The Rock
INVESTMENT PLANNING LIMITED

Investment Market Update No. 7

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Editorial

Meri Drake will be returning from Maternity Leave on Thursday March 4. Welcome back Meri.

In this issue we cover:

1. One down, two to go;
2. Parmalat – global meltdown with a local effect; and
3. Investment briefs.

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One down, two to go

This is the year we had to have. Three elections within the space of twelve months means a lot of people will be well and truly sick of politics by the time the federal election finally comes around. We are in the midst of a quasi-campaign at the moment, but this will shortly be interrupted by the Queensland local council elections.

The outcome of the local government elections will have next to no effect on anything. This years federal election, by contrast, may have a significant effect on the economy. On the one hand we have the Howard and Costello team who have shown their economic wares over the past couple of years by reducing the federal budget deficit from some $9 billion to a surplus. On the other we have the new kid on the block, Latham, who has done the impossible – unifying the federal ALP.

The next few months promise a lot of new policies and programs. By the time you have received this update the government will have announced their proposed changes to the superannuation system. In the next issue we will look at some of the more interesting proposals and their effect on retirement incomes.

While we anticipate making comments regarding various policies during the election build-up, we will be as apolitical as possible in our analysis.

Parmalat

It's not often that the fortunes of an Italian company have an impact in regional QLD, but Parmalat (who own Pauls) is the exception.

With $11 billion in reported debt, a black hole in off-balance sheet obligations and $5 billion in cash missing, Parmalat will have to sell either a lot of milk or a lot of assets to recover from their current woes. (*source:www.forbes.com/2003/12/24/cz_do_1223parmalat.html*). Assets sales are most likely, and it is this that will have the biggest impact on QLD's dairy producers.

The Parmalat scandal is similar to Enron – fraud on a massive scale, assets invented and incompetent auditors. The Enron debacle caused one of the world's largest accounting firms (Arthur Andersen) to close, and this time around the accounting world is looking at the role Deloitte's and second tier firm Grant Thornton played in the fiasco (the European division of Grant Thornton has already been cut loose from the rest of the company in an attempt to limit the damage to their brand).

There is no question that Parmalat's Australian operations are strong and continue to perform well. The only question that remains unanswered is what will happen to Paul's in the event Parmalat is liquidated.

Already there is a queue of potential bidders lining up, lead by National Foods. We expect that a sale to National Foods will result in a fall in farmgate prices, and therefore a fall in the revenues and profitability of dairy farms. With less competition in the market it is likely that consumers will have to pay more for their dairy products. We expect that if it happens, the takeover will be closely watched by the ACCC.

As the true state of Parmalat's financial affairs become apparent, international vultures will begin circling the more profitable and successful businesses. In a fire sale companies like National Foods are looking forward to purchasing a good business at a fraction of the price. It looks like National Foods (or whichever other company picks up the Australian assets) is about to get their one Alan Bond.

Just like Enron and World Com in the US, this is not expected to be the last case of large scale corporate fraud in Europe. Company auditors have a lot to answer for.

Investment briefs

National Australia Bank (**NAB**): Have announced they might not make public the full reports on the currency trading scandal. Corporate governance remains a concern. Both the Chairman of the board and the CEO have departed NAB within the last month. NAB have sold their holdings in AMP and SGB in an effort to focus on their core business.

Telstra (**TLS**): Last month TLS announced plans to shift jobs to India, this month a leaked board report highlighted plans to buy John Fairfax and it appears they are having another look at expanding into Asia (by possibly purchasing an Indonesian phone company). Also looking to cut jobs in directory assistance as more people use the internet to locate phone numbers.

AMP (**AMP**): For the first time in recent memory AMP has released a profit upgrade instead of a downgrade. The board still has a long way to go to restore investor faith.

Commonwealth Bank (**CBA**): A stellar result with the interim dividend up 10 cents per share to 79 cents. CBA also announced a $450 to $500 million share buyback. CBA continues to be our pick of the majors. A recent report has ranked CBA last on customer service.

Brickworks (**BKW**): Recorded a net profit of $105 million, which is 221 per cent higher than last year. Dividend is up 2 cents to 9 cents per share. This is BKW's seventh record first half profit in succession.

Toll Holdings (**TOL**): Posted a 51 per cent increase in profits to $85 million. TOL has also announced an increase in their interim dividend from 6.5 cents per share to 8.5 cents per share.

The three TABs (**UTB**, **TAB**, **TAH**): It appears that TAH has trumped UTB and TAB is likely to accept the TAH offer. Another loss for UTB after TAH trumped them in purchasing Jupiters last year.

Wesfarmers (**WES**): Recorded a 26 per cent increase in net profit to $339 million. The declared dividend of 48 cents is 6 cents higher than the same period last year.

Bank of QLD (**BOQ**): Market capitalisation is fast approaching $1 billion. BOQs shares have increased by about 80 per cent in the three years since the latest CEO was appointed.

So Natural (**SNF**): Recently announced a deal with Ian Thorpe to launch a range of water-based drinks in Australia and Japan. After the deal was made public SNF shares soared by 17.9 per cent. They are currently trading 8.9 per cent higher than before the deal was announced.

Santos (**STO**): Net profit up 1.5 per cent for the year ended December 31, 2003, however this was due to a one-off tax benefit of $55 million. Without the tax gain profit would have been $49 million lower. 2003 Production was lower than 2002 and is expected to remain lower with forecast production increases not likely until 2005 when new projects come on line.

Ventracor (**VCR**): A day-traders favourite, reported a loss of $7.3 million for the year. VCR shares are down 7 per cent since January 23. 5 patients have been fitted with the Ventrassist heart technology and one has subsequently died from an unrelated condition. This is a high risk highly speculative stock.

AXA (**AXA**): Has announced a trebling of its full-year profit to $926 million. A large part of this result has been attributed to the recovery in global sharemarkets. The company met four of the five performance targets it set three years ago and is positioned for future growth.

Reef Casino Trust (**RCT**): The Cairns casino has struggled to grow over the past couple of years but is finally showing signs of life. Net profit is up 33 per cent to $11.1 million and the interim dividend has increased from 6 cents to 7.25 cents. On the back of this shares in RCT rose 15.9 per cent after the results were announced.

Pasminco (**PAS**): Looking to re-list on the ASX in the near future to take advantage of higher commodity prices. Many investors were burnt in the past when PAS went into liquidation. Will be interesting to see how the public offer goes. Wisely, the company's name has been changed from Pasminco to something completely different - Zinifex. As the saying goes, a leopard can't change its spots, and a name change won't do it for Pasminco either.

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