgerFuel	27	-6.9	-0.8	76	0-0	-3.1	-0.9	NE	Nil	3.03	14		
FletcherBuild.	795	+9.4	+2.8	20	0-5	1.6	12	0.7	14	5.9	0.68	4,806	WNBrayCollect	99	-15.8	-2.6	86	0-2	-2.6	-0.3	NE	Nil	2.64	11	LytteltonPort	246	-0.1	+0.4	56	0-0	-1.9	8	0.4	25	2.8	2.98	252	
MichaelHill	75	+7.5	-0.2	26	0-1	1.9	12	0.8	16	3.9	0.69	287	KermadecProp.	50	-1.4	+3.8	60	1-0	-0.6	-0.7	NE	10.0	2.96	39	NZ RefiningCo	490	-5.0	-7.5	74	0-0	-2.0	21	0.4	9	13.7	2.96	1,176	
TaylorGrpLtd	212	+15.2	+5.5	9	0-0	-1.7	14	0.7	12	8.8	0.73	52	WNBrayCollect	99	-15.8	-2.6	86	0-2	-2.6	-0.3	NE	Nil	2.64	11	WDriveTech.	10	-16.7	-5.0	88	0-0	-2.1	-1.2	NE	Nil	2.92	42		
WarehouseGroup	425	+4.7	+1.7	37	0-2	1.9	34	0.6	11	6.1	0.75	1,322	HorizonEnergy	295	-3.4	-1.1	67	0-0	-1.5	11	0.2	14	8.6	2.43	74	MowbrayCollect	99	-15.8	-2.6	86	0-2	-2.6	-0.3	NE	Nil	2.64	11	
<b>BEST PERFORMING SHARES:</b> Strongest Shares, P/E<20, P/S<1.0													<b>WORST PERFORMING SHARES:</b> Weakest Shares, P/S Ratio>0.25, Yield<Twice Average																									
PumpkinPatch	195	+24.9	+6.2	3	1-3	1	3.0	25	0.7	12	6.9	0.89	326	Charlie'sGroup	8	-58.3	+0.0	98	1-0	-1.7	-1.4	NE	Nil	0.73	23	PyneGouldCorp	109	-20.1	-5.9	92	0-0	-0.6	-0.6	NE	6.6	0.54	107	
HellabyHold.	159	+24.6	+14.6	3	15-0	-1.0	6	0.6	15	5.4	0.17	81	NuplexIndust	236	-19.4	+8.3	91	2-0	1	0.9	3	0.4	27	2.1	0.30	448	NZ FarmingSys.	45	-18.6	+1.2	90	8-1	-0.4	-0.8	NE	Nil	4.49	110
ScottTech.Ltd	117	+17.0	+9.8	8	4-0	-1.6	17	0.5	10	11.5	0.99	29	WindflowTech.	125	-18.2	-1.7	89	0-0	-1.8	-0.4	NE	Nil	3.08	11	WNBrayCollect	99	-15.8	-2.6	86	0-2	-2.6	-0.3	NE	Nil	2.64	11		
TaylorGrpLtd	212	+15.2	+5.5	9	0-0	-1.7	14	0.5	12	8.8	0.73	52	NZ FinanceHold	25	-10.0	+1.3	83	1-0	-1.1	-0.6	NE	Nil	0.49	19	TourismHold.	59	-9.9	+5.5	83	4-1	-0.3	-0.7	NE	Nil	0.34	58		
ZintelComm.	28	+14.2	+4.6	11	1-0	-1.3	20	1.4	6	16.0	0.36	14	CantyBldgSoc.	325	-9.1	+0.7	81	2-2	-0.7	4	0.2	20	3.7	1.07	39	NorthlandPort	195	-8.7	+2.8	80	0-0	-0.6	2	0.4	30	4.0	N/A	81
AbanoHealth.	667	+14.0	+4.4	12	0-0	-2.6	17	0.7	16	4.7	0.83	155	Metro.LifeCare	205	-8.0	+4.2	78	0-0	-0.6	-0.3	NE	Nil	4.29	251	BurgerFuel	27	-6.9	-0.8	76	0-0	-3.1	-0.9	NE	Nil	3.03	14		
RestaurantBrds	100	+13.9	-4.2	13	10-0	-2.6	22	0.7	12	10.4	0.31	97	BroadwayInd	30	-7.8	+5.9	77	0-0	-0.7	-0.6	NE	Nil	0.39	14	SkellerupHold.	66	-6.0	+2.7	74	5-0	1	1.2	13	0.8	10	5.4	0.49	89
CavalierCorp	247	+12.6	+7.0	15	0-0	1.9	16	0.6	12	8.7	0.67	166	BurgerFuel	27	-6.9	-0.8	76	0-0	-3.1	-0.9	NE	Nil	3.03	14	AMPOnyxMgmt	84	-4.6	+3.6	72	2-0	-0.9	-0.4	NE	8.2	6.27	838		
AlliedWork.	85	+10.8	+1.5	17	0-0	-1.3	12	0.9	10	11.4	0.29	22	HeritageGold	2	-4.6	-5.2	72	0-0	-0.5	-2.8	NE	Nil	N/A	6	CavotecMSL	302	-4.2	-1.0	71	0-0	-7.9	78	0.5	10	Nil	0.65	192	
EbosGroupLtd	606	+10.3	+2.0	18	0-0	1.8	12	0.4	15	5.9	0.22	297	OysterBay	240	-3.8	+0.3	70	0-0	-0.4	3	0.3	14	4.2	1.83	22	<b>INSIDER SELLING:</b> Most Insider Selling, Relative Strength<0												
FletcherBuild.	795	+9.4	+2.8	20	0-5	1.6	12	0.6	14	5.9	0.68	4,806	GuinnessPeat	80	-1.4	+4.0	61	0-2	-0.5	-0.6	NE	3.1	0.36	1,247	WNBrayCollect	99	-15.8	-2.6	86	0-2	-2.6	-0.3	NE	Nil	2.64	11		
MethvenLimited	159	+8.4	+3.0	24	1-2	-1.8	17	0.8	11	11.0	0.77	106	RakonLtd	135	-2.4	-2.3	62	1-3	-1.2	3	0.9	38	Nil	1.24	173													
MichaelHill	75	+7.5	-0.2	26	0-1	1.9	12	0.6	16	3.9	0.69	287																										
HallensteinG.	298	+7.4	+1.9	27	0-0	-2.7	32	0.4	8	17.5	0.89	178																										
SeekaKiwifruit	275	+7.0	+4.1	28	2-0	-0.6	7	0.3	9	6.5	0.32	35																										
TowerLimited	161	+6.1	-2.5	33	2-0	1.2	13	0.8	9	5.6	0.63	400																										
Steel&Tube	355	+5.1	+3.3	35	0-4	-2.1	17	0.6	12	7.6	0.65	313																										
WarehouseGroup	425	+4.7	+1.7	37	0-2	1.9	34	0.6	11	6.1	0.75	1,322																										
Turners&Grow.	152	+3.6	-2.4	40	1-0	-0.5	5	0.6	12	9.8	0.27	152																										
TelecomCorp	272	+3.3	+1.0	41	1-1	1.9	15	0.6	13	8.8	0.90	5,065																										
<b>INCOME SHARES:</b> Highest Yields, Capitalisation>NZ\$100million																																						
HallensteinG.	298	+7.4	+1.9	27	0-0	-2.7	32	0.4	8	17.5	0.89	178																										
NZ RefiningCo	490	-5.0	-7.5	74	0-0	-2.0	21	0.4	9	13.7	2.96	1,176																										
MethvenLimited	159	+8.4	+3.0	24	1-2	-1.8	17	0.7	11	11.0	0.77	106																										
GoodmanProp.	98	+3.8	+3.1	38	0-0	-0.9	-0.6	NE	10.6	6.39	828																											
INGProperty	77	+9.1	+6.1	22	3-0	-0.7	-0.5	NE	10.4	3.79	408																											
VectorLtd	200	-3.0	+0.1	66	2-0	1	1.0	9	0.7	11	9.8	1.70	1,912																									
Turners&Grow.	152	+3.6	-2.4	40	1-0	-0.5	5	0.5	12	9.8	0.27	152																										
KiwiProperty	102	+0.2	+3.2	56	0-0	-0.9	-0.6	NE	8.9	4.36	797																											
TelecomCorp	272	+3.3	+1.0	41	1-1	1.9	15	0.6	13	8.8																												

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

For an explanation of this table see the *Share Selection Methods* report 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.

STRENGTH RATING													STRENGTH RATING																				
Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Under-Valued	Best Performing	Income	Over-Valued	Worst Performing	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n	Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Under-Valued	Best Performing	Income	Over-Valued	Worst Performing	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
<b>UNDER-VALUED SHARES: Lowest Price/Sales, Yld &gt; 0, Rel Strength &gt; 0</b>																<b>BEST PERFORMING SHARES: Strongest Shares, P/E &lt; 20, P/S &lt; 1.0</b>																	
AustPharm.Ind	77	+7.6	-0.1	42	5-0	1	0.9	7	0.9	13	1.3	0.06	198				DecmilGroup	122	+119.6	+4.1	0	0-0	1	12.2	85	0.6	14	Nil	0.49	143			
AustLeadersFd	124	+24.0	-1.3	17	1-0	-	0.9	10	0.7	10	4.0	0.06	83				XtekLtd	4	+73.9	+1.9	3	1-0	-	1.3	33	2.6	4	Nil	0.23	3			
RossHumanDir.	38	+12.6	+17.0	31	2-0	-	1.7	22	1.1	8	4.6	0.08	32				Sietel Ltd	420	+64.8	+5.9	3	1-0	-	1.6	13	0.3	12	Nil	0.80	34			
MaxTrust	3	+37.8	+24.2	8	0-0	-	0.5	-	4.2	NE%	167.0	0.08	6				MacquarieCTel	375	+58.6	+6.4	4	0-0	-	1.6	16	0.4	10	Nil	0.30	77			
KLMGroupLtd	27	+18.5	+20.7	21	1-0	-	2.3	14	1.5	16	3.7	0.10	16				ForgeGroupLtd	116	+56.7	+31.1	4	1-0	-	3.8	76	0.8	5	2.6	0.47	79			
Namoi Cotton	42	+10.1	+0.8	36	3-0	-	0.4	7	1.1	6	9.5	0.10	40				CheviotBridge	6	+56.1	+14.7	4	2-0	-	-	-	2.2	6	Nil	0.18	6			
AdtransGroup	280	+6.1	+6.8	45	14-1	-	1.2	12	0.4	10	5.7	0.10	70				RHGLtd	53	+53.2	-12.3	5	0-1	-	1.0	67	0.9	1	Nil	0.22	171			
Ambition Group	28	+12.8	+15.1	31	1-0	-	2.2	-	1.4	NE	5.4	0.12	18				MPherson'sLtd	246	+51.5	+4.1	5	2-0	1	-	-	0.4	9	Nil	0.48	173			
Skilled Group	189	+1.5	+10.1	55	1-0	1	-	-	0.7	8	5.6	0.12	234				VietnamIndust.	33	+47.5	-7.8	6	0-0	-	1.7	44	0.9	4	Nil	0.12	47			
CaltexAustria	1224	+12.8	-3.7	31	0-1	2	1.3	7	0.4	18	2.9	0.14	3,305				SpecFashion	91	+40.4	+14.2	7	4-0	2	9.1	-	0.7	8	Nil	0.31	173			
Lindsay Aust	21	+5.8	+0.8	45	0-0	-	1.1	13	1.4	8	7.6	0.14	32				E-BettLtd	204	+37.3	-0.1	8	8-2	-	1.2	16	0.5	8	2.0	0.58	90			
PeopleBankAust	73	+24.3	+18.8	16	2-0	-	-	-	0.9	10	6.8	0.15	71				DanksHoldings	1323	+37.2	+20.8	8	1-0	-	-	-	0.2	12	5.7	0.15	86			
AutomotiveHold	204	+34.4	+6.4	9	1-0	-	3.8	20	0.7	19	6.9	0.15	460				AutomotiveHold	204	+34.4	+6.4	9	1-0	-	3.8	20	0.6	19	6.9	0.15	460			
DanksHoldings	1323	+37.2	+20.8	8	1-0	-	-	-	0.2	12	5.7	0.15	86				IdeasIntern'l	24	+34.4	-8.2	9	0-0	-	-	-	1.0	4	Nil	0.46	3			
EmpireLtd	11	+9.7	+8.2	37	1-0	-	2.2	23	2.2	10	6.8	0.16	5				E-BettLimited	10	+34.2	+13.2	9	4-0	-	-	-	1.7	14	Nil	0.82	21			
A.P. Eagers	915	+17.5	+3.6	23	9-0	-	1.1	13	0.2	8	4.8	0.16	275				BriertyLtd	44	+33.6	+23.7	10	3-0	-	1.4	19	1.0	7	3.4	0.27	48			
MerchantHouse	13	+6.8	+1.4	43	2-0	-	0.4	10	2.0	4	7.7	0.17	12				NRWHoldings	162	+33.0	+9.0	10	9-0	2	3.5	32	0.7	11	1.2	0.80	407			
PMPLimited	71	+3.0	+15.7	52	2-2	-	1.0	-	1.0	NE	4.2	0.18	238				BradkenLtd	652	+32.6	+11.4	10	5-1	4	5.0	39	0.7	13	5.7	0.68	827			
TagPacific	18	+2.3	+9.1	53	0-0	-	0.6	4	1.7	14	4.2	0.19	17				M2Telecom.Grp	117	+32.5	+9.0	10	0-1	-	-	-	0.6	17	4.7	0.63	127			
BSA Ltd	25	+4.9	+10.8	48	1-0	-	12.3	-	1.4	6	8.2	0.20	49				SuperCheapAuto	525	+32.0	+5.0	11	0-0	1	9.2	53	0.3	17	3.4	0.67	560			
Data 3 Ltd	701	+12.2	+2.2	32	0-1	-	6.0	55	0.4	11	7.1	0.20	108				GlobalConServ	88	+31.9	+14.8	11	0-0	-	1.9	28	0.8	7	7.4	0.86	74			
Village Road.	130	+5.7	+6.2	46	6-0	-	-	-	0.8	4	7.5	0.21	292				FSAGroupLtd	43	+31.9	-7.2	11	0-0	-	2.2	40	0.8	6	Nil	0.82	49			
WatpacLtd	176	+14.2	+10.1	28	1-0	-	1.2	19	0.7	6	6.0	0.21	212				ManacommCorp.	40	+30.6	+13.5	11	0-0	-	13.2	-	1.1	6	3.8	0.29	17			
AmbertechLtd	50	+3.0	+0.7	51	2-0	-	0.9	10	1.0	9	7.0	0.22	15				RCTRTomlinson	120	+29.7	+21.8	12	2-0	2	1.5	14	0.6	11	2.1	0.26	151			
SpotlessGroup	244	+4.4	+4.9	49	3-0	2	-	-	0.6	13	4.5	0.22	534				QuestusLtd	17	+29.3	+21.5	12	0-0	-	1.3	16	1.4	8	Nil	0.99	4			
SupplyNetwork	37	+11.8	+7.4	33	2-0	-	0.9	14	1.1	6	8.1	0.23	9				CPTGlobalLtd	78	+29.1	+15.1	12	0-1	-	3.7	28	0.6	13	7.1	0.65	29			
KrestaHoldings	20	+12.9	+10.5	31	3-0	-	1.3	16	1.5	8	5.0	0.24	29				HomeLoansLtd	83	+27.3	+13.0	14	2-0	-	1.8	15	0.7	11	8.5	0.82	81			
HastieGroup	190	+7.0	+9.3	43	7-0	2	-	-	0.6	8	6.3	0.25	444				AustinEng.	231	+26.2	+6.1	14	1-1	1	3.7	34	0.7	11	3.5	0.88	158			
DiplomaGroup	30	+18.3	+10.5	22	3-0	-	5.0	28	1.4	18	3.3	0.25	36				DownerEDILtd	828	+25.6	+12.4	15	3-0	4	3.8	26	0.5	14	3.5	0.47	2,741			
RCRTomlinson	120	+29.7	+21.8	12	2-0	2	1.5	14	0.7	11	2.1	0.26	151				WDSLimited	209	+25.3	+2.6	15	4-1	-	4.4	37	0.6	12	2.1	0.48	237			
ITXGroup	76	+11.2	+4.6	34	0-0	-	5.1	95	1.0	5	7.9	0.26	38				PeopleBankAust	73	+24.3	+18.8	16	2-0	-	-	-	0.7	10	6.8	0.15	71			
Brierty Ltd	44	+33.6	+23.7	10	3-0	-	1.4	19	1.3	7	3.4	0.27	48				AustLeadersFd	124	+24.0	-1.3	17	1-0	-	0.9	10	0.5	10	4.0	0.06	83			
UXC Limited	91	+17.9	+14.5	22	0-0	2	-	-	0.7	14	3.8	0.28	197				BrevilleGroup	125	+22.3	+5.6	18	5-0	1	2.6	25	0.6	10	4.4	0.37	162			
Photon Group	173	+19.3	+1.4	20	6-2	-	-	-	0.6	7	7.2	0.29	266				FantasticHold.	340	+21.1	+2.4	19	2-0	1	4.7	25	0.4	19	2.8	0.87	349			
ManacommCorp.	40	+30.6	+13.5	11	0-0	-	13.2	-	1.4	6	3.8	0.29	17				XRFScientific	14	+20.5	+4.9	19	4-0	-	1.8	27	1.6	7	5.4	0.75	13			
MaxiTRANS	41	+5.3	+12.9	46	4-0	3	1.3	7	1.1	18	2.4	0.29	74				LogicamsLtd	83	+20.3	+16.7	20	1-0	-	3.2	49	0.8	7	6.6	0.59	30			
ZicomGroup	19	+16.6	+10.7	24	5-0	-	0.9	23	2.1	4	3.2	0.30	39				PhotonGroup	173	+19.3	+1.4	20	6-2	-	-	-	0.5	7	7.2	0.29	266			
TuttBryantGrp	70	+2.0	+3.7	54	0-0	-	0.9	13	0.9	7	6.4	0.30	96				UnitedGroup	1527	+19.2	+9.2	21	0-0	3	-	-	0.5	18	4.2	0.53	2,510			
SigmaPharm.	107	+6.4	+2.3	44	0-0	3	-	-	0.7	12	6.5	0.30	936				MortgageChoice	127	+19.2	+4.9	21	1-0	-	2.4	17	0.5	14	8.1	0.79	151			
GEOProperty	16	+3.0	+13.1	52	3-0	-	0.4	-	1.7	NE	12.5	0.30	68				KLMGroupLtd	27	+18.5	+20.7	21	1-0	-	2.3	14	1.2	16	3.7	1.10	16			
LendLeaseCorp	992	+10.6	+6.4	35	1-0	1	2.4	-	0.4	NE	4.1	0.31	4,539				DiplomaGroup	30	+18.3	+10.5	22	3-0	-	5.0	28	1.1	18	3.3	0.25	36			
MetcashLtd	447	+2.1	+0.2	54	0-1	4	34.4	-	0.6	16	5.4	0.31	3,419				UXC Limited	91	+17.9	+14.5	22	0-0	2	-	-	0.5	14	3.8	0.28	197			
Coffey Int'l	217	+4.4	+0.1	49	2-0	-	-	-	0.6	16	6.0	0.33	267				Netcomm Limited	26	+17.8	+8.3	22	0-0	-	2.4	52	0.9	5	Nil	0.34	27			
ProMaintenance	412	+15.2	+10.8	26	0-0	3	8.1	56	0.4	15	3.5	0.33	408				A.P. Eagers	915	+17.5	+3.6	23	9-0	-	1.1	13	0.2	8	4.8	0.16	275			
NewsCorp.	1591	+6.5	+0.8	44	0-0	1	-	-	0.3	NE	0.9	0.34	12,704				ZicomGroup	19	+16.6	+10.7	24	5-0	-	0.9	23	1.7	4	3.2	0.30	39			
GazalCorp	145	+0.9	+10.5	56	1-0	-	2.0	16	0.6	13	5.5	0.36	88				liNet	214	+16.0	+3.7	25	2-1	2	-	-	0.5	13	3.7	0.77	323			
WAMActiveLtd	97	+12.7	+2.5	31	0-0	-	0.9	4	1.1	23	2.1	0.37	15				MonadelphousGr	1305	+15.9	+1.3	25	3-0	5	9.3	62	0.3	15	5.7	0.99	1,122			
NomadBuilding	112	+14.6	+18.1	27	2-3	2	-	-	0.9	12	4.0	0.37	153				WatercoLtd	95	+15.7	+7.8	25	0-0	-	0.6	5	0.7	12	3.2	0.39	28			
Breville Group	125	+22.3	+5.6	18	5-0	1	2.6	25	0.7	10	4.4	0.37	162				ProMaintenance	412	+15.2	+10.8	26	0-0	3	8.1	56	0.3	15	3.5	0.33	408			
EnvirozeelLtd	15	+8.0	+4.3	41	11-0	-	3.6	24	1.8	15	3.4	0.37	30				NomadBuilding	112															

Company	STRENGTH RATING										Market Cap'n		
	Share Price	Cur. rent	4-Wk Chg.	Rank 0-99	Insider Buy/Sell	Brokers Following	Price to NTAEquity	Return on til-ity	Vola-Price Ratio	Divi- Yield		Price Sales Ratio	
<b>INCOMESHARES: Highest Yields, Capitalisation &gt;A\$250 million</b>													
GPT Group	61	-8.4	+5.7	77	1-0	1	0.4	-	0.7	NE	29.3	2.95	5,406
HastDiv Util	97	-13.3	-1.0	84	0-0	1	0.5	-	0.6	NE	29.0	1.96	411
Australand Prop	54	+16.5	+4.1	24	1-0	-	0.6	10	0.6	6	20.4	1.20	1,557
Aspen Group Ltd	45	-12.4	+8.0	83	2-1	2	0.4	-	0.8	NE	20.0	3.57	251
Abacus Property	40	-4.5	+2.6	70	5-0	2	0.3	-	0.7	NE	19.6	4.31	596
Spark Infrastru	111	-3.7	+0.8	69	0-1	2	0.7	1	0.7	118	16.8	4.88	1,115
Chal Div Prop	40	+0.1	+2.3	58	1-0	-	0.5	8	0.8	6	16.8	2.74	342
ING Office Fund	59	-4.6	+2.1	71	1-1	1	0.6	-	0.6	NE	16.5	4.51	1,057
Goodman Group	61	-15.7	+12.9	87	2-1	1	0.6	-	0.7	NE	15.8	N/A	3,158
DUET Group	160	-8.3	+0.4	77	3-0	-	0.9	-	0.4	NE	15.1	1.31	1,370
Ale Property	199	+4.6	-0.5	48	5-2	-	0.6	9	0.3	7	15.1	3.53	261
SP Ausnet	83	-9.5	+1.7	79	0-1	2	0.9	8	0.5	12	14.3	1.50	2,590
Macquarie Infra	141	-5.0	+0.2	71	1-0	1	0.8	-	0.5	NE	14.2	N/A	3,178
Envestra	52	+4.1	-0.4	49	2-0	1	-	-	0.6	2	14.1	1.73	673
Chal Infra Fund	148	-8.1	+0.1	77	0-0	1	-	-	0.4	NE	13.5	1.02	498
Macquarie Off.	29	-6.7	+6.9	74	0-1	0.6	-	-	0.8	NE	12.9	3.81	1,329
Cromwell Group	70	-0.1	+3.0	60	8-0	1	0.9	-	0.4	NE	12.9	3.54	492
Aneka Tambang	102	-16.3	+3.7	89	0-0	-	-	-	1.1	NE	11.8	N/A	1,946
Boart Longyear	29	-0.5	+14.6	61	7-0	2	-	-	1.1	2	11.3	0.21	854
APN News Media	200	-0.1	+7.7	60	1-2	1	-	-	0.4	NE	11.3	0.82	1,177
Macquarie Air.	246	+8.5	+0.6	39	0-0	1	-	-	0.3	2	11.0	0.84	4,228
Ten Network	126	+12.4	+2.9	32	0-1	1	-	-	0.5	13	10.7	1.16	1,166
Macquarie CWide	66	+26.2	+4.5	15	1-0	1	0.9	-	0.6	NE	10.7	4.65	959
STW Comm Group	78	+9.4	+8.3	37	1-0	1	-	-	0.6	9	10.3	0.52	279
Ardent Leisure	142	+7.9	-1.4	41	0-0	-	1.2	-	0.6	NE	10.1	0.93	342

<b>INSIDER BUYING: Most Insider Buying, Relative Strength &gt;0</b>													
Mindax Limited	36	+4.2	-12.9	49	25-0	-	-	-	0.6	NE	Nil	N/A	28
Ridley Corp.	103	+8.0	+5.8	41	16-0	2	1.2	5	0.5	24	6.8	0.39	316
Runge Ltd	89	+16.1	+6.3	25	15-0	-	7.4	53	0.8	14	5.1	1.32	110
Red Hill Iron	265	+9.1	-3.2	38	14-0	-	-	-	0.6	NE	Nil	N/A	104
Primary Health	637	+11.5	+2.0	33	19-5	5	-	-	0.2	23	2.2	2.07	2,744
Magellan Fin Gp	82	+25.1	+7.6	16	13-0	-	-	-	0.7	NE	Nil	N/A	120
Adtrans Group	280	+6.1	+6.8	45	14-1	-	1.2	12	0.2	10	5.7	0.10	70
Symex Holdings	54	+9.8	+4.5	37	12-0	-	2.2	30	0.5	7	3.7	0.42	69
Coventry Group	155	+1.0	+9.4	56	11-0	-	0.5	4	0.4	11	Nil	0.15	61
Envirozell Ltd	15	+8.0	+4.3	41	11-0	-	3.6	24	0.9	15	3.4	0.37	30
Bell Financial	88	+23.9	+6.0	17	11-0	-	3.3	22	0.7	15	5.7	1.21	213
Diatreme Res.	16	+6.3	-2.0	44	11-0	-	-	-	1.0	NE	Nil	N/A	22
Soul Pattinson	1200	+11.3	+2.4	34	10-0	1	1.2	4	0.3	32	2.5	4.20	2,864
Bow Energy Ltd	154	+31.8	+4.2	11	10-0	-	-	-	0.8	NE	Nil	N/A	193
NRW Holdings	162	+33.0	+9.0	10	9-0	2	3.5	32	0.6	11	1.2	0.80	407
Tishman Speyer	33	+8.5	+8.5	39	9-0	-	0.6	-	0.7	NE	Nil	0.56	112
Tranzact Fin.	18	+3.4	+6.6	51	9-0	-	2.6	23	1.1	11	1.9	2.57	20
Metals Finance	10	+4.7	-4.6	48	9-0	-	0.4	-	1.3	NE	Nil	N/A	7
A.P. Eagers	915	+17.5	+3.6	23	9-0	-	1.1	13	0.1	8	4.8	0.16	275
Macarthur Coal	871	+29.1	+2.6	12	9-0	4	2.2	16	0.4	13	1.5	3.19	2,215
Clime Inv Mgmt	36	+16.2	-1.5	25	9-0	-	0.5	NE	1.0	6.17	18		

Company	STRENGTH RATING										Market Cap'n		
	Share Price	Cur. rent	4-Wk Chg.	Rank 0-99	Insider Buy/Sell	Brokers Following	Price to NTAEquity	Return on til-ity	Vola-Price Ratio	Divi- Yield		Price Sales Ratio	
Customers Ltd	290	+26.6	-2.0	14	9-0	-	32.2	53	0.6	61	Nil	4.26	381
Cape Lambert IO	42	+13.2	+3.4	30	9-0	-	-	-	0.8	NE	Nil	N/A	106
MEO Australia	63	+114.7	+54.0	1	8-0	-	-	-	0.8	NE	Nil	N/A	198
SP Telemedia	84	+88.3	+17.7	2	8-0	-	-	-	0.6	NE	Nil	1.29	575
Wavenet Int'l	7	+13.5	-4.9	29	8-0	-	0.5	1	1.6	39	Nil	4.00	4
Stirling Res.	20	+2.4	-5.2	53	8-0	-	0.5	-	1.3	NE	Nil	N/A	9
Headline Group	14	+5.8	+6.1	45	8-0	-	1.0	-	0.9	NE	Nil	1.38	17
Gujarat NRE Min	64	+12.6	+4.3	31	8-0	-	1.2	-	0.7	NE	Nil	2.53	514
New Hope Corp.	523	+14.6	-0.6	27	8-0	3	1.8	4	0.4	47	1.1	N/A	4,229
Anglo Pacific	350	+2.0	-0.7	54	8-0	-	-	-	0.3	6	4.5	N/A	372
Chalice Gold	39	+57.7	-13.5	4	8-0	-	-	-	1.1	NE	Nil	N/A	28
ChalDeco Ltd	565	+39.2	+15.3	7	8-0	-	-	-	0.8	NE	Nil	N/A	537
Finbar Group	82	+21.7	+0.8	18	9-1	-	1.5	24	0.4	6	8.5	2.13	116
Macquarie Media	166	+2.9	-1.6	52	7-0	1	-	-	0.4	NE	4.7	0.58	316
Patties Foods	97	+4.7	+7.7	48	7-0	1	4.2	35	0.5	12	4.6	0.75	135
Hastie Group	190	+7.0	+9.3	43	7-0	2	-	-	0.4	8	6.3	0.25	444
Gloucester Coal	610	+2.9	-5.6	52	7-0	3	4.8	78	0.4	6	2.2	1.63	500
Greenland Min.	55	+10.7	-1.7	35	7-0	-	-	-	1.1	NE	Nil	N/A	20
Impress Energy	6	+34.6	-3.3	9	7-0	-	-	-	1.6	NE	Nil	5.54	35
Koon Holdings	35	+5.8	+12.3	46	7-0	-	1.1	8	0.6	14	Nil	0.22	28
Treasury Group	540	+2.0	+4.1	54	6-0	-	2.6	10	0.3	25	3.7	N/A	125
Charter Pacific	7	+6.8	+5.6	43	6-0	-	0.4	-	1.3	NE	Nil	5.19	6
Aurox Resources	31	+19.2	-0.2	21	6-0	-	-	-	0.9	NE	Nil	N/A	22
Village Road.	130	+5.7	+6.2	46	6-0	-	-	-	0.5	4	7.5	0.21	292
Transfield Serv	421	+10.1	+10.6	36	6-0	3	-	-	0.6	14	2.9	0.51	1,740
Marengo Mining	22	+13.0	+6.5	30	6-0	-	-	-	1.3	NE	Nil	N/A	58
Wilson HTM Inv.	110	+1.0	-3.9	56	6-0	-	1.7	3	0.6	51	1.8	1.32	113
Entek Energy	16	+44.3	+16.3	6	6-0	-	-	-	1.0	NE	Nil	N/A	23
Regis Resources	50	+28.7	-21.7	13	6-0	-	-	-	1.0	NE	Nil	N/A	61
CSG Ltd	124	+31.5	+3.4	11	6-0	-	-	-	0.7	9	3.6	1.10	218
Alesco Corp Ltd	473	+14.3	+3.6	28	6-0	3	9.7	-	0.3	NE	1.5	0.51	441
Amalgamated Hld	546	+8.8	+5.6	39	7-1	-	1.2	12	0.3	10	5.9	1.00	712
Collection Hse	68	+8.9	+4.2	38	7-1	-	0.8	10	0.4	8	7.2	0.65	66
Pan Pacific Pet	59	+41.3	+7.7	7	7-1	-	2.3	27	0.8	8	Nil	3.78	344
Credit Corp	204	+37.3	-0.1	8	8-2	-	1.2	16	0.4	8	2.0	0.58	90
Aust Pharm. Ind	77	+7.6	-0.1	42	5-0	1	0.9	7	0.6	13	1.3	0.06	198
Industrea Ltd	45	+42.8	+15.7	7	5-0	2	-	-	0.8	25	2.8	1.50	389
Razor Risk Tech	4	+12.0	-3.9	33	5-0	-	-	-	2.3	8	Nil	0.62	11
IMD Group	81	+20.5	+6.7	19	5-0	3	4.2	33	0.5	13	1.2	1.14	156
Antares Energy	29	+78.7	-98.7	2	5-0	-	-	-	0.8	NE	Nil	N/A	45
Conquest Mining	72	+33.3	+6.3	10	5-0	-	-	-	0.5	NE	Nil	N/A	9
Swick Min Serv	65	+14.8	+12.6	27	5-0	1	1.4	15	0.6	10	Nil	1.18	108
African Energy	8	+17.3	-8.2	23	5-0	-	-	-	1.4	NE	Nil	N/A	12
CO2 Group Ltd	24	+7.0	+5.1	43	5-0	-	6.0	6	1.0	109	Nil	4.96	74
Transit Hold.	25	+38.5	-1.8	8	5-0	-	-	-	1.1	NE	Nil	N/A	7
Breville Group	125	+22.3	+5.6	18	5-0	1	2.6	25	0.5	10	4.4	0.37	162
TNG Limited	10	+10.9	+10.1	35	5-0	-	-	-	1.4	NE	Nil	N/A	28
Vita Group Ltd	20	+12.1	+20.0	32	5-0	-	-	-	0.8	5	Nil	0.09	28
Oropa Limited	5	+8.7	-1.2	39	5-0	-	-	-	1.8	NE	Nil	N/A</	



# “Neglect” Ratings of Australian Shares

“Neglected” Shares = 0-1 Brokers, “Moderately Followed” Shares = 2-3 Brokers, “Widely Followed” Shares = 4-5 or more Brokers.

Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following	Market Capitalisation (NZ\$ Mill.)	
ABB Grain Ltd	1	1,602	Codan Ltd	1	163	Lynas Corp Ltd	2	356	Roc Oil Company	3	379	
AGL Energy Ltd	2	6,037	Com'wealth Bank	3	71,953	Mac Services	4	301	SAI Global Ltd	2	517	
AJ Lucas	2	310	Computershare	2	5,751	MacMahonHold	4	477	SDILimited	1	28	
AMP Ltd	1	12,755	ConnectEast Grp	2	1,379	Macarthur Coal	4	2,215	SMS Mgmt & Tech	1	357	
ANZ Bank	4	46,282	Cooper Energy	1	124	Macquarie Air.	1	4,228	SP Ausnet	2	2,590	
APA Group	2	1,511	Corp Express	2	676	Macquarie Group	1	15,114	STWCommGroup	1	279	
APN News Media	1	1,177	Count Financial	1	397	Macquarie Media	1	316	Salmat Ltd	2	619	
APN Property	1	47	Crane Group	3	853	Macquarie C'Wde	1	959	Santos Ltd	1	13,002	
ARB Corporation	1	308	Cromwell Group	1	492	Macquarie Infra	1	3,178	Sedgman Ltd	1	299	
ASG Group Ltd	1	132	Crown Ltd	2	6,173	Macquarie Off.	1	1,329	Seek Ltd	3	1,857	
ASX Limited	2	5,701	DWS Adv Bus Sol	2	172	Marion Energy	2	43	Select harvest	3	139	
AWB Limited	1	475	David Jones	3	2,582	Marybor'gh Suga	1	105	Service Stream	1	105	
AXA Asia Pac	2	7,053	Decmil Group	1	143	MaxiTRANS	3	74	Seven Network	1	1,197	
Abacus Property	2	596	Dexus Property	1	3,479	McPherson's Ltd	1	173	SigmaPharm.	3	936	
Adcorp Aust.	1	15	DominionMining	3	453	MelbourneIT	1	135	Sims Metal Mgmt	2	4,297	
Adelaide Bright	4	1,481	Domino'sPizza	1	272	MermaidMarine	2	547	Sino Gold Min.	2	2,072	
Aevum Ltd	2	179	Downer EDI Ltd	4	2,741	Metcash Ltd	4	3,419	SkilledGroup	1	234	
Alesco Corp Ltd	3	441	East'n Star Gas	2	678	Minara Resource	4	1,057	Slater & Gordon	1	172	
Alumina Ltd	2	4,145	Elders Limited	1	183	Mincor Resource	4	494	Sonic Health	3	5,418	
Amadeus Energy	1	54	Emeco Holdings	3	559	Mineral Res.	2	688	Soul Pattinson	1	2,864	
Ancor Ltd	1	6,829	Energy Resource	2	5,018	Mineral Deposit	1	439	Spark Infrastru	2	1,115	
Ansell Ltd	2	1,246	Envestra	1	673	MirabelaNickel	2	404	Spec Fashion	2	173	
Aquarius Plat.	1	2,542	FKPLimited	1	282	Mirvac Group	1	4,352	Spotless Group	2	534	
Aquila Res.	2	1,194	Fairfax Media	1	3,869	MitchellComm.	1	238	St Barbara Ltd	3	471	
Aristocrat Leis	2	2,054	Fantastic Hold.	1	349	Molopo Aust	1	234	Sth Cross Elect	1	175	
Arrow Energy	2	3,159	Felix Resources	2	3,457	Monadelphous Gr	5	1,122	Stockland	1	9,199	
Asciano Group	2	2,029	Fleetwood Corp	3	409	Mosaic Oil NL	1	69	Straits Res.	2	1,956	
Aspen Group Ltd	2	251	Flexicorp Ltd	2	358	Mt Gibson Iron	3	1,231	Strike Oil Ltd	1	70	
Atlas Iron Ltd	2	373	FlightCentre	3	1,358	NRWHoldings	2	407	Structural Syst	2	44	
Ausdrill Ltd	2	313	Fortescue Metal	3	13,141	Nanosonics Ltd	1	91	Suncorp-Metway	2	10,222	
Ausenco Ltd	3	484	Foster's Group	1	10,800	Nat'l Aust Bank	4	48,635	Sunland Group	1	250	
Austar United	2	1,453	Funtastic Ltd	1	30	Navitas Ltd	4	1,170	SuperCheap Auto	1	560	
Aust Agricult.	1	399	G.R.D.NL	2	103	Neptune Marine	2	291	Swick Min Serv	1	108	
Austin Eng.	1	158	G.U.D.Holdings	2	526	New Hope Corp.	3	4,229	TFS Corporation	1	196	
Aust Infra.	1	923	GPT Group	1	5,406	Newcrest Mining	3	16,511	Tabcorp Holding	2	4,250	
Aust Pharm. Ind	1	198	GWA Internat'l	3	843	News Corp.	1	12,704	Talent2Int'l	1	180	
Aust W'wide Exp	3	1,297	GindalbieMet.	1	441	Nexus Energy	1	185	Tap Oil	2	170	
Avoca Resources	4	459	Gloucester Coal	3	500	Nick Scali Ltd	1	93	Tassal Group	2	244	
B & B Infrastr.	1	137	Goodman Group	1	3,158	Nido Petroleum	1	112	Tatts Group Ltd	2	3,251	
BHPBilliton	4	128,538	Goodman Fielder	1	2,222	NomadBuilding	2	153	Technology One	2	229	
BT Invest Mgmt	2	344	Graincorp	1	513	Nufarm Limited	3	1,883	Telstra	3	41,311	
Bank of Q'land	2	1,853	Gunns Ltd	2	768	OZ Minerals Ltd	3	3,496	Ten Network	1	1,166	
Beach Petroleum	1	794	Harvey Norman	3	4,260	Oakton Limited	2	267	Terramin Aust	2	63	
Becton Prop Grp	1	23	Hastie Group	2	444	Oil Search Ltd	2	7,335	The Reject Shop	5	344	
Bendigo Bank	2	2,782	Hast Div Util	1	411	Onesteel Ltd	1	4,402	Toll Holdings	4	5,912	
Billabong Int'l	2	2,581	Healthscope	3	1,180	Orica Ltd	4	8,387	Tower Australia	1	945	
Blackmores Ltd	1	318	Henderson Group	1	4,972	Origin Energy	2	13,159	Tox Free Sol.	1	187	
Bluescope Steel	1	5,597	Hills Indust.	1	373	Pacific Brands	3	1,043	Transurban Grp	1	5,087	
Boart Longyear	2	854	Horizon Oil Ltd	2	293	Panaust Ltd	1	836	Transfield S In	1	247	
Boom Logistics	2	97	Hunter Hall Int	1	160	Panoramic Res.	3	518	Transfield Serv	3	1,740	
Boral Limited	3	3,498	I-SOFT Group	2	892	Patties Foods	1	135	UXCLimited	2	197	
Bradken Ltd	4	827	IMDGroup	3	156	Peet Ltd	1	523	Un. Biosensors	1	213	
Brambles Ltd	2	10,864	ING Office Fund	1	1,057	Perilya Mines	1	194	United Group	3	2,510	
Breville Group	1	162	ING Indust Trt	1	680	Perpetual Ltd	2	1,676	VDM Group Ltd	1	63	
Brickworks Ltd	2	1,765	IOOF Holdings	4	1,092	Petsec Energy	1	37	Valad Property	1	193	
Bunnings W/hse	3	752	iNet	2	323	Pipe Networks	1	307	Viridis Clean E	1	53	
C'wth Prop Off.	1	1,684	Iluka Resources	2	1,595	Platinum Aust	1	194	Vision Group	2	79	
C.S.R. Ltd	3	2,482	Incitec Pivot	3	3,737	Platinum Asset	2	3,080	W'bool Cheese	1	83	
CFS Retail Prop	1	4,696	Independ. Group	3	540	Po Valley Ener.	1	76	WHK Group Ltd	1	266	
CSL Limited	2	20,500	Industrea Ltd	2	389	Premier Invest	2	656	Wattyl Ltd	1	72	
Cabcharge Ltd	1	724	Insurance Aust.	1	7,726	Primary Health	5	2,744	Webjet NL	2	119	
Caltex Australia	2	3,305	Int Research	1	59	Pro Maintenance	3	408	Wellcom Group	1	74	
Campbell Bros	1	1,291	Intrepid Mines	1	143	Q.B.E. Insur.	2	20,012	Wesfarmers Ltd	4	29,274	
Cardno Ltd	2	372	Invocare Ltd	3	618	Qantas Airways	2	6,093	Westfield Group	2	23,178	
Cararvon Pet.	2	352	Iress Mkt Tech	2	1,021	RCRTomlinson	2	151	Western Areas	3	933	
Cash Converters	1	144	JB Hi-Fi Ltd	5	1,941	Ramsay Health	3	1,926	Westpac Banking	3	64,668	
Chal Infra Fund	1	498	Jabiru Metals	3	172	Reckon Limited	1	196	West Aust News	3	1,375	
Chandler McLeod	1	39	James Hardie	2	3,168	Redflex Holding	1	212	Whitehaven Coal	2	1,482	
Charter Hall GR	1	412	Kagara Ltd	2	433	Resolute Mining	2	215	Woodside Petrol	2	33,710	
Clarius Group	1	65	Kingsgate Cons.	2	769	Retail Food Grp	2	256	Woolworths Ltd	4	35,145	
Clive Peeters	1	41	Leighton Hold	4	11,096	Reverse Corp	1	54	Worley Group	3	6,979	
CocaCola Amatil	2	7,165	Lend Lease Corp	1	4,539	Ridley Corp.	2	316	Wotif.com Hold.	4	1,211	
Cochlear Ltd	2	3,464	Lihir Gold Ltd	2	6,605	Rio Tinto Ltd	2	41,262				
Cockatoo Coal	1	143	Lycopodium Ltd	1	119	Riversdale Min.	2	1,157				

**Investment Outlook***(Continued from Page 1)*

cents) our *real money* portfolio was able to buy additional shares at significantly lower prices during the decline (i.e. CPT Global dropped to a low of 27 cents in February this year and has since almost *tripled*). We also had cash from CEY and CPU to add to other existing shareholdings at low prices (e.g. Clarius Group which has more than *tripled* from its January low).

The sale of low yielding shares like CEY and CPU, and re-investing in much higher yielding shares, has also boosted our recurring dividend cashflow, offsetting the (temporary) dividend cuts made by many companies as profits dipped or to retain additional cash at this time.

Similar opportunities occur during *upward* fluctuations in the stockmarket: The Telecommunications boom and takeover of JNA (up 3½-fold) in 1998 helped finance the purchase of Flight Centre, Toll Holdings and Vision Systems. The Technology boom offered the opportunity to realise gains on fully-valued shares (e.g. ERG for a 7-fold gain and Flight Centre for a 6-fold gain in 2000).

This isn't short term "share trading". We spend a lot of time trying to find the right companies in which to invest. We certainly don't always get it right, but we do manage to find some companies that become very successful. As long as these companies continue to grow and their shares trade at a reasonable valuation, then we are happy to hold for the very long term. Michael Hill International, for example, has been in our portfolio for over 18 years! But good companies often get taken over. Or growth potential can eventually slow. Or they can be discovered by institutional investors who bid up the share price. Or just market fluctuations can lift the shares to levels that look too expensive relative to alternative investments.

Stockmarket fluctuations cause most investors to become optimistic at a market high and to buy - or to become pessimistic at a market bottom and to sell. This is a guaranteed way to *lose* wealth. Avoiding that manic-depressive response will earn investors closer to long term market average returns of 10% per annum. That compounds to a 2½-fold gain per decade, or 17-fold gain over 30 years or - if you start young enough - a 300-fold gain over 60 years.

Keep your head during the boom/bust roller coaster ride of the stockmarket *and* also apply some sensible and intelligent analysis to shares . . . and you too could be consistently "lucky" on the stockmarket!!

For the immediate outlook, our expectation is that stockmarkets will continue to recover - and historically our *Recommended Portfolio* has outperformed strongly during such periods. Our portfolio, for example, rose 102% in 1991 and a further 77% in 1992 for a two year gain of 257% which far outperformed the 92% recovery in the general market!

Over the last 12-18 months we have used the stockmarket decline to acquire shares in some high quality growth companies at very low valuations and positioned our portfolio for recovery and long term growth. Remain fully invested in the recommended shares.

# Dividends

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Air New Zealand	3.50	11-09	18-09	Full
Auckland Int'l Airport	4.45	16-10	23-10	Full
AMP Office Trust	1.333	27-08	03-09	0.031
Barramundi	1.47	07-09	18-09	partial
Briscoes Group	2.00	25-09	02-10	Full
Cavalier Corporation	8.00	02-10	16-10	Full
Colonial Motor Company	9.00	16-10	27-10	Full
Contact Energy	17.00	28-08	22-09	Full
Cynotech Holdings	0.05	25-09	30-09	Nil
Delegat's Group	8.00	09-10	23-10	Full
Ebos Group	14.50	04-09	10-09	Full
Fletcher Building	14.00	25-09	10-10	3.0
GuocoLeisure	S\$0.015	-	18-11	Nil
Freightways	8.50	18-09	30-09	Full
ING Medical Properties	2.125	01-09	15-09	-
Just Water International	1.98	02-10	09-10	Full
Kingfish	2.05	04-09	18-09	Full
Lytelton Port Company	3.40	16-10	29-10	Full
MarlinGlobal	2.00	04-09	18-09	Full
Michael Hill International	1.50	02-10	17-10	Nil
New Image	1.00	-	-12	
NZ Experience	2.25	25-09	09-10	Full
NZ Oil & Gas	5.00	18-09	02-10	Full
NZ Wine Company	2.00	18-09	25-09	Full
Northland Port	3.00	18-09	25-09	Full
Nuplex Industries	5.00	02-10	16-10	Nil
Nuplex Industries special	3.50	02-10	16-10	Nil
Oyster Bay	10.00	30-10	13-11	Nil
Port of Tauranga	18.00	18-09	02-10	Full
Sky City Entertainment	6.50	04-09	11-09	Full
Sky TV Network	7.00	04-09	11-09	Full
South Port NZ	9.00	25-09	03-11	Full
Steel & Tube Holdings	9.00	11-09	30-09	Full
Tag Pacific	A\$0.0075	18-09	16-10	
Taylors Group	7.00	18-09	02-10	Full
TeamTalk	10.00	30-10	06-11	Full
Telecom NZ	6.00	04-09	18-09	Nil
Turners Auctions	5.00	10-09	17-09	Full
Vector	7.25	08-09	11-09	Full
Warehouse Group	5.50	06-11	18-11	Full
Warehouse Group special	10.00	06-11	18-11	Full
<u>Australian Shares</u>				
AJ Lucas Group	5.50	01-09	28-09	
Breville Group	1.50	14-09	13-10	
Charter Hall Group	1.00	24-06	28-09	
CPT Global	3.00	22-09	12-10	
Fiducian Portfolio Services	3.00	01-09	17-09	
Integrated Research	2.50	20-08	18-09	
M2 Telecommunications	3.00	09-10	30-10	
Melbourne IT	7.00	14-09	16-10	
Photon Group	6.50	27-08	11-09	
Probiotec	2.00	28-08	01-10	
Prophesy International	2.25	08-09	02-10	
Ross Human Directions	1.00	14-09	09-10	
Skilled Group	1.50	29-09	14-10	
TFS Corporation	3.00	26-11	22-12	
The Reject Shop	23.00	22-09	12-10	
Village Roadshow pref.	9.00	12-11	02-12	

## Next Issue:

The next issue of *Market Analysis* will be emailed in four weeks time on Monday October 12, 2009.

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

MARKET ANALYSIS is published 12 times per year by Securities Research Company Limited, P.O. Box 34-162, Birkenhead, Auckland. Subscribe online at [www.stockmarket.co.nz](http://www.stockmarket.co.nz) or [www.australia-stockmarket.com](http://www.australia-stockmarket.com) or email [james@stockmarket.co.nz](mailto:james@stockmarket.co.nz).

Readers are advised that they should not assume that every recommendation made in the future will be profitable or equal the performance of recommendations made in the past. A summary of all prior recommendations is published on the website. The information presented has been obtained from original and published sources believed to be reliable, but its accuracy cannot be guaranteed.

The entire contents are copyright. Reproduction in whole or part is strictly forbidden without the approval of the publisher.