

Market Analysis

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Inside Market Analysis

Ausenco shares fall below cash issue price 5, 6
 CPT Global starts the year very well 6
 Melbourne IT plans 54 cents capital return 7
 Skilled Group acquires troubled competitor 8, 9

Neglect Ratings of Australian and NZ Shares 12,13
 Company Review:
 Objective Corporation 14,15

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Summary and Recommended Investment Strategy.

This newsletter was started almost 33 years ago with the objective of identifying shares “with the potential to rise many-fold in value over many years”. Not every investment has been profitable, but the very successful ones have consistently lifted our average overall returns (in excess of 20% per annum). We can still find under-valued shares in companies with good growth potential that meet our original criteria - so remain fully invested in the recommended shares.

Investment Outlook.

Last month we were somewhat critical of *the market* placing a very high value on an unprofitable NZ “cloud-based” software company. Regardless of its future growth rate, we don’t believe a company that earned NZ\$39 million in revenues last year can be worth \$4,490 million. That’s a Price/Sales ratio of 115.

More importantly, one over-valued share *could* indicate *the market* over-valuing all, or many, shares. Fortunately we don’t believe that is the case - especially as we can find an example (see Pages 14-15) of it placing a low valuation on a profitable, dividend paying, cash rich Australian “cloud-based” software company (although too small to formally recommend). Annual revenues of A\$41 million are similar, but with little growth over recent years *the market* values this company at only \$52 million. That’s a P/S ratio of just over 1.

Is there something crazy about the market over-valuing loss-making companies and under-valuing profitable companies? Yes . . . but it is not unusual.

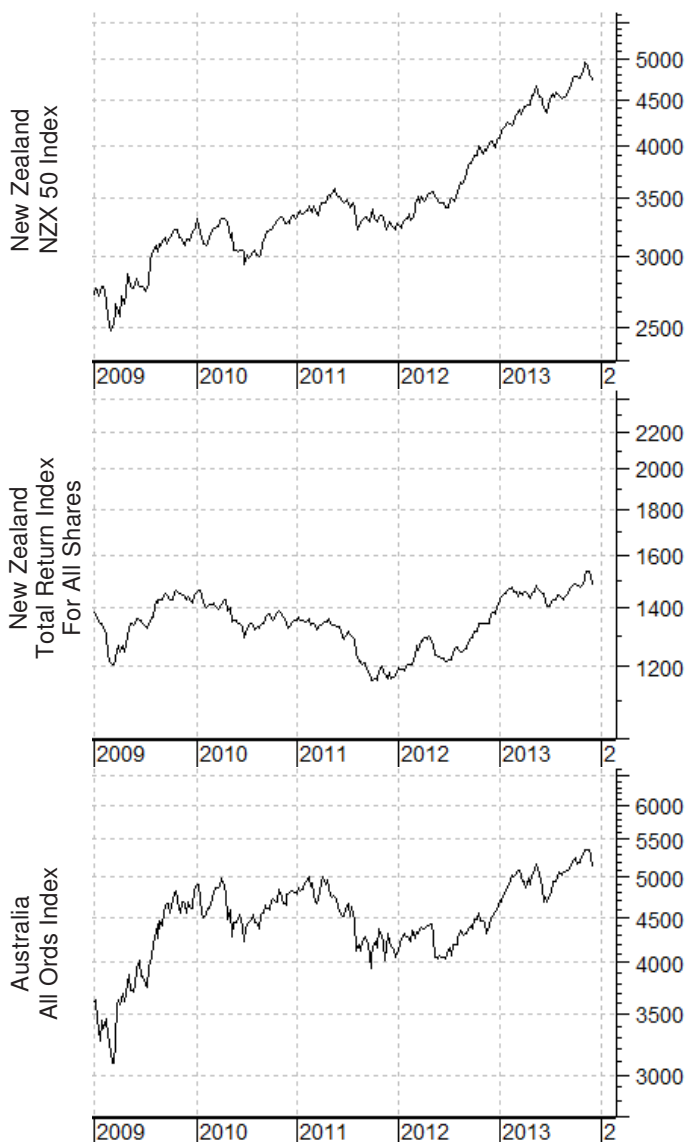
Software companies can, of course, be excellent investments. Three software companies in our *Recommended Portfolio* are all doing well: **Technology One** (\$180 million in revenues) is up 6½-fold in 10 years. **Integrated Research** (\$49 million in revenues) is up 3¼-fold in 6 years and **Prophecy International** (revenues of \$7 million) is up 2¾-fold in 5 years. These are all compound returns in excess of 20% per annum - at which rate a \$10,000 investment will grow to \$60,000 over 10 years, \$380,000 over 20 years and around \$2.4 million over 30 years

These were all profitable, dividend paying, cash rich, debt-free companies. They are all sound “investment quality” shares offering current income, income growth and capital appreciation.

As you can see, there is no shortage of *profitable* software companies that are growing their businesses and providing good returns to their shareholders. So why pay 25-100 *times* more for one that is *unprofitable*?

Stockmarket Forecasts

	One-Month	One-Year
Australia:	40% (Neutral)	61% (Bullish)
New Zealand:	44% (Neutral)	44% (Neutral)



Recommended Investments

Cavalier Corporation reports the first four months of the current financial year are “significantly ahead” of the previous year. Overall the company is predicting full year net profits will recover 20-50% to \$8-10 million (12-15 cents per share).

The company has adapted to a changing market, introducing synthetic carpets in New Zealand in March 2013 and in Australia in June 2013. New carpet products, both synthetic and wool, will be released in upcoming months.

The **Radford Yarn** “luxury carpets for premium-end markets” had a slow year to June 2013, but demand and volumes increased towards the end of the period and this improvement has “continued strongly” into the current year.

Cavalier Corporation - which used to pay *three* dividends per year - will, in future, follow the normal pattern of two dividends. An interim dividend will be declared when the half year result is disclosed in February and paid in March. *(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 %
NZ Shares													
BUY	CDL Investments Ltd	CDI	12/01/99	25	E	258.2	1.3	13.07	39	3.5	57	23.4	+222%
BUY	Cavalier Corporation	CAV	05/12/95	156*	B	68.3	1.0	0.58	18	3.3	171	282.0	+190%
HOLD	Colonial Motor Company	CMO	10/11/92	128*	B	32.7	0.5	0.23	10	9.7	440	392.3	+550%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	C	102.2	0.8	2.45	16	Nil	265	77.7	+128%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	B	382.8	0.8	0.99	14	4.6	142	48.4	+3708%
BUY	Nuplex Industries Ltd	NPX	11/02/97	523*	B	198.1	1.1	0.40	12	6.3	332	451.0	+50%
HOLD	Renaissance Corp	RNS	13/08/96	85*	D	43.6	3.8	0.15	NE	Nil	15	53.9	-19%
HOLD	Smiths City Group	SCY	09/10/06	64	C	52.7	1.2	0.15	17	5.6	63	22.0	+33%
HOLD	South Port New Zealand	SPN	13/02/96	120	B	26.2	0.5	2.98	14	9.4	336	196.3	+344%
HOLD+	Steel & Tube Holdings	STU	08/08/00	146	A	88.4	0.8	0.65	16	7.4	289	281.6	+291%
Australian Shares (in Aust cents)													
HOLD+	AJ Lucas Group	AJL	13/05/03	107*	E	211.5	0.9	0.65	NE	Nil	90	36.4	+18%
HOLD+	ALS Limited	ALQ	12/10/99	77*	B	374.8	0.5	1.94	12	5.9	812	244.5	+1272%
BUY	AtCor Medical Ltd	ACG	11/11/13	15	B	150.8	2.1	2.83	9	Nil	17	Nil	+13%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	C	281.7	3.5	2.69	NE	Nil	7	17.5	-67%
BUY	Ausenco Ltd	AAX	10/06/13	191*	B	168.4	1.3	0.14	2	30.9	65	1.8	-65%
HOLD+	Brickworks Ltd	BKW	12/11/12	1115	A	147.8	0.3	3.34	20	3.0	1370	40.5	+27%
HOLD	Cardno Ltd	CDD	14/12/09	391*	B	143.7	0.5	0.83	13	5.2	694	115.3	+107%
HOLD	Cellnet Group Ltd	CLT	12/02/02	147*	B	55.7	1.8	0.15	11	Nil	21	55.9	-48%
BUY	Chandler Macleod Group	CMG	14/08/01	51*	B	450.9	1.4	0.15	12	6.6	49	28.9	+52%
HOLD	Circadian Technologies	CIR	10/02/04	188	D	48.6	2.0	8.86	NE	Nil	21	65.0	-54%
HOLD+	Clarius Group Ltd	CND	08/04/03	82*	C	89.6	1.8	0.10	NE	Nil	25	70.5	+16%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.7	1.4	0.45	49	Nil	43	11.3	-38%
HOLD	CSG Limited	CSV	11/10/10	175	C	278.2	1.1	1.39	30	Nil	93	37.0	-26%
HOLD	Devine Ltd	DVN	13/11/06	334*	C	158.7	1.1	0.43	NE	Nil	84	79.6	-51%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	C	84.9	1.8	0.69	NE	Nil	35	Nil	-29%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	A	31.5	0.8	1.85	12	5.5	128	43.8	-34%
BUY	Finbar Group Ltd	FRI	12/04/10	106	B	218.0	0.8	2.32	11	6.2	153	30.5	+73%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	B	417.1	0.7	3.12	10	4.0	868	187.0	+124%
BUY	Integrated Research	IRI	14/01/08	40	B	168.4	0.8	3.60	19	4.8	105	24.0	+221%
HOLD	M2 Telecommunications	MTU	09/10/06	33	B	178.3	0.5	1.52	23	3.5	579	67.5	+1859%
BUY	Melbourne IT	MLB	10/02/04	53	B	82.5	0.7	0.86	13	7.9	178	121.0	+463%
HOLD	Nomad Building Solutio	NOD	16/08/10	13*	C	277.5	3.8	0.21	3	Nil	6	Nil	-55%
HOLD	Novarise Renewable Res	NOE	14/03/11	25	B	415.1	2.0	1.03	5	Nil	21	Nil	-18%
HOLD	Penrice Soda Holdings	PSH	11/07/11	17	E	91.4	4.6	0.03	NE	Nil	4	Nil	-76%
HOLD+	Probiotec Ltd	PBP	11/02/08	116	B	52.9	1.3	0.33	21	Nil	42	9.3	-56%
HOLD+	Prophecy International	PRO	08/09/08	26	A	55.4	1.1	4.31	23	5.9	59	13.0	+177%
HOLD	Skilled Group Ltd	SKE	12/03/02	126	B	233.5	0.7	0.41	14	4.8	330	148.0	+279%
HOLD	Technology One Ltd	TNE	11/11/03	44	A	307.2	0.5	4.17	28	2.3	245	42.7	+554%
BUY	TFS Corporation Ltd	TFC	08/01/07	45	A	279.6	0.9	2.11	5	3.2	93	14.2	+137%
HOLD	The Reject Shop Ltd	TRS	11/01/05	257	B	28.8	0.4	0.76	24	2.3%	1634	345.5	+670%
HOLD	Village Roadshow	VRL	10/08/09	77	A	159.5	0.4	1.18	22	3.8	690	211.0	+1070%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +301.5%. This is equal to an average annual rate of +32.4%, 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 154 closed out) is +31.6%, 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

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Cavalier Corporation

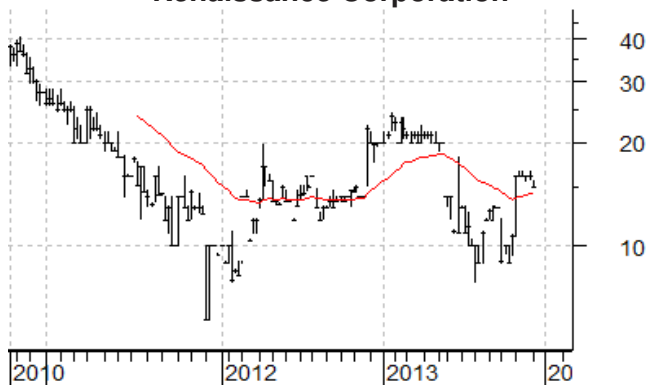


Renaissance Corporation's revenues declined 67.8% to \$42.4 million for the year to 30 September 2013, mainly owing to the sale of its distribution business. Overall there was a *net loss* of \$10,140,000 (*minus* 22.2 cents per share). No dividend is payable.

The net operating cash *deficit* was \$608,000.

The proposed sale of the education business is being changed slightly. To speed up regulatory consents, this will be changed from the sale of the education *assets and business*, to the sale of the *education subsidiary company* shares. There is no significant change to the transaction.

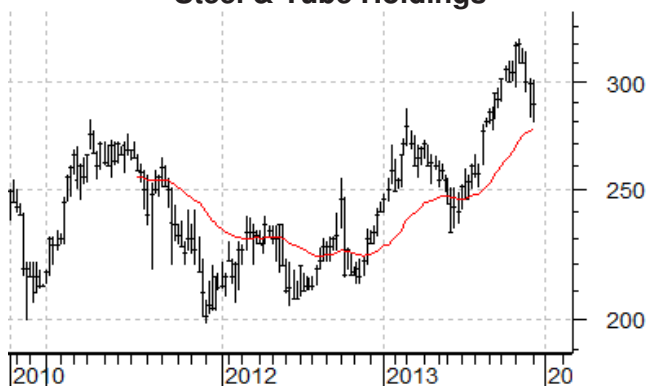
Renaissance Corporation



Steel & Tube Holdings reports a steady improvement in volumes for the first four months of the current financial year, but "margins remain low". Price increases on some items from 1 October will improve margins. Overall the first half is expected to be "marginally ahead" of the previous year. The second half should benefit from improved construction activity.

Domestic steel demand is expected to improve over coming years, helped by construction activity in Christchurch and Auckland and other infrastructure activity expected to start in 2014.

Steel & Tube Holdings



Australian Shares

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

AJ Lucas Group has "commenced a review of the company's strategy and structure" so that "existing shareholder value can be maximised with no future dilution to existing shareholders". The business has "huge potential" while "the Bowland asset value has been independently assessed in the market place at a very substantial value".

The stockmarket often under-values a company with dissimilar assets - for example, a non-capital intensive, income producing business and asset rich, non-income producing investments. The stockmarket would value these better as two separate companies, each with different risks and potential.

This *could* be achieved, for example, by floating **Cuadrilla Resources** as a separate company, listing in the UK and Australia. Perhaps 10% of the company could be offered to new public shareholders in an Initial Public Offering. AJ Lucas could then spin-off its Cuadrilla Resources shares to its own shareholders. That would split the existing company into two separate businesses.

AJ Lucas Group



ALS Limited reports half year revenues to 30 September 2013 down 3.4% at \$744.7 million. Net profits *declined* 27.2% at \$98,700,000. Earnings per share were 35.7% lower at 25.6 cents (owing to capital increased in a 1 for 11 cash issue). The Interim dividend will be reduced 9.5% to 19.0 cents.

The net cash operating surplus was just 6% lower at \$100.5 million.

This result is similar to the *second* half of the March 2013 year and in line with the company's earlier predictions.

ALS Minerals experienced a 33% drop in revenues to \$232.1 million and 50% fall in earnings to \$63.0 million - reflecting the downturn in the Resource sector.

ALS Life Sciences lifted revenues 21% to \$272.3 million and earnings 13% to \$53.5 million.

ALS Energy - helped by recent acquisitions - experienced a 70% increase in revenues to \$90.9 million and earnings 33% higher at \$22.0 million.

ALS Industrial experienced a 4% gain in revenues, but earnings fell 13% to \$13.7 million. Reward Distribution had revenues 3% lower at \$60.1 million and earnings of \$1.3 million.

In October, ALS made two small acquisitions: **OilCheck Pty**, a specialist oil, fuel and coolant analysis business in Australia, and a "majority share" in US

based **Inspection Technologies LLC**, involved in automated ultrasonic testing, computed radiography and digital radiography.

The company is forecasting the December quarter profit will be around \$47 million - similar to the June and September quarters - but the March quarter "remains difficult to forecast". That is the off-season for global mineral exploration and environmental activity in the northern winter, but the peak drilling season for its newly acquired oil and gas businesses.

ALS Limited



Atlas Pearls and Perfumes reports a 61% increase in revenues to \$6.1 million for the four months to 31 October (and \$8.2 million by 5 December - just slightly less than revenues for the *full* financial year to June 2013). A pearl auction in October yielded \$1.7 million, with a further \$1.4 million sold at auction in December - with prices up 18% between the two sales.

The company reports that pearl prices have risen "more than 50% since 2012". Other pearl companies reduced production since the GFC, resulting in "an emerging shortage of high quality pearls". In contrast, Atlas Pearls & Perfumes has continued to expand its production over the last five years as well as increasing its inventory levels of finished pearls. Among other benefits, higher inventory levels allow the company to offer sets of matched pearls at higher values than can be obtained selling individual, unmatched pearls.

Two further pearl auctions will be held in the current financial year to June 2014.

The latest auction also sold \$700,000 of Australian grown pearls from **Arrow Pearl Company**, the third time that Atlas Pearls & Perfume has included Australian pearls in its auctions. The company "has established a global export structure", with "demand in excess of current production" and will "source and sell pearls from various pearling companies in Australia and Indonesia".

Atlas Pearls & Perfumes and Arrow Pearl Company have signed a sales agreement which "will provide Atlas with access to pearls produced in the Australian Seas around Broome and Kimberley". The companies have worked together before, with Arrow Pearl originally training Atlas staff in pearl production and seeding techniques under a technology transfer agreement.

Arrow Pearl will also subscribe for 10.0 million Atlas Pearls & Perfumes shares at 6½ cents (i.e. a total of \$650,000), lifting its holding to 11.5 million shares.

Atlas Pearls & Perfumes



Ausenco Ltd will raise \$31 million from a 4 for 11 non-renounceable cash issue at 70 cents per share. This has depressed the market value of the shares to 65 cents, so at current values shareholders are better off to buy additional shares on-market at the lower price, leaving the underwriter to purchase the new shares.

Under this type of "accelerated offer", institutional shareholders subscribed for their entitlement to the new shares on 29 November, already raising \$17.5 million of the \$31 million sought under this cash issue. The remaining shares - to be offered to the "retail" shareholders - are fully underwritten.

This cash issue is, perhaps, not very well timed, but the market does appear to also have over-reacted. Ausenco does not have high debt levels, but perhaps a "cash squeeze". With the downturn in the Resource sector it has experienced some bad debts (i.e. \$8.6 million) and slower receipts from other customers. It has also recently spent \$16 million on the acquisition of **Projex Technologies**, \$10 million on redundancies (which will lower overheads \$15 million this half year and \$35 million annually) plus \$11 million to complete its *Oracle* Enterprise Resource Planning computer system.

The company predicts revenues of \$450 million and underlying earnings (before interest, depreciation and tax) of \$22.3 million this year, with an underlying net profit of \$5.5 million (3¼ cents per share), but redundancy costs, bad debts and abnormally high project provisioning will reduce this to a *loss* of \$18.5 million. In addition there will be non-cash writedowns of intangible assets of \$17.2 million.

For the June 2014 financial year the company is forecasting revenues of \$440-460 million - after conservatively estimating it will win only 13% of \$1300 million *Create* phase tenders (compared with its historical win rate of 30%) - which should produce a still depressed net profit of \$6½-9½ million (4-5½ cents per share, on the increased capital).

We see Ausenco Ltd as a cyclical recovery situation. With cyclical situations it is always difficult to pick the bottom of the decline - or the peak of the recovery and boom! Shares look expensive and unattractive at the cyclical low, with profits depressed (or non-existent) and when the prospects for recovery appear remote. At their cyclical highs, these shares can appear to trade on low valuations (i.e. owing to very high profitability) and
(Continued on Page 6)

Recommended Investments

(Continued from Page 5)

look like *growth* companies with apparently endless possibilities for further rapid growth. Reality lies somewhere between these extremes of valuations.

Ausenco Limited



Brickworks Limited has adjourned until 28 February, the meeting called by **Perpetual/Carnegie**.

At the Washington H Soul Pattinson Annual General Meeting, the Chairman Robert Millner (who is also the Chairman of Brickworks and a major shareholder in both companies) did not appear to support the Perpetual/Carnegie demerger proposal. He points out that WHSP has historically avoided debt at the parent company level, but under the proposal would owe \$1,600 million to Brickworks, “an irresponsible level of debt” and “it is unlikely that the [remaining] assets could support that level of debt”. The company would be required to “liquidate its assets”, probably at less than market value and with “significant capital gains tax expense”. This debt would incur an annual interest of \$170 million and the proposal would require the transfer of all franking credits to “one shareholder” (i.e. Brickworks) “at the expense of all other shareholders”. “WHSP will not have cash to make further investments, pay dividends or to support its existing investments”.

Brickworks Limited



Circadian Technologies expects to receive \$2.5 million cash from R&D Tax Incentives relating to the 2013 financial year. For the current year, the tax incentive (equal to 45% of expenditure) is likely to be around \$3.0 million.

Circadian Technologies



Clarius Group is forecasting a loss of \$1.3-1.5 million for the first half to December 2013 with “the most difficult trading conditions”.

The China expansion is now profitable with “revenue growth on target”. The Australian business has completed its IT transformation and will focus upon “revenue growth, both from traditional business lines along with development of technology driven business solutions”.

Clarius Group



CPT Global reports first quarter revenues “exceeding” the previous year’s “excellent second half result”. Shareholders will remember that the company had a slow first half year to December 2012 - and operated at a loss - but then experienced a strong recovery in the second half to June 2013.

CPT Global



CSG Limited has received an Australian tax ruling that the 4.0 cents distribution payable on 23

December will be a (non-taxable) return of capital.

CSG Limited



Devine Limited has secured a construction contract to build two 12-storey buildings consisting of 144 apartments for **Pointcorp Development**.

Devine Limited



Ellex Medical Lasers reports its United States revenues are up 80% over the four months of the new financial year - helped by the ability to sell its glaucoma lasers in that market (and an improvement in the exchange rate). Sales in Japan, Europe and the Middle East are, however, down on the previous year. November and December are important sales months in the United States (i.e. being the end of the tax year) and the company reports that “orders appear strong” and is focusing upon production.

Overall the company is predicting first half revenues up 10%, with “a meaningful increase in earnings”.

Ellex Medical Lasers



Finbar Group has acquired a 2119m² site in Northbridge, 1 km from the Perth CBD, for \$6 million (with settlement in May 2014). The company is considering design options but will likely develop 85 or more apartments plus ground floor commercial lots, with an end value of around \$50 million for completion and settlement in the June 2017 year.

Finbar Group



Integrated Research reports that “both revenues and profits” are ahead for the first four months of the new financial year.

Integrated Research



Melbourne IT intends to make a 54.0 cents per share capital return, subject to shareholder approval at a meeting to be held in late January and an **Australian Tax Office** ruling on the tax treatment of this payment. This will distribute about \$45 million of the company's \$101.5 million cash holding.

The remaining cash of \$56 million (68 cents per share) will help finance internal growth and “possible acquisitions which could add scale and capability” to the business.

Melbourne IT



(Continued on Page 8)

Recommended Investments

(Continued from Page 7)

Novarise Renewable Resources International

has moved back the date for its privatisation from the end of January to the end of March 2014. The company has received funding from the proposed buyers for an independent experts report.

Novarise Renewable Resources International



Penrice Soda Holdings is holding “discussions with its banking syndicate and other parties” regarding a “possible restructure to reduce debt” and “recapitalise the company”.

A straight cash issue or share placement at current prices would not be attractive to existing shareholders, but asset sales or business sales or joint ventures could realise value.

Penrice Soda Holdings



Probiotec Limited's *Australian Dairy Proteins* \$20 million plant should finally be commissioned before the end of December. Based upon expected whey volumes purchased from **United Dairy Power**, this plant should generate annual earnings of \$2.0-2.8 million. If whey volumes increase to the plant capacity, then earnings could be over \$10 million annually.

Probiotec Limited



Prophecy International Holdings is predicting 5-10% growth this year, with revenues likely around \$7.5 million and a pre-tax profit of about \$1.9 million.

The company expects to complete a new acquisition this financial year, having already reviewed “many opportunities”.

Prophecy International Holdings



Skilled Group is to acquire the majority of the business and assets of listed and financially troubled **Thomas & Coffey**. The \$33.5 million cash acquisition should add around \$7.0 million to earnings (before interest, tax and depreciation), equal to a Price/Earnings ratio of about 9-10 and will be merged with Skilled Group's *ATIVO* maintenance business, with the potential to reduce back office and overheads for the combined businesses. It will also diversify revenues streams, adding exposure to industrial, utilities and mining sectors in Queensland and New South Wales.

The Thomas & Coffey business is profitable (compared with a loss in the fourth quarter of the 2013 financial year), with expectations that “the business continue to improve”, but the parent company's “financial position remains precarious” with high debt and new “funding being limited”.

Skilled Group



Technology One lifted revenues just 6.8% to \$180.6 million for the year to 30 September 2013, but net profits rose 14.5% to \$26,984,000 (8.8 cents per share). A final 3.88 cents dividend will lift the annual dividend rate 11.0% to 5.65 cents.

The net operating cash surplus rose 18% to \$33.0 million.

TechnologyOne Cloud “Software-as-a-Service” is currently in use by eight early adaptors, will be officially launched in mid-2014 and generally available from late 2014. The company expects this “to become a new major platform for growth”.

In addition to providing the processing power and software, this SaaS will include backup, recovery, upgrade and support services - but all at a price! The theory behind SaaS is that the customer pays a monthly/annual fee per user, rather than an initial fee to buy software. In an example, Technology One indicates that for its cloud services the Initial Licence fee will remain unchanged at \$1.0 million and the Annual Licence fee unchanged at \$225,000 - but will also charge \$450,000 each year for other cloud services (i.e. processing, backups, etc).

Technology One is also moving its own business to “the cloud” - which should lower costs and may help with future marketing and sales. Email, Corporate Accounting and R&D are all now cloud-based, with Documents & Files to be transferred this month and Customer Demonstrations and Consulting by March 2014.

Overall the company is focusing upon increasing sales - which in an economy of scale business should help achieve its goal to “substantially improve margins over the next five years”.

Technology One



TFS Corporation has reported for the three months to 30 September, but quarterly results are not particularly meaningful. One number of significance was a further \$35.0 million spent to acquire plantations for direct ownership. Cash on hand at 30 September was \$25.4 million, but \$38.4 million has since been received from a sale to an institutional investor.

TFS Corporation



Village Roadshow has agreed to sell its *Wet 'n' Wild* Water Park in Phoenix, Arizona, and to end its lease of the *Wet 'n' Wild* park in Hawaii from **CNL Lifestyle Properties Inc**, which will also acquire the US rights to the *Wet 'n' Wild* brand name. Village Roadshow will receive around A\$27 million (about \$2 million below book value) after repayment of debt.

Village Roadshow will continue to own 51% of *Wet 'n' Wild* Las Vegas.

The company is withdrawing from the US market where it believes it would be difficult to achieve a significant presence, and focus upon countries where the market is “not yet mature and higher returns possible”.

The new Sydney theme park will open on 12 December and has already sold over 100,000 season passes.

Village Roadshow's special 25 cents distribution will be paid about 31 December and consist of a 13 cents dividend and 12.0 cents return of capital.

Village Roadshow



“Neglect” Ratings of Australian Shares

“Neglected” Shares = 0-2 Brokers, “Moderately Followed” Shares = 3-9 Brokers, “Widely Followed” Shares = 10 or more Brokers.

Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)
1300 Smiles Ltd	2	154	Bendigo Bank	17	4,499	Data 3 Ltd	2	157	Hansen Tech.	2	185
21st Century F.	7	83,236	Bentham IMF Ltd	4	214	David Jones	16	1,494	Haranga Res Ltd	1	16
360 Capital Ind	3	761	Berkeley Res.	1	50	Decmil Group	8	299	Harvey Norman	14	3,293
360 Capital Grp	2	62	Bigair Group	2	127	Devine	1	133	Hawkey Oil Gas	1	7
A.P. Eagers	3	836	Billabong Int'l	8	156	Dexus Property	12	4,796	Hazelwood Res.	1	38
ABM Resources	2	78	Bionomics Ltd	3	335	Dicker Data Ltd	1	117	Helloworld Ltd	5	169
AGL Energy Ltd	14	8,197	Bioniche Life	1	37	Discovery Metal	2	28	Henderson Group	17	4,068
ALS Limited	18	3,043	Blackmores Ltd	6	349	Domino's Pizza	13	1,274	Hills Limited	6	431
AMA Group Ltd	2	119	Blackthorn Res.	1	35	Donaco Inter'l	3	355	Hillgrove Res.	5	89
AMP Ltd	14	13,040	Bluescope Steel	13	2,959	Doray Minerals	5	84	Horizon Oil Ltd	7	346
ANZ Bank	18	84,211	Boart Longyear	14	125	Downer EDI Ltd	16	1,998	Hot Chili Ltd	4	117
APA Group	14	5,115	Boom Logistics	4	64	Dragon Mining	1	16	Hughes Drilling	2	55
APN News Media	10	327	Boral Limited	14	3,622	Drillsearch	9	565	Hutchison Tel.	4	1,235
ARB Corporation	8	851	Bradken Ltd	16	890	DuluxGroup Ltd	12	2,017	I-Property Grp	2	361
ASG Group Ltd	4	87	Brain Resource	1	24	Dyesol Ltd	1	79	IMX Resources	4	18
ASX Limited	17	7,018	Brambles Ltd	13	14,608	E-Bet Limited	2	42	IOOF Holdings	15	1,964
AV Jennings	1	231	Breville Group	10	1,054	ERM Power Ltd	6	460	IPB Petroleum	1	27
AWE Limited	12	621	Brickworks Ltd	4	2,025	Echo Ent Group	14	1,957	IRESS Limited	9	1,481
Abacus Property	5	997	Brierty Ltd	1	41	Elders Limited	3	52	Icar Asia Ltd	1	116
Acrux Ltd	6	391	Brockman Mining	1	426	Elemental Min.	1	117	iiNet	14	969
Adelaide Bright	16	2,288	Buccaneer En.	2	54	Ellex Medical	1	30	Iluka Resources	15	3,620
Admedus Limited	1	186	Buru Energy Ltd	4	418	Emeco Holdings	12	114	Imdex Limited	12	104
Ainsworth Game	6	1,404	C'wth Prop Off.	12	2,945	Emerchants Ltd	1	66	Impedimed Ltd	2	45
Alacer Gold	12	623	C.S.R. Ltd	14	1,305	Empire Oil, Gas	1	82	Incitec Pivot	15	4,023
Alchemia Ltd	2	178	CFS Retail Prop	13	5,487	Empire Energy	1	27	Independ. Group	14	678
Ale Property	2	540	CSG Ltd	3	257	Endeavour Min.	4	70	Indophil Res.	1	162
Alkane Explor.	2	123	CSL Limited	14	32,799	Energy Resource	7	673	Indochine Min.	1	57
Alliance Aviat.	3	166	Cabcharge Ltd	9	459	Energy Action	3	107	Infigen Energy	5	210
Altium Limited	1	247	Calibre Group	3	111	Energy Develop.	2	922	Infomedia Ltd	2	175
Altona Mining	1	77	Caltex Australia	10	5,098	Engenco Ltd	1	47	Ingenia Com Grp	1	325
Altura Mining	1	55	Cape Lambert R.	2	88	Envestra	12	1,887	Insurance Aust.	17	12,017
Alumina Ltd	14	2,890	Capital Health	1	142	Equatorial Res.	2	78	Int Research	3	176
Amalgamated Hld	2	1,310	Capral Limited	2	66	Equity Trustees	1	173	Intra Energy	2	26
Amcor Ltd	13	13,322	Carabella Res.	3	67	Ethane Pipeline	2	123	Investa Office	12	1,879
Amcom Telecom.	9	516	Cardno Ltd	10	997	Evolution Min.	12	368	Invocare Ltd	11	1,138
Ampella Mining	3	19	Carindale Prop	3	381	Excelsior Gold	1	28	Iron Ore Hold.	1	146
Aneka Tambang	6	2,098	Carnarvon Pet.	2	64	FAR Ltd	1	92	Ironbark Zinc	1	19
Ansell Ltd	14	2,612	Carsales.com	17	2,291	FSA Group Ltd	1	143	Iselect Limited	2	344
Antares Energy	1	131	Cash Converters	3	326	Fairfax Media	14	1,607	JB Hi-Fi Ltd	16	1,960
Aquarius Plat.	5	352	Cedar Woods Prp	3	500	Fantastic Hold.	8	215	James Hardie	14	5,238
Aquila Res.	5	931	Celsius Coal	1	24	Federation Cent	12	3,255	Jameson Res.	2	39
Arafura Res.	1	34	Centaurus Metal	3	27	Finbar Group	1	334	Jumbo Interact.	4	104
Ardent Leisure	8	975	Ceramic Fuel C.	2	62	Finders Res.	2	60	Jupiter Energy	1	76
Arena REIT	1	240	Chal Div Prop	4	542	Firestone En.	1	28	K&S Corporation	4	166
Aristocrat Leis	14	2,459	Challenger Ltd	18	2,898	Fleetwood Corp	10	146	K2 Asset Mgmt	1	149
Arrium Limited	14	2,148	Chandler McLeod	3	219	Flexicorp Ltd	9	1,280	KGL Resources	1	96
Asciano Limited	17	5,423	Chart H Retail	11	1,239	Flight Centre	19	4,620	Kardoon Gas	10	1,052
Astro Japan Pro	2	235	Charter Hall GR	8	1,073	Flinders Mines	1	66	Kasbah Resource	3	48
Atcor Medical	1	26	Clarius Group	4	22	Focus Minerals	1	101	Kina Petroleum	2	79
Atlas Iron Ltd	22	1,078	Clearview Wlth	1	274	Folkestone Ltd	1	84	Kingrose Mining	1	109
Atrium Coal NL	2	160	Clough Limited	3	1,130	Forge Group Ltd	4	51	Kingsgate Cons.	9	140
Attila Res Ltd	2	28	Clover Corp.	1	85	Fortescue Metal	21	17,686	Korvest Ltd	1	55
Aurizon Hold.	17	9,960	Coalspur Mines	5	137	Freedom Foods	2	306	Kula Gold Ltd	2	15
Aurora Oil Gas	13	1,285	Coal of Africa	2	83	Funtastic Ltd	3	110	Lachlan Star	3	20
Ausdrill Ltd	14	25	Cobar Cons Res.	1	30	G.U.D. Holdings	11	399	Legend Corp.	3	81
Ausenco Ltd	8	109	CocaCola Amatil	14	9,024	G8 Education	3	765	Leighton Hold	16	5,263
Austex Oil Ltd	1	58	Cochlear Ltd	15	3,283	GBST Holdings	1	180	Lend Lease Grp	15	6,215
Aust Education	3	291	Cockatoo Coal	3	47	GI Dynamics	2	190	Lifestyle Com.	1	113
Austal Limited	2	277	Codan Ltd	2	264	GPT Group	10	6,014	Linc Energy Ltd	3	517
Aust Vintage	1	90	Coffey Int'l	4	73	GR Engineering	1	79	Lindsay Aust	1	57
Austin Eng.	6	226	Cogstate Ltd	2	34	GWA Group Ltd	12	877	Logicams Ltd	4	93
Aust Ren. Fuels	1	26	Cokal Limited	3	80	Gage Road Brew.	1	82	Lonestar Res.	5	167
Aust Agricul.	1	622	Collection Hse	6	193	Gale Pacific	1	86	Lynas Corp Ltd	8	578
Austbrokers	6	671	Collins Foods	5	166	Generation HC	1	120	M2 Telecom. Grp	11	1,032
Aust Pharm. Ind	7	246	Colorpak Ltd	3	67	Genetic Tech.	1	28	MZI Resources	1	24
Australand Prop	12	2,140	Com'wealth Bank	17	%120,712	Geodynamics Ltd	1	34	MacMahon Hold	10	132
Automotive Hold	11	923	Comet Ridge Ltd	1	73	Gindalbie Met.	10	172	Maca Limited	6	414
Avanco Res.	1	63	Computershare	17	6,025	Global Con Serv	1	83	Macquarie Radio	1	79
BC Iron Ltd	11	619	Cooper Energy	5	155	Gold Rod Res.	1	40	Macquarie Group	16	17,603
BHP Billiton	19	%196,245	Corp Travel M.	7	490	Gold One Int'l	2	241	Macquarie C Tel	3	168
BSA Ltd	1	26	Countplus Ltd	1	211	Goodman Fielder	12	1,281	Macquarie Atlas	6	1,235
BT Invest Mgmt	9	1,197	Coventry Group	1	108	Goodman Group	12	7,966	Magellan Fin Gp	6	1,493
BWP Trust	7	1,199	Credit Corp	5	392	Graincorp	13	1,922	Mastermyne Grp	4	57
Bandanna Energy	7	95	Cromwell Prop.	4	1,645	Grange Resource	3	306	Matrix Comp.	3	61
Bank of Q'land	17	3,745	Crowe Horwath	6	155	Greencross Ltd	4	283	Maverick Drill.	1	159
Bannerman Res.	1	17	Crown Resorts	13	11,997	Growthpoint Pro	3	1,155	Maxi TRANS	2	215
Base Resources	6	193	Crusader Res.	1	42	Gryphon Mineral	10	54	Mayne Pharma Gr	4	391
Beach Energy	13	1,694	Cuesta Coal Ltd	1	26	Guildford Coal	2	51	McMillan Shake.	6	918
Beadell Res.	11	534	DUET Group	12	2,389	Gujarat NRE	1	102	McPherson's Ltd	4	134
Bega Cheese Ltd	6	680	DWS Limited	6	175	HFA Holdings	1	86	Medusa Mining	7	307

Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (\$ Mill.)
Melbourne IT	2	146	Reckon Limited	8	284	Teranga Gold	4	108	Virgin Aust	12	1,342
Mermaid Marine	13	736	Red Fork Energy	3	142	The Reject Shop	10	471	Virtus Health	5	696
Mesoblast Ltd	9	1,829	Red 5 Ltd	1	11	Thinksmart Ltd	1	46	Vision Eye Inst	1	115
Metals X Ltd	1	297	Redflex Holding	1	123	Thorn Group Ltd	8	326	Vita Group Ltd	2	100
Metcash Ltd	15	2,660	Redflow Limited	1	20	Tiger Resources	5	225	Vita Life Sci.	1	82
Metgasco Ltd	1	37	Reece Australia	2	3,023	Tigers Realm	2	60	Vmoto Ltd	1	29
Miclyn Express	6	614	Reef Casino Trt	1	190	Tissue Therapy	2	55	Vocus Comm.	3	263
Millennium Min.	2	3	Regeneus Ltd	1	52	Titan Energy	3	118	W'bool Cheese	4	509
Mincor Resource	3	100	Regis Resources	20	1,205	Tlou Energy Ltd	1	39	WDS Limited	4	123
Mineral Deposit	4	200	Regional Exp.	2	95	Toll Holdings	15	3,980	Watpac Ltd	1	149
Minemakers Ltd	1	35	Resource Gener.	6	59	Toro Energy Ltd	1	77	Webjet NL	13	218
Mineral Res.	9	1,990	Resolute Mining	6	276	Tox Free Sol.	11	455	Wellcom Group	3	107
Mint Wireless	1	96	Resource Equip.	4	35	TransPacific In	3	1,760	Wesfarmers Ltd	15	41,978
Mirabela Nickel	7	14	Retail Food Grp	7	560	Transfield Serv	13	512	Western Desert	2	254
Mirvac Group	12	5,929	Reva Medical	2	161	Transurban Grp	11	10,282	Westfield Ret.	13	8,834
Molopo Energy	1	43	Rex Minerals	4	76	Treasury Wine	13	3,055	Westpac Banking	18	97,082
Monadelphous Gr	16	1,420	Rey Resources	1	59	Treasury Group	3	194	Western Areas	15	429
Money3 Corp Ltd	2	78	Rialto Energy	2	22	Trinity Group	1	52	Westside Corp.	1	66
Mortgage Choice	6	364	Ridley Corp.	7	246	Troy Resources	4	159	Westfield Group	12	22,848
Mt Gibson Iron	14	1,145	Rio Tinto Ltd	18	28,939	Trust Company	3	282	Whitehaven Coal	19	1,913
My Net Fone Ltd	2	95	Roc Oil Company	8	294	UGL Limited	16	1,033	Wide Bay Aust.	2	211
Myer Holdings	16	1,611	Royal Wolf Hold	6	330	UXC Limited	7	349	Woodside Petrol	14	30,946
Mystate Ltd	3	411	Ruralco Hold.	4	182	Un. Biosensors	1	87	Woolworths Ltd	15	41,269
NRW Holdings	14	340	SAI Global Ltd	14	831	Unity Mining	2	34	World Titanium	4	35
Nanosonics Ltd	4	223	SFG Australian	3	529	Universal Coal	2	29	Worley Group	15	3,976
Nat'l Aust Bank	18	72,059	SMS Mgmt & Tech	13	271	Venture Min.	1	49	Wotif.com Hold.	20	910
Navitas Ltd	11	2,260	SP Ausnet	13	3,273	Villa World Ltd	1	147	XRF Scientific	2	38
Nearmap Ltd	3	170	STW Comm Group	7	592	Village Road.	5	1,100	YTC Resources	2	58
Neon Energy Ltd	3	184	Salmat Ltd	6	336	Viralitics Ltd	1	31	Yancoal Aust.	5	666
Neuren Pharm.	1	124	Sandfire Res.	14	920						
New Standard En	2	43	Santos Ltd	14	13,985						
New Hope Corp.	7	2,874	Saracen Mineral	6	110						
NewSat Ltd	2	200	Sedgman Ltd	8	121						
Newcrest Mining	17	5,565	Seek Ltd	17	4,306						
Nextdc Limited	6	361	Select harvest	7	272						
Nexus Energy	6	73	Senex Energy	11	878						
Nib Holdings	8	1,058	Service Stream	1	57						
Nick Scali Ltd	2	223	Servcorp Ltd	1	404						
Nido Petroleum	2	47	Seven Group	9	2,157						
Northern Iron	1	104	Seven West Med.	15	2,155						
Nthn Star Res.	8	278	Seymour Whyte	2	94						
Nucoal Res.	3	46	Shine Corporate	4	290						
Nufarm Limited	13	1,139	Sigma Pharm.	13	669						
OZ Minerals Ltd	20	981	Sihayo Gold Ltd	1	28						
Oakton Limited	11	140	Silex Systems	4	380						
Oil Search Ltd	16	11,052	Silver Lake Res	8	150						
OnTheHouse Hold	3	49	Silver Chef Ltd	6	219						
Orica Ltd	16	8,424	Sims Metal Mgmt	13	2,057						
Origin Energy	15	14,851	Sino Gas & En.	2	224						
Orocobre Ltd	3	402	Sirius Res. NL	9	468						
Oroton Group	9	159	Sirtex Medical	5	656						
Osprey Medical	2	75	Skilled Group	9	771						
Ottoman Energy	2	96	Slater & Gordon	8	897						
PMI Gold Corp.	4	39	Smart Parking	1	52						
Pacific Energy	2	153	Somnosed Ltd	2	51						
Pacific Brands	13	584	Sonic Health	14	6,295						
Paladin Energy	14	393	Soul Pattinson	1	3,471						
Panaust Ltd	19	991	Spark Infrastru	13	2,083						
Panoramc Res.	6	65	Spec Fashion	9	175						
Paperlin X Ltd	2	30	Spooning Centre	7	983						
Papillon Res.	10	304	St Barbara Ltd	8	134						
Patties Foods	5	195	Stanmore Coal	1	40						
Peet Ltd	6	583	Starpharma Hold	5	236						
Perilya Mines	1	265	Steadfast Group	4	841						
Perpetual Ltd	13	1,860	Sth Cross Elect	4	134						
Perseus Mining	16	108	Sth Cross Media	12	1,036						
Pharmaxis Ltd	6	32	Stockland	14	8,526						
Phoenix Gold	2	36	Strike Energy	1	58						
Phosphagenics	4	122	Suncorp Group	17	16,044						
Poseidon Nickel	2	34	Sundance Res.	1	323						
Praemium Ltd	1	62	Sundance Energy	5	277						
Premier Invest	12	1,157	Sunland Group	1	266						
Primary Health	14	2,399	Super Retail Gr	18	2,521						
Prime Media Grp	10	386	Swick Min Serv	3	49						
Pro Maintenance	11	353	Sydney Airport	12	7,110						
Pura Vida En.	2	79	Syrah Resources	3	400						
Q.B.E. Insur.	15	18,490	TFS Corporation	2	259						
QRXPharma Ltd	5	95	TPG Telecom Ltd	14	3,270						
Qantas Airways	13	2,309	Tabcorp Holding	13	2,555						
Qube Holdings	13	1,802	Tanami Gold NL	1	26						
RCG Corporation	2	182	Tandou Ltd	1	70						
RCR Tomlinson	8	392	Tap Oil	4	123						
REA Group Ltd	12	5,311	Tassal Group	6	451						
RXP Services	2	71	Tatts Group Ltd	13	4,180						
Ramelius Res.	1	44	Technology One	9	753						
Ramsay Health	13	7,861	Telstra	18	61,967						
Range Resources	1	75	Ten Network	13	698						

“Neglect” Ratings of NZ Shares

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

Company	No. of Brokers Following Company	Market Capitalisation (NZ\$ Mill.)	Company	No. of Brokers Following Company	Market Capitalisation (NZ\$ Mill.)
Abano Health.	2	107	Moa Group Ltd	1	22
Air New Zealand	6	1,799	NPT Limited	2	98
Akd Int Airport	11	4,668	NZ Exchange Ltd	3	317
Argosy Property	5	723	NZ Oil & Gas	6	340
Briscoe Group	3	499	NZ Refining Co	4	588
Cavalier Corp	3	117	Nuplex Indust	6	658
Chorus Ltd	10	514	Opus Int'l Cons	4	289
Comvita	1	109	PGG Wrightsons	4	302
Contact Energy	8	3,593	Port Tauranga	7	1,783
DNZ Property	5	379	Property F Ind.	9	282
Delegat's Group	3	377	Pumpkin Patch	4	134
Diligent Board	4	277	Rakon Ltd	3	35
F & P Health.	7	2,043	Restaurant Brds	3	271
Freightways Ltd	7	693	Ryman Health.	7	3,782
Goodman Prop.	7	1,196	Sanford Limited	3	421
Guinness Peat	3	180	Skellerup Hold.	3	326
Hallenstein G.	5	245	Sky Network TV	10	2,304
Heartland BS	2	327	Sky City Ltd	12	2,239
Hellaby Hold.	3	265	Steel & Tube	4	256
Infratil NZ	4	1,307	Summerset Group	5	683
Kathmandu Ltd	6	699	TeamTalk Ltd	1	63
Kiwi Property	7	1,091	Telecom Corp	11	4,152
Lytelton Port	1	271	Tourism Hold.	1	106
Mainfreight Grp	5	1,144	Tower Limited	4	444
Meridian Energy	3	1,155	Trade-Me Ltd	10	1,645
Methven Limited	5	98	Trust Power Ltd	6	2,041
Metro. LifeCare	4	850	Vector Ltd	6	2,589
Michael Hill	2	544	Vital Health PT	4	436
Mighty River	8	2,786	Warehouse Group	8	1,123
			Xero Ltd	2	3,546

Company Review: Objective Corporation

Objective Corporation (code OCL).

Objective Corporation is a profitable, cash rich, debt-free company that provides Enterprise Content Management (ECM) software for government and local government organisations. It is actively seeking to expand its “cloud” services which can be marketed internationally.

Revenues and profits have been volatile at times and revenue growth has been slow over recent years but the company invests *very heavily* in Research & Development, aiming to build future revenues and profits. The two founders still own around 90% of the company, so the volume of shares traded is relatively low.

Objective Corporation is seeking to grow its business, but the shares trade on a low valuation. So, if successful, the shares could be significantly re-rated over the years ahead. Investors seeking long term growth could consider making a small investment in this company.

Company History

The business was founded in 1987 to develop software and has grown to specialise in Enterprise Content Management (ECM), especially for the government and local government sector. Objective Corporation listed on the Australian stockmarket in mid-2000 after offering 12,000,000 new shares (just 8.9% of the company) at 50 cents to raise \$6.0 million in new equity. Executive Chairman T Walls and Chief Executive G Fisher each retained over a 45% interest in the company.

Growth

Shareholder wealth is created from internal or “organic” growth, rather than from external acquisitions, especially where a company issues new equity, diluting earnings per share. Objective Corporation has sought to grow internally, making just one cash acquisition: the purchase in April 2009 of UK based **Limehouse Software Ltd** for £3.18 million. Limehouse Software operated a profitable Software-as-a-Service (SaaS) business with around 200 United Kingdom local government clients and 35 customers in North America. This acquisition accelerated Objective Corporation’s expansion in the UK, broadening its range of services and market leadership.

Objective Corporation has issued a small number of shares via executive share options, but has also reduced its issued capital, increasing earnings per share through share re-purchases. In the year to June 2009 it repurchased 3,629,723 shares on-market at prices from 20-24 cents and repurchased 6,350,000 shares at 22 cents from G Fisher. In the year to June 2010 it purchased 5,000,000

shares at 20 cents from G Fisher, in the year to June 2012 a further 20,000,000 shares from G Fisher at 20¾ cents. That has reduced the issued capital to 100,753,277 shares - and the company is currently seeking shareholder approval to repurchase a further 12,500,000 shares at 45 cents from G Fisher. That will reduce the issued capital to 88,253,277 shares.

Recent Results and Future Growth Potential

While Objective Corporation has grown since listing 13 years ago, its revenues and profits have also been volatile - owing to (1) the timing of large contracts, (2) the high expenditure on Research & Development (i.e. seeking future growth ahead of current profitability) and (3) slow revenue growth over the last several years.

The company is currently investing very heavily in R&D to move towards a *Software-as-a-Service*, cloud based model, which will result in “lower software revenue growth” and profits “in the short term but should ultimately make profits more predictable in the medium term”. In the current financial year to June 2014 it is “prioritising revenue growth ahead of profitability as we believe this to be in the long term interests of all stakeholders”.

The company is being structured into two business units. *Enterprise Solutions* is “largely a continuation” of what the company has done in the past (i.e. ECM software for government organisations), but with its software now available as *SaaS* and compatible with other content repositories, “creating future opportunities to grow our customer base”.

Leveraged Solutions will focus on marketing *Objective Connect, Objective Governance, Objective Plan Manager, Objective PDS Streamline* and *Objective Committees*, all “predominantly cloud-based and marketed globally”.

Revenues have been relatively stable over the last five years at around \$39.7-41.5 million, with profits mainly around \$3.1-4.6 million (although only \$2.1 million in 2010, owing to contract deferments).

Profitability peaked in June 2005 at \$8.0 million, but the annual expenditure on R&D (which is all expensed as incurred) has increased from \$3½-4½ million annually to over \$9 million annually in each of the last five years. This is a very high 22-24% of revenues.

For the year to June 2013, revenues rose 3.3% to 41.0 million, but net profits *slipped* 15.4% to \$3,892,000 (3.9 cents per share). A steady annual dividend of 2.0 cents

was paid, plus a 100.0% higher special dividend of 1.0 cents.

The net operating cash surplus was *down 23%* at \$6.9 million. Objective Corporation has no interest bearing debt and cash in the bank (and on deposit) of \$18.0 million (17.9 cents per share).

As previous reported, it is seeking shareholder approval to spend \$5.6 million to repurchase 12.5 million shares (12.4% of its capital) from an executive director.

Recent Product Announcements

In October 2011, Objective Corporation released *Objective ECM 8*, along with *Objective Executive* and *Objective Discover*. These upgrades offered a “highly intuitive, zero training experience” for searching enterprise data.

In October 2012 it released *Objective Connect*, a cloud application allowing secure, accountable and auditable information sharing between public sector organisations.

In July 2013 it released *Objective ECM for Small Agencies*, a cloud-based service aimed at smaller public sector organisations.

Investment Criteria

At 52 cents, Objective Corporation shares trade on a Price/Sales ratio of 1.28, a Price/Earnings ratio of 13 and a Dividend Yield of 3.8%.

Software is a potentially high profit margin business, so a high P/S ratio can be justified. For example, Integrated Research shares trade on a P/S ratio of 3.6, Prophecy International on a P/S ratio of 4.3, Technology One a P/S ratio of 4.2 and NZ listed Xero on a P/S ratio of 99.0. Even if one of those statistics is well out of line, Objective Corporation could be worth a P/S ratio of 3-4 - which would imply a share value of 120-165 cents.

As Objective Corporation invests heavily in the Research & Development of new products, this is a situation where Kenneth Fisher’s Price/Research ratio can be applied (as discussed in his 1984 book “Super Stocks”). Fisher suggests “Don’t ever buy a Super Company on a P/R ratio of greater than 15” and “Find Super Companies with a P/R ratio of 5 to 10”. Objective Corporation shares trade on a Price/Research ratio of 5.8 - the lower end of that scale.

The issued capital is 100,753,277 shares, giving it a market capitalisation of \$52 million. After its planned share repurchase there will be 88,253,277 shares outstanding worth \$45 million. The two largest shareholders own 87.0 million shares, leaving just 13.75 million shares (worth \$7.2 million) for the public shareholders. As a result there are only a small number of shares available to trade on the stockmarket and trading volumes can be very low.

The shares are *neglected* by stockbrokers, with none following the company and publishing profit forecasts.

The two founding executive directors, have huge investments in the company. T Walls owns 62,000,000 shares or 61.5% of the company. G Fisher owns 25,000,000 shares or 24.8%. (After the proposed share repurchase, these percentages will become 74.5% and 14.3%.) One of the two non-executive directors owns 200,000 shares.

There have been no on-market trades by *insiders* over the last year.

The shares hit a recent high of 69 cents in December 2012, a recent low of 37 cents in May 2013 have since trended slightly higher. The Relative Strength rating is +7.3%, ranked 25 (on a scale of 0-99).

Summary and Recommendation

Software is an attractive, economy of scale business, where successful companies can expand revenues and earn high profit margins. Objective Corporation is a sound business, building competitive advantages in Enterprise Content Management for public organisations, which it will seek to market globally via the cloud.

If the company is successful, then revenues could grow strongly. Operating costs are relatively fixed, so profits would grow even faster. While there is risk in any growth company seeking to commercialise its product or service, Objective Corporation shares trade at a very low valuation - so any future success should quickly lead to strong capital appreciation.

The public float of just \$7.2 million makes Objective Corporation too small to consider as a formal recommendation - and investors seeking to make an investment may need to patiently accumulate shares over weeks or months.

The shares, however, are an under-valued, potential growth situation. Investors seeking long term capital growth, who hold diversified share portfolios, could consider a small investment in this company.

Objective Corporation



Dividend \$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Argosy Property	1.50	02-12	12-12	Nil
Comvita	4.00	13-12	20-12	Full
DNZ Property	2.25	29-11	13-12	0.59
F&P Healthcare	5.40	06-12	19-12	Full
Goodman PT	1.5625	06-12	18-12	0.1714
Horizon Energy	6.00	02-12	12-12	Full
Infratil	3.75	29-11	13-12	Full
Kingfish	2.61	04-12	20-12	-
Kiwi Income Properties	3.20	26-11	10-12	Nil
Mainfreight	13.00	06-12	13-12	Full
Methven Ltd	5.00	13-12	31-12	0.95238
NPT Ltd	0.80	27-12	10-01	Full
Ryman Healthcare	5.60	06-12	13-12	Nil
Sanford	14.00	27-11	04-12	Full
Tower Ltd	6.00	22-01	03-02	Nil
Warehouse Group	5.50	29-11	12-12	Full
Z Energy	7.70	-	04-12	Full

Australian Shares

ALS Ltd	19.00	29-11	20-12
CSG Ltd (capital)	4.00	-	23-12
Melbourne IT (capital)	54.00	-	Feb
Technology One	3.88	02-12	19-12
Village Roadshow	25.00	06-12	31-12

Total Return Index for All Listed Shares

Nov 11	1538.09	Nov 18	1536.40
Nov 12	1539.30	Nov 19	1533.10
Nov 13	1540.70	Nov 20	1528.40
Nov 14	1539.03	Nov 21	1520.31
Nov 15	1539.55	Nov 22	1522.98
Nov 25	1521.83	Dec 2	1507.55
Nov 26	1518.16	Dec 3	1502.44
Nov 27	1519.75	Dec 4	1490.68
Nov 28	1516.94	Dec 5	1488.00
Nov 29	1511.42	Dec 6	1479.58

Next Issue:

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

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