

PERSPECTIVE



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## Taking a breather

There are a number of stocks that we like for the long term but are not in a hurry to buy. In some cases the stock has had a good run and its time for a break, in other cases the growth profile isn't attractive until 2007 or 2008 and so the market may not be focussing on these numbers for another 6 or 12 months.

So, in these cases we will often be recommending a HOLD on the stock – however, as we like the outlook, longer term investors may want to get in earlier, and we suggest that all investors monitor them for buying opportunities. The risk of not owning these stocks is often that the positive events that we are waiting for (before we upgrade to a BUY again) come sooner than expected and you miss the run. Also, there are stocks that are perennially “expensive” - they always look expensive but their continued good performance justifies the premium you pay.

Our investment process involves finding companies where we like management and the longer term outlook for the sector. Then it is a matter of timing, for some stocks the time to buy may be a number of years away, for others a number of weeks. However, stocks like **Woodside Petroleum (WPL)**, **BHP Billiton (BHP)**, **Transurban (TCL)**, **Record Investments (RCD)** or **Macquarie Bank (MBL)** we monitor constantly, oscillating between BUY and HOLD as the stock moves higher over time.

While the first inclination of every investor when they find a story that they like is to rush out and buy the stock, the best returns are made by those that are patient and willing to buy not only the right stock, but get it at the right price.

## Holding on

The hold recommendation is a tough one to interpret. Sometimes it means the stock isn't going anywhere soon. Sometimes it means we have reached the top and other times we think there will be a pause in the up trend before the stock goes higher. This week we look at the stocks we have as a HOLD, but for which we like the long term prospects.

The difficulty in interpreting the HOLD recommendation is why we write a paragraph on the outlook. It would be nice if every stock was a clear cut case of BUY or SELL, but unfortunately that is not the case. This week we deal with the harder cases, the ones we would like to have a buy recommendation on, but they are just that little bit too expensive at the moment. While we wouldn't recommend current investors selling the stocks, its harder to recommend to new investors to buy unless they take a long term view on the stocks. From a traders / technical perspective, our technical analyst likes two (*Cont'd page 3*)

THIS WEEK

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PORTFOLIO RETURNS

How much you would have if you had invested \$10,000 for:

|                  | 2 Yrs  | Since Inception |
|------------------|--------|-----------------|
| Our Portfolio    | 13,185 | 21,242          |
| S&P/ASX 200 Acc. | 12,788 | 14,070          |

Past performance is not a guide to future performance. Inception date of portfolio is 30 Sep 2000. Please read full disclaimer on the last page of this document.

INSIGHT



**Damien Klassen**  
Editor  
shareanalysis.com

# Portfolio trading

We get asked a lot of questions about how to buy our portfolio, so this week I focus on a few of the most common questions about trading in and out of our portfolio.

The portfolio contains 10-12 stocks and thereby should be seen as a 'concentrated portfolio' that focuses on stock picking. The stocks are selected from the S&P/ASX 200 with a preference for stocks in the S&P/ASX 100. This implies that each stock has reasonable liquidity with a market capitalisation of at least \$500m.

## 1. Which stocks should I buy, as some of your recommendations are HOLD's?

There are several issues here, first is that our recommendations are on a 12 month basis, whereas our portfolio is on a 3-5 year basis. This means that there may be stocks we have a positive longer term outlook on but think that the price may be due for a pause.

So what should you do? There are basically two options:

- a) You can try to "finesse" the portfolio and hold off buying some of the stocks until they become more attractive. The risks here are that you may miss the run on some of the stocks you have not bought, and also your portfolio may not be as diversified as needed.
- b) Just buy the stocks in our portfolio. This will mean that the performance of your portfolio will be different to ours. However you are probably just as likely to be better as worse. This is exactly the same issue you have buying managed funds, your performance over the period will not match the performance of the fund, and again it may be better, it may be worse - its just a little more transparent.

## 2. How much should I buy of each stock?

This is the part we leave up to the advisor, based on the risk profile of the investor and the desire to mirror the index. For example, if you wanted the portfolio to have returns closer to the index you would weight the stocks similarly to their weight in the index. Other investors may want a balanced portfolio but have a preference for franked dividends, so you may buy more of the stocks that pay franked dividends and less of the ones that pay unfranked dividends. Also, most investors already own other shares and you may want to weight your portfolio according to the shares you already own – for example, if you already have a lot of bank stocks you may decide to buy less of ANZ or St George. There is a *(Cont'd page 3)*

## PORTFOLIO STOCKS

The following stocks are currently in our balanced portfolio:

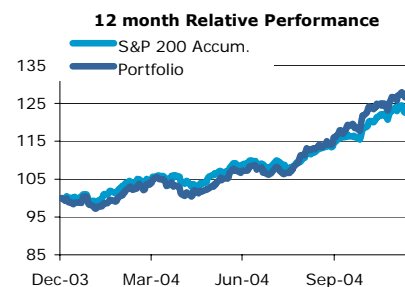
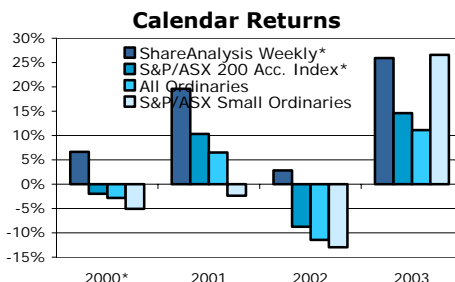
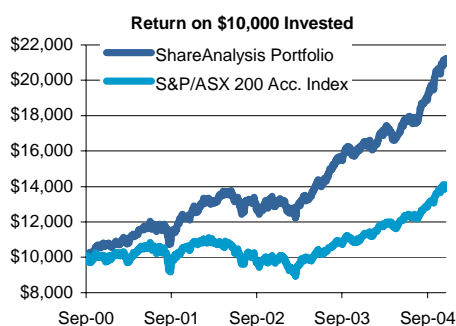
| Stock                | Code |
|----------------------|------|
| Australian Gas Light | AGL  |
| ANZ Bank             | ANZ  |
| BHP Billiton         | BHP  |
| Brambles Industrial  | BIL  |
| DCA Group            | DVC  |
| Macquarie Bank       | MBL  |
| News Corp            | NCP  |
| Perpetual Trustees   | PPT  |
| St George Bank       | SGB  |
| Transurban           | TCL  |
| Telstra              | TLS  |

You must consult your financial planner before investing in this portfolio as to the suitability of it for your risk profile and the appropriate weightings for each stock in the portfolio

## TRANSACTIONS

| Date      | Bought    | Sold      |
|-----------|-----------|-----------|
| 18-Jan-05 | BIL       | SGP       |
| 30-Sep-04 | DVC & TLS | WES & AMC |
| 30-Jun-04 | SGP       | WSF       |
| 30-Jan-04 | AGL       | CEP       |

# Portfolio Returns\*



\* Past performance is not a guide to future performance. Inception date of portfolio is 30 Sep 2000. Please read full disclaimer on the last page of this document.

## Portfolio trading (cont'd from p2)

broad parameter that each stock should not represent more than 15% of the total portfolio, ensuring some diversification within the concentrated portfolio.

### 3. Why don't you give weightings?

Two reasons:

- Every day the weightings will change as prices change. While we may be comfortable recommending certain proportions on day 1, by day 10 the stocks that have performed well will be a higher proportion than the ones that haven't. If we were making weighting recommendations at that point we may actually suggest to buy more of the stocks that hadn't performed, which would mean that we would either be recommending a different portfolio to people who invested on day 10, or that we would get investors who invested on day 1 to sell part of some of their holdings to buy others. As you can see, this would turn into an administrative and compliance nightmare.
- If you are looking for something to dump a your money into and forget about, managed funds are probably a better option for you. Most investors who invest in this portfolio are looking for a more active investment where they can tailor the portfolio to their own investment and risk profile.

At some stage, we will launch Individually Managed Account portfolios where we will offer investors the option to put money into our portfolio, which will apply weightings and be more automated.

## Holding on (cont'd from p1)

of our six this week - **Pacific Hydro (PHY)** and **Transurban (TCL)** which both present their own trading opportunities on top of the longer term outlook. PHY in particular has an exciting growth profile in the year to Jun-07, which will become the focus as we get closer to this date.

We look also this week at a couple of favourite resource stocks that we continue to like from a long-term view, but think that in the shorter term there are a number of issues to overcome.

**BHP Billiton Limited (BHP)** and **Woodside Petroleum Limited (WPL)** have both had tremendous runs over the last two years, and we recently pulled them both back to HOLD recommendations despite remaining favoured resource stocks.

Finally, in the financials we examine another of our portfolio stocks, **Macquarie Bank (MBL)** which continues to go from strength to strength and **CFS Gandel Retail Trust (GAN)** which is a quality property stock that just looks expensive.

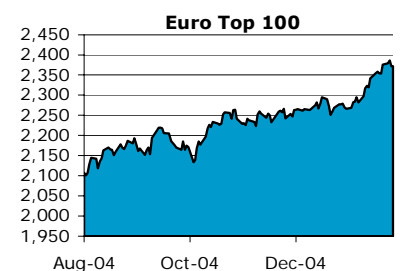
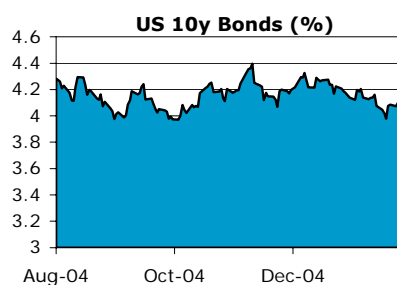
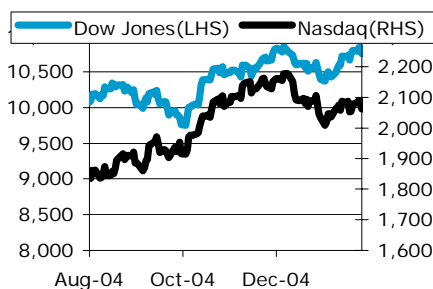
## STOCK CALENDAR

| Tues 22           |   |
|-------------------|---|
| Ex-Dividend Date: | CHO, CVC, ESS, EXL, FLT, HPX, HSN, SRP, WCB, WCG  |
| Reporting Date:   | ALL, APN, CAA, DOW, DRT, ENV, HLY, NCM, OSH, OST, PMM, PMN, SHL, TOL                                    |
| Wed 23            |   |
| Ex-Dividend Date: | AFI, BLD, BOL, HJB, RCD, RIO  |
| Reporting Date:   | BIL, CSL, GHG, LHG, MAP, MAY, PBB, PBG, PPT, SFE, SSX, STO, TCL, TSE, WYL                               |
| Thur 24           |   |
| Ex-Dividend Date: | ABC, AMC, AQP, ASX, MCR, SUL  |
| Reporting Date:   | ADZ, AGL, ALN, ASV, BNB, ENE, IAG, LEP, MIG, MRL, MXG, MYO, PBL, PIF, PPX, QBE, REB, RHC, SBC, SGN, TAH |
| Fri 25            |   |
| Ex-Dividend Date: | AHD, BCA, NEM, WPL  |
| Reporting Date:   | AWE, BNE, CLB, CMQ, CTX, DVC, FWD, GAS, GPE, HVN, NFD, NRT, OMP, SEV, SMS, SUN, TAP                     |
| Mon 28            |   |
| Reporting Date:   | APA, CGF, DUE, MGW, MRE, WDC, WOW   |
| Ex-Dividend Date: | BHP, CKL, HIC, NPH, PMC, RIC, TRS, UTB, WBB, WIT  |

## MARKET SUMMARY

| Index/Security | Close | Chg   | %Chg |
|----------------|-------|-------|------|
| All Ordinaries | 4,138 | -23   | -0.6 |
| ASX 200        | 4,153 | -21   | -0.5 |
| ASX Small Ords | 2,386 | -18   | -0.7 |
| Industrials    | 4,905 | -191  | -3.7 |
| Fin-x-Prop Tr. | 5,024 | -86   | -1.7 |
| Materials      | 7,212 | 254   | 3.7  |
| Cons. Staple   | 5,405 | -40   | -0.7 |
| Telecom Serv.  | 1,880 | 11    | 0.6  |
| 10y Bond Yield | 5.4   | 0.04  | 0.7  |
| AUD / USD      | 0.792 | 0.007 | 0.9  |

# International Watch



# Technical Watch

As the market continues its rally, many investors are becoming nervous, asking the old question 'how long can this continue?'

As we scan the daily papers and the investment magazines, most of the articles focus on the possible risks that could cause the fairytale of the last two years to end. This is perfectly normal, and is what we call the 'wall of worry' – from a market strategist viewpoint this is a good sign.... bull markets should always climb this 'wall of worry'.

But we understand that investors will find it difficult to feel confident in the current environment – memories of the 2002-2003 bear market are still quite fresh in their minds, and it has been a long time since the majority of asset classes have enjoyed such spectacular returns.

And, what about those who have yet to be fully invested – are there any opportunities for them to pursue? An even more difficult situation, from a psychological viewpoint, is when the investor has held on to a stock, realised significant gains, sold the stock only to see it continue to move higher. They are then left with cash in a rising market admonishing themselves for getting out too early. It is easy to say 'you never go broke taking a profit', but do we really want to sit back and let opportunities pass us by?

See our full ShareAnalysis Technical newsletter for the full story

# Economic Watch

**New Motor Vehicle Sales** - Pointing to continued strength in the Australian new car market, sales of new motor vehicles increased by 8.9% in January. Passenger vehicle sales increased 10.1% in the month, while sales of sports utility vehicles rose by 8.4%.

**Westpac Melbourne-Institute Leading Index Of Economic Activity** – The index, which tries to gauge the pace of economic growth 6-9 months into the future, grew at annualised rate of 4.8% during December. This is down on the 5.8% growth rate achieved in November, but above the long-term trend rate of 4%. Overall, the index is pointing to solid economic growth to be achieved by the Australian economy in 2005. The report also noted the possibility of an interest rate increase and the strong Australian currency as risks to economic growth.

## TECHNICAL VS FUNDAMENTAL

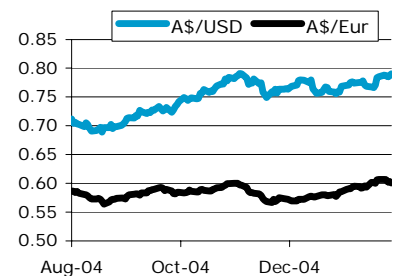
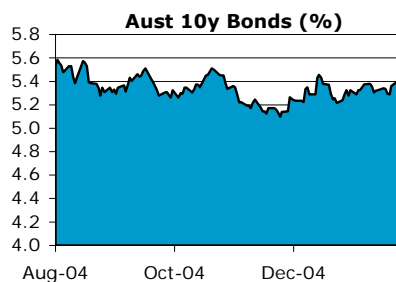
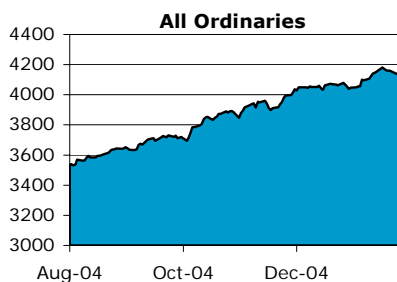
Recommendations in agreement

| Stock | Fundamental | Technical |
|-------|-------------|-----------|
| ANZ   | BUY         | BUY       |
| CBA   | BUY         | BUY       |
| MIG   | BUY         | BUY       |
| QBE   | BUY         | BUY       |
| SGB   | BUY         | BUY       |
| TEL   | BUY         | BUY       |
| WBC   | BUY         | BUY       |

Opposing Recommendations

| Stock | Fundamental | Technical |
|-------|-------------|-----------|
| MAY   | Sell        | Buy       |

# Australian Watch



# Analyst Watch

This is a summary of major events from shareanalysis.com

**Amcor (AMC):** 1H05 NPAT – good result in line with expectations

**AMP (AMP):** FY04 result - the turnaround continues

**ANZ Bank (ANZ):** Building momentum despite strong competition

**Aust Stock Exchange (ASX):** Buoyant market drives record 1H05 result

**Austal (ASB):** Life's a breeze on the ocean's waves

**Austereo Group Ltd (AEO):** Solid 1H05 result but outlook remains challenging

**AXA Asia Pacific (AXA):** FY04 result – driven by strong growth in operational earnings

**Baycorp Advantage (BCA):** 1H05 result disappoints

**Bendigo Bank (BEN):** 1H05 - BEN continues to lag its regional peers

**BHP Billiton Limited (BHP):** Strong interim result, pity about the Petroleum downgrade

**Billabong International (BBG):** 1H05 profit result; FY05 guidance raised to 40%

**BlueScope Steel (BSL):** In fine mettle in 1H05; an encore expected in 2H05

**Bunnings Warehouse (BWP):** Bunnings Warehouse 1H05 NPAT result up 17%

**CFS Gandel Retail Trust (GAN):** Result in line with expectations: Redevelopment to deliver on growth

**Cochlear (COH):** COH delivers an impressive first half...and we upgrade to HOLD

**Coles Myer (CML):** Guidance confirmed, notwithstanding lower than expected sales growth in Food & Liquor

**Commonwealth Office (CPA):** Weak rent growth still besets the office sector

**Computershare (CPU):** CPU 1H05 result below expectations

**David Jones (DJS):** Deceleration in momentum signaled in 2Q05 sales

**Fairfax (FXJ):** Increasing diversification reaps benefits

**Structured Products:** Macquarie Alternative Listed Protected Securities (Series 2)

**Structured Products:** Macquarie Equinox Limited

**Flight Centre (FLT):** 1H05 Result - Stalled

**General Property Trust (GPT):** Will there be a third option? upgrade to HOLD

**GoldLink IncomePlus Limited (GLI):** A significant increase in gold under management

**Healthscope (HSP):** Record first half result justifies our confidence

## RECO CHANGES

### Changed to Buy

**Qantas Airways (QAN)** - from Hold

### Changed to Hold

**Billabong International (BBG)** - from Sell

**Cochlear (COH)** - from Sell

**Computershare (CPU)** - from Buy

**General Property Trust (GPT)** - from Sell

**PMP Ltd (PMP)** - from Sell

**Woodside (WPL)** - from Buy

### Changed to Sell

None

## TRADER WATCH\*

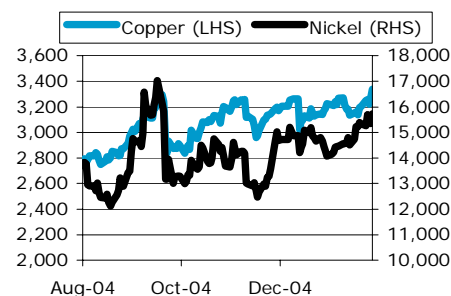
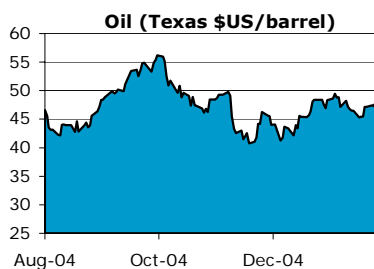
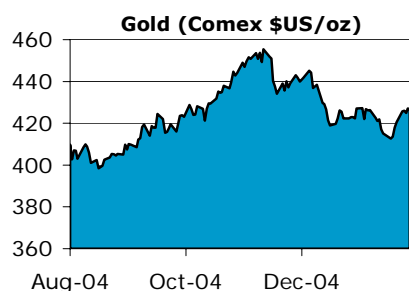
### Price:

### % Change in Shareprice

|     |       |     |      |
|-----|-------|-----|------|
| KRS | -28.6 | SSS | 41.8 |
| CMP | -26.9 | OTT | 19.2 |
| STV | -22.8 | BGF | 17.6 |
| OMI | -22.0 | MND | 16.5 |
| BLT | -20.8 | IWL | 16.4 |

\*All figures above are on stocks in the All Ordinaries Index only

# Commodity / Currency Watch



For more details on the above, or to get live updates see the search features on [www.shareanalysis.com](http://www.shareanalysis.com)

# Analyst Watch (cont)

**Iluka Resources (ILU):** Accounting adjustments mask a reasonable result

**Iress Market Technology (IRE):** IRESS produces solid FY04 result

**JB Hi-Fi (JBH):** JB...You've done it again!

**Leighton Holdings (LEI):** 1H05 OK, with some help from the accountants!

**Macquarie Bank (MBL):** Heading for another record result

**Macquarie Countrywide (MCW):** Major US acquisition but FY06 earnings neutral

**Macquarie Office Trust (MOF):** Improved 1H05 result but office rent woes continue

**Mirvac Group (MGR):** 1H05 in line with expectation, cautious 2H05

**Nufarm (NUF):** Earnings upgraded, HOLD maintained

**OneSteel (OST):** Despite furnace dramas, a great 1H05 delivered

**Origin Energy (ORG):** Strong 1H05 results

**Oxiana Limited (OXR):** Mediocre 2004, much stronger outlook

**PMP Ltd (PMP):** 1H05 result delivered on target, upgrade to HOLD

**Portman Ltd (PMM):** Strong outlook, the CLF offer may be too low?

**Qantas Airways (QAN):** 1H05 Result - Flying higher

**Republic Gold (RAU):** Targeting refractory gold in Far North Queensland

**Santos (STO):** Basin assets add strategic value and useful reserves

**Symex (SYM):** SYM's new soap business cleans up in 1H05

**Thakral Holdings Group (THG):** Cyclical upside in Hotel sector to deliver 10% plus growth in FY05 profit

**UNiTAB (UTB):** Solid result: now integration issues come into play

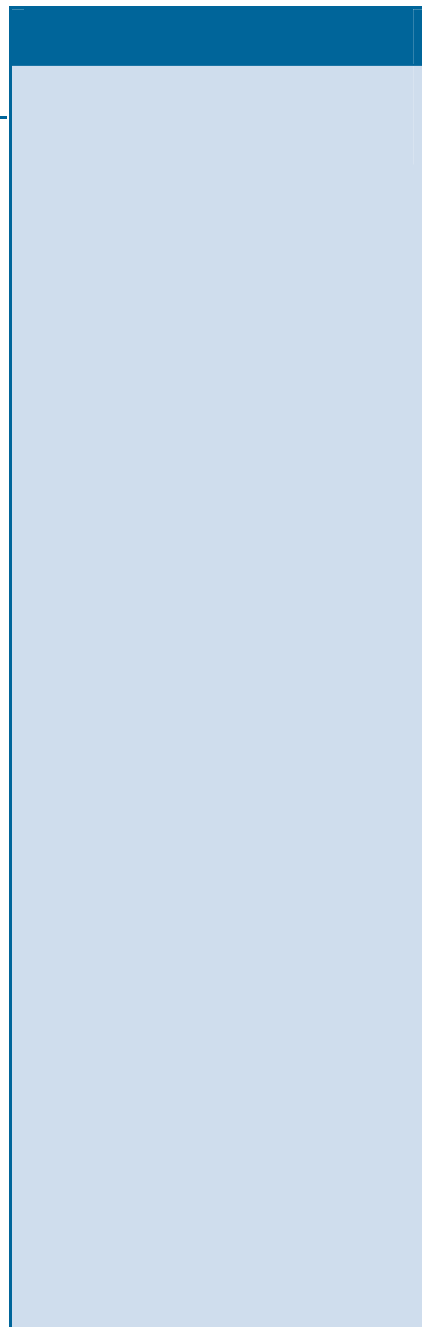
**United Group (UGL):** A solid 1H05; closer to Alstom acquisition

**Ventracor Ltd (VCR):** Spending picks up as VCR accelerates trial programs

**Wesfarmers Ltd (WES):** 1H05 result: solid result in line with expectations (corrected)

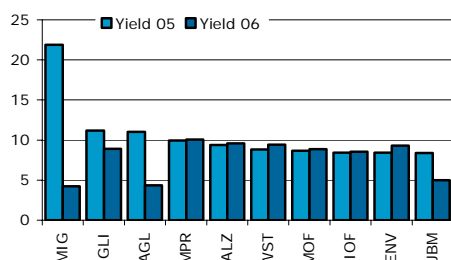
**Woodside (WPL):** FY04 result comes in on the low side

**Zinifex (ZFX):** Strong interim and more to come in the second half

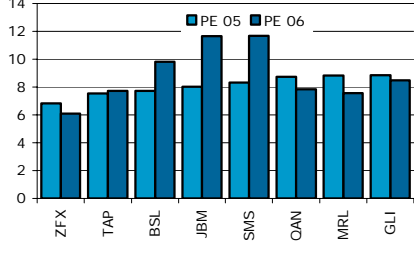


# Quantitative Watch

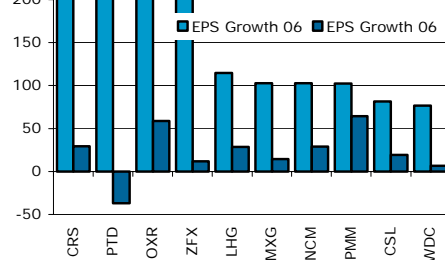
Top 10 companies by Dividend Yield



Bottom 10 by Price / Earnings (x)



Top 10 Earnings per Share Growth(%)



For more details on the above, or to get live updates see the search features on [www.shareanalysis.com](http://www.shareanalysis.com)

# Woodside Petroleum (WPL): Record highs

While Woodside has had a number of shorter term issues, it remains one of our best long term growth companies.

Company risk: ★★☆☆☆

Share Price risk: ★★★★★

Ethical rating: ★★☆☆☆

**What to do (Investors):** HOLD

WPL is one of the strongest long term growth companies listed on the ASX. The NW Shelf continues to grow its output, both domestically and in the export market. The production outlook for 2005 is flat, but growth will accelerate in 2006 and 2007, when a production target of 90-100M barrels of oil equivalent has been set. The company is an active explorer, with spending of \$275M budgeted for 2005 in highly prospective areas of Australia, Africa and the US.

**What to do (Traders):** Buy if it breaks \$22

WPL has enjoyed a strong rally over the last couple of years, but is now running into resistance - the long-term chart that is shown below highlights that resistance area. The momentum indicators that we have displayed reflect a strong market, but the shorter-term indicators have slowed over the last couple of months, and we doubt the ability to break topside in the near term.

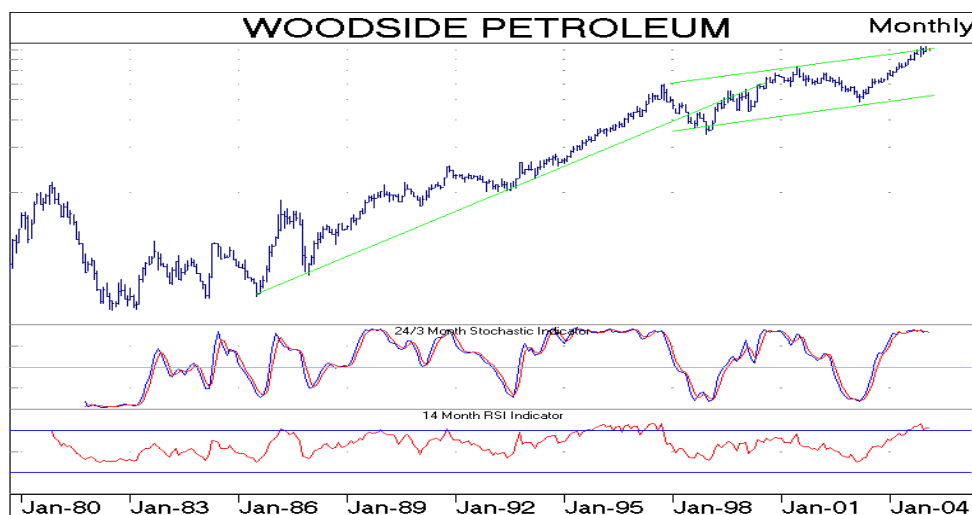
However, there are two things that we are watching, which cast some doubt on our cautious view:

1. The US Oil and Gas index has just broken topside; and,
2. The oil price is holding up well at the moment, and has the potential to move higher – if it can break through resistance at \$50.40 (near month contract), it could move up to test all-time highs.

We rate the stock as a HOLD at the moment, but would change to Buy if it broke above \$22.

## Fundamental View

WPL is a quality exposure to the upstream oil and gas industry. The assets are world class, and the growth profile is exceptionally strong, considering the \$14.5B market cap of the company. We were disappointed in the FY04 result and have brought back the 12 month price target marginally to \$23.15. However, investors should bear in mind that we have a conservative oil price view, and that the company will drill a large number of potentially significant exploration wells this year.



## KEY STATISTICS

|                    |  |
|--------------------|--|
| Price:             | \$21.70                                  |
| Price as at:       | 22-Feb-05                                |
| Market Cap (\$M):  | 14,513                                   |
| Equiv. Shares (M): | 667                                      |
| % Market:          | 1.06                                     |
| 12Mth Range (\$):  | 15.01 - 21.95                            |
| Turnover (\$M pa): | 7,908                                    |
| Index:             | S&P/ASX 20                               |
| Sector:            | Energy                                   |
| Industry Group:    | Energy                                   |
| Industry:          | Oil & Gas                                |
| Sub Industry:      | Oil & Gas<br>Exploration &<br>Production |

## FINANCIAL SUMMARY

| Yr to Dec                   | 04A   | 05F  | 06F  |
|-----------------------------|-------|------|------|
| NPAT Rep (\$M)              | 1,084 | 703  | 789  |
| NPAT <sup>1</sup> Adj (\$M) | 651   | 703  | 789  |
| EPS (c)                     | 98    | 105  | 118  |
| DPS (c)                     | 59    | 59   | 60   |
| P/E (x)                     | 22.2  | 20.6 | 18.3 |
| Yield (%)                   | 2.7   | 2.7  | 2.8  |
| Franking (%)                | 100   | 100  | 100  |
| EPS growth (%)              | 23.6  | 8    | 12.3 |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, notional earnings and non recurring items

## COMPANY OVERVIEW

Woodside Petroleum (WPL) is Australia's leading oil and gas company. Its core asset is the NW Shelf gas and hydrocarbon liquids project, Australia's largest ever resource project. The company has in recent years expanded its interests to include oil developments in the Timor Sea and international ventures in Algeria, Mauritania and the US Gulf of Mexico.

# BHP Billiton (BHP): Key resources exposure

If you want a lower risk, high quality exposure to resources then it is very hard to go past BHP. While Rio Tinto (RIO) also offers a quality exposure, the growth outlook for BHP is difficult to fault and gives it the edge in our view.

Company risk: ★★★★★

Share Price risk: ★★★★★

Ethical rating: ★★★★★

## What to do (Investors): HOLD

BHP has an excellent portfolio of long life, low cost assets and a string of major projects in Petroleum, Copper, Aluminium, Coal and Iron Ore under development or evaluation that will add to the company's production base out until the end of the decade. The company is our preferred large cap, diversified resource stock and is well positioned to benefit from an extended resources cycle driven by Chinese and Asian demand.

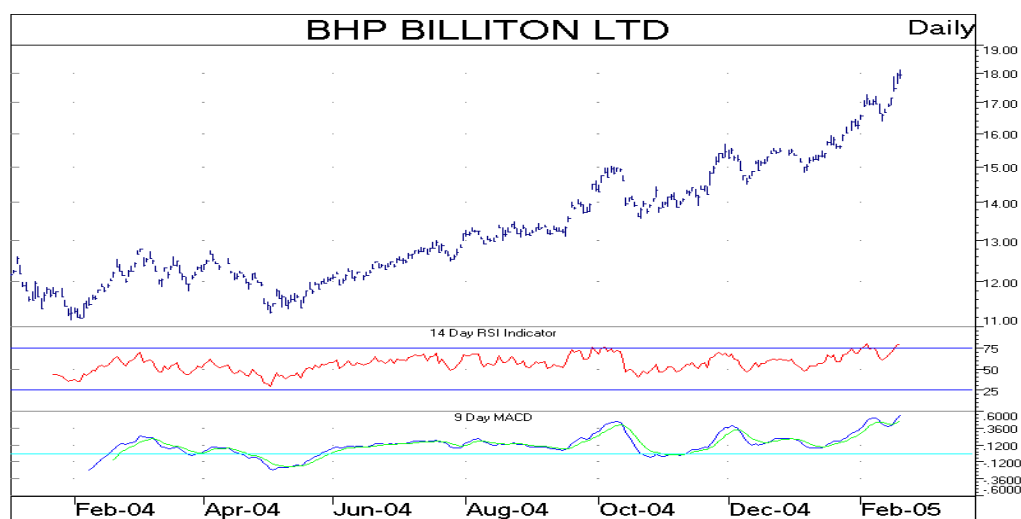
## What to do (Traders): Monitor closely for signs of weakness

BHP has performed well since the beginning of the year, rallying from a low of \$14.83 to its recent high at \$18.10. It rallied by over 7% last week alone. Short-term momentum indicators are in overbought territory, but they are not yet issuing a sell signal. Further upside is possible, but we would monitor the momentum indicators closely for signs of weakness.

As with WPL, we can see some indications that cast doubt on our cautious view, but for the moment we rate the stock as a HOLD.

## Fundamental View

The company will benefit from significantly higher contract price increases in 2005 for coal and iron ore. BHP also offers significant leverage to the oil price but other metals seem at or close to peak price levels. The timeframe over which current prices are sustained is the key to the share price upside, although with expectations that world growth will slow in 2005, our current recommendation remains a HOLD.



## KEY STATISTICS

|                    |                             |
|--------------------|-----------------------------|
| Price:             | \$17.74                     |
| Price as at:       | 22-Feb-05                   |
| Market Cap (\$M):  | 107,167                     |
| Equiv. Shares (M): | 6,041                       |
| % Market:          | 7.91                        |
| 12Mth Range (\$):  | 11.28 - 18.21               |
| Turnover (\$M pa): | 48,257                      |
| Index:             | S&P/ASX 20                  |
| Sector:            | Materials                   |
| Industry Group:    | Materials                   |
| Industry:          | Metals & Mining             |
| Sub Industry:      | Diversified Metals & Mining |

## FINANCIAL SUMMARY

| Yr to Jun                   | 04A   | 05F   | 06F   |
|-----------------------------|-------|-------|-------|
| NPAT Rep (\$M)              | 4,711 | 7,242 | 9,009 |
| NPAT <sup>1</sup> Adj (\$M) | 4,912 | 7,170 | 9,009 |
| EPS (c)                     | 79    | 116   | 151   |
| DPS (c)                     | 35.6  | 34.9  | 37.3  |
| P/E (x)                     | 22.6  | 15.3  | 11.8  |
| Yield (%)                   | 2     | 2     | 2.1   |
| Franking (%)                | 100   | 100   | 100   |
| EPS growth (%)              | 54.4  | 47.9  | 29.7  |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, notional earnings and non recurring items

## COMPANY OVERVIEW

BHP-Billiton (BHP) is a supplier of a broad range of commodities, across the globe. The company has particularly high quality assets in iron ore, coal, copper, nickel, alumina/aluminium and petroleum. BHP Steel (BSL) was spun-off as a separate company in mid 2002. In the first half of FY04, Australia generated 32% of group revenue, Europe 23%, North America 11%, South America 16% and Southern Africa 16%.

# Transurban (TCL): Profiting from peak hour

With a number of solid road assets, world class tolling facilities and benefits from the potential Hills motorway acquisition, Transurban is well placed as an infrastructure investment.

Company risk: ★★☆☆☆

Share Price risk: ★★☆☆☆

Ethical rating: ★★☆☆☆

**What to do (Investors): HOLD**

TCL's foundation toll road asset, the Melbourne CityLink, has a strong cash generating profile, based on solid traffic growth and rising toll income. CityLink's operating cost structure is predominantly fixed. Other toll road and e-tolling opportunities in Australia and abroad provide earnings and valuation upside. TCL is a 40% participant in the major WM7 tollway project and will tender for the M4 extension.

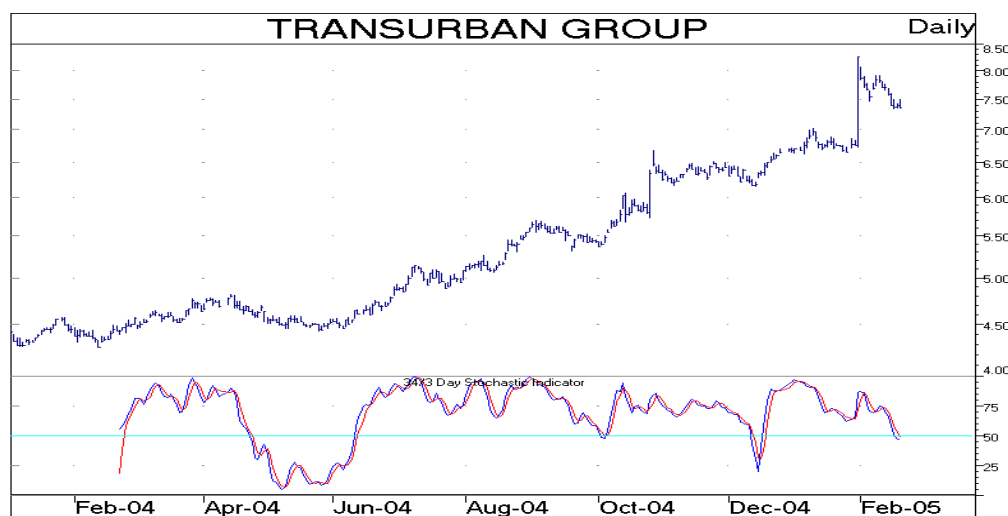
**What to do (Traders): BUY**

We have reviewed TCL on several occasions, noting the positive profile of the stock. We presented the longer-term chart a couple of weeks ago just after TCL had announced its takeover offer for HLY. We believe that the longer-term profile remains positive, and we think that the recent weakness gives investors another opportunity to purchase the stock.

Price has come back to support, and we note the position of the Stochastic indicator which has also come back down to a support area - this suggests that price could bounce from current levels. We rate the stock as a BUY.

## Fundamental View

TCL is a quality infrastructure investment with a sound growth profile and an attractive distribution profile based on company guidance. WM7 ramp-up from Aug06 is on track and represents a major future cash-generating asset. Solid future revenues expected from CityLink and WM7 (from FY07) hold TCL in a strong position in its bid for HLY. The bid for HLY saw a re-rating of TCL, pricing its shares upwards to reflect the FY06 dividend of 50 cps. Recommendation moved from Buy to a HOLD.



## KEY STATISTICS

|                    |                               |
|--------------------|-------------------------------|
| Price:             | \$7.29                        |
| Price as at:       | 22-Feb-05                     |
| Market Cap (\$M):  | 5,730                         |
| Equiv. Shares (M): | 786                           |
| % Market:          | 0.42                          |
| 12Mth Range (\$):  | 4.39 - 8.26                   |
| Turnover (\$M pa): | 2,644                         |
| Index:             | S&P/ASX 100                   |
| Sector:            | Industrials                   |
| Industry Group:    | Transportation                |
| Industry:          | Transportation Infrastructure |
| Sub Industry:      | Highways & Railtracks         |

## FINANCIAL SUMMARY

| Yr to Jun                   | 04A   | 05F | 06F  |
|-----------------------------|-------|-----|------|
| NPAT Rep (\$M)              | -62   | 23  | 50   |
| NPAT <sup>1</sup> Adj (\$M) | -62   | 23  | 50   |
| EPS (c)                     | -12   | 4   | 6    |
| DPS (c)                     | 22    | 35  | 50   |
| P/E (x)                     | -62.5 | >99 | >99  |
| Yield (%)                   | 3     | 4.8 | 6.9  |
| Franking (%)                | 0     | 0   | 0    |
| EPS growth (%)              | n/a   | n/a | 56.3 |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, notional earnings and non recurring items

## COMPANY OVERVIEW

Transurban (TCL), in conjunction with Transfield-Obayashi, successfully tendered in May 1995 for the CityLink contract linking the western and southern Melbourne suburbs, and by-passing the CBD area. Its single purpose company restrictions were removed in November 2001 as TCL sought opportunities across Australia and abroad. In November 2002, TCL won a 40% interest to build and manage the WestLink M7 orbital toll freeway in Sydney's west due for completion in 2006/07.

# Pacific Hydro (PHY): One for your conscience

PHY has a great growth profile in 2007 and beyond and short term potential for corporate activity. Add to this the ethical benefits of renewable energy and it adds up to a stock that you can profit from while aiding the environment.

Company risk: ★★☆☆☆

Share Price risk: ★★☆☆☆

Ethical rating: ★★★★★

## What to do (Investors): HOLD

PHY is an established renewable power producer specialising in run-of-river hydro and wind energy. The company's generating capacity is currently 227MW, 50% of which is located in Australia, 34% in Chile and 16% in the Philippines. A number of new projects are at various stages of development that could see capacity double by 2006/07 and provide a step-up in earnings in FY07. PERs are not excessive and a small dividend should be maintained.

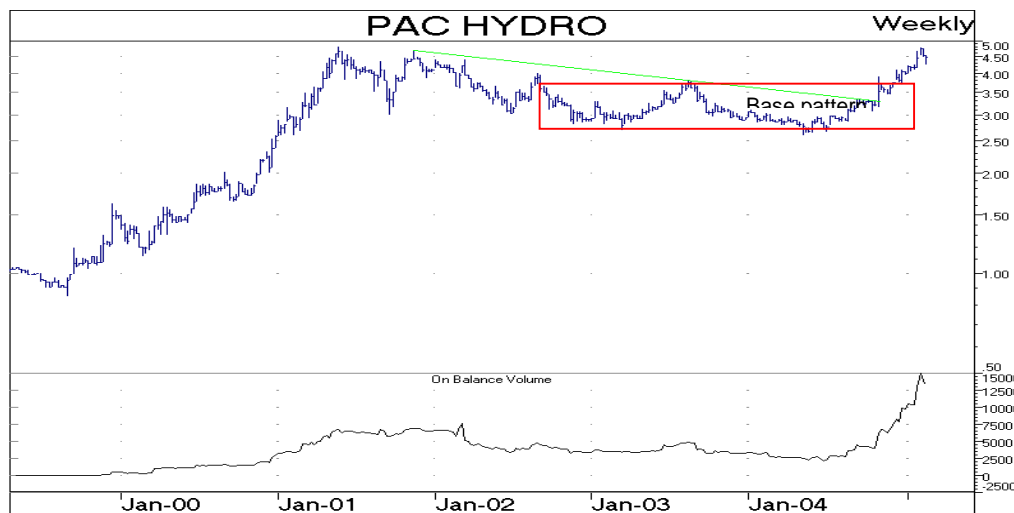
## What to do (Traders): BUY

PHY recently tested the all-time high of \$4.80 which was registered back in May 2001. Although it failed in this attempt and has since retreated, it appears that it will retest that level in the near term. Short-term indicators are in BUY mode once again and, as long as the stock can hold up at current levels, the medium-term positive outlook remains intact.

Note the positive volume characteristics that are evident on the chart below – this shows that the stock has entered into a new phase. We also view the price action over the last couple of years as a major consolidation phase – as such, the positive price performance of the last 6 months is likely to persist. We rate the stock as a short-term and a long-term BUY – but we acknowledge the significant resistance at the \$4.80 level, which could take some time to overcome.

## Fundamental View

The potential capacity additions from new projects is promising however risks remain in projects and capacity delays, along with large funding requirements and significant increases to PHY's leverage. The current share price has a 17% premium on our valuation of \$3.93, which we believe is due to the recent public announcement of interested parties performing due diligence on the business. We maintain a HOLD recommendation.



## KEY STATISTICS

|                    |                    |
|--------------------|--------------------|
| Price:             | \$4.46             |
| Price as at:       | 22-Feb-05          |
| Market Cap (\$M):  | 678                |
| Equiv. Shares (M): | 152                |
| % Market:          | 0.05               |
| 12Mth Range (\$):  | 2.60 - 4.76        |
| Turnover (\$M pa): | 275                |
| Index:             | S&P/ASX 200        |
| Sector:            | Utilities          |
| Industry Group:    | Utilities          |
| Industry:          | Electric Utilities |
| Sub Industry:      | Electric Utilities |

## FINANCIAL SUMMARY

| Yr to Jun                   | 04A   | 05F   | 06F  |
|-----------------------------|-------|-------|------|
| NPAT Rep (\$M)              | 38    | 31    | 37   |
| NPAT <sup>1</sup> Adj (\$M) | 41    | 41    | 42   |
| EPS (c)                     | 30    | 27    | 28   |
| DPS (c)                     | 5     | 5     | 6    |
| P/E (x)                     | 14.8  | 16.5  | 16.2 |
| Yield (%)                   | 1.1   | 1.1   | 1.3  |
| Franking (%)                | 0     | 0     | 0    |
| EPS growth (%)              | 239.5 | -10.7 | 2    |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, net earnings and non recurring items

## COMPANY OVERVIEW

Pacific Hydro (PHY) is a niche environmentally friendly power producer, focusing on renewable forms of energy in Australia, South East Asia and Southern America. Regardless of formal agreements on greenhouse pollution, most countries are seeking environmentally friendly energy solutions, and PHY has a growing expertise to provide some answers. PHY is a pure play amongst the green energy producers.

# Macquarie Bank (MBL): Exposure to the bull market

Macquarie is a stock with great leverage to a rising share market. While corporate activity continues, MBL will continue to outperform the market and has a great track history of delivering results.

Company risk: ★★★★★

Share Price risk: ★★★★★

Ethical rating: ★★★★★

## What to do (Investors): HOLD

MBL has a good diversity of earnings in terms of type and geography as well as a track record of consistently delivering earnings growth above the market average. The company has a proven ability in infrastructure management and is achieving strong growth in funds under management.

## What to do (Traders): Get ready for a buying opportunity

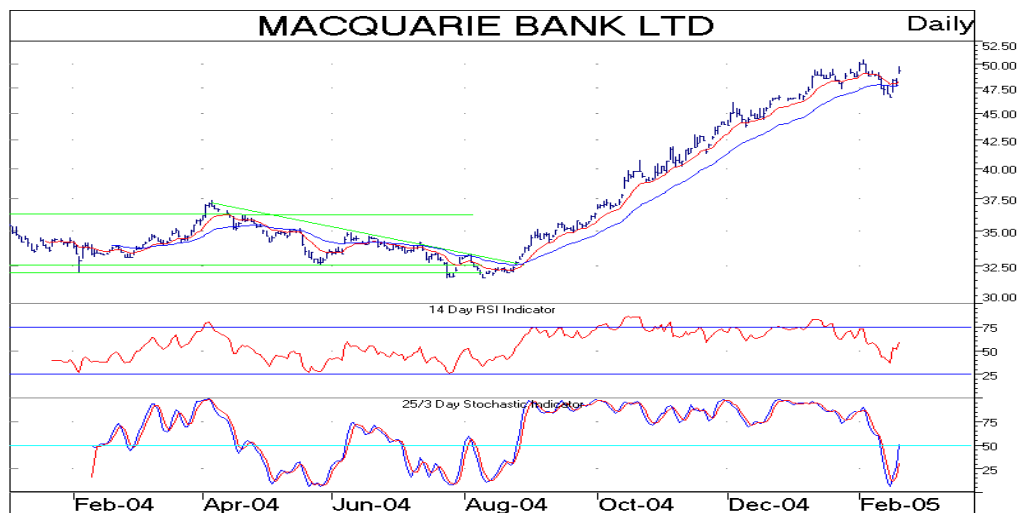
MBL has put in a stellar performance over the last 6 months, rallying from 32 to 50 dollars. The steep uptrend had been virtually uninterrupted, but in recent weeks it has been violated.

Despite the strength last week, we believe that the stock is due for a short-term correction/consolidation – this would be a positive for the stock, and would give investors another buying opportunity.

Our cautious outlook would come into question if the price were to break above \$50.50 – in that case we would upgrade our short-term recommendation to Buy – in line with our longer-term outlook.

## Fundamental View

MBL is building a strong platform for stable revenue and earnings growth in future years and over the medium to longer term we expect the company will deliver superior earnings growth. However, we believe this is currently reflected in the share price and accordingly rate MBL as a HOLD.



## KEY STATISTICS

|                    |                                |
|--------------------|--------------------------------|
| Price:             | \$50.00                        |
| Price as at:       | 22-Feb-05                      |
| Market Cap (\$M):  | 11,789                         |
| Equiv. Shares (M): | 236                            |
| % Market:          | 0.87                           |
| 12Mth Range (\$):  | 31.61 - 51.04                  |
| Turnover (\$M pa): | 8,817                          |
| Index:             | S&P/ASX 50                     |
| Sector:            | Financials                     |
| Industry Group:    | Diversified Financials         |
| Industry:          | Capital Markets                |
| Sub Industry:      | Investment Banking & Brokerage |

## FINANCIAL SUMMARY

| Yr to Mar                   | 04A  | 05F  | 06F   |
|-----------------------------|------|------|-------|
| NPAT Rep (\$M)              | 494  | 756  | 645   |
| NPAT <sup>1</sup> Adj (\$M) | 494  | 756  | 645   |
| EPS (c)                     | 229  | 337  | 288   |
| DPS (c)                     | 122  | 150  | 167   |
| P/E (x)                     | 21.8 | 14.9 | 17.4  |
| Yield (%)                   | 2.4  | 3    | 3.3   |
| Franking (%)                | 90   | 90   | 90    |
| EPS growth (%)              | 40.5 | 47   | -14.4 |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, net earnings and non recurring items

## COMPANY OVERVIEW

Macquarie Bank (MBL) is a full service investment bank with services as diverse as corporate advisory, mergers and acquisitions, specialised asset management, commercial banking and retail financial services. In addition to its Australian presence, MBL operates in select markets around the world, with over 4,500 people located in 16 countries. By market capitalisation, MBL is the sixth largest bank in the Australian sector.

# CFS Gandel Retail Trust (GAN): Property stalwart

There are a number of high quality stocks in the property sector that we have hold recommendations on at the moment given that the sector is looking expensive. GAN is a lower risk property trust without US exposure and while relatively fully priced now, it is attractive for the longer term.

Company risk: ★★★★★☆

Share Price risk: ★★★★★☆

Ethical rating: ★★★★★☆

## What to do (Investors): HOLD

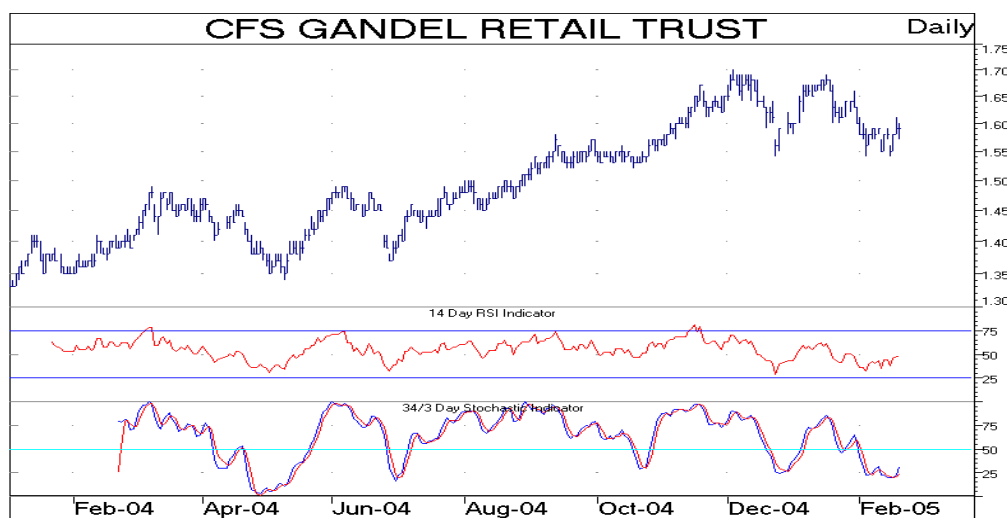
GAN is expected to benefit from continued strong demand for space, resilient retail sales growth, low vacancy, accommodative occupancy cost levels and the better than expected relationship with its asset manager. The trust's development pipeline should improve the quality of the portfolio and provide DPU growth in the short to medium term. Earnings will be driven by specialty rents with leases providing for 5% fixed increases as well as turnover rent and accretive developments.

## What to do (Traders): Better opportunities elsewhere

Short-term indicators suggest a bounce from current levels, but medium-term indicators are rolling over from overbought levels. Our analysis suggests that GAN will range trade in the short to medium term between the \$1.63 and the \$1.70 levels. We rate the stock as a HOLD at the moment, but note that it is likely to outperform its sector.

## Fundamental View

Despite GAN's relatively strong positioning, we recommending a HOLD with the Trust trading in line with our 12 month price target. The upside from ongoing developments is currently factored into our target price. The Trust trades at below sector average premium to NTA, which may provide some moderate upside. We maintain our HOLD recommendation.



## KEY STATISTICS

|                    |                               |
|--------------------|-------------------------------|
| Price:             | \$1.57                        |
| Price as at:       | 22-Feb-05                     |
| Market Cap (\$M):  | 3,163                         |
| Equiv. Shares (M): | 2,015                         |
| % Market:          | 0.23                          |
| 12Mth Range (\$):  | 1.34 - 1.70                   |
| Turnover (\$M pa): | 1,602                         |
| Index:             | S&P/ASX 100                   |
| Sector:            | Financials                    |
| Industry Group:    | Real Estate                   |
| Industry:          | Real Estate                   |
| Sub Industry:      | Real Estate Investment Trusts |

## FINANCIAL SUMMARY

| Yr to Jun       | 04A  | 05F  | 06F  |
|-----------------|------|------|------|
| NPAT Rep (\$M)  | 181  | 202  | 218  |
| NPAT1 Adj (\$M) | 185  | 206  | 222  |
| EPS (c)         | 10   | 10   | 11   |
| DPS (c)         | 10.1 | 10.4 | 10.8 |
| P/E (x)         | 15.7 | 15.1 | 14.2 |
| Yield (%)       | 6.4  | 6.6  | 6.9  |
| Franking (%)    | 0    | 0    | 0    |
| EPS growth (%)  | -0.7 | 3.6  | 6.3  |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, notional earnings and non recurring items

## COMPANY OVERVIEW

CFS Gandel Retail Trust (GAN) owns, manages and develops super regional, regional and sub-regional shopping centres across Australia with a total value of over \$3.7B. GAN also has a 28% interest in Gandel Retail Management, the entity responsible for the property management, leasing and development of the portfolio.

# SkyNetGlobal Limited (SKG)

## Company Overview

SKG provides wireless broadband Internet access services targeting residential apartments and the mobile business segments. The W Home business provides fixed wireless Internet access to apartment residents within select Australian apartment buildings and distributes a range of home automation products to the consumer market through a national retail distribution network. As at Sept 04, SKG had approximately 50 apartment buildings connected, encompassing a 8,650 apartments and 1,000 subscribers. Over the longer term SKG plans to expand its W Home network to 500 apartment buildings in Australia, and duplicate its model globally through direct investments, partnerships, JVs and licensing arrangements. SKG's Wireless Hotspots service provides wireless Internet access to consumers in airports, hotels and cafes using portable computers and PDAs and is available on a prepaid casual and contracted basis.

## Strategy

W Home: 1) continue to build barriers to entry and first mover advantage by establishing exclusive service agreements with select Australian apartment buildings; 2) generate multiple revenue streams over a partly fixed cost base by offering additional products and services to existing customers; 3) duplicate the W Home model globally through direct investments, partnerships, and licensing arrangements and fund the geographic expansion through a capital raising of up to A\$25M. Home Lifestyle: increase and broaden home automation product sales by continuing to introduce new product offerings. SKG no longer considers Hotspots as core business, citing low barriers to entry for new resellers, and may ultimately divest the business. In the mean time, SKG will focus on growing its wireless Hotspots business in Singapore through its exclusive access agreement to the McDonalds network.

## Aegis Comments

**Outlook:** Positives: attractive business model characterised by low upfront and distribution costs and recurring revenues; protected by partial barriers to entry through exclusive supply agreements with buildings; strong growth market and strong growth options centering on the international expansion of W Home. Negatives: poor financial track record; limited operating history in wireless internet segment targeting MDUs; high financial and dilutionary risk; high strategic risks re. international expansion.

**Investment View:** Utilising a DCF methodology, we value SKG's equity capital at \$4.67 per share (post 42:1 share consolidation) based on the underlying assumption of a high degree of acceptance of SKG's W Home service in the Australian market. Potential short-term catalysts include continued strong growth in W Home connected apartments and subscribers and early evidence SKG's international expansion initiatives are gaining commercial traction, especially in Malaysia and Singapore.

**Risks:** Positive: continued strong growth in connected W Home apartments and subscribers; a successful outcome regarding the capital raising scheduled for Dec'04; ability to duplicate the W Home service in international markets. Negative: poor capital raising outcome; inability to achieve break-even level of W Home subscribers; significant dilutionary risk.

## KEY STATISTICS

|                    |                                      |
|--------------------|--------------------------------------|
| Price:             | \$1.65                               |
| Price as at:       | 22-Feb-05                            |
| Market Cap (\$M):  | 12                                   |
| Equiv. Shares (M): | 7                                    |
| % Market:          | 0                                    |
| 12Mth Range (\$):  | 0.04 - 2.81                          |
| Turnover (\$M pa): | 16                                   |
| Index:             | n/a                                  |
| Sector:            | Telecommunications Services          |
| Industry Group:    | Telecommunications Services          |
| Industry:          | Wireless Telecommunications Services |
| Sub Industry:      | Wireless Telecommunications Services |

## FINANCIAL SUMMARY

| Yr to Jun       | 04A  | 05F | 06F |
|-----------------|------|-----|-----|
| NPAT Rep (\$M)  | -2   | -1  | 1   |
| NPAT1 Adj (\$M) | -2   | -1  | 1   |
| EPS (c)         | -34  | -9  | 17  |
| DPS (c)         | 0    | 0   | 0   |
| P/E (x)         | -4.9 | -18 | 9.7 |
| Yield (%)       | 0    | 0   | 0   |
| Franking (%)    | 0    | 0   | 0   |
| EPS growth (%)  | n/a  | n/a | n/a |

<sup>1</sup> Profit & EPS adjusted for options, goodwill, notional earnings and non recurring items

## COMPANY OVERVIEW

SKG provides wireless broadband Internet access services targeting residential apartments and the mobile business segments.

# SciGen Limited (SIE)

This is an extract from the February Health & Life Sciences Review Blue Book, freely available on [www.shareanalysis.com](http://www.shareanalysis.com).

## Company Overview

SIE's business was established in 1988. From its inception, SIE has been and remains principally involved in the clinical development, marketing and sales of a portfolio of bio-pharmaceutical products. SIE was recapitalised with an injection of A\$30M and listed on the ASX on 15 November 2002. SIE currently has staff or business partners in Australia, US, Singapore, Korea, Vietnam, Hong Kong, Philippines, India, China, Indonesia, Israel and Pakistan.

## Strategy

SIE's proven strategy is to identify opportunities to licence-in late stage developed products and then negotiate favourable contracts for rights to register and market the products. SIE's principal focus is on the Asia Pacific Region where it has developed core competencies in Regulatory Affairs and has established a sales and marketing force in a number of countries in the region. SIE does not take on a large component of R&D risk as it works with partners in this area. SIE has formed a number of strong commercial partnerships in key markets such as China, India, Indonesia and Pakistan. By using partnerships in some markets, SIE can achieve market penetration more rapidly and more effectively.

## Aegis Comments

**Market Position:** SIE is building an extensive portfolio of in-licensed drugs that have already been approved in major markets, such as Hepatitis B vaccine, Insulin and Growth Hormone, for distribution into developing markets. SIE oversees regulatory approval for these drugs and then on-licenses distribution rights to major local distributors in the Asia-Pacific region. SIE's competitive advantage includes local market knowledge, experience with local regulatory approval processes and relationships with regulatory bodies in target markets.

**Milestone Record:** In early Feb-04, SIE agreed to place 24% of the company to one of its major commercial partners, Polish biotechnology group Bioton, in a move that will raise \$9.3M. Bioton and SIE will co-operate closely on R&D, marketing and manufacturing, and the two companies plan to jointly develop a manufacturing facility in Singapore. Another distribution and manufacturing partner, Shreya, launched SIE's insulin and SciTojet device in India in Dec-04. SIE also signed an exclusive agreement with Austrian biotech Intercell to co-develop a novel Hepatitis B treatment vaccine.

**Risk Profile:** SIE faces sovereign, partnership and business practices risks present in many countries in Asia-Pacific, although these risks are mitigated by the 30 years of Asian pharmaceutical experience of SIE's founder and the use of local distributors. Currency risk is managed by matching USD supply contracts with USD sales contracts.

## KEY STATISTICS

|                               |               |
|-------------------------------|---------------|
| Market Cap (\$M):             | 23.5          |
| <b>Capital Structure</b>      |               |
| Ord shares on issue (M):      | 419           |
| Options ("in-the-money") (M): | 43            |
| Convertible notes/oth (M):    | 0             |
| Fully diluted capital (M):    | 462           |
| Price as 11 Feb 2005:         | \$0.06        |
| 12 month H/L:                 | \$0.09/\$0.04 |
| Official listing date:        | Nov - 02      |

## COMPANY CONTACT

### Company Contact



Mark Compton  
Managing Director and CEO  
61 2 9234 1700  
[www.scigen.com.au](http://www.scigen.com.au)

# Jumbo Corporation (JUM)

This is an extract from the January Consumer Discretionary Review Blue Book, freely available on [www.shareanalysis.com](http://www.shareanalysis.com).

## Company Overview

JUM, founded in 1995, is a developer of secure online retailing software (Jumbostore.com) with credit card security, anti-fraud filters and online marketing functions. Over 95% of revenue is generated by the online shopping mall, through which JUM sells "internet friendly" goods including computer software, luxury items (cosmetics, fragrances and cigars), lottery tickets and gifts to customers around the world. JUM is in the throes of launching Betexsports.com, the first Australian-based on-line betting exchange and a provider of software and services to this industry. Also, JUM holds a 16% stake in Global Approach Limited (GLO), an on-line casino operator.

## Strategy

Online security is a cornerstone principle to the company that ensures customer satisfaction is maximized for repeat business. JUM is focused on retailing online "internet friendly" goods and is constantly seeking new product lines that provide opportunities for growth. JUM is participating in the high growth online gaming industry through its investment in GLO and its establishment of an online betting exchange. The recent launch of the Betexware betting exchange software system will provide the launch pad for the company's expansion into online betting.

## Aegis Comments

**Outlook:** JUM has foreshadowed steady growth for FY05, based on further improvements in online marketing techniques and continued penetration of online retailing. The expansion into online gaming could provide a strong growth impetus over the medium term. The betting exchange market is experiencing phenomenal growth – experts predict 79% annual growth in matched bets over the next four years to \$217B; the opportunity from JUM securing a marginal stake in this market is significant.

**Catalysts:** The success of JUM's new online betting exchange and Betexware software could potentially alter the nature of the company from a predominately mature online retailer to a participant in the high growth online gaming industry. A further catalyst for an upgrade is continued momentum in the growth of new customers and repeat customers, coupled with margin expansion, which would provide upside to short-term profit.

**Risks:** While considerable effort is made to ensure payments are secure and online fraud is kept to minimal levels, the risk of unauthorized access and of customers' perception towards online security is inherent throughout the industry. High dependence on software means that any technology glitch could impact profits. The extent of this would depend on how long the software is down, but key causes could relate to virus impact or server problems. Direct and indirect reliance on consumer spending – a potential slowdown would have adverse repercussions.

## KEY STATISTICS

|                               |               |
|-------------------------------|---------------|
| Market Cap (\$M):             | 5.0           |
| <b>Capital Structure</b>      |               |
| Ord shares on issue (M):      | 243           |
| Options ("in-the-money") (M): | 6.5           |
| Convertible notes/oth (M):    | 0             |
| Fully diluted capital (M):    | 249.0         |
| Price as 18 Jan 2005:         | \$0.02        |
| 12 month H/L:                 | \$0.03/\$0.02 |
| Official listing date:        | Jun-72        |

## COMPANY CONTACT

### Company Contact

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**jumbocorporation.com**

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