

# Market Analysis

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## Inside Market Analysis

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Founder: James R Cornell (B.Com.)

## Summary and Recommended Investment Strategy.

“Ten-baggers just don’t happen in the real world” writes an investment website, but they do happen for Peter Lynch, John Templeton, Warren Buffett and your Editor. Perhaps some less successful investors need to change their perspective on reality? We are not interested in Telecom NZ, Telstra or Mighty River Power. In our investment universe we see much better opportunities for building long term investment wealth . . .

## Investment Outlook.

Shares continue to offer good value - so remain fully invested to build further investment wealth over the years (and decades) ahead.

Michael Hill International shares - a long term, steady performer - trade on a low Price/Earnings ratio of 13. Since buying into this share in 1991, the company has produced a relatively modest 13% per annum growth in earnings per share but - by doing that fairly consistently over 22 years - our investment has increased 34-fold in value. Revenues for 2013 are up 6.8% but with higher margins, so the company has probably achieved another year of earnings per share growth in line with its long term average. At this “tortoise pace” our investment in Michael Hill should eventually become a 100-bagger in about 2021 and a 500-bagger by around 2033 (although probably sooner).

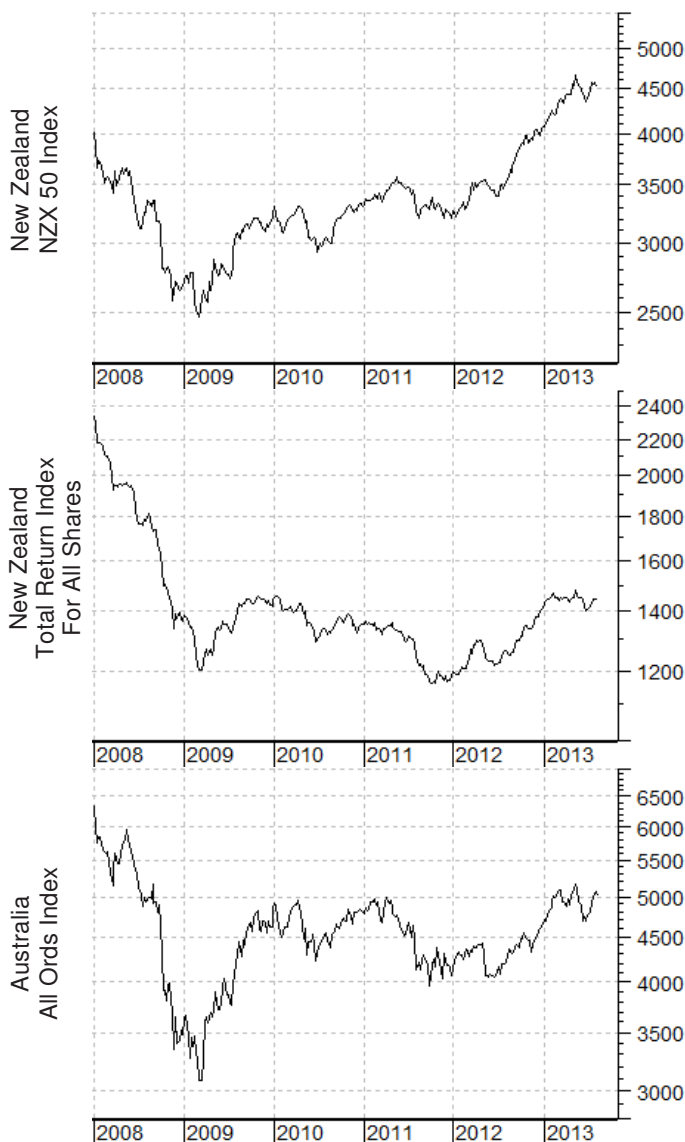
ALS Ltd shares also trade on a low P/E ratio of only 13 and Yield 5.6%. Profits will be down a bit this year, but the company can still find acquisitions that will help grow its business and increase earnings per share in the future. We see continued long term growth ahead, but forget about that. At current prices the shares are attractive just for that 5.6% income yield!

Ausenco Ltd, our latest recommendation, is down 30% over just two months. What were we thinking? Long term subscribers will, however, know that many of our best investments have dropped 50-75% in value! On three separate occasions our Michael Hill shares fell 50-60% in value. ALS dipped 75% in 2008, 50% in 2012 and 30% this year. Integrated Research fell 50% soon after we recommended them, recovered only to again fall 50% and dipped 40% earlier this year - despite which we have actually tripled our money so far!

Ausenco shares dipped again after reporting a poor June quarter - yet the company (Continued on Page 16)

### Stockmarket Forecasts

	<u>One-Month</u>	<u>One-Year</u>
Australia:	<b>61% (Bullish)</b>	<b>61% (Bullish)</b>
New Zealand:	<b>63% (Bullish)</b>	<b>48% (Neutral)</b>



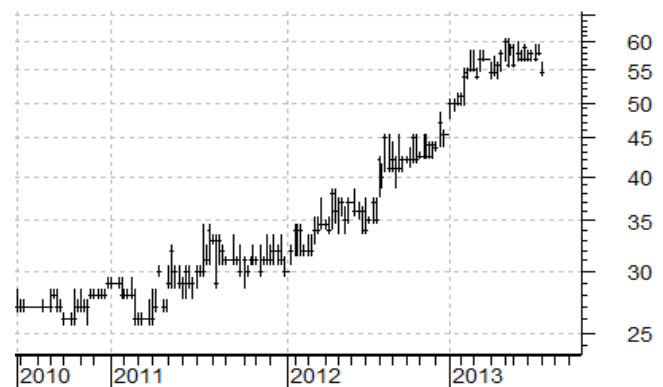


# Recommended Investments

## CDL Investments

**CDL Investments** lifted revenues 45.1% to \$15.8 million for the six months to 30 June 2013, with net profits up 49.5% at \$5,733,000 (2.1 cents per share). The company does not pay interim dividends.

The net operating cash surplus was 11% lower at \$3.6 million, mainly owing (Continued on Page 4)



## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Performance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
<b>NZ Shares</b>													
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	258.2	1.3	12.50	37	3.7	55	23.4	+212%
BUY	Cavalier Corporation	CAV	05/12/95	156*	D	68.3	1.1	0.45	23	Nil	142	278.0	+169%
HOLD	Colonial Motor Company	CMO	10/11/92	128*	B	32.7	0.5	0.26	12	8.1	440	371.3	+534%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	B	102.3	0.8	2.74	17	Nil	280	77.7	+138%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	B	382.8	0.9	0.96	13	4.3	128	44.4	+3348%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	523*	C	196.7	1.1	0.37	9	6.9	304	440.0	+42%
SELL	Postie Plus Group	PPG	08/05/06	71	D	40.0	2.6	0.06	25	9.9	14½	8.5	-68%
HOLD	Renaissance Corp	RNS	13/08/96	85*	E	45.7	4.2	0.07	17	Nil	10	53.9	-25%
HOLD	Smiths City Group	SCY	09/10/06	64	B	52.7	1.2	0.15	16	5.6	62	22.0	+31%
HOLD	South Port New Zealand	SPN	13/02/96	120	B	26.2	0.5	3.22	14	8.8	325	180.8	+321%
HOLD+	Steel & Tube Holdings	STU	08/08/00	146	B	88.4	0.8	0.56	17	6.7	256	273.1	+262%
<b>Australian Shares (in Aust cents)</b>													
HOLD+	AJ Lucas Group	AJL	13/05/03	107*	C	185.4	0.7	0.35	NE	Nil	152	36.4	+76%
BUY	ALS Limited	ALQ	12/10/99	77*	B	374.8	0.5	2.07	13	5.6	864	225.5	+1315%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	C	229.2	3.9	0.95	8	Nil	5	17.5	-69%
BUY	Ausenco Ltd	AAX	10/06/13	215	B	123.5	0.9	0.29	5	13.3	151	Nil	-30%
BUY	Brickworks Ltd	BKW	12/11/12	1115	B	147.6	0.3	3.18	41	3.4	1200	13.5	+9%
HOLD	Cardno Ltd	CDD	14/12/09	391*	B	138.2	0.6	0.86	11	6.0	598	115.3	+82%
HOLD	Cellnet Group Ltd	CLT	12/02/02	147*	A	55.7	2.0	0.15	8	5.9	17	55.9	-50%
BUY	Chandler Macleod Group	CMG	14/08/01	51*	B	444.5	1.4	0.13	13	6.1	46	27.1	+43%
HOLD	Circadian Technologies	CIR	10/02/04	188	C	48.5	1.8	7.84	NE	Nil	24	65.0	-53%
HOLD+	Clarius Group Ltd	CND	08/04/03	82*	B	89.4	1.9	0.07	9	5.0	20	70.5	+10%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.7	1.4	0.34	24	4.2	36	11.3	-46%
HOLD	CSG Limited	CSV	11/10/10	175	B	282.6	1.0	1.45	NE	2.4	104	37.0	-19%
HOLD	Devine Ltd	DVN	13/11/06	334*	B	158.7	1.1	0.38	11	5.3	76	79.6	-53%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	B	84.9	1.9	0.45	20	Nil	25	Nil	-49%
HOLD+	Fiducian Portfolio Ser	FPS	11/02/08	260	B	31.8	0.9	1.42	15	5.0	101	40.2	-46%
BUY	Finbar Group Ltd	FRI	12/04/10	106	B	214.2	0.8	2.42	10	6.9	130	24.5	+46%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	A	417.1	0.6	4.15	13	3.0	1154	182.0	+184%
BUY	Integrated Research	IRI	14/01/08	40	A	167.5	0.8	3.48	19	5.0	101	21.0	+205%
HOLD	M2 Telecommunications	MTU	09/10/06	33	A	156.6	0.5	2.59	31	2.8	651	67.5	+2077%
BUY	Melbourne IT	MLB	10/02/04	53	B	82.5	0.6	0.89	13	7.6	184	121.0	+475%
BUY	Nomad Building Solutio	NOD	16/08/10	13*	C	277.5	3.6	0.15	2	Nil	6	Nil	-53%
HOLD	Novarise Renewable Res	NOE	14/03/11	25	C	415.1	2.1	0.88	4	Nil	18	Nil	-30%
HOLD+	Penrice Soda Holdings	PSH	11/07/11	17	C	91.4	2.9	0.05	NE	Nil	9	Nil	-48%
HOLD+	Probiotec Ltd	PBP	11/02/08	116	B	52.9	1.4	0.28	8	Nil	35	9.3	-62%
HOLD+	Prophecy International	PRO	08/09/08	26	A	50.2	1.2	3.22	27	5.2	43	11.5	+110%
HOLD	Skilled Group Ltd	SKE	12/03/02	126	B	233.5	0.6	0.38	16	4.3	305	148.0	+260%
HOLD	Technology One Ltd	TNE	11/11/03	44	A	305.4	0.5	3.83	27	2.4	212	38.8	+470%
BUY	TFS Corporation Ltd	TFC	08/01/07	45	C	279.6	1.3	0.97	5	Nil	44	14.2	+29%
HOLD	The Reject Shop Ltd	TRS	11/01/05	257	B	26.1	0.4	0.78	20	2.0	1687	345.5	+691%
HOLD	Village Roadshow	VRL	10/08/09	77	A	153.2	0.4	1.02	28	3.6	616	173.0	+925%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +285.0%. This is equal to an average annual rate of +31.1%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 41 current and 153 closed out) is +31.4%, compared with a market gain of +4.0% (by the SRC Total Return Index).

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

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



## Recommended Investments

(Continued from Page 3)

to a 110% increase (to \$8.8 million) in payments to develop property for sale.

The company is “on track to better” its 2012 profit of \$9.3 million this year. Most sales have been in Auckland and Hamilton, but earthworks will begin at the Preston Road, Christchurch, site this year, with sales expected to start in the half year to June 2014.

The company is seeking to sustain the current momentum in sales and how best to utilise its significant land holdings.

**Michael Hill International** reported moderate sales growth over the year to 30 June, but at “higher margins”, despite “the ongoing challenging environment”.

Same store sales were relatively flat for the year, but new stores boosted Canadian revenues 18.6% to C\$52.5 million (up 15.4% to NZ\$63.6 million) and Australian revenues 10.5% to A\$284.3 million (up 7.3% to NZ\$355.1 million). Overall, store sales were up 6.8% to \$541.5 million.

In addition, Professional Care Plan revenues rose 22.7% to \$33.1 million, of which \$12.0 million (up 98.6%) will be taken as earned income for the period.

### Michael Hill International



**Renaissance Corporation** reports that year-long discussions with parties interested in acquiring or

### Renaissance Corporation



merging with its *Retail* division have collapsed. As a result the company has closed four of its nine **Apple** stores.

The company has also been involved in “on and off” discussions with parties interested in its *Education* division. On 12 July it received an as yet undisclosed proposal “and the board is working through the details”.

### Australian Shares

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

**ALS Limited** (as we reported in an email update) is making two acquisitions that will be partially funded through a renounceable cash issue, offering shareholders one new share (at 780 cents) for every 11 shares held.

Shareholders can either (1) pay 780 cents to subscribe for the new shares, (2) sell the rights on-market or (3) the company will sell any shares not taken up and distribute the net proceeds to those shareholders on 23 August. The third option - doing nothing - effectively lets the company sell the rights on your behalf. On a small holding, this will avoid the minimum brokerage fee involved in selling the rights directly. As most readers of this newsletter have relatively large shareholdings in ALS Ltd, either selling the rights or doing nothing (and having the company sell them on your behalf) are probably the most appropriate choices.

ALS Ltd is buying **Reservoir Group** for US\$533 million from private equity investor **SCF Partners**, company management and other investors. Senior managers will take half their payment in ALS shares (i.e. 5.7 million shares at 895 cents, worth A\$51 million) with the remaining 91% of the acquisition paid in cash (i.e. 43% funded from equity raised in the cash issue and the balance from new borrowings).

Reservoir Group provides services to the oil and gas sector, with operating hubs in Aberdeen, Dubai, Houston and Edmonton, and operations at 40 sites. The business generates annual revenues of US\$223 million and earnings (before interest and tax) of US\$44 million. That is a Price/Sales ratio of 2.4 and a Price/Earnings ratio of about 15-20. That is a fairly high price, but ALS sees the ability to generate “revenues synergies” and to grow the business, including building “at least three oil and gas hub laboratories”. This acquisition will provide ALS Ltd with a “vertically integrated” business servicing the oil and gas sectors which will provide its existing laboratory businesses with additional work from Reservoir Group's customers.

ALS Ltd is also paying \$18 million to acquire **Earth Data Pty**, a provider of niche sampling and analysis services to the oil, gas and coal industries in Australia.

ALS predicts its first half profit will be down 22-30%

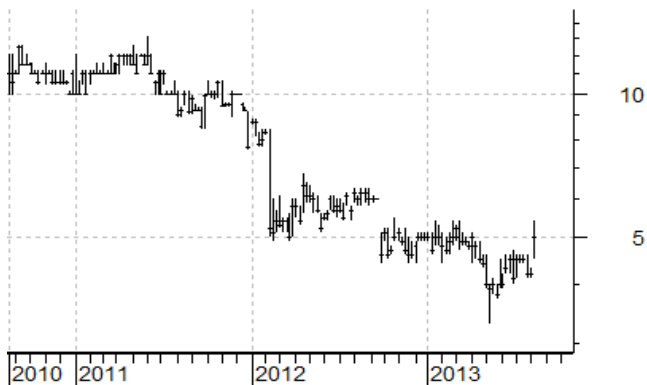
(from a high profit in the first half of last year, but similar to the second half of the year) at \$95-105 million. Earnings per share (on the increased capital) will be 30-36% lower at 25-28 cents.

**ALS Limited**



**Atlas Pearls and Perfumes** reports its “most successful pearl sales event to date”, realising \$2.3 million at auctions in Japan on 29-30 July. The company achieved its highest average price since 2007. July's total revenues were \$2.6 million, up from \$1.2 million in July 2012. Two more major pearl auctions are planned this calendar year, with direct selling of loose pearls and strands to niche customers.

**Atlas Pearls and Perfumes**



**Ausenco Ltd** has announced the acquisition of **PROJEX Technologies** for \$15.2 million in cash.

PROJEX Technologies is a Canadian company with “a complete suite of end-to-end engineering and development services”, specialising in “in-situ Steam-Assisted Gravity Drainage” (SAGD) projects - which is the “fastest growing method of oil sands production”.

This acquisition, together with **Reaction Consulting** which was acquired in 2012, allows Ausenco to “service all phases of oil sands projects from Evaluate phase studies through to Create phase EPCM delivery”.

SAGD is a method of extracting heavy oils, especially from deep deposits, where two horizontal wells are drilled into a reservoir. High pressure steam is fed into

the upper well, heating the oil to reduce its viscosity, which is pumped out of the lower well.

After synergies, this acquisition is expected to add \$40 million in revenues and \$5 million in earnings (before interest, tax and depreciation) this year. This looks to be a very low priced acquisition, with a Price/Sales ratio of 0.4 and a Price/Earnings ratio of about 5-6.

Ausenco has experienced a difficult June quarter, with clients reducing capital expenditure, increased competition requiring some contracts to be renegotiated at lower margins and a “small number of underperforming contracts” resulting in \$6 million of additional costs.

First half revenues (to 30 June 2013) are expected to be down about 20% at \$255 million, but net profits 66-70% lower at \$6-7 million (5-5½ cents per share).

In addition there have been \$5 million in redundancy costs, but these will save \$13 million in overhead costs in the second half of the year and \$20-25 million annually in future years.

At its March 2009 “Global Financial Crisis” low, Ausenco shares traded at 185 cents which was a Price/Sales ratio of 0.28. Today, at 151 cents the shares again trade on a Price/Sales ratio of just 0.29. We believe this is the extreme low of valuation.

**Ausenco Ltd**



**Cardno's** June 2013 net profit (subject to audit) will be \$77.7 million - at the upper end of the \$73-77 million previously predicted.

**Cardno**



(Continued on Page 6)

## Recommended Investments

(Continued from Page 5)

**Chandler Macleod Group** has paid \$1.8 million to acquire an initial 40% interest in Chinese based **Cornerstone Global Partners**, a recruitment and contracting business with offices in Beijing and Shanghai. This is a “low risk” entry into the Chinese market and not expected to make a material contribution in the near term.

Chandler Macleod has also paid NZ\$2,873,000 to acquire a 73.7% interest in New Zealand based **Grafton Consulting**. The business expects to earn around \$1.5 million (before interest, depreciation and tax), which suggests a Price/Earnings ratio of about 4-5.

### Chandler Macleod Group



**Ellex Medical Lasers** has launched its SLT glaucoma laser in the United States, following the expiry of a competitor's patent protection. This will provide a “positive impact on revenues” from this quarter and the company expects to “progressively build market share in the USA”. Internationally it has a 40% market share.

The company's *Retinal Rejuvenation Therapy* (2RT) has been approved by the FDA for the treatment of Clinically Significant Macular Edema, a common form of diabetic eye disease. The major potential for this laser, however, will be to treat Age-Related Macular Degeneration, which is undergoing clinical studies.

### Ellex Medical Lasers



The lower Australian dollar should also have an impact on profit margins - so higher revenues and higher margins in the current financial year should have a major impact on future profitability.

**Finbar Group** is to pay a final dividend of 6.0 cents, lifting the annual dividend 5.6% to 9.5 cents.

The company expects net profits to be up 10% and reports a strong balance sheet with \$35 million in cash.

### Finbar Group



**Iluka Resources** lifted Zircon sales 143.3% to 210.9 thousand tonnes for the first half year to 30 June, but Rutile sales were down 34.1% to 56.3 thousand tonnes, Synthetic Rutile sales down 80.2% at 20.0 thousand tonnes and Ilmenite sales down 32.8% at 147.0 thousand tonnes.

Prices were also lower than the first half of 2012, so total revenues were 42.4% lower at \$381.7 million. Cash production costs were 35.8% lower at \$201.9 million (and expected to fall to \$175 million in the second half of the year, with lower production).

Iluka Resources has acquired some very large Minerals Sands resources in Sri Lanka, at a minimal initial cost. The company has been awarded four exploration tenements and will acquire **PKD Resources (Pvt)** which owns additional exploration tenements. These deposits cover 146km<sup>2</sup> and contain 689 million tonnes at 8.2% for 56 million tonnes of Heavy Material. This compares well all of Iluka Resources other deposits totalling 1,900 million tonnes at 6.5% for 122 million tonnes of Heavy Material. So this one, low cost acquisition increases the company's potential resources by 46%.

Iluka Resources will make an initial payment of just \$5.0 million to the shareholders and creditors of PKD Resources. In the future, if it is granted a mining licence it will pay a further \$2.2 million plus a further \$8.0 million if Iluka Resources' board approves development of a mine. It would also pay an annual amount equal to

1% of gross minerals sales over the life of the mine.

Iluka Resources is particularly interested in a large, long life sulphate ilmenite deposit (containing 37 million tonnes).

Iluka Resources will study the feasibility of developing these deposits. The deposits are “mineralised beach placer deposits and carry no overburden” and “are mostly above the water table” so “ideally suited to low cost open cut mining operations”.

Sri Lanka's Exchange Control Act limits the foreign ownership in a Sri Lankan mining company to 40%, although approval up to 100% foreign ownership may be granted. The government also requires some (unspecified) “downstream processing” before granting mining licences. Development risks therefore include access rights, government approval for a mining licence, the extent of in-country upgrading and Iluka Resources' percentage ownership of the operation.

**Iluka Resources**



**Melbourne IT** has sold its *FTR* division to **Record Holdings Pty** for \$6.3 million in cash (or about 7.6 cents per share). The division was not considered a strategic fit with its other businesses.

**Melbourne IT**



**Novarise Renewable Resources International** has received a conditional and non-binding privatisation proposal from the major shareholders owning 75.88% of the company.

If this proceeds, the minority shareholders would be paid 23 cents as a return of capital and dividend. Documentation could be sent to shareholders in September or October, with a shareholders meeting in October or November.

Prior to this privatisation proposal the company announced a series of problems: further delays commissioning its new production lines, whose production efficiency will be “significantly lower than originally anticipated” plus changes to China's import policies which now require the company to purchase more expensive, lower quality post-consumer feedstock in China rather than importing. The credit squeeze has also resulted in the repayment date for the company's \$35 million loan to a third party again being extended until June 2014. The company “does not have any concerns regarding the repayment of these loans”. Our concern is that this original short term loan is becoming a permanent loan!

**Novarise Renewable Resources**



**Penrice Soda Holdings** reports strong sales of sodium bicarbonate, with the lower Australian dollar “benefiting export earnings”. Its *Selective Salt Recovery* business has signed a Memorandum of Understanding with **Trility** to provide marketing and technical services for the coal seam gas industry.

**Penrice Soda Holdings**



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## Recommended Investments

(Continued from Page 7)

**Probiotec** has formed a partnership with the **Pharmacy Guild of Australia** to produce a range of cold and flu, analgesic and other medicinal products which will be sold from January 2014 under the Guild's *Gold Cross* brand.

### Probiotec



**Prophecy International Holdings** placed 5,200,000 shares with an institution last week at 39 cents per share to raise \$2,028,000. The company is raising this cash in anticipation of acquiring another small software business that it can expand internationally.

It is pleasing to see this placement made at *market value*, not at a discount. Placements at a discount to market price offer the new shareholder an advantage *at the expense of the company's existing shareholders* - and usually depress the market value to around the discounted placement price.

### Prophecy International Holdings



Another small Australian company - involved in the liquified natural gas industry - recently raised \$8 million from a placement to *new* shareholders at 20 cents - a 23% discount to market. It is now seeking to raise a further \$2 million via a Share Purchase Plan to *existing* shareholders at the *higher* price of 20.65 cents! Certainly *that* company does not appear to be run for the benefit of *any* of its shareholders. An interesting fact, however, is that 20.65 cents (a 20% discount to the market price before the placement and SPP) is the lowest price

allowed under ASX listing rules! There is something seriously wrong when regulatory rules disadvantage the small "retail investors" that they claim to be protecting!

**Village Roadshow** has become our sixth 10-bagger investment - and in just four years! Two of the earlier ones went on to become 30-baggers (i.e. NZ Refining Company up 34-fold and Michael Hill International still growing at a 34-fold gain, but *could* be heading for a 100-bagger!) or 20-baggers (i.e. Toll Holdings up 23-fold and M2 Telecommunications up 21-fold and also still going strong).

Just last week, your Editor read an investment website that said "*Ten-baggers just don't happen in the real world*". Really? Perhaps I'm living a dream, because they do happen in my world. If I am dreaming, however, please don't wake me up!

We *almost* made a 10-bagger on Centennial Coal, but sold in March 2008 for just a 9½-fold gain. In my world there are no "magic numbers". A 10-bagger is nice, but if its time to sell then we might just have to get by with a 4-bagger or a 7-bagger or a 9½-bagger. The Reject Shop, currently up 8-fold, may become our next 10-bagger later this year?

The real value of these 10-bagger investments, however, is not just their large capital appreciation but their growing annual dividends. NZ Refining Company repaid our initial investment 12¾ times from capital repayments, special dividends and annual dividends - which made a significant contribution to helping to rebuild our portfolio after the 1987 crash. Michael Hill International has repaid our initial investment more than 8¾ times from dividends and a few special dividends. ALS Ltd has repaid our initial investment almost three times, M2 Telecommunications has repaid its cost twice and Village Roadshow has distributed cash equal to 2¼ times our initial investment. So even before selling a single share, these 10-baggers create a significant amounts of cash which can be re-invested in other shares to expand and grow our share portfolio - significantly building our investment wealth over the medium to long term.

### Village Roadshow





# Share Recommendation: Sell Postie Plus Group

## SELL Postie Plus Group.

We have decided to sell our Postie Plus Group shares, quitting this investment that has been very unsuccessful and which has little value.

We recommended these shares in May 2006, incorrectly believing that profitability was temporarily depressed and that the group could grow through the steady expansion of its store numbers (i.e. as Michael Hill International has done so successfully).

Unfortunately, profitability never recovered and instead of expanding its business the company has closed non-performing stores and sold off non-performing businesses. In May 2012 its sold its *Babycity* stores for \$4,050,000 with the intention of re-investing in a new retail business which would expand revenues and earnings, and provide economies of scale for its sourcing and distribution operations and contribute towards its fixed overhead expenses.

No suitable acquisitions have been found . . . while continuing operating losses appear to have eroded the cash resources intended to help finance those acquisitions. Early last week the company announced July sales below expectations and that it “is exploring options to raise capital for the purpose of improving working capital and reducing debt”. That cannot be favourable.

Raising capital to finance expansion or an acquisition *could* be a favourable development. Raising capital to repay debt accumulated from past losses is unlikely to lead to any improvement in future performance.

It is also extremely difficult for a company to raise additional capital in Postie Plus Group's situation. With an issued capital of 40,000,000 shares and a share price of 14½ cents, the market capitalisation is just \$5.8 million. Existing shareholders in a poorly performing company are usually reluctant to invest additional cash, especially just to repay existing debt.

A share placement to institutional investors would also appear difficult - for the same reasons and as they

are unlikely to be interested in a company with such a small market capitalisation.

Any new capital raising *may* need to be made at a large discount to market value, further depressing the shares.

This is a situation where the best outcomes would involve (1) trading out of its difficulties, repaying debt from cashflows and profits - but this requires the elusive turn around in performance and the return to profitability or (2) merging with similar retail businesses to achieve the necessary economies of scale and efficiencies to cover overhead costs and achieve profitability.

Raising additional capital requires existing shareholders “throwing good money after bad” (which could probably be better invested elsewhere) or potentially the further dilution of any value in the company when new shares are issued at a discount to the market price.

### Summary and Recommendation

Postie Plus Group has not been successful and the company has struggled to return to profitability. Raising additional capital to repay debt will keep the company alive (possibly to continue to lose money in the future?) but does nothing to improve the economic viability of the business or provide the economies of scale necessary to cover overhead costs.

We therefore recommend selling Postie Plus Group shares, rather than invest additional capital or see the share value diluted in a discounted capital raising.

### Postie Plus Group



# 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	STRENGTH RATING										Market Cap'n	Company	STRENGTH RATING										Market Cap'n													
	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Insider Buy/Sell Following	Price to NTA	Return on Equity	Vola- tility	Price Earn- ing Ratio	Divi- dend Yield			Price Sales Ratio	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Insider Buy/Sell Following	Price to NTA	Return on Equity	Vola- tility	Price Earn- ing Ratio		Divi- dend Yield	Price Sales Ratio											
<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	62	+3.9	+0.7	25	0-2	-0.7	4	1.2	16	5.6	0.15	33	Goodman Prop.	104	-0.4	-2.8	55	2-2	7	1.1	0	0.5	231	6.0	8.32	1,250										
Turners & Grow.	167	+1.5	+1.4	40	1-0	-0.6	4	0.8	16	3.6	0.22	189	Vital Health PT	140	-58.3	-0.0	97	9-0	4	1.4	3	0.5	46	5.6	7.31	411										
Col Motor Co	440	+2.8	+0.3	31	1-0	-1.2	10	0.5	12	8.1	0.26	144	Blis Technology	1	-17.4	+0.8	92	0-0	-	2.1	-	4.2	NE	Nil	6.47	7										
Air New Zealand	139	+4.9	-2.9	19	0-7	7	0.9	4	1.0	22	4.0	0.34	1,529	Kiwi Property	117	-1.3	-1.0	61	0-0	7	1.0	10	0.5	11	6.8	5.87	1,166									
Ebos Group Ltd	980	+6.6	-1.1	14	0-0	-2.4	13	0.5	18	5.0	0.36	511	Mighty River	226	-7.2	-1.3	83	3-0	1	10.3	31	0.7	33	5.3	5.31	3,164										
Allied Work.	295	+12.0	-0.3	7	1-2	-3.5	25	1.0	14	7.6	0.58	76	Charlie's Group	43	-58.3	+0.0	98	0-0	-	7.7	15	1.2	51	Nil	4.00	126										
Infratil NZ	243	+1.1	+1.2	42	0-4	4	1.4	0	0.7	418	5.4	0.59	1,415	South Port NZ	325	-1.1	-0.5	59	0-0	-	2.9	20	0.3	14	8.8	3.22	85									
Fletcher Build.	838	+0.4	-0.3	46	7-13	-1.6	5	0.5	31	5.8	0.64	5,722	Smartpay NZ Ltd	15	-2.2	-2.8	67	0-0	-	7.6	-	1.4	NE	Nil	3.06	52										
Warehouse Group	370	+5.4	-4.4	17	3-1	8	3.6	28	0.7	13	7.7	0.66	1,151	NZ Oil & Gas	85	-2.0	+0.3	64	1-0	6	1.0	6	1.0	17	10.1	2.94	342									
Restaurant Brds	270	+1.8	-2.9	36	0-0	3	4.4	27	0.8	16	8.5	0.84	264	Trust Power Ltd	722	-3.8	+0.8	72	0-0	5	1.5	8	0.3	18	7.9	2.81	2,267									
Sanford Limited	457	+3.5	-0.9	27	0-0	3	0.8	4	0.4	21	7.2	0.93	428	Dorchester Pac	23	-4.8	-5.0	74	0-0	-	1.4	5	1.4	30	Nil	2.50	48									
Michael Hill	128	+0.8	-3.7	43	0-3	2	2.5	19	0.9	13	4.3	0.96	490	NZ Refining Co	230	-6.8	+1.8	81	3-0	5	1.1	6	0.5	19	7.5	2.21	644									
Tower Limited	174	+1.7	+0.7	39	1-1	4	0.9	9	1.1	11	6.3	0.97	468	Vector Ltd	266	-1.3	-1.1	60	1-0	6	1.2	9	0.4	13	7.8	2.12	2,649									
<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.	295	+12.0	-0.3	7	1-2	-3.5	25	0.8	14	7.6	0.58	76	Charlie's Group	43	-58.3	+0.0	98	0-0	-	7.7	15	1.2	51	Nil	4.00	126										
Ebos Group Ltd	980	+6.6	-1.1	14	0-0	-2.4	13	0.5	18	5.0	0.36	511	Vital Health PT	140	-58.3	-0.0	97	9-0	4	1.4	3	0.4	46	5.6	7.31	411										
Finzsoft Sol'ns	42	+6.3	-0.4	15	0-0	-1.3	15	0.9	9	Nil	0.39	3	Blis Technology	1	-17.4	+0.8	92	0-0	-	2.1	-	3.9	NE	Nil	6.47	7										
Warehouse Group	370	+5.4	-4.4	17	3-1	8	3.6	28	0.6	13	7.7	0.66	1,151	NZ Windfarms	7	-16.3	+2.0	92	0-0	1	0.3	-	1.7	NE	Nil	2.09	20									
Smiths City	62	+3.9	+0.7	25	0-2	-0.7	4	0.9	16	5.6	0.15	33	Rakon Ltd	24	-15.6	+4.6	91	4-0	4	0.3	-	1.1	NE	Nil	0.26	46										
Col Motor Co	440	+2.8	+0.3	31	1-0	-1.2	10	0.4	12	8.1	0.26	144	Pumpkin Patch	86	-14.0	-2.3	90	0-2	4	4.3	31	0.8	14	Nil	0.48	145										
Restaurant Brds	270	+1.8	-2.9	36	0-0	3	4.4	27	0.7	16	8.5	0.84	264	Snakk Media Ltd	11	-13.7	-4.4	89	0-0	-	22.0	-	1.4	NE	Nil	N/A	21									
Tower Limited	174	+1.7	+0.7	39	1-1	4	0.9	9	1.0	11	6.3	0.97	468	Bathurst Res.	18	-13.2	-5.7	88	1-1	-	-	-	1.2	NE	Nil	N/A	128									
Turners & Grow.	167	+1.5	+1.4	40	1-0	-0.6	4	0.6	16	3.6	0.22	189	Kirkcaldie & St	205	-11.3	+0.2	85	0-0	-	1.1	-	0.3	NE	Nil	0.55	21										
Michael Hill	128	+0.8	-3.7	43	0-3	2	2.5	19	0.7	13	4.3	0.96	490	Mercer Group	20	-9.6	+4.8	84	0-0	-	2.9	-	1.7	NE	Nil	1.42	47									
<b>INCOME SHARES:</b> Highest Yields, Capitalisation > NZ\$100 million												Mighty River												226	-7.2	-1.3	83	3-0	1	10.3	31	0.7	33	5.3	5.31	3,164
Chorus Ltd	293	-5.5	+2.5	76	4-0	10	2.1	33	0.4	6	12.2	1.07	1,128	WN Drive Tech.	13	-6.9	+2.2	82	0-0	-	0.7	-	1.9	NE	Nil	0.25	9									
Telecom Corp	230	-2.7	-2.9	69	2-4	11	2.6	71	0.5	4	11.6	0.93	4,271	NZX Aust MidCap	432	-6.4	-1.3	80	0-0	-	-	-	0.6	NE	Nil	N/A	36									
NZ Oil & Gas	85	-2.0	+0.3	64	1-0	6	1.0	6	1.1	17	10.1	2.94	342	Cavalier Corp	142	-6.0	-2.7	78	1-0	3	1.1	5	0.7	23	Nil	0.45	97									
Hallenstein G.	460	-3.7	-4.1	71	0-1	5	4.1	32	0.5	13	9.8	1.27	274	Just Water Int.	12	-5.0	-2.1	76	1-0	-	2.0	32	2.4	6	Nil	0.36	11									
Restaurant Brds	270	+1.8	-2.9	36	0-0	3	4.4	27	0.6	16	8.5	0.84	264	Dorchester Pac	23	-4.8	-5.0	74	0-0	-	1.4	5	1.3	30	Nil	2.50	48									
Skellerup Hold.	136	-6.2	+1.0	79	1-0	3	2.2	20	0.9	11	8.2	1.26	262	Scott Tech. Ltd	221	-3.7	-2.7	71	0-0	-	2.3	17	0.6	13	5.2	1.41	90									
Col Motor Co	440	+2.8	+0.3	31	1-0	-1.2	10	0.3	12	8.1	0.26	144	<b>INSIDER SELLING:</b> Most Insider Selling, Relative Strength < 0																							
Trust Power Ltd	722	-3.8	+0.8	72	0-0	5	1.5	8	0.4	18	7.9	2.81	2,267	Barramundi Ltd	70	-1.0	-0.3	57	0-4	-	1.0	-	0.8	NE	8.9	N/A	82									
AMP Limited	503	-6.8	-4.0	81	0-0	-3.0	26	0.9	12	7.8	1.14	10,402	DNZ Property	168	-0.2	-2.0	53	0-4	5	1.1	5	0.5	20	5.1	N/A	416										
Vector Ltd	266	-1.3	-1.1	60	1-0	6	1.2	9	0.5	13	7.8	2.12	2,649	Pumpkin Patch	86	-14.0	-2.3	90	0-2	4	4.3	31	0.8	14	Nil	0.48	145									
<b>INSIDER BUYING:</b> Most Insider Buying, Relative Strength > 0												Telecom Corp												230	-2.7	-2.9	69	2-4	11	2.6	71	0.4	4	11.6	0.93	4,271
Pharmacybrands	130	+4.8	-1.8	20	3-0	-2.2	18	0.6	12	3.8	1.55	162	Hallenstein G.	460	-3.7	-4.1	71	0-1	5	4.1	32	0.4	13	9.8	1.27	274										
Briscoe Group	239	+3.3	-2.9	29	3-0	3	3.6	20	0.5	18	6.0	1.16	507	NZ Wool Service	42	-0.3	+0.1	54	0-1	-	1.0	-	0.7	NE	Nil	0.19	29									
Metro. LifeCare	318	+1.9	-2.6	35	2-0	3	1.0	-	0.5	NE	Nil	7.14	458	NZ Experience	35	-2.2	+0.6	66	0-1	-	1.9	21	0.8	9	11.8	1.11	13									
GuocoLeisure	77	+4.9	-4.8	18	2-0	-0.8	7	0.9	11	2.6	1.91	1,053	Freightways Ltd	402	-1.8	-2.1	63	1-2	7	3.6	21	0.5	17	6.4	1.62	618										
Warehouse Group	370	+5.4	-4.4	17	3-1	8	3.6	28	0.5	13	7.7	0.66	1,151																							
AMP Office Trt	99	+0.3	-0.1	46	1-0	-1.1	5	0.5	22	5.7	7.75	987																								
Trade-Me Ltd	490	+4.7	-2.6	22	1-0	11	3.0	12	0.5	26	2.3	N/A	1,940																							
Turners & Grow.	167	+1.5	+1.4	40	1-0	-0.6	4	0.5	16	3.6	0.22	189																								
Col Motor Co	440	+2.8	+0.3	31	1-0	-1.2	10	0.3	12	8.1	0.26	144																								
Comvita	385	+2.1	+0.3	34	1-0	1	1.4	9	0.5	15	4.8	1.08	112																							

# 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	Cur-	4-Wk	Rank	High/Low	Relative	Price	Return	Vola-	Price	Divi-	Price	Market	Company	Share	Cur-	4-Wk	Rank	High/Low	Relative	Price	Return	Vola-	Price	Divi-	Price	Market								
	Price	rent	Chg.	0-99	to	to	to	to	to	to	to	to	Cap'n		Price	rent	Chg.	0-99	to	to	to	to	to	to	to	Cap'n									
<b>OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength &lt; 0</b>														<b>INSIDER SELLING: Most Insider Selling, Relative Strength &lt; 0</b>																					
Austin Explor.	1	-15.7	+3.7	60	0-0	-	-	2.9	NE	Nil	N/A	19	Blackthorn Res.	42	-40.1	+0.5	96	3-0	4	-	-	0.7	NE	Nil	N/A	54									
Kangaroo Res.	2	-24.5	-1.6	76	0-0	-	-	2.4	NE	Nil%10.00		62	Silver Lake Res	71	-39.7	+0.2	96	1-0	9	1.2	24	0.5	5	Nil	1.15	155									
Galilee Energy	15	-3.1	+3.0	37	3-0	-	-	1.0	NE	Nil	9.80	23	Sundance Res.	8	-39.4	+2.0	96	0-0	-	-	-	1.2	NE	Nil	N/A	224									
Uranex Ltd	5	-21.3	+7.1	70	10-0	-	-	1.8	NE	Nil	9.54	8	Glory Resources	7	-39.1	+1.6	95	1-0	-	-	-	1.4	NE	Nil	N/A	13									
K2 Asset Mgmt	58	-0.4	-1.5	30	0-3	1	14.5	-	0.7	NE	Nil	9.52	135	Guildford Coal	12	-39.0	-2.0	95	5-0	2	-	-	1.2	NE	Nil	N/A	55								
Investa Office	292	-1.6	-3.3	33	1-0	12	0.9	5	0.3	18	5.3	9.46	1,793	Kula Gold Ltd	9	-38.8	+1.0	95	9-0	3	-	-	1.1	NE	Nil	N/A	11								
Astron Corp Ltd	103	-15.7	+4.2	60	0-0	-	-	0.5	NE	Nil	9.28	126	Mungana Gold.	8	-38.5	-4.0	95	0-0	-	-	-	1.2	NE	Nil	8.46	12									
Ceramic Fuel C.	4	-15.8	+1.0	61	1-0	-	2.2	-	1.6	NE	Nil	8.98	60	Hudson Res. Ltd	5	-38.5	-7.7	95	0-0	-	0.3	-	1.2	NE	Nil	2.82	6								
Viagold Capital	29	-33.2	-9.3	88	0-0	-	2.6	-	0.7	NE	Nil	8.79	9	Boss Resources	2	-38.3	+7.5	95	0-0	-	-	-	2.2	NE	Nil	N/A	6								
Smart Trans	1	-10.3	+10.3	50	0-0	-	-	-	3.8	NE	Nil	8.75	8	Besra Gold Inc.	5	-38.2	+0.2	95	0-0	-	-	-	1.6	18	Nil	0.42	20								
Mungana Gold.	8	-38.5	-4.0	95	0-0	-	-	-	1.3	NE	Nil	8.46	12	Golden Rim Res.	2	-38.2	+4.1	94	1-0	-	-	-	2.1	NE	Nil	N/A	9								
Austex Oil Ltd	13	-1.4	+0.5	32	0-1	-	-	-	1.0	NE	Nil	8.44	56	Cobar Cons Res.	14	-37.4	+3.8	94	0-0	1	-	-	1.2	NE	Nil	N/A	28								
Musgrave Min.	6	-19.3	-1.6	67	1-0	-	-	-	1.8	NE	Nil	8.37	8	Reed Resources	5	-37.2	+0.3	94	0-1	-	-	-	1.5	NE	Nil	N/A	14								
Centrex Metals	12	-14.1	+1.0	58	1-0	-	-	-	1.0	57	Nil	8.28	38	Exoma Energy	1	-36.8	+2.2	93	0-0	-	-	-	2.8	NE	Nil	7.00	6								
Samson Oil/Gas	3	-12.1	+9.9	54	1-0	-	-	-	1.9	NE	Nil	8.20	69	Gryphon Mineral	18	-36.6	+2.1	93	1-1	10	-	-	1.1	NE	Nil	N/A	61								
Impedimed Ltd	14	-3.3	+18.5	37	10-0	-	1.6	-	1.0	NE	Nil	7.95	25	Perseus Mining	53	-36.5	-5.1	93	3-1	17	-	-	0.7	NE	Nil	N/A	226								
Aust Wealth Inv	35	-12.6	-3.7	55	0-1	-	0.6	-	0.6	NE	Nil	7.85	10	Azumah Res.	3	-36.4	-0.2	93	0-0	-	-	-	1.8	NE	Nil	N/A	11								
Circadian Tech	24	-10.6	+1.8	51	3-0	-	0.6	-	0.8	NE	Nil	7.84	12	Hawtkey Oil Gas	4	-36.4	-0.6	93	0-0	1	-	-	1.5	1	Nil	0.36	10								
Medical Dev Int	159	-10.1	+2.4	50	0-0	-	19.9	61	0.4	33	3.8	7.83	89	Bassari Res.	1	-36.1	-1.8	92	0-0	-	-	-	3.3	NE	Nil	N/A	5								
Sprintex Ltd	2	-3.8	+2.3	39	4-0	-	1.6	-	2.4	NE	Nil	7.80	11	Mutiny Gold Ltd	3	-36.0	-1.7	92	0-0	-	-	-	2.0	NE	Nil	N/A	12								
Horizon Oil Ltd	33	-5.9	-1.4	43	1-0	9	1.1	2	0.9	51	Nil	7.67	426	Ramelius Res.	13	-36.0	-0.2	92	2-1	1	0.2	1	1.0	19	Nil	0.52	44								
KalNorth Gold	5	-43.2	-6.7	98	2-0	-	-	-	1.3	NE	Nil	7.35	7	Metminco Ltd	3	-35.7	+4.9	92	1-0	-	-	-	1.8	NE	Nil	N/A	55								
Oncard Int'l	18	-1.3	+0.9	32	0-0	-	1.1	12	0.8	9	Nil	7.29	31	Red Metal Ltd	10	-35.6	+1.6	92	3-0	-	-	-	1.0	NE	Nil	N/A	11								
Immuron Ltd	1	-19.6	+13.6	67	0-0	-	-	-	4.1	NE	Nil	7.18	6	Horseshoe Metal	6	-35.5	-2.7	91	2-0	-	-	-	1.6	NE	Nil	N/A	5								
Agua Resources	6	-35.5	-0.2	91	1-0	-	-	-	1.6	NE	Nil	7.14	6	Agua Resources	6	-35.5	-0.2	91	1-0	-	-	-	1.5	NE	Nil	7.14	6								
Mineral Deposit	199	-24.1	-1.5	75	0-0	5	0.4	4	0.6	11	Nil	7.03	166	Metrocoal Ltd	4	-35.5	-0.5	91	1-0	-	-	-	1.5	NE	Nil	N/A	9								
Exoma Energy	1	-36.8	+2.2	93	0-0	-	-	-	3.0	NE	Nil	7.00	6	Sovereign Metal	11	-35.1	-1.2	91	0-0	-	-	-	1.1	NE	Nil	N/A	5								
Oceania Capital	160	-4.1	-2.2	39	4-0	-	0.6	-	0.4	NE	Nil	6.97	56	Ochre Group Ltd	2	-34.9	-2.4	91	0-0	-	-	-	2.2	NE	Nil	N/A	8								
Wotif.com Hold.	468	-0.9	-0.8	31	0-4	18	-	-	0.3	17	5.3	6.82	991	Condoto Plat.	13	-34.8	-8.3	91	1-0	-	-	-	1.0	NE	Nil	N/A	6								
Noble Mineral	1	-50.6	-2.3	99	0-0	1	-	-	3.5	NE	Nil	6.77	7	WPG Resources	3	-34.8	-4.0	90	0-0	-	-	-	1.9	NE	Nil	2.68	7								
Viento Group	27	-12.4	+3.3	54	0-0	-	1.1	4	0.8	24	Nil	6.55	17	Blackwood Corp	4	-34.6	-3.5	90	0-0	-	-	-	1.9	NE	Nil	N/A	8								
CFS Retail Prop	210	-0.7	-2.2	30	0-0	12	1.0	7	0.4	15	6.2	6.55	5,940	Voyager Res Ltd	1	-34.6	+1.7	90	0-0	-	-	-	4.0	NE	Nil	N/A	8								
Deutsche Ind Tr	196	+0.0	+0.0	25	0-0	-	1.2	10	0.2	12	8.1	6.49	663	Ironclad Mining	11	-34.2	+2.3	90	1-0	-	-	-	0.9	NE	Nil	N/A	11								
Computronics	2	-2.7	+0.8	36	0-0	-	-	-	2.0	77	Nil	6.25	9	Res & Invest NL	8	-34.1	+1.5	89	2-0	-	-	-	1.2	NE	Nil	N/A	12								
Altura Mining	13	-15.1	+5.2	59	1-0	1	-	-	1.2	NE	Nil	6.25	59	Cleveland Min.	12	-33.9	-1.6	89	0-0	-	-	-	1.0	NE	Nil	N/A	19								
Bullabulling G.	3	-33.9	+3.5	89	2-0	-	-	-	2.0	NE	Nil	6.18	10	KBL Mining Ltd	4	-33.9	-0.5	89	2-0	-	-	-	1.8	NE	Nil	0.36	7								
Malagasy Min.	3	-21.8	+3.2	71	0-1	-	-	-	1.8	NE	Nil	6.11	5	Haranga Res Ltd	6	-33.9	-3.3	89	0-0	-	-	-	1.5	NE	Nil	N/A	15								
Deutsche Div Tr	131	+0.0	+0.0	26	0-0	-	1.1	8	0.2	14	7.1	6.10	1,306	Bullabulling G.	3	-33.9	+3.5	89	2-0	-	-	-	1.9	NE	Nil	6.18	10								
Austpac Res	3	-12.5	+14.3	55	0-0	-	-	-	1.9	15	Nil	6.08	34																						
Sino Securities	28	-0.0	+0.0	27	0-0	-	-	-	0.5	NE	Nil	6.00	19																						
Cadence Capital	146	-2.4	+1.5	35	0-0	-	1.1	7	0.4	15	5.5	5.91	40	Energy Action	286	-1.2	-2.1	32	0-9	-	8.2	41	0.4	20	2.5	4.13	72								
Chal Div Prop	255	-1.3	-2.6	32	1-1	4	0.9	6	0.3	17	1.6	5.88	547	Lycopodium Ltd	420	-15.7	-1.3	60	0-8	1	3.0	41	0.3	7	7.9	0.70	162								
Indo Mines Ltd	4	-32.0	-3.6	86	0-0	-	-	-	1.5	NE	Nil	5.79	14	Western Desert	61	-6.5	-2.5	44	0-5	2	-	-	0.6	NE	Nil	N/A	139								
Adv Share Reg.	70	-4.5	+1.0	40	0-0	-	5.0	27	0.5	19	5.3	5.74	29	Wotif.com Hold.	468	-0.9	-0.8	31	0-4	18	-	-	0.3	17	5.3	6.82	991								
Bandanna Energy	18	-25.8	+7.7	77	0-0	6	-	-	1.2	30	Nil	5.74	92	CocaCola Amatil	1264	-5.1	-1.3	41	1-5	15	6.7	32	0.2	21	4.4	1.87	9,633								
Aurora Minerals	6	-15.9	+3.9	61	0-0	-	-	-	1.3	NE	Nil	5.64	6	Webjet NL	445	-1.6	-1.4	33	2-6	12	13.9	61	0.3	23	2.7	5.33	316								
Etherstack plc	60	-23.4	-0.7	74	1-0	-	-	-	0.8	NE	Nil	5.52	38	Nthn Minerals	24	-6.6	+14.6	44	0-3	-	-	-	0.9	NE	Nil	N/A	94								
Webjet NL	445	-1.6	-1.4	33	2-6	12	13.9	61	0.4	23	2.7	5.33	316	Macquarie C Tel	800	-3.0	-0.1	36	0-3	3	2.0	24	0.3	9	3.0	0.76	168								
Aurora Oil Gas	327	-4.8	+3.7	41	2-0	11	-	-	0.6	26	Nil	5.07	1,465	Int Research	101	-3.8	-0.6	38	0-3	2	11.2	60	0.3	19	5.0	3.48	169								
DGR Global Ltd	4	-24.8	+2.5	76	0-0	-	-	-	1.8	NE	Nil	5.00	12	Galaxy Res.	23	-22.0	+3.7	72	0-3	-	-	-	0.9	NE	Nil	N/A	129								
<b>WORST PERFORMING SHARES: Weakest Shares, P/S Ratio &gt; 0.25, Yield &lt; Twice Average</b>														K2 Asset Mgmt	58	-0.4	-1.5	30	0-3	1	14.5	-	0.7	NE	Nil	9.52	135								
Noble Mineral	1	-50.6	-2.3	99	0-0	1	-	-	3.2	NE	Nil	6.77	7	Syrah Resources	215	-8.9	+7.4	48	0-3	-	-	-	0.8	NE	Nil	N/A	85								
Discovery Metal	14	-47.0	-0.7	99	0-0	5	-	-	1.1	NE	Nil	N/A	59	Wentworth Hold.	7	-3.4	+3.3	38	1-4	-	1.0	-	0.9	NE	Nil	N/A	16								
Laneway Res.	2	-44.6	+2.4	98	0-0	-	-	-	3.0	NE	Nil	2.14	11	Patties Foods	142	-6.6	-1.4	44	2-5	5	3.5	34	0.3	10	5.8	0.78	197								
Pharmaxis Ltd	16	-44.4	+2.2	98	0-0	6	0.5	-	1.1	NE	Nil	N/A	49	Beach Energy	132	-4.3	+1.1	39	0-2	12	1.0	10	0.6	10	1.7	2.68	1,657								
Tanami Gold NL	6	-44.2	-0.2	98	1-0	1	-	-	1.3	26	Nil	0.43	34	Landmark White	38	-1.8	+1.7	33	0-2	-	5.4	26	0.4	21	7.9	0.51	10								
Northern Iron	13	-44.1	-1.9	98	1-1	2	-	-	0.9	NE	Nil	0.29	64	Jumbo Interact.																					

# *Readers Ask . . .*

## *about Portfolio Diversification*

**Question:** I can't find much about building a portfolio in what you have published. However, when I look at the *Market Analysis* recommended portfolio, it does look like you have designed a spread between sectors, and perhaps situations such as companies that are in recovery, growing or simply undervalued.

Since I started subscribing back in 2004 I have bought shares that you have rated as a "Buy" or "Hold+". This has worked pretty well. A group of companies that have performed well now make up a significant part of my portfolio. I have generally sold down companies so that no one share is much more than 5% of the portfolio. This has meant that I have had less gains on shares like M2 Telecommunications than my wife who let it get up to 35% of her portfolio.

As it happens my portfolio has ended up well diversified.

Could you write something about (1) diversification between sectors, (2) diversification between different types of company situations and (3) selling down the best performers.

**Answer:** For the last 32 years we have sent all new subscribers some "Special Reports" - later consolidated in a "Market Analysis Subscriber Reports" booklet (which can be downloaded from our website) which, among many other things discusses Diversification and how to adequately diversify your portfolio (see Page 11 of the booklet).

Diversification is important, but there is no universally accepted answer. Some experienced investors like to own shares in only 5-10 shares, while others (like your Editor) prefer to invest in 20 or more shares - which also works well with our long term investment strategy (as discussed later).

Investment theory suggests that diversifying over just two completely unrelated shares will eliminate 46% of company specific risks, while diversifying over just four shares will remove 72% of this risk. 8-12 shares will eliminate 85% of this risk and 20 shares will diversify away 95% of company specific risk. This, assumes that the shares are not related, from the same industries or have similar investment characteristics. In practice where there will be at least some similarities between shares in a portfolio, the company specific risk removed through diversification will be less than the figures above. One or more larger shareholdings would also increase risks.

Practical diversification should also take into account the size of an investor's portfolio:

With just \$5000 to invest it would be adequate to buy shares in just five companies *in different industries* with about \$1000 (i.e. about 20%) in each.

With \$20,000 to \$50,000 to invest, we would suggest at least 8-15 companies (with about 7-12% initially invested in each company).

Portfolios larger than \$500,000 could hold up to 20-50 companies (i.e. with about 2½-5% invested in each company).

It is important to diversify between industry sectors, but this requires less attention with a 20-50 share portfolio than with a five share portfolio! A larger portfolio virtually guarantees diversification across industry sectors, while an investor with a limited number of shares has a greater risk of being attracted by several very similar companies whose share price movements are highly correlated.

In 1995, for example, seeing value and growth in the Telecommunications sector, we recommended JNA Telecommunications, Stanilite Pacific and ERG. Stanilite Pacific had problems relating to growing too rapidly and failed, dragging down the value of JNA Telecommunications. With 29 shares in our recommended portfolio, three Telecommunications shares - one worthless, one down 50% and one unchanged - was not a significant problem and, in fact, an attractive opportunity to add to JNA. In 1998, JNA was taken over for 3½-times our initial recommendation price and we sold ERG in 2000 for a 7-fold gain.

Unfortunately, we did have at least one subscriber who ignored all of our advice on diversification and made only three purchases: about \$7000 in each of these three Telecommunications shares! With \$21,000 to invest it would have been more appropriate to buy shares in at least 8-10 companies - and with no more than two in the Telecommunications sector! When Stanilite Pacific failed the *under-diversified* and *poorly diversified* investor panicked and sold the other two shares - realising only about \$10,500 in total and a 50% loss! Had he held on, the two remaining shares would have realised over \$74,000 - a better than 3½-fold overall gain on these three shares. Poor diversification leads investors to make poor decisions, driven by manic-depressive emotions.

[Editor's Note: Long term subscribers may remember the *first* half of this story - the \$10,000 loss - was reported by a "freelance journalist" writing for the NZ Herald in April 2001, but as she failed the first rule of journalism - "check your facts" - the full story regarding the investor ignoring our diversification advice and the alternative outcome had he not panicked at the very worst time and instead held on, was never disclosed.

As reported in our July 1996 newsletter, in late June "the Editor of this newsletter purchased JNA shares at 45 cents, *tripling* his shareholding in this debt-free company". At that stage the shares were down 58% on our initial recommendation but just over two years later were taken over for 375 cents - realising an 8-fold gain on these new shares. Why do people subscribe to my newsletter if they are not going to follow either my investment *advice* or my investment *example*?]



Similarly, a portfolio should be diversified between companies with different investment characteristics such as growth shares, under-valued situations, recovery situations, steady performers, companies with high debt levels as well as companies with low debt levels, cyclical companies and non-cyclical companies. With a large portfolio, this spread of holdings is very easy to achieve - and we can focus upon finding attractive investment situations, without worrying too much that the portfolio is becoming over-weighted in emerging growth shares or recovery situations or high debt companies.

#### **Diversification and our Investment Strategy**

Our investment strategy involves seeking to find shares that we believe have the potential to increase several fold in value over several years, and buying and holding until they succeed (e.g. JNA and ERG) or fail (e.g. Stanilite Pacific). We look for shares that can increase 5-fold, 10-fold or more in value - and it is these shares that boost the long term returns from our portfolio. We favour letting these successful investments grow in value and not selling too soon! Wide diversification helps us achieve this investment strategy.

With 20-50 shares in a portfolio - or about 2-5% of the portfolio invested in any one company - no individual share is critical to the performance of the portfolio. The three-share investor panicked when one failed and the second fell 50% in value. With 20-30 shares in a portfolio, the failure of one company (while never pleasant!) is not critical, and having other investments allowed us to raise some cash and buy more depressed JNA shares at low prices.

A person holding only five shares (i.e. about 20% in each) will likely start selling the winners when they are up only 50-100% (i.e. at 30-40% of the portfolio), while a person with 20 shares (i.e. about 5% in each) should be comfortable to let it grow 4-5 fold (i.e. to about 20-25% of the portfolio). A diversified portfolio gives one more chances of capturing the next (or next several!) 10-baggers and of allowing them to make a significant impact on the overall growth of your investment wealth.

The example in the question above (i.e. where the husband sells down holdings above 5% but the wife has let one share get to 35%) would suggest larger, well diversified portfolios with an initial investment in M2 Telecommunications of about 2½-5% of the portfolio. If so, selling down a holding that reaches 5% or not selling down a single holding that reaches 35% are both less than optimal. Selling winners too early gives away profits, while holding too long increases risks and makes the portfolio dependent upon one single share.

In this situation, we would suggest holding successful shares (as long as they remain attractive investments) and allowing them to grow to at least 10-15% of the portfolio (i.e. perhaps a 3-5 fold gain?) before considering selling down slightly to maintain good diversification. Similarly, any shareholding greater than 20-30% is getting too large and some partial profit-taking would reduce risks and improve diversification.

With a smaller portfolio (e.g. about 10 shares, with an initial investment equal to about 10% of the portfolio) we might let the holding grow to 25-30% of the portfolio before considering profit-taking, but definitely sell down a holding that grew above 40-50% of the portfolio.

# New Issue

*The following New Issue review was emailed to subscribers over the last month:*

**Z Energy** is offering 200-240 million shares at 325-375 cents per share to raise around \$750 million.

118-136 million shares will be sold to raise \$422.4 million - all of which will be used to repay debt of \$322.1 million to the existing shareholders (i.e. Infratil and the NZ Superannuation Fund) and \$100.3 million to buy a 17.14% take in NZ Refining Company at 209 cents per share (also from Infratil and the NZSF).

The existing shareholders will also sell shares, reducing their holding to 40-50%.

The business appears to have relatively stable earnings, with the shares valued on a Price/Earnings Ratio of 12.3-14.2 and a gross Dividend Yield of 8.1-9.4%. That would suggest that this is a relatively attractive income investment, but probably with limited growth potential.

The company talks about growth from investing in “terminal infrastructure” and expanding its retail outlets from 213 to 233 over the next five years (i.e. a 1% per annum growth rate) - which supports our view that this is a high income, low growth investment.

The only thing that doesn't really make sense is, if this is a sound, long term business then why are the existing shareholders floating this company on the stockmarket and reducing their ownership from 100% to just 40-50%? Infratil and the NZ Superannuation Fund purchased this business in April 2010 from Shell New Zealand for \$696.5 million. The company is now being floated at a valuation of \$1300-1500 million. That suggests that Z Energy shares are fully valued at 325-375 cents, so the current shareholders are cashing in some profits to invest elsewhere.

There is no public pool, so investors who wish to buy Z Energy shares should contact their broker for a “firm allocation” of shares.

#### **Summary and Recommendation**

This appears to be a sound business that should be able to produce a high current income yield for shareholders, although probably with little real growth over the longer term and the shares do appear to be fully valued.

These shares would be suitable for investors requiring a low risk, high current income.

We do, however, prefer to invest in companies with better long term growth potential and whose shares are more undervalued.





## Investment Outlook

(Continued from Page 1)

is in a sound financial position. It is “right sizing” its business, cutting costs to meet expected revenues. It has a strong balance sheet (with little debt), so is making cash acquisitions in sectors where it sees future growth. At their ultimate low after the *Global Financial Crisis* Ausenco shares traded on a Price/Sales ratio of 0.28. Today the shares trade on a P/S ratio of 0.29. This is close to an extreme of under-valuation. We continue to buy Ausenco shares for our own portfolios!

Ellex Medical Lasers should be able to lift revenues owing to access to the US market for its glaucoma laser and new product releases, with the lower Australian dollar compounding the impact on profitability! We recommended these shares seven years ago. The company has struggled and failed to expand as rapidly as we initially hoped. At one stage these shares were down over 80%. So we bought more. A lot more! The average cost of these shares in our personal portfolios is 16 cents. How well will Ellex Medical Lasers seize the current market opportunities? Only time will tell . . . but this is a favourable environment for the company to expand revenues and significantly grow profits. The shares currently trade on a Price/Sales ratio of 0.45, but with acceptable levels of profitability a P/S ratio of 1.0-1.5 would be reasonable. If, for example, revenues grow 50% in total over the next few years *and* the company achieves 5-10% net profit margins, then the shares would likely trade around 80-120 cents.

So, should you buy and hold shares? Like Lynch, Templeton, Buffett and your Editor? Or stuff your money in your mattress or safely in the bank? That, dear readers, is a lifestyle choice that only you can make.

# Dividend\$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Abano Healthcare	13.70	13-08	23-08	Full
Goodman Property Trust	1.5625	12-09	26-09	0.0597
Smiths City Market	2.50	09-08	16-08	Nil
<u>Australian Shares</u>				
Finbar Group	6.00	29-07	11-09	
Melbourne IT special	25.00	25-07	22-08	

### Total Return Index for All Listed Shares

Jul 8	1418.37		
Jul 9	1429.36		
Jul 10	1430.36		
Jul 11	1429.79		
Jul 12	1429.74		
Jul 15	1442.62	Jul 22	1432.00
Jul 16	1432.02	Jul 23	1442.20
Jul 17	1434.89	Jul 24	1444.04
Jul 18	1432.89	Jul 25	1442.55
Jul 19	1428.09	Jul 26	1443.53
Jul 29	1445.02	Aug 5	1443.44
Jul 30	1444.82	Aug 6	1440.68
Jul 31	1440.54	Aug 7	1437.75
Aug 1	1440.88	Aug 8	1432.11
Aug 2	1442.68	Aug 9	1435.40

## Next Issue:

The next issue of *Market Analysis* will be emailed in four weeks time on Monday September 9, 2013.

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

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