

Investment Market Update No. 17 31 January 2005

Editorial

The New Year is well and truly upon us, and investments markets have continued to perform well. The half year reporting season is just around the corner and there are expectations of bumper results for many companies.

In this issue we cover:

1. New staff;
2. Mergers and Acquisitions;
3. Investment briefs; and
4. Reporting season.

New Staff

We welcome two new staff members to the team:

Maritjie (Mari) Van Zyl joins us as a Trainee Financial Planner from Investec Asset Management (Namibia). Mari brings with her a wealth of investment experience and has already commenced her Australian studies enabling her to become a financial planner.

Ta Hiron joins us in the role of Administration Assistant/Receptionist. We look forward to the contribution that Ta and Mari will make to the team.

M&A

Last years stock market was dominated by new issues with companies seeking to expand by accessing new capital. The coming year is expected to be dominated by company mergers. Recent announcements include Foster's Group making a play for Southcorp, Patrick Corp for Virgin Blue and more recently Transurban seeking to purchase Hills Motorway.

Of course the danger with takeovers, and we saw this last year with NAB's failed attempt to buy AMP and WOW's successful acquisition of ALH, is that once the intentions of the bidding company are known, the price of the target company shoots up. This is a result of speculators entering the market in the hope of the acquirer having to revise upwards the offer price due to a counter-offer.

Following Transurban's announcement its shares rallied \$1.49 or 22.04 per cent, while Hills Motorway shares rose \$2.54 or 26.71 per cent. Compare this to Foster's shares falling by \$0.19 or 3.36 per cent when it announced its intention to buy Southcorp. The market has rewarded the Transurban deal because it

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makes sense strategically. The Foster's/Southcorp deal was not well received, partly due to Foster's announcement last year that it was going to get its house in order before making any more costly acquisitions. In addition, FGL's previous attempts to expand into wine have not delivered the promised results. This merger also needs to get ACCC approval before proceeding.

Investment briefs

Patrick Corp (**PRK**)/Virgin Blue (**VBA**): The recent profit downgrade by VBA saw the share fall to below \$2. PRK saw this as the opportunity to increase its stake in VBA. This has the potential to cause a major rift between VBA's two biggest shareholders – PRK and Richard Branson. We don't expect Branson to give up control of VBA without a fight.

Henry Walker Eltin (**HWE**): HWE have entered into voluntary administration and its shares have been suspended from the ASX. The main reason given has been its inability to secure long term financing.

National Australia Bank (**NAB**): NAB's recent AGM was a 3 ½ hour marathon. The board and senior management basically said the worst was behind the company and they should move into profit growth again in the second half of the year.

General Property Trust (**GPT**): Stockland have extended the deadline for GPT unit holders to accept their offer for the company. However, there was no increase in the offer amount. It is unlikely this deadline extension will entice more unit holders to accept the offer.

Babcock and Brown (**BNB**): BNB has announced it is seeking to raise \$300 million for a Japanese property trust. If successful the intention is to list the trust on the ASX. This is expected to be a good move for BNB

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as the trust will further diversify its revenue streams. This announcement follows the recent raising for Babcock and Brown Capital (BCM) which is due to list on February 14.

Flight Centre (FLT): FLT has been forced to drop its 'lowest airfares guaranteed' slogan following court action taken by the ACCC. FLT need to run correct advertisements in 11 leading newspapers as well as display the corrections in each of their stores. Following the recent announcement by Qantas that it is cutting commissions paid to travel agents, 2005 looks like being a tough year for FLT.

The table shows a snapshot of when the companies are reporting, their Net Profit After Tax (NPAT) for this time last year, the UBS forecast of NPAT for this year and the forecast percentage gain or loss.

The general trend of the UBS forecasts is for profit growth. We expect that companies that miss their forecasts will be sold off quite heavily.

Reporting season

The first half 2004/2005 financial year reporting season kicks off soon. Two themes that will likely be present for some of our best companies are: strong commodity prices are expected to outweigh the continuing high Australian dollar for resource stocks; and improving stock markets are likely to benefit the wealth management divisions of the banks.

Stock	Code	Report date	Net Profit After Tax \$m (pcp*)	Estimated Net Profit \$m (UBS)	% gain (loss)
Foster's	FGL	8-Feb	237.0	249.3	5.19
Australian Infrastructure Fund	AIX	8-Feb	11.3	33.3	194.69
Commonwealth Bank	CBA	9-Feb	1,547.0	1,711.5	10.63
Telstra	TLS	10-Feb	2,137.6	2,173.2	1.67
Bendigo Bank	BEN	14-Feb	34.8	39.9	14.66
Australian Stock Exchange	ASX	15-Feb	42.5	50.8	19.53
Cochlear	COH	15-Feb	26.9	26.8	(0.37)
Amcor	AMC	17-Feb	187.8	198.2	5.54
Qantas	QAN	17-Feb	357.8	405.7	13.39
Flight Centre	FLT	17-Feb	34.1	30.7	(9.97)
Repco	RCL	17-Feb	17.4	20.0	14.94
AMP	AMP	17-Feb	614.0	710.3	15.68
Toll Holdings	TOL	22-Feb	85.2	106.0	24.41
Woolworths	WOW	22-Feb	397.8	415.0	4.32
Brambles	BIL	23-Feb	171.0	232.3	35.85
Perpetual	PPT	23-Feb	55.8	74.7	33.87
Transurban	TCL	23-Feb	(34.6)	(26.4)	(23.70)
Australian Gas Light	AGL	24-Feb	218.2	237.2	8.71
Babcock and Brown	BNB	24-Feb	88.7	110.7	24.80
Paperlinx	PPX	24-Feb	53.0	61.1	15.28
Alinta	ALN	24-Feb	83.5	81.9	(1.92)
Suncorp-Metway	SUN	25-Feb	303	344.9	13.83
Coles Myer	CML	17-Mar	349.5	381.2	9.07

* Previous corresponding period

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