

# Market Analysis

## Inside Market Analysis

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## Summary and Recommended Investment Strategy.

Economic uncertainty drives companies to innovate and adapt - which we believe is an important force in wealth creation. Companies (rather than governments or not-for-profit organisations) do this best. Which is why the stockmarket is the best long term investment . . . and more so if one can identify companies than embrace change and seek to build new businesses.

## Investment Outlook.

Campbell Brothers and Cardno have each made two new acquisitions - although both companies generate real Shareholder Wealth from "organic" growth of their existing businesses.

Michael Hill International is generating additional revenues from a new service - which we believe could make a significant contribution to future cash operating surpluses and profits.

Ellex Medical Lasers has completed development of a new laser which will be released for sale in 2012. Product development and the development of international sales channels over recent years could soon lead to rising volumes of "more profitable" new product sales.

Integrated Research has produced a service upgrade for its IP Telephony monitoring software - maintaining its global market leading position and ensuring continued strong cashflows from new licence sales and recurring annual maintenance fees.

There will always be a European sovereign debt crisis (or some other crisis to fill the headlines and threaten the collapse of the global economy) while - more importantly - economic wealth and power will continue to steadily shift from mature, indebted Western economies to growing, well financed emerging economies.

All of these events are important and impact upon our investment portfolio.

Some things we cannot change . . . but we can seek out companies that run their businesses well and which adapt and grow in an ever changing environment.

If Campbell Brothers and Cardno can find new business sectors in which to expand and compete, while Michael Hill, Ellex Laser and Integrated Research can create new products and services to build future businesses, then our portfolio will succeed and grow over the medium term.

The general consensus towards shares is pretty pessimistic - shown by a recent cover story on *The Economist*: "Nowhere to hide: Investing during a time of crisis" (and in the Contents: "Investors have had a bad time in the recent past. The immediate future looks pretty rotten too."). Can one ask for a stronger contrarian-opinion "BUY" signal?

### Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	<b>71% (Bullish)</b>	<b>68% (Bullish)</b>
New Zealand:	<b>77% (Bullish)</b>	<b>53% (Neutral)</b>



# 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	C	560	1.27	13	7.0	Just Water Int.	C	13	0.36	14	Nil	Renaissance	C	13	0.03	15	Nil
AMP Office Trt	C	84	6.11	81	9.3	Kathmandu Ltd	A	246	1.61	13	5.8	Restaurant Brds	B	210	0.63	9	11.6
Abano Health	B	405	0.48	81	7.4	Kermadec Prop.	B	61	6.03	10	4.9	Rubicon Limited	E	48	0.35	NE	Nil
Air New Zealand	C	105	0.26	14	6.5	Kingfish Ltd	A	91	N/A	8	9.5	Ryman Health	B	261	N/A	13	1.5
Akd Int Airport	B	234	7.78	31	5.3	Kirkcaldie & St	A	290	0.69	26	3.9	Salvus Strat.	C	82	N/A	66	Nil
Allied Farmers	E	0.2	0.07	NE	Nil	Kiwi Property	C	110	5.56	NE	7.2	Sanford Limited	E	441	0.98	17	7.5
Allied Work.	B	200	0.55	16	7.3	L&M Energy	E	8.4	N/A	NE	Nil	Satara Co-op	C	55	0.21	NE	Nil
Argosy Property	C	81	4.80	17	2.2	Lytelton Port	C	200	2.23	17	Nil	Savoy Equities	D	1.0	N/A	NE	Nil
Barramundi Ltd	B	64	N/A	10	11.6	Mainfreight Grp	B	1053	0.77	24	2.7	Scott Tech. Ltd	B	160	1.19	12	6.3
Blis Technology	E	5.0	3.94	NE	Nil	Marlin Global	C	76	N/A	10	11.4	Sealegs Corp	E	14	1.15	NE	Nil
Briscoe Group	B	140	0.71	14	9.2	Mercer Group	E	7.0	0.09	NE	Nil	Seeka Kiwifruit	C	92	0.11	1	31.1
Burger Fuel	C	53	N/A	NE	Nil	Methven Limited	C	115	0.63	16	11.3	Skellerup Hold.	B	133	1.32	13	6.4
CDL Investments	D	30	8.17	26	5.7	Metro. LifeCare	C	240	4.52	14	Nil	Sky Network TV	B	541	2.64	18	4.9
Cavalier Corp	C	270	0.80	11	9.5	Michael Hill	B	88	0.69	10	5.1	Sky City Ltd	B	347	2.49	16	6.1
Cavotec MSL	C	245	1.08	20	1.6	Mid-Cap Index	D	209	N/A	NE	Nil	Smartpay NZ Ltd	D	12	0.31	NE	Nil
Charlie's Group	D	43	4.00	51	Nil	Millennium & C.	C	39	1.18	11	4.4	Smiths City	A	44	0.11	12	4.5
Claridge Cap'l	E	0.4	0.22	NE	Nil	Mowbray Collect	D	70	2.32	NE	Nil	Sol. Dynamics	C	35	0.40	32	Nil
Col Motor Co	A	265	0.18	11	10.2	NPT Limited	C	51	3.47	NE	8.9	South Port NZ	A	337	3.49	14	8.5
Comvita	A	285	0.98	22	1.5	NZ Exchange Ltd	B	229	5.46	30	6.2	Speirs Group	D	10	0.09	NE	Nil
Contact Energy	C	557	1.75	26	6.4	NZ Experience	A	41	1.43	10	9.8	Steel & Tube	B	225	0.52	12	9.5
Cynotech Hold.	D	0.7	0.13	NE	Nil	NZ Farming Sys.	E	65	2.05	NE	Nil	Sthn Travel	D	15	0.14	NE	Nil
DNZ Property	C	126	N/A	NE	5.2	NZ Finance Hold	D	3.0	0.07	NE	Nil	Tag Pacific Ltd	E	12	0.15	NE	Nil
Delegat's Group	B	220	0.95	10	5.2	NZ Oil & Gas *	N/R	71	2.65	12	4.0	TeamTalk Ltd	B	220	1.59	11	13.0
Diligent Board	C	190	N/A	59	Nil	NZ Refining Co	D	310	3.47	37	Nil	Telecom Corp	B	270	2.06	20	9.5
Dorchester Pac	E	9.2	0.95	NE	Nil	NZ Wool Service	D	49	0.23	NE	Nil	Tenon Ltd	E	65	0.11	NE	Nil
Ebos Group Ltd	C	656	0.25	15	6.9	NZ Windfarms	E	15	N/A	NE	Nil	Tourism Hold.	D	60	0.41	NE	Nil
Ecova Ltd	C	97	3.48	NE	Nil	NZ Wine Company	D	100	0.67	NE	2.9	Tower Limited	C	156	0.67	7	9.2
F & P Appliance	E	40	0.26	9	Nil	NZSX 50 Port.	D	125	N/A	NE	Nil	Training Sol.	E	0.1	N/A	NE	Nil
F & P Health	C	236	2.42	19	7.4	NZSX 10 Fund	D	87	N/A	NE	Nil	Trust Power Ltd	C	734	3.02	21	7.1
Finsoft Sol'ns	C	34	0.41	5	Nil	NZSX Aust MidCap	D	495	N/A	NE	Nil	Turners & Grow.	C	183	0.24	17	3.3
Fletcher Build.	C	626	0.57	15	6.3	New Image Group	D	21	0.65	20	6.8	Turners Auction	A	143	0.55	13	11.0
Freightways Ltd	B	332	1.45	17	6.1	Northland Port	B	142	8.77	12	6.5	Vector Ltd	B	265	2.12	13	7.7
Genesis Res.	D	2.8	0.32	NE	Nil	Nuplex Indust	B	262	0.33	8	8.0	Velo Capital	D	3.0	0.41	NE	Nil
Goodman Prop.	B	99	6.72	25	7.8	Opus Int'l Cons	C	188	0.72	12	5.9	Vital Health PT	C	118	8.10	46	6.9
Guinness Peat	D	61	0.09	2	2.5	Ozzy (Tortis)	D	333	N/A	NE	Nil	WN Drive Tech.	D	28	0.67	NE	Nil
GuocoLeisure	D	57	1.40	8	Nil	PGG Wrightsons	E	39	0.24	NE	Nil	Wakefield Hlth	B	481	0.90	14	4.5
Hallenstein G.	A	386	1.12	13	11.5	Pac Edge Bio.	E	24	N/A	NE	Nil	Warehouse Group	B	325	0.48	10	9.7
Heartland BS	D	50	0.83	21	Nil	Pharmacybrands	C	68	6.34	NE	Nil	Widespread Prop*	N/R	14	6.67	1	Nil
Hellaby Hold.	B	270	0.43	13	5.3	Pike River Coal	C	88	N/A	NE	Nil	Windflow Tech.	D	36	0.56	NE	Nil
Heritage Gold *	N/R	2.0	N/A	NE	Nil	Port Tauranga	A	961	6.95	22	4.6	Wool Equities	D	15	N/A	NE	Nil
Horizon Energy	C	330	2.66	14	7.4	Postie Plus Grp	C	24	0.08	15	6.0	World Index Fd	D	98	N/A	NE	Nil
Infratil NZ	C	186	0.52	17	5.2	Property F Ind.	B	117	7.76	25	7.0	Xero Ltd	D	278	N/A	NE	Nil
Insured Group	E	0.1	0.01	NE	Nil	Pumpkin Patch	B	65	0.32	14	6.6	Zintel Comm.	C	24	0.22	25	6.0
Inv Research Gr	E	0.5	1.22	NE	Nil	Pyne Gould Corp	E	33	2.49	NE	Nil	<b>Ave of 133 Cos</b>	C	160	0.30	17	3.9
Jasons Media	C	20	0.29	8	Nil	Rakon Ltd	D	66	0.66	15	Nil						

AGL Energy Ltd	A	1489	0.97	12	4.0	Deutsche Div Tr	B	131	6.10	14	7.1	Orica Ltd	A	2570	1.60	7	3.7
AMP Ltd	B	435	1.17	12	6.9	Dexus Property	B	87	N/A	36	0.3	Origin Energy	B	1434	1.48	82	3.5
ANZ Bank	A	2070	1.69	12	6.1	Downer EDI Ltd	E	341	0.30	NE	Nil	Paladin Energy	D	149	4.64	NE	Nil
APA Group	A	445	2.56	26	5.4	Dulux Group Ltd	B	269	1.27	16	1.1	Panaust Ltd	C	337	3.40	14	Nil
ASX Limited	A	3024	N/A	25	6.1	East'n Star Gas	C	87	N/A	NE	Nil	Perpetual Ltd	B	2070	1.78	10	8.0
Adelaide Bright	A	295	1.75	12	5.6	Echo Ent Group	B	388	1.57	11	Nil	Platinum Asset	B	389	8.25	15	6.4
Alacer Gold	B	1149	N/A	NE	Nil	El Dorado Gold	A	1849	N/A	53	0.5	Premier Invest	B	531	0.92	20	6.8
Allied Gold Min	D	239	N/A	NE	Nil	Energy Resource	B	181	0.82	10	4.4	Primary Health	B	340	1.28	21	2.4
Alumina Ltd	C	148	N/A	NE	4.1	Energy World	C	58	9.12	37	Nil	Q.B.E. Insur	B	1434	0.97	12	8.9
Amalgamated Hld	B	555	1.13	11	6.7	Envestra	B	69	2.37	22	8.2	QR National Ltd	B	344	2.63	24	1.8
Amcor Ltd	B	710	0.70	24	4.9	Extract Res.	C	790	N/A	NE	Nil	Qantas Airways	C	162	0.25	15	Nil
Aneka Tambang	C	125	N/A	NE	Nil	Fairfax Media	B	86	0.82	8	3.5	Qube Logistics	B	133	2.87	12	1.4
Ansell Ltd	A	1454	1.57	16	2.2	Flight Centre	A	1972	1.06	14	4.3	REA Group Ltd	A	1283	7.02	25	2.0
Aquarius Plat.	B	277	2.05	9	2.7	Fortescue Metal	B	482	2.97	16	1.5	Ramsay Health	A	1977	1.07	20	2.6
Aquila Res.	E	668	N/A	NE	Nil	Foster's Group	A	533	4.28	13	4.7	Reece Australia	B	1855	1.18	16	3.3
Argo Investment	B	512	N/A	18	5.1	GPT Group	A	310	6.95	13	5.3	Regis Resources	B	338	N/A	40	Nil
Aristocrat Leis	B	238	1.87	16	2.1	Gloucester Coal	C	700	3.79	21	Nil	Resolute Mining	B	195	4.10	30	Nil
Asciano Limited	B	153	1.46	31	1.3	Goodman Fielder	C	52	0.32	NE	14.9	Rio Tinto Ltd	B	6939	0.49	2	1.6
Aston Resources	C	1100	N/A	NE	Nil	Goodman Group	B	65	6.85	11	5.4	S/Tracks ASX200	A	4107	N/A	8	4.3
Atlas Iron Ltd	B	323	4.56	16	0.9	Graincorp	B	788	0.78	19	3.2	SAI Global Ltd	A	466	2.16	21	3.1
Aurora Oil Gas	C	335	N/A	NE	Nil	Harvey Norman	B	221	1.51	9	5.4	SP Ausnet	A	102	1.88	11	7.8
Ausdrill Ltd	B	292	1.05	12	4.1	Hast Div Util	B	174	5.86	NE	6.9	Santos Ltd	B	1356	5.33	24	2.7
Austar United	B	116	2.06	15	Nil	Henderson Group	B	180	4.71	30	5.5	Seek Ltd	B	602	5.88	21	2.4
Australand Prop	B	260	2.00	9	7.9	IOOF Holdings	A	620	2.24	14	6.9	Seven Group	B	791	0.77	27	4.6
Aust Foundation	B	408	N/A	18	5.1	Iluka Resources	A	1752	7.55	NE	0.5	Seven West Med.	B	335	2.82	18	13.4
Aust Infra.	B	195	N/A	6	5.1	Incitec Pivot	A	352	1.96	14	2.2	Sigma Pharm.	C	71	0.29	NE	Nil
BHP Billiton	A	3780	1.82	6	2.5	Independ. Group	A	497	6.21	NE	1.4	Sims Metal Mgmt	B	1327	0.36	21	2.5
BWP Trust	A	172	N/A	11	7.0	Insurance Aust.	B	303	0.80	25	5.3	Sonic Health	B	1105	1.39	15	5.3
Bank of Q'land	A	835	0.65	12	6.5	Investa Office	B	62	8.41	12	6.3	Soul Pattinson	A	1390	4.37	21	2.9
Beach Energy	B	128	2.84	NE	1.4	Iress Mkt Tech	B	770	5.30	19	4.5	Spark Infrastru	B	127	5.81	21	10.7
Bendigo Bank	A	924	0.92	10	6.5	JB Hi-Fi Ltd	B	1638	0.55	15	4.7	St Barbara Ltd	B	250	2.26	12	Nil
Billabong Int'l	A	437	0.66	9	6.6	James Hardie	C	602	2.21	NE	Nil	Steamships Trad	A	2750	2.75	16	1.5
Bluescope Steel	C	77	0.15	NE	2.6	Kardoon Gas	D	499	N/A	NE	Nil	Sth Cross Media	B	121	1.73	16	8.3
Boart Longyear	E	327	1.37	NE	Nil	Kingsgate Cons.	B	673	5.25	43	2.2	Stockland	B	331	3.34	10	7.2
Boral Limited	B	351	0.55	16	4.1	Leighton Hold	C	2018	0.44	NE	3.0	Suncorp Group	A	856	0.58	24	4.1
Bracklen Ltd	B	762	1.07	18	4.5	Lend Lease Grp	B	744	0.40	12	4.3	Sundance Res.	C	43	N/A	NE	Nil
Brambles Ltd	B	689	2.35	23	3.8	Linc Energy Ltd	E	196	N/A	NE	Nil	Super Retail Gr	B	547	0.69	14	5.3
Brickworks Ltd	A	1121	2.60	12	3.6	Lynas Corp Ltd	E	121	N/A	NE	Nil	TPG Telecom Ltd	B	143	1.95	14	3.1
C'wth Prop Off.	B	92	7.26	11	6.0	MAP Group	B	349	6.45	NE	9.6	Tabcorp Holding	B	285	0.67	7	15.1
C.S.F. Ltd	B	231	0.61	13	3.6	Macarthur Coal	B	1622	7.13								

# Recommended Investments

**CDL Investments'** 33.3% owned associate **Preston Road Ltd** has been successful in its application to develop its 203 hectare land holding for residential development. The site is 5½ km north of Cathedral Square, Christchurch. Preston Road has planned an "eco-friendly village" for around 8000 people in 2700

## CDL Investments



(Continued on Page 4)

## Portfolio of Recommended Investments

CURRENT ADVICE	Company		Initial Recommendation		Performance	Issued	Vola-	Price/	Price/	Gross	Recent	Cash	Total
	NZ Shares	Code	- Date -	Price	Forecast	Shares (mil.)	tility Ratio	Sales Ratio	Earnings Ratio	Dividend Yield	Share Price	Dividends Rec'd	Return %
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	252.8	1.4	8.17	26	5.7	30	20.3	+101%
BUY	Cavalier Corporation	CAV	05/12/95	156*	C	68.3	1.0	0.80	11	9.5	270	278.0	+251%
HOLD	Colonial Motor Company	CMO	10/11/92	128*	A	32.7	0.4	0.18	11	10.2	265	337.3	+371%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	C	102.3	0.7	2.23	17	Nil	200	77.7	+85%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	B	382.7	0.9	0.69	10	5.1	88	36.4	+2388%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	523*	B	196.7	1.0	0.33	8	8.0	262	409.0	+28%
HOLD	Postie Plus Group	PPG	08/05/06	71	C	40.0	1.9	0.08	15	6.0	24	8.5	-54%
HOLD	Renaissance Corp	RNS	13/08/96	85*	C	45.7	3.0	0.03	15	Nil	13	53.9	-21%
HOLD	Smiths City Group	SCY	09/10/06	64	A	53.0	1.2	0.11	12	4.5	44	15.0	-8%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.5	3.49	14	8.5	337	154.3	+309%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	B	88.4	0.8	0.52	12	9.5	225	254.6	+228%
<u>Australian Shares (in Aust cents)</u>													
HOLD	AJ Lucas Group	AJL	13/05/03	120	C	65.3	0.7	0.63	NE	Nil	135	41.0	+47%
BUY	Atlas South Sea Pearl	ATP	14/05/96	73	C	136.4	2.3	0.92	6	Nil	10	17.5	-63%
HOLD	Campbell Brothers Ltd	CPB	12/10/99	389*	A	67.5	0.2	2.98	25	2.9	4900	679.0	+1334%
BUY	Cardno Ltd	CDD	14/12/09	399*	B	107.4	0.4	0.68	10	6.4	530	62.6	+49%
HOLD	Cellnet Group Ltd	CLT	12/02/02	147*	B	61.3	1.2	0.28	18	10.1	35	35.9	-50%
BUY	Chandler Macleod Group	CMG	14/08/01	51*	B	467.9	1.3	0.13	13	6.1	33	22.9	+10%
HOLD+	Circadian Technologies	CIR	10/02/04	188	D	46.4	1.0	12.03	NE	Nil	48	65.0	-40%
BUY	Clarius Group Ltd	CND	08/04/03	82*	B	88.2	1.0	0.17	10	7.9	51	69.5	+46%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.9	0.9	0.50	26	4.8	52	9.8	-30%
BUY	CSG Limited	CSV	11/10/10	175	B	282.6	0.8	0.80	8	5.0	110	5.5	-34%
BUY	Customers Ltd	CUS	11/07/11	83	B	134.9	0.8	1.17	8	4.6	108	2.0	+33%
HOLD+	Devine Ltd	DVN	13/11/06	84*	B	634.9	1.5	0.34	7	8.7	23	18.9	-50%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	E	84.9	2.0	0.25	NE	Nil	13	Nil	-73%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	B	32.2	0.7	1.54	8	7.5	117	31.8	-43%
BUY	Finbar Group Ltd	FRI	12/04/10	106	B	207.7	0.7	3.61	8	9.0	94	11.0	-1%
HOLD	Iluca Resources Ltd	ILU	12/10/04	471	A	415.5	0.3	7.55	0	0.5	1752	92.0	+292%
BUY	Integrated Research	IRI	14/01/08	40	A	166.9	1.0	1.74	10	8.6	47	14.0	+51%
HOLD	Mnet Group	MNZ			C	208.3	4.0	0.49	NE	Nil	1.6		
HOLD	M2 Telecommunications	MTU	09/10/06	33	B	123.7	0.5	0.81	12	5.8	278	39.5	+862%
BUY	Melbourne IT	MLB	10/02/04	53	B	80.0	0.6	0.58	7	10.9	137	74.0	+298%
BUY	Nomad Building Solutio	NOD	16/08/10	13*	D	277.5	2.3	0.15	NE	Nil	10	Nil	-25%
BUY	Novarise Renewable Res	NOE	14/03/11	25	B	399.3	1.9	0.88	4	6.1	17	Nil	-34%
BUY	Penrice Soda Holdings	PSH	11/07/11	17	D	91.4	1.8	0.09	NE	Nil	16	Nil	-9%
BUY	Probiotec Ltd	PBP	11/02/08	116	C	52.9	1.3	0.22	15	Nil	30	9.3	-66%
HOLD+	Prophecy International	PRO	08/09/08	26	C	47.2	1.7	1.75	NE	2.8	18	7.3	-3%
HOLD	Skilled Group Ltd	SKE	12/03/02	126	B	233.1	0.6	0.24	17	1.6	190	135.0	+158%
HOLD	Technology One Ltd	TNE	11/11/03	44	B	300.3	0.7	2.41	18	3.9	109	27.3	+210%
HOLD+	TFS Corporation Ltd	TFC	08/01/07	45	B	276.5	0.8	1.74	10	6.8	70	14.2	+87%
BUY	The Reject Shop Ltd	TRS	11/01/05	257	B	26.0	0.3	0.51	16	3.0	1020	279.5	+406%
HOLD	Village Roadshow	VRL	10/08/09	77	B	151.5	0.5	0.48	16	5.4	295	137.0	+461%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +192.9%. This is equal to an average annual rate of +25.4%, 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 152 closed out) is +29.3%, compared with a market gain of +3.7% (by the SRC Total Return Index).

CURRENT ADVICE is either Buy, Hold+, Hold, Hold- or Sell. Hold+ indicates the most attractive shares not rated as Buy. Hold- indicates relatively less attractive issues.

\* Initial Recommendation Prices adjusted for Share Splits, Bonus and Cash Issues.

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

## Recommended Investments

(Continued from Page 3)

homes - so development could begin immediately.

This could be an important development, generating significant revenues and profits for CDL Investments over many years.

**Cavalier Corporation** reports carpet sales down around 20% over the first quarter, compared with the same period in 2010. Financial uncertainty in Europe has “seen the deferral of a large number of major commercial projects in Australia” and higher carpet prices (i.e. owing to the significantly increased wool costs) have further depressed residential sales in both Australia and New Zealand.

Owing to these “difficult and unpredictable trading conditions” the company cannot provide any “meaningful earnings guidance for the full year at this stage”.

Furthermore “in light of these developments” the directors feel “that it is no longer appropriate to proceed with the dividend reinvestment plan” and “the whole of the final dividend will now be paid in cash”.

While those comments all *sound* very negative, that is inconsistent with the directors *actions*. Firstly, business conditions may be difficult, but can anyone remember when that was not the situation? Secondly, if there was any likelihood that revenues and profits would be down more than 15% for the whole year (to June 2012) then the directors would be required under stock exchange disclosure rules to issue a profit warning - even if reluctant to guess at a particular profit figure. Thirdly, if revenues and profits and cashflows were to decline, then a company would want to *continue* with a dividend re-investment scheme - issuing new shares (at no cash cost) rather than pay the whole dividend out of scarce cash.

Of course, a high cash position itself can indicate a downturn in the business which has been correctly anticipated with a reduction in raw material and finished inventory stocks. And sometimes company directors just make the wrong decisions - paying out cash that should be used to reduce debts, or dividend re-investment schemes (i.e. issuing new shares and diluting future earnings per share growth) when surplus cash is sitting in the bank. Nearly all company directors have also become very reluctant to make profit forecasts over recent years - instead preferring to lower investors' expectations with talk of the “difficult and unpredictable” business environment.

### Cavalier Corporation



**Colonial Motor Company** reports that trading profits for the September 2011 quarter are ahead of the same period last year.

### Colonial Motor Company

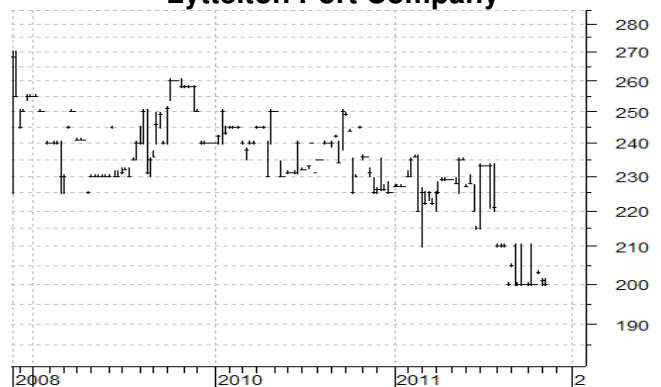


**Lyttelton Port Company** is continuing to “defer” dividend payments, pending the receipt of insurance claims. The insurance company has paid out \$35.7 million but with additional claims now up to \$20 million the insurance company is disputing the amounts.

For the September 2011 quarter, container volumes passing through the port rose 14.1%. This growth has continued with record volumes recorded in October. Coal volumes have been steady but log exports rose 32.4% to 85,000 tonnes. Cruise ship visits this summer will be down from 64 to 3 - but this will have only a \$3 million impact on revenues and is covered by insurance.

The first quarter trading profit is \$4.1 million - “significantly ahead of last year” (i.e. we estimate up 35-40%) - with the company forecasting a full year result 7½-24% higher at \$13-15 million (13-14½ cents per share).

### Lyttelton Port Company



**Michael Hill International** reports total revenues up 6.5% to \$101.4 million for the September 2011 quarter. Australian and New Zealand revenues were relatively steady, with total Canadian sales up 11.3% (in NZ dollar terms) owing to new stores. The group's small operation in the United States performed strongly, lifting revenues 37.4% in US dollars or 20.5% in NZ dollar terms.

The US stores currently generate a relatively insignificant 2.3% of group revenues - but this country holds the potential for significant very long term growth *if* the company can successfully adapt its business to this market.

The reported revenues do not include \$5.4 million (nil in 2010) received from the company's *Professional Care Plan* - which is effectively a pre-paid jewellery

insurance and cleaning service covering either three years or the customer's lifetime. This new business is already contributing over 5% of group revenues and will likely prove to be a high profit margin service. For a manufacturing jeweller the actual cost of repair or replacement is likely to be low relative to the initial *Professional Care Plan* fee. This is therefore a very attractive expansion for the company, requiring *no additional capital investment* and likely to generate higher than normal profit margins. If this service continues to add to revenues as the group expands then it should significantly enhance the financial viability of an already successful business! An insurance or pre-paid service also significantly boosts operating cash flows, as payment is received upfront while any expenses are incurred years later. This growing cash "float" can be used within the company to finance the capital investment needed to accelerate the roll out of new stores.

### Michael Hill International



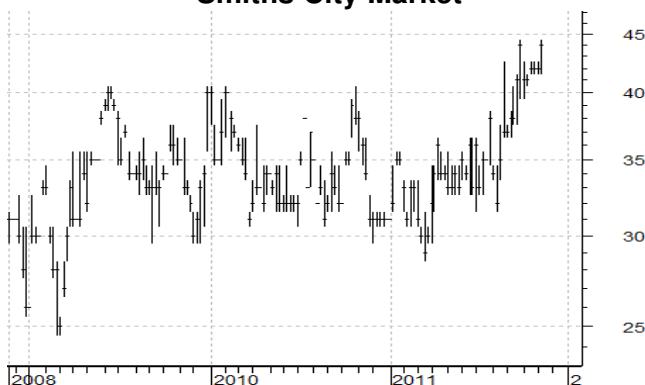
**Smiths City Group** reports that revenues for the half year to 31 October will be 0.5% higher at \$104.4 million but trading profits will be "around double last year" when the company reported a first half profit of \$790,000 (1.5 cents per share). The audited results will be announced near the end of December.

Same store sales (i.e. excluding the two Christchurch stores that did not trade this year and the new Lower Hutt store) were ahead 20%.

Stage One of the redevelopment of the company owned Colombo Street store in Christchurch has been completed "on time and on budget" and will re-open in mid-November. The Powerstore Moorhouse Avenue store in Christchurch remains closed.

Retail demand had weakened "since the commencement of the *Rugby World Cup* in early September" and "remains uncertain".

### Smiths City Market



### Australian Shares

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

**AJ Lucas Group's** 42% owned Cuadrilla Resources have released the seismic report for its *Bowland Basin* shale gas prospect. The report concludes that fracking resulting in 50 seismic events, including an earthquake measuring 2.3 on the Richter scale and a second of 1.5. The report concludes that "direct injection of fluid into the fault must have induced" the larger seismic events, that "direct injection can be regarded as the worst case scenario", "predicts a maximum event magnitude of 3.0 as a worst case" and that at a depth of 3 km would cause no damage on the surface.

To "mitigate the magnitude of seismic events" the report also recommends "rapid fluid flow back after treatment", "reducing the treatment volume" and "intervals close to a fault should be avoided". The report also believes that "measurable seismicity is unlikely to occur in the next wells", as the recent result required the combination of three factors: the "presence of a critically stressed fault, a fault that is transmissible so that it accepts large quantities of fluid and a fault that is brittle enough to fail seismically".

"The seismic events imply that in the *Preese Hall* well a large fraction of the fluid entered the fault and this is one of the key factors that are unlikely to occur again in the wells in the Bowland Shale".

The Bowland Basin - 56% owned (directly and indirectly by AJ Lucas Group) - is a major gas resource. If just 20% could be economically extracted it would supply the whole United Kingdom with gas for 11 years!

**Atlas South Sea Pearl** has finalised a second agreement to sell 2½ tonnes of pearl powder for use in a "confidential luxury skin care" product. The company currently produces 100 tonnes of by-products (which will double over the next five years) which previously were either "sold at a nominal price or discarded".

This new revenue "further improves the viability of pearling". The company is "negotiating with a New York based entity" to form a joint venture marketing structure "to develop a global brand to distribute Atlas products and technologies".

### Atlas South Sea Pearl



**Campbell Brothers** has made two acquisitions: US based environmental and food analytical group **Columbia Analytical Services**, based in Washington state, which operates six laboratories was purchased for US\$33.0 million. This acquisition makes Campbell Brothers the second largest environmental group in the United States, with 16 laboratories giving "full coverage across most parts of the country", (Cont'd on Page 6)

## Recommended Investments

(Continued from Page 7)

plus a “small foothold in food and pharmaceutical testing” where it seeks to establish a global business.

The company has also paid \$28.0 million (plus future earn-outs over two years) to acquire **Austpower Engineering**. This business provides advanced inspection services to the power generating industry in Australia and will be merged into the group's Industrial Division.

**Cardno** will pay \$1.1 million (75% in cash, 25% in shares) to acquire New South Wales based **Geotech Solutions**. This business employs 22 people and generates annual revenues of around \$2 million.

Of more significance, Cardno has also acquired the Virginia, USA based environmental consulting firm of **TEC Inc** for US\$50 million (86% in cash, 14% in shares) plus up to US\$8.3 million in earn-out payments over 18 months. The business generates around US\$52 million in annual revenues and US\$7.2 million in earnings (i.e. around a Price/Sales ratio of 1.1 and a Price/Earnings ratio of about 16), has 330 employees, 15 mainland US offices and five offshore offices. The business has many US Government clients and a record contracted backlog of work worth over US\$70 million.

This acquisition of TEC Inc looks a little expensive relative to other acquisitions. **ENTRIX Holdings** and **Environmental Resolution**, for example, were purchased in mid-2010 on a P/S of 0.70 and P/E of 12½. The smaller **JF New** was bought in December 2010 on a P/S of 0.67 and P/E of 8. Nevertheless, Cardno is now “one of the largest environmental firms in the US” and the TEC acquisition “will further strengthen that position”. *Industry consolidation* and the removal of *excess competition* (i.e. merging smaller businesses into a larger unit) is a valid business strategy that will usually lead to *improved profit margins* as a group increases its total market share.

**Chandler Macleod** reports the first quarter was “in line with budget”, but with “stronger growth in low margin business”. Cash flow remains strong - reducing debt levels - and the new operating system will realise efficiency gains in the second half of this year.

Chandler Macleod's \$60.7 million acquisition of **Ross Human Directions** included goodwill of \$29.9 million (i.e. the amount over the net assets of \$30.8 million acquired). Independent valuations have now identified \$16.8 million of separate intangible assets (i.e. Aurion Software of \$11.6 million, Brand names of \$2.7 million and Customer Relationships of \$2.5 million) which, under Australian tax laws, can be depreciated over their useful lives.

Brand names are assumed to have an indefinite life (so therefore no annual depreciation) but the Aurion Software and Customer Relationships can be depreciated over seven years.

Chandler Macleod will therefore re-state its 2011 profit result to include a \$1.0 million (non-cash) charge for amortisation, plus also claim a tax deduction of \$300,000. This will *lower reported net profits* by \$700,000 but *increase operating cash flows* by \$300,000 (i.e. owing to less income tax payable) for the 2011 year and each of the next six years.

## Chandler Macleod Group



**Circadian Technologies** reports that **Healthscope** has completed development of the diagnostic test for *Cancers of Unknown Primary* and is *beta testing* amongst Australian oncologists as the final stage before making it available commercially.

The **US Food & Drug Administration** has approved clinical trials for VGX-100.

**CPT Global** has won the *2011 Information and Communication Technology Export Award* for the second time in five years.

**Customers** has “held discussions with a potential purchaser” which *could* lead to an offer to acquire the company.

At the same time, Customers has itself “made an indicative, non-binding and highly conditional proposal for the acquisition of another business”.

Customers has also won a competitive tender to provide outsourced, managed services for over 400 ATMs in **Coles Express** service stations and convenience stores over the next five years. This will provide Customers with steady service revenues, diversifying its business which currently earns most revenues from transaction fees.

Customers will provide ATM hardware and software, maintenance, cash servicing and technical support. Existing ATMs will be upgraded and new ATMs installed at Coles Express sites currently without ATM facilities over the next half year.

This new business will provide “incremental revenue” and utilise Customers' existing infrastructure. It will expand the ATM fleet about 7% and require only moderate capital expenditure, but should make a larger percentage contribution to revenues and profits.

**Ellex Medical Lasers** has introduced its *Integre Pro* laser at the *American Academy of Ophthalmology* meeting on 22 October and will release the system for sale from 2012. The company states that “Historically, our focus has been the photodisruptor laser market for the treatment of secondary cataract” but “there is now the opportunity to target the larger, more profitable global retinal laser market”.

While Ellex Medical Lasers is a small company that has struggled to achieve profitability, there are many attractive features to this company. A manufacturing and marketing business *should* - over the long run - be able to achieve a net profit margin of around 5-10%. At a Price/Earnings ratio of 10 that implies a Price/Sales ratio of 0.5-1.0 or a share price of 25-50 cents based upon last year's revenues of \$43 million. Profitability has been depressed by the rising Australian dollar,

November 14, 2011.

Research & Development costs for new (high margin) products and market expenses (to expand future sales). And general business conditions have been a bit difficult for just about every company over the last few years!

Sales of the company's new laser (to provide new medical treatments) should be capable of earning higher net profit margins. So we might realistically expect the company to be able to earn (long run) net profit margins of 5-10% on existing products and services (i.e. \$2-4 million on revenues of \$43 million) and perhaps 20-30% on new products developed using its own intellectual property. So new annual product revenues of, for example, \$10 million have the *potential* to contribute \$2-3 million to net profits.

Overall, therefore the company *could* be capable of generating net profit margins of 8-14% and, with its own higher margin products, *could* be valued at a higher P/E ratio of around 15. Those figures imply a P/S ratio of 1.2-2.1, which on annual revenues of \$53 million would value the shares around 75-130 cents.

Ellex Medical Lasers has yet to achieve this potential, but trading at 13 cents the shares look very undervalued. "Buy".

**Ellex Medical Lasers**



Finbar Group has completed all nine levels of its *Pelago West* development with 63 apartments sold (and another nine leased to the world's largest helicopter transport company for five years and to be on-sold as investment properties) which "secures the financial viability" of the project. Completion is expected in March/April 2012. The similar *Pelago East* project will be released for pre-sales when more of the *Pelago West* has been sold.

All 28 levels of the *Fairlane Apartments and Office* project have been constructed, with 115 of the 128 apartments pre-sold. Owing to this sales success, the company has been able to offer the 6,700 m<sup>2</sup> of office space in the building *without* offering lease incentives. The group will retain this commercial component of the building as an investment property.

Iluka Resources has negotiated a further 10% increase in Zircon pricing for the December quarter (i.e. starting on 1 October), which should yield an average price around US\$2425/tonne.

September quarter Zircon production rose 11.1% from the June quarter and was up 24.4% on the September 2010 quarter. Rutile production rose 6.5% and 7.5%, respectively, while Ilmenite production was down 0.4% on the June quarter but up 23.6% on a year earlier. Synthetic Rutile production was 14.1% lower than the

June quarter and 25.8% lower than a year ago.

**Iluka Resources**



Integrated Research has released its *PROGNOSIS Path Insight* which pinpoints voice quality problems tracking their path through a data network. From "massive network topologies" it isolates "those areas that require focus" and the "associated network devices". The "correlation between network performance and voice quality" also "helps optimise IT operations and resources, and avoid outages".

**Integrated Research**



**Novarise Renewable Resources International**

reports September quarter Receipts of \$20.8 million - down 5% on the June 2011 quarter. There was a strong cash operating surplus of \$6.9 million, up from a \$3.0 million *deficit* in the previous quarter.

Penrice Soda and its joint venture partner, **GE Power and Water**, are to design, build and operate a commercial scale plant for **QGC** to investigate the technical and commercial viability of extracting sodium bicarbonate, sodium carbonate and sodium chloride from coal seam gas brine. While these are valuable by-products the primary object is to remove these salts so the purified water can be safely returned to the environment or have value for use in agriculture. The

**Penrice Soda**



(Continued on Page 8)

**Recommended Investments***(Continued from Page 7)*

plant will be built at Penrice Soda's Osborne chemical works and operational in early 2012.

Financial details of the agreement have not been released, but it is likely that QGC will be financing the capital costs. This new business - which seeks to remove one of the major environmental problems of the emerging coal seam gas industry - holds the potential to earn service and product revenues (and profits) for Penrice Soda without the need for significant capital investment.

Skilled Group has sold its *Excelior* "contact centre" business for \$8.2 million plus up to another \$5.0 million over two years (subject to achieving revenue targets).

Technology One launched its *OneBanking* software

in October. This has been delivered in partnership with the **Police & Nurse Credit Society** over the last year.

TFS Corporation has acquired two properties totalling 685 hectares in Dalbeg, Northern Queensland. 610 hectares is plantable and will be used to meet the 610 hectare plantation sale announced earlier.

Village Roadshow has established **Village Roadshow Entertainment Group Asia** to provide "development, financing, production, technical services and distribution to film producers, directors and creative talent across Greater China". The company has opened an office in Beijing, formed "strategic partnerships" with both local producers and overseas companies to bring international expertise and professional technical services to the Chinese market.

## 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.

Company	Share Price	Cur-4-Wk Rank	4-Wk Chg.	0-99	Insider Buying	Relative Strength	Price to Book	Return on Equity	Volatility	Price Ratio	Dividend Yield	Price Ratio	Market Cap'n	Company	Share Price	Cur-4-Wk Rank	4-Wk Chg.	0-99	Insider Selling	Relative Strength	Price to Book	Return on Equity	Volatility	Price Ratio	Dividend Yield	Price Ratio	Market Cap'n	
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0														<b>OVER-VALUED SHARES:</b> Highest Price/Sales Ratios, Relative Strength < 0														
Smiths City	44	+11.9	+3.5	3	8-0	-0.5	4	1.3	12	4.5	0.11		23	Northland Port	142	-7.4	-0.2	63	0-0	-0.5	4	0.3	12	6.5	8.77		59	
Col Motor Co	265	+3.6	+2.7	14	1-0	-0.7	7	0.4	11	10.2	0.18		87	Vital Health PT	118	-58.3	+0.0	97	0-1	-1.1	2	0.4	46	6.9	8.10		341	
Zintel Comm.	24	+2.6	-1.8	19	1-0	-1.2	5	2.0	25	6.0	0.22		13	Property F Ind.	117	-1.1	-0.5	39	0-0	-1.1	4	0.4	25	7.0	7.76		253	
Turners & Grow.	183	+0.3	-1.0	29	1-0	-0.7	4	0.8	17	3.3	0.24		207	Metro. LifeCare	240	-0.4	+3.8	34	0-0	-0.6	4	0.5	14	Nil	4.52		294	
Hellaby Hold.	270	+11.3	+2.7	4	0-0	-1.5	11	1.2	13	5.3	0.43		200	Charlie's Group	43	-58.3	+0.0	98	0-3	-7.7	15	1.0	51	Nil	4.00		126	
Allied Work.	200	+12.1	-3.1	1	0-0	-2.7	16	0.8	16	7.3	0.55		52	Blis Technology	5	-18.2	-5.1	82	0-0	-	-	-1.8	NE	Nil	3.94		7	
Turners Auction	143	+1.5	+0.5	25	0-0	-2.0	15	0.8	13	11.0	0.55		39	NZ Refining Co	310	-11.3	+0.8	77	0-0	-1.6	4	0.5	37	Nil	3.47		868	
Kirkcaldie & St	290	+3.6	+1.3	15	0-0	-1.4	6	0.5	26	3.9	0.69		30	NPT Limited	51	-2.8	-0.2	43	0-0	-0.7	-	-0.6	NE	8.9	3.47		98	
10553 Mainfreight Grp	10553	+3.2	-2.1	18	0-7	-3.4	14	0.5	24	2.7	0.77		1,037	Trust Power Ltd	734	-0.9	+0.9	36	0-0	-1.6	8	0.3	21	7.1	3.02		2,310	
Delegat's Group	220	+0.1	+1.3	30	0-0	-1.3	14	0.7	10	5.2	0.95		223	Horizon Energy	330	-5.4	-2.0	52	0-0	-1.5	11	0.4	14	7.4	2.66		82	
Comvita	285	+20.9	+12.2	1	6-1	-1.1	5	0.7	22	1.5	0.98		80	NZ Oil & Gas	71	-14.1	+2.9	80	0-0	-0.8	7	0.7	12	4.0	2.65		282	
<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														
Allied Work.	200	+12.1	-3.1	1	0-0	-2.7	16	0.6	16	7.3	0.55		52	Vital Health PT	118	-58.3	+0.0	97	0-1	-1.1	2	0.4	46	6.9	8.10		341	
Smiths City	44	+11.9	+3.5	3	8-0	-0.5	4	1.0	12	4.5	0.11		23	Charlie's Group	43	-58.3	+0.0	98	0-3	-7.7	15	1.0	51	Nil	4.00		126	
Hellaby Hold.	270	+11.3	+2.7	4	0-0	-1.5	11	1.1	13	5.3	0.43		200	WN Drive Tech.	28	-29.8	+4.8	94	1-0	-20.6	-	-1.0	NE	Nil	0.67		19	
Finzsoft Sol'ns	34	+3.7	-0.2	13	0-0	-1.0	19	0.9	5	Nil	0.41		3	Windflow Tech.	36	-28.5	-3.0	93	0-0	-2.2	-	-0.6	NE	Nil	0.56		6	
Col Motor Co	265	+3.6	+2.7	14	1-0	-0.7	7	0.3	11	10.2	0.18		87	Rubicon Limited	48	-25.3	+1.5	91	4-0	-0.8	-	-0.4	NE	Nil	0.35		137	
Just Water Int.	13	+3.2	+16.0	17	0-0	-3.0	21	2.1	14	Nil	0.36		12	Pumpkin Patch	65	-22.0	-2.5	90	5-0	1	3.4	23	0.8	14	6.6	0.32		109
Turners Auction	143	+1.5	+0.5	25	0-0	-2.0	15	0.7	13	11.0	0.55		39	Smartpay NZ Ltd	12	-20.7	-1.3	89	0-0	-	-	-0.8	133	Nil	0.31		14	
Turners & Grow.	183	+0.3	-1.0	29	1-0	-0.7	4	0.6	17	3.3	0.24		207	NZ Wine Company	100	-19.8	-1.0	86	0-0	-0.5	-	-0.5	NE	2.9	0.67		9	
Delegat's Group	220	+0.1	+1.3	30	0-0	-1.3	14	0.6	10	5.2	0.95		223	L&M Energy	8	-19.6	-2.1	85	0-0	-	-	-1.4	NE	Nil	N/A		63	
<b>INCOME SHARES:</b> Highest Yields, Capitalisation > NZ\$100 million														<b>INSIDER SELLING:</b> Most Insider Selling, Relative Strength < 0														
Restaurant Brds	210	-7.1	-1.1	62	0-0	-3.5	41	0.5	9	11.6	0.63		205	Air New Zealand	105	-5.0	-1.1	51	2-10	1	0.7	5	0.7	14	6.5	0.26		1,145
Hallenstein G.	386	-3.3	+3.0	47	0-0	-3.7	29	0.3	13	11.5	1.12		230	Charlie's Group	43	-58.3	+0.0	98	0-3	-7.7	15	0.9	51	Nil	4.00		126	
Warehouse Group	325	-4.4	-0.5	50	4-3	2	2.9	29	0.4	10	9.7	0.48	793	Infratit NZ	186	-1.0	+1.6	37	1-3	-1.1	6	0.5	17	5.2	0.52		1,121	
Telecom Corp	270	+6.6	-1.9	9	0-0	3	2.2	11	0.5	20	9.5	2.06	5,187	F & P Health.	236	-9.6	+1.8	71	2-4	2	3.9	20	0.4	19	7.4	2.42		1,226
Cavalier Corp	270	-8.6	-3.9	68	0-0	1	1.9	17	0.9	11	9.5	0.80	184	Tower Limited	156	-9.6	+1.6	73	0-1	2	0.9	13	0.6	7	9.2	0.67		407
AMP Office Trt	84	+3.8	-0.7	13	2-0	-0.9	1	0.5	81	9.3	6.11		838	TeamTalk Ltd	220	-0.2	+0.3	32	0-1	-1.9	18	0.4	11	13.0	1.59		51	
Briscoe Group	140	-1.0	+0.1	38	3-0	-2.3	16	0.6	14	9.2	0.71		297	Ebos Group Ltd	656	-3.8	+0.6	48	0-1	1	1.7	12	0.3	15	6.9	0.25		342
Tower Limited	156	-9.6	+1.6	73	0-1	2	0.9	13	0.7	7	9.2	0.67	407	PGG Wrightsons	39	-11.3	-1.9	76	0-1	1	0.5	-0.9	NE	Nil	0.24		294	
Goodman Prop.	99	+2.1	-0.3	20	0-2	-1.0	4	0.5	25	7.8	6.72		924	Vital Health PT	118	-58.3	+0.0	97	0-1	-1.1	2	0.4	46	6.9	8.10		341	
Vector Ltd	265	+1.9	+2.2	24	0-0	1	1.3	10	0.5	13	7.7	2.12	2,639															



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

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STRENGTH RATING													STRENGTH RATING																													
Company	Share Price	Cur. rent	4-Wk Chg.	Rank	Buy/Sell	Relative	Price to NTA	Return on Equity	Volatility	Price/Earn.	Dividend Yield	Price/Sales Ratio	Market Cap'n	Company	Share Price	Cur. rent	4-Wk Chg.	Rank	Buy/Sell	Relative	Price to NTA	Return on Equity	Volatility	Price/Earn.	Dividend Yield	Price/Sales Ratio	Market Cap'n															
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0													<b>INCOME SHARES:</b> Highest Yields, Capitalisation > A\$250 million																													
Pro Maintenance	196	+1.7	+0.8	14	4-0	5	2.3	22	0.5	10	4.6	0.19	232	Regional Exp.	106	+0.6	+3.7	17	0-0	1	0.8	11	0.5	7	6.7	0.50	120	DUET Group	176	+0.2	+2.1	18	1-0	3	1.0	7	0.3	13	17.1	1.32	1,597	
Ruralco Hold.	320	+1.4	+0.5	15	0-0	-	1.7	11	0.4	15	5.0	0.20	176	Metcash Ltd	429	+0.6	+1.1	17	0-0	5	21.5	-	0.3	14	7.5	0.26	3,298	Tabcorp Holding	285	-28.1	+3.3	94	0-0	3	-	-	0.3	7	15.1	0.67	1,961	
WDS Limited	67	+0.0	-3.7	18	7-0	4	1.2	7	0.9	18	1.5	0.26	97	Waterco Ltd	131	+0.4	+4.6	17	1-0	-	1.1	8	0.5	14	6.9	0.64	44	Goodman Fielder	52	-25.0	-1.7	90	7-0	3	-	-	0.6	NE	14.9	0.32	1,017	
Metcash Ltd	429	+0.6	+1.1	17	0-0	5	21.5	-	0.4	14	7.5	0.26	3,298	News Corp.	1706	+0.2	+3.5	18	1-0	2	7.1	-	0.2	5	0.9	0.44	13,623	APN News Media	88	-23.0	+1.5	87	1-0	3	-	-	0.4	6	13.7	0.50	530	
Maxi TRANS	31	+10.0	+6.0	6	2-0	1	0.9	6	1.2	14	4.8	0.28	57	Vita Life Sci.	29	+0.2	-6.9	18	0-0	-	2.0	59	1.0	3	1.8	0.77	15	Seven West Med.	335	-18.1	+4.6	76	9-0	5	-	-	0.3	18	13.4	2.82	2,045	
Hydromet Corp.	5	+2.0	+3.2	13	1-0	-	0.9	11	3.2	8	3.8	0.30	21	WDS Limited	67	+0.0	-3.7	18	7-0	4	1.2	7	0.7	18	1.5	0.26	97	Chal Infra Fund	113	-0.8	+4.1	24	0-0	2	-	-	0.4	NE	12.4	1.01	357	
CI Resources	50	+4.7	+1.1	10	0-0	-	0.5	8	1.0	7	6.0	0.33	36	Pacific Brands	57	-9.0	-0.3	51	0-0	6	5.2	-	0.7	5	10.9	0.33	530	Spark Infrastru	127	+1.3	-1.8	15	4-0	4	0.8	4	0.4	21	10.7	5.81	1,678	
Adcorp Aust.	18	+1.9	+6.4	13	5-0	-	1.9	25	1.5	8	11.4	0.36	11	Cromwell Prop.	66	-2.7	+0.7	30	4-1	3	0.9	13	0.5	7	10.7	3.47	632	Ardent Leisure	109	-8.3	+0.4	49	4-0	3	1.2	13	0.4	10	10.6	0.90	347	
Covenry Group	227	+1.0	-1.9	16	3-0	-	0.7	3	0.6	21	9.7	0.40	91	Ale Property	199	+0.5	+2.1	17	1-0	2	0.9	14	0.3	6	9.9	5.46	314	Villa World Grp	76	-9.2	-0.6	52	3-0	-	2.1	10	0.5	22	9.9	2.66	298	
Careers Multi.	13	+1.2	+9.3	15	3-0	-	13.0	-	2.0	9	7.7	0.40	7	Onesteel Ltd	102	-23.6	-1.7	88	3-0	4	0.7	12	0.5	6	9.8	0.19	1,365	MAP Group	349	+3.3	+0.8	11	2-0	3	-	-	0.2	126	9.6	6.45	6,496	
News Corp.	1706	+0.2	+3.5	18	1-0	2	7.1	-	0.2	5	0.9	0.44	13,623	Hills Holdings	107	-14.0	+2.5	67	2-0	3	0.9	-	0.4	NE	9.4	0.24	265	Tatts Group Ltd	237	-1.7	+1.5	27	1-1	3	-	-	0.3	11	9.1	0.85	3,125	
Joyce Corp.	45	+0.9	-2.0	16	0-0	-	1.2	15	1.0	8	8.9	0.44	9	Q.B.E. Insur.	1434	-11.5	+1.6	59	5-0	3	3.4	29	0.2	12	8.9	0.97	15,082	David Jones	328	-14.0	+5.8	67	1-0	6	2.4	24	0.3	10	8.5	0.86	1,680	
Int. Legal	13	+0.8	+2.7	16	0-0	-	-	-	1.9	10	6.9	0.44	13	Telstra	314	+3.2	+0.4	12	9-0	5	8.7	72	0.2	12	8.9	1.54	39,071	Automotive Hold	205	-7.1	+2.5	45	2-0	1	2.0	20	0.4	10	8.3	0.16	533	
Supply Network	71	+14.8	-1.8	4	0-0	-	1.7	17	0.8	10	7.0	0.48	24	Myer Holdings	193	+0.6	+0.9	17	2-0	1	1.0	9	0.4	11	8.9	5.19	459	Sth Cross Media	121	-15.1	+1.5	69	2-0	3	-	-	0.4	16	8.3	1.73	854	
Regional Exp.	106	+0.6	+3.7	17	0-0	1	0.8	11	0.5	7	6.7	0.50	120	Growthpoint Pro	296	-11.9	+5.2	60	2-1	6	-	-	0.4	9	8.8	0.47	1,492															

# Australian Warrant / Option Analysis

Company	Share Price	Exercise Price	Yr/Mth to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate	Company	Share Price	Exercise Price	Yr/Mth to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
Actinogen	5.0	20	3-10	0.2	2.9	-93	1.19	1.26	1.0	+44	Cortona Resources	12	20	0-2	0.3	0.0	+999	0.58	9.99	1.0	+999
Actinogen	5.0	50	0-8	0.1	0.0	+128	1.19	3.59	1.0	+999	Cove Resources	16	25	2-2	3.0	3.1	-2	0.55	2.41	1.0	+31
Activex Ltd	2.9	8.0	0-8	0.3	0.1	+204	0.83	3.85	1.0	+384	Curnamona Energy	7.5	35	2-0	2.0	0.6	+243	0.75	2.58	1.0	+122
Advance Energy	0.8	3.0	0-9	0.2	0.1	+177	1.19	2.56	1.0	+535	Dart Mining	12	10	0-1	1.8	2.0	-9	0.84	4.43	1.0	+36
Africa Iron	31	20	2-0	15.0	18.2	-18	0.87	1.42	1.0	+7	Datamotion Asia Pac.	0.1	1.0	1-5	0.1	0.0	+791	1.25	2.05	1.0	+433
Allied Healthcare	3.7	4.0	0-1	0.3	0.4	-18	1.13	4.78	1.0	+506	Datamotion Asia Pac	0.1	0.5	1-4	0.1	0.0	+418	1.25	1.89	1.0	+283
Anaeco Ltd	5.0	100	0-6	0.1	0.0	+999	0.85	9.99	1.0	+999	Delecta Ltd	1.1	0.8	0-1	0.7	0.3	+108	1.25	2.80	1.0	+999
Antipa Minerals	20	20	1-4	9.5	6.7	+41	0.70	2.03	1.0	+34	Diatreme Resources	7.0	15	1-10	2.0	1.4	+46	0.74	2.20	1.0	+62
Antisense Thera.	1.3	1.1	0-8	0.5	0.5	+1	0.97	1.95	1.0	+37	Dourado Resources	18	20	3-0	6.7	8.4	-20	0.70	1.58	1.0	+14
Apex Minerals	0.7	6.0	0-11	0.2	0.0	+999	0.86	4.29	1.0	+903	Dragon Energy	12	35	0-12	1.1	0.2	+391	0.62	4.50	1.0	+212
Aphrodite Gold	9.5	20	2-1	2.5	1.5	+69	0.61	2.47	1.0	+51	Drill Torque	13	30	4-8	5.0	0.5	+903	0.24	4.50	1.0	+24
Apollo Minerals	6.5	25	0-0	0.1	1.5	-93	0.72	2.47	1.0	+999	Eagle Nickel	3.0	30	0-7	0.1	0.0	+999	0.72	9.18	1.0	+999
Arafura Pearls	1.0	5.0	0-6	0.1	0.0	+999	0.68	8.66	1.0	+999	Eagle Nickel	3.0	20	4-1	0.4	0.5	-21	0.72	1.93	1.0	+60
Argentina Mining	13	20	3-3	5.1	5.7	-10	0.75	1.57	1.0	+22	Eden Energy	5.1	20	2-7	1.3	0.9	+38	0.80	2.01	1.0	+74
Astro Diamond Mines	0.3	5.0	1-0	0.1	0.0	+999	1.25	2.81	1.0	+999	Eldore Mining	0.2	3.0	1-1	0.1	0.0	+860	1.36	2.34	1.0	+999
Astro Mining	0.3	5.0	1-0	0.1	0.0	+999	1.25	2.81	1.0	+999	Elemental Minerals	107	20	0-2	80.0	86.7	-8	0.74	1.23	1.0	-31
Athena Resources	8.0	8.0	0-5	3.0	1.6	+89	0.74	3.08	1.0	+115	Emerald Oil & Gas	3.0	5.0	0-9	1.1	0.3	+245	0.74	3.19	1.0	+158
Atlantic Ltd	155	0.8	0-1	140.0	154.2	-9	0.50	1.01	1.0	-68	Eneabba Gas	3.0	15	1-7	0.2	0.5	-62	1.11	1.95	1.0	+179
Atticus Resources	26	20	0-10	7.0	7.2	-3	0.31	3.18	1.0	+5	Eneabba Gas Ltd	3.0	20	0-7	1.2	0.0	+999	1.11	3.88	1.0	+999
Attila Resources	20	20	2-7	8.0	11.1	-28	0.89	1.42	1.0	+14	Energio Ltd	1.7	100	1-4	1.0	0.0	+999	1.16	3.17	1.0	+999
Audalia Resources	20	20	2-5	3.0	4.2	-28	0.26	3.27	1.0	+6	Enerji Ltd	1.8	3.0	3-7	0.6	1.0	-42	0.96	1.33	1.0	+21
Aurium Resources	2.7	3.5	0-10	0.8	0.6	+32	0.84	2.39	1.0	+75	Enerji Ltd	1.8	20	5-1	0.4	0.7	-40	0.96	1.44	1.0	+61
Aurogold Ltd	116	20	1-4	100.0	98.0	+2	0.93	1.17	1.0	+3	Enterprise Metals Ltd	18	25	0-7	4.5	1.0	+330	0.53	4.91	1.0	+141
Aust China Holdings	0.2	2.0	2-1	0.1	0.1	+31	1.53	1.42	1.0	+209	Env. Clean Tech.	0.5	2.0	2-2	0.3	0.1	+452	0.75	2.40	1.0	+105
Aust Mines Ltd	1.5	0.2	1-7	0.4	1.3	-70	0.83	1.13	1.0	-44	Equator Resources	21	20	1-7	5.0	7.8	-36	0.68	1.93	1.0	+12
Aust Renewable Fuel	1.9	1.0	0-1	0.9	0.9	-0	0.55	2.11	1.0	+0	Ero Mining	2.0	6.0	0-10	0.5	0.0	+999	0.69	4.35	1.0	+311
Aust-American Mining	10	10	1-1	0.3	3.5	-91	0.82	1.97	1.0	+3	Eromanga H/carbons	3.0	20	0-8	0.1	0.0	+888	0.91	4.75	1.0	+999
Austex Oil Ltd	8.3	25	0-0	0.1	3.5	-97	0.60	1.97	1.0	+999	Erongo Energy Ltd	18	10	1-7	8.5	11.4	-25	0.98	1.38	1.0	+2
Austin Exploration	3.0	5.5	1-7	0.7	0.4	+99	0.56	2.95	1.0	+57	Euroz Ltd	137	75	2-3	56.5	74.5	-24	0.46	1.68	1.0	-2
Austin Exploration	3.0	5.5	0-7	0.4	0.1	+447	0.56	5.45	1.0	+209	Exalt Resources	15	20	4-1	2.0	3.8	-47	0.36	2.35	1.0	+10
Austin Exploration	3.0	10	0-0	0.1	0.1	+37	0.56	5.45	1.0	+999	Exalt Resources	15	20	4-1	2.0	3.8	-47	0.36	2.35	1.0	+10
Austindo Resources	1.2	1.5	0-7	0.2	0.2	+26	0.67	3.41	1.0	+82	Excalibur Mining	0.2	6.0	1-1	0.1	0.0	+174	2.04	1.65	1.0	+999
Australasia Gold	40	10	1-5	5.0	34.6	-86	1.70	1.11	1.0	-51	Exoma Energy Ltd	8.5	10	0-10	2.0	1.4	+47	0.57	3.19	1.0	+51
Auth Investment	2.3	8.0	1-3	1.0	1.1	-7	1.80	1.39	1.0	+209	FYI Resources	7.0	15	0-7	0.9	0.2	+458	0.66	4.96	1.0	+308
Auto Tech Group	2.6	8.0	0-7	1.0	0.0	+999	0.82	4.48	1.0	+740	Ferrowest Ltd	5.0	25	0-7	6.0	0.0	+999	0.65	8.07	1.0	+999
Auzex Resources	24	20	0-3	13.0	4.6	+180	0.60	3.94	1.0	+410	Ferrum Crescent	8.1	40	2-1	2.8	0.5	+474	0.70	2.75	1.0	+122
Avanco Resources	11	1.5	0-5	8.4	9.5	-12	0.71	1.15	1.0	-22	Firestone Energy	1.2	4.0	2-6	0.3	0.1	+142	0.62	2.57	1.0	+67
BPH Energy	3.4	20	0-0	0.1	0.0	+999	0.84	9.99	1.0	+999	Forge Resources	35	20	2-8	21.0	24.7	-15	0.97	1.26	1.0	+6
Bassari Resources	5.4	20	0-7	0.5	0.1	+541	0.89	4.30	1.0	+884	Forte Consolidated	17	20	2-5	6.5	5.0	+30	0.52	2.15	1.0	+20
Bassari Resources	5.4	11	1-0	1.4	0.8	+66	0.89	2.46	1.0	+130	GBM Resources	6.3	20	1-7	1.5	0.9	+69	0.86	2.29	1.0	+117
Benitec Ltd	1.5	4.0	2-1	0.8	0.1	+597	0.55	3.05	1.0	+75	GRG International	9.9	20	1-7	1.9	1.6	+17	0.71	2.43	1.0	+65
Benitec Ltd	1.5	10	2-4	0.4	0.0	+999	0.55	3.86	1.0	+127	Geodynamics Ltd	21	55	0-4	0.4	0.1	+189	0.85	6.00	1.0	+999
Berkeley Resources	41	75	1-6	7.0	10.4	-33	0.89	1.99	1.0	+62	Global Geoscience	3.6	25	0-9	0.3	0.0	+999	0.89	4.54	1.0	+999
Biodiem Ltd	8.4	23	0-6	1.2	0.1	+999	0.77	5.14	1.0	+730	Global Nickel	1.2	10	0-7	0.2	0.0	+999	0.86	6.20	1.0	+999
Bioprospect	0.5	3.0	2-1	0.1	0.1	-6	1.08	1.80	1.0	+140	Global Resources	1.4	3.0	1-9	0.4	0.5	-25	1.12	1.60	1.0	+67
Biotron Ltd	12	10	0-1	1.3	1.8	-29	0.68	5.01	1.0	-19	Gold Aura Ltd	1.9	3.0	0-7	0.6	0.1	+306	0.70	3.81	1.0	+199
Black Ridge Mining	0.6	1.5	1-1	0.2	0.1	+56	1.11	2.03	1.0	+162	Gold One Int'l	54	50	0-10	7.0	11.4	-38	0.43	3.28	1.0	+6
Botswana Metals	5.8	10	1-7	2.2	1.2	+81	0.72	2.26	1.0	+60	Golden Gate Petrol.	1.8	8.0	0-9	0.2	0.0	+918	0.83	4.31	1.0	+655
Boulder Steel Ltd	4.4	10	0-4	0.4	0.0	+978	0.76	6.32	1.0	+999	Golden State Res	1.7	2.0	3-2	0.7	1.0	-32	0.95	1.33	1.0	+16
Bounty Industries	2.5	20	0-1	0.3	0.0	+999	0.00	9.99	1.0	+999	Gondwana Res	0.4	1.0	1-7	0.1	0.1	+44	0.83	2.20	1.0	+89
Brazilian Metals	6.5	20	2-4	1.0	2.8	-64	1.18	1.46	1.0	+65	Grand Gulf Energy	0.4	1.5	1-7	0.1	0.1	+13	1.10	1.87	1.0	+140
Bright Star Res	9.6	10	0-10	2.2	2.2	-1	0.64	2.67	1.0	+32	Greater Bendigo GM	1.8	5.0	0-4	0.3	0.0	+999	0.53	9.99	1.0	+999
Broken Hill Pros	8.7	20	2-3	2.0	1.9	+7	0.73	2.09	1.0	+52	Green Rock Energy	1.1	3.6	1-4	0.1	0.0	+101	0.68	3.34	1.0	+148
Buccaneer Energy	6.4	10	1-0	2.6	1.0	+162	0.72	2.73	1.0	+97	Greenvale Mining	12	30	0-1	2.2	0.0	+999	0.94	9.99	1.0	+999
Burleson Energy	3.0	10	1-10	0.5	0.2	+225	0.60	3.22	1.0	+98	Gt Western Explor.	36	30	0-7	10.5	10.7	-2	0.74	2.43	1.0	+25
Buxton Resources	17	30	4-2	9.0	7.4	+22	0.70	1.55	1.0	+22	Gulf Industrials	2.1	2.5	1-1	0.7	0.7	-3	0.95	1.88	1.0	+48
C @ Ltd	5.2	1.0	0-5	4.5	4.2	+6	1.31	1.22	1.0	+14	Gulf Mines Ltd	1.7	15	1-2	0.2	0.2	+5	1.35	2.08	1.0	+554
Cadence Capital	120	125	0-10	4.5	13.2	-66	0.31	5.02	1.0	+10	Gulf Resources	2.1	10	1-4	0.3	0.2	+70	0.95	2.49	1.0	+230
Cape Range Ltd	0.5	0.8	1-2	0.1	0.0	+999	0.00	9.99	1.0	+65	Havilah Resources	54	50	1-11	17.0	19.6	-13	0.56	2.00	1.0	+12
Capitol Health	3.1	5.0	0-5	1.0	0.0	+999	0.48	7.86	1.0	+388	Hawthorn Resources	1.3	20	0-5	0.1	0.0	+999	1.05	7.45	1.0	+999
Cardia Bioplastics	1.1	1.5	0-7	0.3	0.1	+157	0.67	3.62	1.0	+133	Hawthorn Resources	1.3	10	1-3	0.3	0.1	+344	1.05	2.59	1.0	+424
Carnavale Resources	5.0	20	1-3	1.1	0.2	+459	0.76	3.25	1.0	+216	Health Corporation	1.2	120	0-0	0.1	0.1	+48	0.69	2.59	1.0	+999
Cauldron Energy	10	45	0-11	1.0	0.3	+197	0.92	3.27	1.0	+428	Healthlinx Ltd	1.4	10	2-1	0.8	0.0	+999	0.68	3.18	1.0	+167
Celamin Holdings	28	20	2-4	12.0	17.4	-31	0.96	1.34	1.0	+7	Hill End Gold	2.6	15	0-3	0.1	0.0	+999	0.61	9.99	1.0	+999
Central Petroleum	5.2	16	0-4	2.1	0.0	+999	0.63	9.99	1.0	+999	Hill End Gold	2.6	10	2-6	1.2	0.2	+500	0.61	2.73	1.0	+81
Central Petroleum	5.2	16	2-4	0.1	0.6	-83	0.63	2.55	1.0	+62	Horseshoe Metals	22	20	0-7	7.5	9.5	-21	1.41	1.67	1.0	+52
Challenger Energy																					

Company	Share Price	Yr/Mth Exercise Price	to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate	Company	Share Price	Yr/Mth Exercise Price	to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
Jacka Resources	15	20	-1	4.0	4.1	-3	0.87	2.09	1.0	+54	Peninsula Minerals	4.0	3.0	0-7	1.8	1.4	+25	0.76	2.22	1.0	+37
Jatenergy Ltd	9.7	25	2-3	2.5	5.5	-54	1.38	1.31	1.0	+59	Pharmanet Group	0.6	1.3	1-7	0.1	0.2	-37	0.93	1.91	1.0	+67
Kairiki Energy	0.3	0.4	1-7	0.1	0.2	-47	1.55	1.27	1.0	+38	Pharmaust Ltd	1.7	10	1-4	0.1	0.0	+208	0.76	3.51	1.0	+281
Kalgoorlie Mining Co	7.9	25	2-6	1.7	1.6	+4	0.78	1.99	1.0	+63	Phoenix Gold	22	20	0-3	3.0	3.3	-10	0.49	4.69	1.0	+19
Key Petroleum	1.7	7.5	0-0	0.1	1.6	-94	0.83	1.99	1.0	+999	Phoenix Gold	22	25	3-0	9.0	7.3	+23	0.49	2.01	1.0	+16
Kidman Resources	34	20	2-0	15.5	21.4	-27	0.88	1.38	1.0	+2	Poseidon Ltd	5.7	9.0	4-7	3.0	1.9	+56	0.50	1.84	1.0	+18
Kilgore Oil & Gas	0.2	0.5	3-9	0.1	0.2	-46	2.05	1.03	1.0	+34	Poseidon Nickel	22	92	0-0	3.0	0.0	+999	0.66	9.99	1.0	+999
Kilgore Oil & Gas	0.2	5.0	0-7	0.1	0.0	+966	2.05	2.25	1.0	+999	Prima Biomed	19	2.0	0-1	15.5	16.5	-6	0.81	1.12	1.0	-49
Kingsrose Mining	139	20	1-1	116.0	119.5	-3	0.49	1.16	1.0	-2	Promesa Ltd	50	20	0-12	30.0	32.5	-8	0.86	1.45	1.0	+0
Labtech Systems	3.6	20	1-7	0.5	0.4	+15	1.02	2.17	1.0	+200	Proto Res & Inv	3.6	5.0	0-1	0.1	0.0	+731	0.64	9.99	1.0	+999
Labtech Systems	3.6	20	1-7	8.0	0.4	+999	1.02	2.17	1.0	+265	Proto Res & Inv	3.6	25	2-1	0.6	0.1	+835	0.64	3.44	1.0	+156
Latin Resources	17	30	1-4	2.3	3.8	-40	0.84	2.15	1.0	+62	Quantum Resources	0.6	5.0	1-0	0.1	0.0	+798	1.01	3.23	1.0	+750
Legacy Iron Ore	11	25	0-1	1.3	0.0	+999	0.97	9.99	1.0	+999	Quantum Resources	0.6	10	0-5	0.3	0.0	+999	1.01	7.30	1.0	+999
Legacy Iron Ore	11	15	1-1	3.0	3.4	-12	0.97	1.93	1.0	+58	Queensland Mining	5.1	20	0-6	0.4	0.0	+999	0.71	7.01	1.0	+999
Legacy Iron Ore	11	10	1-1	7.5	4.8	+58	0.97	1.72	1.0	+54	Radar Iron	35	45	0-5	3.0	5.3	-43	0.91	3.06	1.0	+113
Liberty Resources	5.8	10	1-7	1.7	2.1	-17	1.01	1.71	1.0	+56	Ram Resources	0.5	3.0	0-4	0.1	0.0	+999	0.77	9.99	1.0	+999
Lindian Resources	10	15	0-1	1.4	0.1	+999	0.91	9.22	1.0	+999	Ram Resources	0.5	3.0	1-10	0.1	0.0	+320	0.77	2.80	1.0	+171
Londrho Mining	0.9	15	0-7	0.1	0.0	+999	0.71	1.00	1.0	+999	Range Resources	15	5.0	0-1	9.0	9.5	-5	1.00	1.52	1.0	-34
MEC Resources	14	20	1-8	6.5	8.3	-21	1.50	1.29	1.0	+50	Regalpoint Res	8.0	20	2-4	3.0	1.4	+114	0.67	2.24	1.0	+57
MRG Metals	35	25	4-10	12.0	19.8	-40	0.48	1.51	1.0	+1	Regis Resources	338	50	2-2	281.0	292.9	-4	0.43	1.15	1.0	-1
Macqarie Harbour	97	20	0-9	70.0	77.7	-10	0.63	1.25	1.0	-10	Regis Resources	338	200	0-5	130.0	142.6	-9	0.43	2.33	1.0	-6
Mactellan Financial	137	300	4-7	18.0	16.2	+11	0.34	2.89	1.0	+20	Regis Resources	338	100	0-11	231.0	242.2	-5	0.43	1.39	1.0	-2
Magnesium Int'l	1.8	10	0-6	0.2	0.0	+999	0.59	9.99	1.0	+999	Resolute Mining	195	60	0-1	135.0	135.2	-0	0.43	1.44	1.0	+0
Malachite Resources	1.8	5.0	0-7	0.1	0.0	+253	0.78	4.78	1.0	+584	Resource Mining	0.4	0.8	0-4	0.1	0.0	+361	1.05	3.81	1.0	+999
Mamba Minerals	3.5	5.0	1-7	2.5	1.3	+99	0.92	1.76	1.0	+62	Resource Star Ltd	2.3	20	0-10	0.4	0.0	+999	0.74	6.09	1.0	+999
Mantle Mining	6.1	7.5	2-0	2.8	3.3	-16	1.12	1.40	1.0	+30	Resources Base	3.2	5.0	0-0	2.0	0.0	+999	0.34	6.09	1.0	+999
Marion Energy	0.6	2.5	1-0	0.2	0.0	+826	0.84	3.29	1.0	+332	Ridge Resources	16	20	2-7	4.0	1.4	+183	0.22	4.65	1.0	+18
Marion Energy	0.6	25	0-0	0.2	0.0	+999	0.84	9.99	1.0	+999	Riedel Resources	11	20	1-0	1.4	1.2	+17	0.70	3.03	1.0	+95
Matilda Zircon	1.0	2.5	2-1	0.7	0.3	+130	0.94	1.75	1.0	+75	Robe Australia	1.2	1.0	3-1	0.5	1.0	-52	1.60	1.08	1.0	+8
Metminco Ltd	19	25	1-0	4.5	3.6	+26	0.67	2.67	1.0	+54	Royal Resources Ltd	16	12	1-11	7.0	5.8	+20	0.43	2.15	1.0	+11
Midas Resources	1.5	3.0	1-0	0.5	0.2	+233	0.73	3.02	1.0	+133	Samson Oil & Gas	11	1.5	1-1	9.5	9.1	+5	0.64	1.16	1.0	+4
Millennium Minerals	1.9	7.5	1-3	0.1	0.1	+94	0.70	3.62	1.0	+203	Saracen Mineral Hold.	85	10	1-7	56.0	75.7	-26	0.42	1.12	1.0	-15
Millennium Minerals	1.9	3.0	1-1	0.5	0.3	+67	0.70	2.70	1.0	+74	Scotgold Resources	7.5	8.0	0-5	2.0	1.3	+54	0.75	3.23	1.0	+99
Millepede Int'l	0.5	5.0	0-4	0.2	0.0	+999	1.44	4.53	1.0	+999	Select Vaccines	0.4	0.2	1-8	0.2	0.3	-28	1.09	1.29	1.0	+0
Mindax Ltd	18	75	0-0	1.0	0.0	+999	0.55	4.53	1.0	+999	Sentosa Mining	12	25	2-1	1.5	2.3	-34	0.67	2.27	1.0	+47
Minerals Commodities	11	20	1-1	4.0	3.5	+16	1.24	1.74	1.0	+114	Sherwin Iron	7.0	14	0-7	1.5	0.2	+537	0.68	4.68	1.0	+308
Mining Projects Group	1.8	0.2	2-7	1.0	1.6	-39	0.87	1.09	1.0	-14	Sibiran Resources	15	20	0-10	1.1	0.9	+25	0.39	5.19	1.0	+51
Modena Resources	5.2	6.0	2-1	0.4	3.6	-89	1.46	1.21	1.0	+10	Sierra Mining	16	10	3-1	9.0	9.5	-6	0.63	1.45	1.0	+6
Moko.mobi Ltd	6.0	10	1-8	2.0	2.5	-19	1.09	1.59	1.0	+52	Silver Mines	18	35	0-11	3.1	1.8	+76	0.77	3.00	1.0	+134
Monax Resources	6.2	15	0-0	1.0	2.5	-59	0.56	1.59	1.0	+999	Sino Gas & Energy	4.1	50	0-1	0.4	0.0	+999	0.58	9.99	1.0	+999
Mongolian Resources	12	20	1-4	5.0	4.4	+13	1.12	1.68	1.0	+73	Sino Gas & Energy	4.1	13	1-1	0.4	0.1	+512	0.58	4.61	1.0	+188
Motopia Ltd	1.2	20	0-2	0.1	0.0	+999	0.87	9.99	1.0	+999	Sinovus Mining	1.8	5.0	2-0	1.0	0.6	+78	1.02	1.70	1.0	+83
Mundo Minerals	4.6	18	2-5	1.5	0.5	+226	0.67	2.49	1.0	+82	Souls Private Equity	16	20	3-2	0.9	8.4	-89	0.88	1.40	1.0	+10
Mutiny Gold	7.6	5.0	1-8	4.3	4.1	+5	0.79	1.56	1.0	+13	St George Mining	15	20	3-0	2.5	5.1	-51	0.58	1.89	1.0	+14
Mutiny Gold	7.6	14	1-12	1.8	2.1	-15	0.79	1.93	1.0	+45	Sth Amer Ferro s	16	20	3-1	5.0	6.4	-22	0.63	1.72	1.0	+16
Navigator Resources	2.6	25	0-0	0.1	2.1	-95	1.40	1.93	1.0	+999	Sihn Crown Res	12	35	1-1	1.1	0.5	+106	0.71	3.49	1.0	+176
Navigator Resources	2.6	4.0	2-8	0.8	1.8	-57	1.40	1.19	1.0	+26	Stirling Resources	1.1	15	0-7	0.1	0.0	+999	0.82	8.24	1.0	+999
Nemex Resources	19	20	2-4	6.5	6.0	+9	0.52	2.08	1.0	+17	Stirling Resources	1.1	4.0	0-7	0.8	0.0	+999	0.82	4.81	1.0	+999
Neurodiscovery	4.0	6.0	0-2	0.1	0.1	+26	0.78	7.03	1.0	+999	Stonehenge Metals	3.0	10	1-0	2.0	0.2	+718	0.93	2.73	1.0	+285
New Age Exploration	11	10	0-4	2.5	3.0	-16	1.00	2.53	1.0	+47	Structural Monitoring	0.7	0.9	1-7	0.2	0.3	-40	1.09	1.52	1.0	+29
New Horizon Minerals	22	20	3-1	7.0	10.3	-32	0.59	1.65	1.0	+7	Structural Monitoring	0.7	0.9	1-4	0.2	0.3	-34	1.09	1.61	1.0	+36
Nex Metals Explor.	9.0	25	0-0	0.1	10.3	-99	0.94	1.65	1.0	+999	Style Ltd	0.2	0.5	2-8	0.1	0.1	-22	1.41	1.23	1.0	+51
Noble Mineral Res	60	35	1-8	28.5	29.5	-3	0.50	1.81	1.0	+4	Syndicated Metals	11	20	0-1	0.1	0.0	+999	0.50	9.99	1.0	+999
Norwest Energy NL	3.2	10	0-7	0.8	0.0	+999	0.65	6.28	1.0	+705	Synergy Metals	16	1.0	3-12	1.4	14.9	-91	1.07	1.03	1.0	-37
Nthn Mining	3.3	6.0	2-1	0.7	1.2	-39	0.89	1.72	1.0	+40	Tangiers Petroleum	78	16	1-11	60.0	65.9	-9	1.05	1.15	1.0	-1
Nthn Mining	3.3	4.0	0-1	1.8	0.1	+999	0.89	7.22	1.0	+999	Tango Petroleum	3.1	6.0	0-7	0.6	0.7	-12	1.36	2.11	1.0	+265
Nthn Uranium	44	15	0-4	30.0	28.8	+4	0.88	1.50	1.0	+11	Target Energy Ltd	8.0	10	0-11	2.1	3.1	-32	1.21	1.71	1.0	+57
Nthn Uranium Ltd	44	20	0-10	28.0	26.0	+8	0.88	1.54	1.0	+13	Tasman Resources	14	10	0-7	7.5	6.7	+11	1.23	1.67	1.0	+47
Nusep Holdings	10	15	0-4	0.5	0.4	+24	0.68	5.31	1.0	+272	Terrain Minerals Ltd	2.6	8.0	1-1	0.6	0.1	+438	0.73	3.46	1.0	+202
Nusep Ltd	10	35	0-9	0.1	0.1	+32	0.68	5.14	1.0	+433	Thundelarra Expl.	16	20	1-4	4.0	4.3	-7	0.76	2.11	1.0	+39
OBJ Ltd	2.3	1.1	0-1	1.6	1.2	+35	0.47	1.94	1.0	+648	Titan Energy	0.8	1.5	1-1	0.3	0.1	+170	0.76	2.68	1.0	+111
Odin Energy	0.6	25	1-0	0.1	0.0	+999	0.90	6.06	1.0	+999	Trafford Resources	26	70	0-8	3.5	0.1	+999	0.52	7.29	1.0	+375
Odyssey Energy	4.8	5.0	3-1	3.7	2.9	+28	0.92	1.34	1.0	+21	Tranzact Financial	15	25	0-11	0.2	0.9	-78	0.53	4.19	1.0	+76
Oil Basins	1.9	4.0	2-7	1.5	0.3	+462	0.51	2.62	1.0	+51	Triton Gold Ltd	4.2	25	2-1	1.0	0.2	+351	0.73	2.74	1.0	+140
Oil Basins Ltd	1.9	1.5	0-7	1.0	0.5	+86	0.51	2.85	1.0	+60	Tyrian Diagnostics	0.1	1.2	2-1	0.1	0.1	+51	2.12	1.17	1.0	+243
Orchid Capital	4.2	5.0	0-3	0.4	0.5	-22	0.92	3.69	1.0	+173	United Uranium	7.8	20	0-7	0.8	0.0	+999	0.57	6.93	1.0	+437
Oroya Mining	0.1	0.8	0-0	0.1	0.5	-81															

# New Issue

Fairfax is selling 134.6 million Trade Me shares (34% of the company) to the public at 270 cents to raise \$363 million. All of this money will go to Fairfax, not Trade Me. In addition, Trade Me will borrow \$166.0 million and *all of this money* will also go to Fairfax.

Investors to this newsletter will know that when the IPO money is retained by the company (i.e. to finance future growth) the shares tend to perform better in the future than where the money goes to the vendor shareholders.

Trade Me revenues and profits have grown at around 15-16% per annum over the last four years - helped by price increases for its services - and even the company now predicts lower future growth rates. With 2.8 million accounts, the online auction business must be close to saturation point in the New Zealand market. Over the last five years, Fairfax must have investigated leveraging the Trade Me software and know-how to expand into the much larger (and more valuable) Australian market . . . but has obviously rejected this potential expansion. As a stand alone company with no significant assets - but \$166 million in bank debt - Trade Me is not in any position to consider offshore expansion!

Trade Me has a dominant position in the NZ market in a business where economies of scale (i.e. the number of account holders) is an important factor in success. Nevertheless, the business *is* vulnerable to potential competition. There are few barriers to entry and operating costs are low. A potential competitor - requiring little capital or financing - could, for example, offer low or nil cost auctions in an attempt to gain market share which at the very least could significantly depress Trade Me revenues and profits. Until recently, a debt-free Trade Me would have been able to fight such competition indefinitely - although perhaps with years of depressed profits. This "unwinnable" situation has, until now, deterred potential competitors from entering the market.

This competitive situation has now changed. A potential competitor does not need to *beat* Trade Me in a long war of attrition, but simply depress profitability sufficiently to put the company in breach of its new debt covenants - when the bank could take control of the business. One of Trade Me's bank covenants is that total debt shall be less than 2.5 times EBITDA. Initially it will be around 1.6 times - but just a 36% dip in earnings would breach that covenant. Taking on debt encourages genuine competitors to enter the market . . . and also

## Dividend\$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
AWF Group	5.00	18-11	25-11	Full
Goodman Property Trust	1.5625	01-12	19-12	0.1737
Horizon Energy	8.00	05-12	15-12	3.4286
Kathmandu	7.00	14-11	24-11	Full
Kirkcaldie & Stains	2.50	11-11	18-11	Full
Mainfreight	12.00	09-12	16-12	Full
Postie Plus Group	1.00	07-12	14-12	0.4286
Restaurant Brands	6.50	11-11	25-11	2.7857
Scott Technology	5.00	23-11	02-12	2.1429
TrustPower	20.00	25-11	09-12	Full
Warehouse Group	6.50	04-11	16-11	Full
<u>Australian Shares</u>				
CPT Global	1.00	25-10	23-11	

"greenmailers" who could simply present a business plan of how they *might* enter the market - and invite Trade Me to buy them out now for \$100 million.

Priced at 270 cents Trade Me shares are being offered on a Price/Sales ratio of 6.9, a Price/Earnings ratio of 15.6 and (owing to plans to distribute 80% of profits) a gross Dividend Yield of 7.1%.

The high P/S ratio reflects the low costs of operating this business - with pre-tax profit margins of 80%. Unfortunately, such high profit margins are rarely sustainable over the longer term and will eventually attract competition to the market.

The P/E ratio is rather expensive for a mature business, with modest potential for revenue growth and which will likely experience a long term decline in margins (i.e. which will put pressure on net profits).

The 7.1% gross Dividend Yield looks attractive, but that is inflated by distributing 80% of profits. This business has little need to retain cash, but distributing 80% of profits indicates that it does not plan to reduce its new \$166 million of interest bearing debt. The high payout ratio also indicates that any dip in revenues or decline in profit margins will depress profitability and also the annual dividend rate.

### Summary and Recommendation

Trade Me is a relatively mature business with limited future growth potential. Very few companies can maintain 80% profit margins, so it would be realistic to expect competitive pressures to reduce margins (and net profits) over the medium to long term.

The company has also weakened its financial position, taking on \$166 million to pay to its former owner. This weakened position *could* encourage potential competitors to enter the market (and "greenmailers" seeking payment not to enter the market).

At a P/E of 15.6 the shares look fairly expensive, while the dividend yield is vulnerable to any dip or decline in profitability.

An expensive, low growth business at risk of increased competition and long term pressure on profit margins and where the existing owner is (partially) selling out and extracting cash from the company? That is just about the *opposite* of everything we look for in a share investment!

### Total Return Index for All Listed Shares

Oct 10	1164.98		
Oct 11	1171.90		
Oct 12	1167.63		
Oct 13	1162.59		
Oct 14	1164.73		
Oct 17	1171.25	Oct 24	Holiday
Oct 18	1169.82	Oct 25	1158.65
Oct 19	1163.92	Oct 26	1166.32
Oct 20	1160.49	Oct 27	1169.04
Oct 21	1158.14	Oct 28	1184.44
Oct 31	1195.82	Nov 7	1200.06
Nov 1	1200.47	Nov 8	1206.50
Nov 2	1200.53	Nov 9	1209.11
Nov 3	1195.58	Nov 10	1199.18
Nov 4	1199.54	Nov 11	1202.00

### Next Issue:

The next issue of *Market Analysis* will be emailed in four weeks time on Monday December 12, 2011.

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

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