The Rock
INVESTMENT PLANNING LIMITED

Investment Market Update No. 15

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Editorial

The Federal election has been and gone and unfortunately the live coverage of the results was a fizzer with Senator Robert Ray calling the Coalition win by around 7:20 pm. The US election should be more interesting, if only for the court cases that seem certain to follow.

In this issue we cover:

1. The Cup;
2. Christmas period;
3. Market news;
4. Investment briefs; and
5. Shareholder scorecard.

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The Melbourne Cup

The race has been run and won with the clear winners being the various TABs. Punters (speculators by another name) in NSW wagered $51.3 million on the race, which was around $20 million more than their counterparts in VIC. In QLD around $21.9 million was spent at the TAB. Unlike the bookies, the TABs take a commission on every dollar spent, and with $125 million wagered on the race, shareholders are likely to be pleased with the outcome *(source: AFR 3/11/04).*

Christmas

We advise that the office will be closed from Monday December 27 2004 to re-open on Tuesday January 4 2005. During this period our Portfolio Administration System will not be updated.

We wish you and your family a happy and safe Christmas and New Year.

Market news

As expected, the Reserve Bank has decided to keep interest rates steady at 5.25 per cent. This has helped the New Zealand Dollar close the gap between it and the Australian Dollar. Higher NZ interest rates have attracted an inflow of capital to NZ that has caused the value of the two dollars to begin converging. When the RBA raises rates it is expected the currencies will diverge again due to the Australian economy being larger and more productive than the NZ economy.

While the overall Australian share market continues to have a good run, there are still good quality stocks available at what we consider to be good value. In markets like this it may take us a little bit longer than usual to invest funds, but this is because we don't want to compromise the cash yield we are targeting.

Investment briefs

News Corp (**NCP**): News Corp will be removed from the ASX at the close of trading on November 3. This represents good news for banks as they should benefit from managers who seek to replicate the index due to an increase in their market weighting (*source: Macquarie Equities*).

Australian Leisure and Hospitality (**ALH**): Following the unconditional acceptance of the Braundwo offer to buy the business, ALH will be removed from the ASX/S&P indices on November 3. The Diversified Utility and Energy Trusts (DUE) will be replacing ALH with a weighting of 0.06 per cent (*source: Macquarie Equities*).

St George Bank (**SGB**): An excellent result for this second tier bank, with a cash net profit after tax of $817 million. The company increased its dividend by 28 per cent to $1.22 per share. Senior management (predominantly ex-CBA) are very optimistic about the next two years with predictions of double digit growth (*source: UBS*).

WMC Resources (**WMC**): Following its purchase of MIM earlier this year Xstrata has made a $7.4 billion play for WMC. WMC's board have rejected the offer as not recognising the current and future value of the company's assets (*source: UBS*). This could be the trigger for further consolidation in the resources sector.

Aristocrat Leisure (**ALL**): After a horrendous 2003 ALL is showing some signs of life. The company has raised its profit forecast from $115-$135 million to $150-$170 million (*source: UBS*). ALL shares have gained 279 per cent on this time last year!

Amcor (**AMC**): Following the recent AGM, management re-affirmed its target of achieving 20 per cent earnings growth over two years. First quarter net profit after tax was 5 per cent higher than this time last year (*source: UBS*).

ANZ Banking Group (**ANZ**): Although ANZ announced a pleasing result, there is mounting concern over the state of its NZ operations. ANZ/NBNZ's market share, especially in mortgages, is being eroded. Excluding the integration costs associated with the NZ venture net profit after tax for the half was up 8 per cent (*source: UBS*). ANZ is more bullish than the other 3 majors about growth prospects going forward.

Pacific Brands Group (**PBG**): Around 44 per cent of the company's revenue came from its Underwear and Hosiery division. This division is the only division that has increased its revenues over the past three years. PBG announced a net profit after tax of $47.4 million, which is a good result (*source: UBS*).

Multiplex (**MXGCA**): After listing at $3.08 (partly paid) MXGCA is now trading at $3.94. The final instalment of $0.97 per security is due to be paid in December.

Woolworths (**WOW**): WOW were successful in its bid for ALH through its Braundwo venture. Suppliers like Fosters (FGL) and Lion Nathan (LNN) can expect to have margins squeezed as WOW seeks to replicate the success of its grocery business (push suppliers hard to keep costs down). WOW reported first quarter sales were up 9.1 per cent (total of $7.8 billion) compared to the first quarter 2004.

Gunns (**GNS**): After falling to $3.50 preceding the federal election, the shares have staged a recovery to now trade at around $4.19 following the re-election of the Coalition government.

Century Australia (**CYA**): CYA is a listed investment company. CYA has net tangible assets (NTA) after tax of $1.03 and is currently trading at $0.99 - a discount to NTA of 3.8 per cent. NTA represents the value of the investments held by the company (unlisted managed funds always trade at NTA).

Futuris (**FCL**): FCL announced net profit after tax (before abnormals) rose from $48 million to $63 million. Three of the company's four operating divisions reported double digit rates of increase in their earnings (including Elders which increased its contribution to earnings by 21 per cent). This was a good result (*source: www.futuris.com.au*).

Fairfax (**FXJ**): FXJ announced an increase in net profit of 119 per cent to $276 million. FXJ also increased its dividend by 26.9 per cent to $0.165 per share.

Shareholder scorecard

The 27 October edition of *The Australian* published a report on the performance of 764 Australian companies, taking into consideration share price growth, dividends, franking credits and other factors like rights issues and share restructures (for the period ending June 30 2004).

A selection of the returns follow.

Company	1 Year (%)	3 Yrs (%)
AMP	78.8	(24.0)
Toll Holdings	55.6	33.1
BHP	49.2	12.5
Mackay Permanent	18.5	21.6
NAB	(3.6)	1.4
Hills Motorway	34.4	17.5
Qantas	15.7	7.9
CSL	91.8	(20.8)
Chemeq	(24.7)	129.1
Sirtex Medical	(44.7)	16.5
Aust Cancer Tech	316	38.7
Cabcharge	23.9	2.7
Spotless Group	43.7	(8.5)
Metal Storm	(11.6)	(33.7)
Wesfarmers	36.3	12.4
Rivkin Fin. Services	3.6	(3.1)
Suncorp-Metway	30.6	4.8
Alinta	23.2	34.9
Ventracor	(3.5)	16.4
Coles Myer	28.5	16.4
Woolworths	(4.3)	5.6
Forest Enterprises	116.7	44.0
International All Sports*	(82.5)	19.1
Average return	**34.4**	**15.0**

*Worst performer one year

The problem with relying on such scorecards is that investors do not get the full picture. For instance, *The Australian* has awarded Forest Enterprises (FEA) a Gold for its shareholder returns over the past three years. What this fails to consider is that FEA listed at $1 is currently trading at around $0.59, which means initial investors are still down 40 per cent.

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