



Latest toll road float will test the faith of investors

Queensland Ink

ARE investors really interested in another Brisbane-based toll road and tunnel?

Especially since the last and indeed only other similar offering, RiverCity Motorway, is performing so poorly being about 70 per cent off its float of \$1.

BrisConnections, the consortium chosen to build and operate Brisbane's \$4.8 billion Airport Link project, is about to find out. The group's fully subscribed \$1.2 billion initial public offering begins trading on the ASX next Monday.

It is shaping up to be the biggest float of the year which so far has seen a dearth of public listings as global stockmarkets remain jittery.

There are several factors that will determine BrisConnections' price, the first being investors' faith in predictions about future traffic flows.

"It's kind of a black art to predict what's going to be going through a tunnel in four years' time," Wiseowl.com analyst Sven Restel said.

"Traffic projections for these roadways are often very optimistic."

Closely tied to the question of traffic projects are assumptions made about future fuel prices and their effect on road use.

BrisConnections does not detail its fuel price assumption but does note that: "The impact of a significant and sustained increase in fuel prices on traffic volumes is a risk that should also be considered."

The second factor is timing, with one analyst noting that the market at large has probably come off about one-third since the BrisConnections deal was done.

Mr Restel said market sentiment was also "very different today" with a pushing back on highly leveraged and complex vehicles.

BrisConnections will be leveraged at more than 70 per cent in its early years, with some of the borrowings being used to provide investors after the first year with an 8 per cent guaranteed yield for six years.

A third factor will be how long the promoters — Leighton subsidiaries Thiess and John Holland and Macquarie Group and the 17 or so initially subscribing institutions — decide to hold on to their stock.

But the most obvious worry is the history of similar toll road floats.

RiverCity Motorway, which is building Brisbane's North-South bypass tunnel raised about \$690 million from investors. But for those who bought into the float and still own the RiverCity securities, their investment has been a dismal performer.

They paid 50¢ up front for RiverCity, but were disappointed from day one when the securities closed at an 8 per cent discount to their issue price.

And the units, on which a second

investment, collapsing into receivership in 2006 after being unable to service its \$600 million in debt.

And there have been better performing toll road investments, like listed group Transurban, which got going back in 1996 when it developed Melbourne's 22km CityLink toll road before going on to take interests in a string of Sydney operations, including the Hills Motorway, as well as stakes in a number of US tollways.

Transurban investors paid an effective price of about \$1.16 for their original securities, which mid-last year hit \$8.40 and this week closed at \$5.45.

For their part, BrisConnections supporters argue that its traffic forecasts are reasonable given the fact that major links to airports typically are more predictable and more essential and more time sensitive than some other cross city transport routes.

"The value for money proposition looks pretty sustainable," one analyst said. In other words, motorists were more likely to feel they were getting their money's worth than with some other toll roads.

BrisConnections, in its own 192-page product disclosure statement emphasises Airport Link's role as "a priority transport infrastructure project for Brisbane".

"Airport Link will be a multi-faceted toll road, with multiple connections and will be unique in its functionality within Brisbane," BrisConnections chairman Trevor Rowe said in his chairman's letter.

But ultimately what does that mean for retail investors? Restel says he would not be surprised if BrisConnections "opens reasonably strongly and then starts to fade away over the next year or so".

And while investors large and small will be watching how the securities fare, the State Government and Treasury will also be intensely interested.

The BrisConnections model is the state's current preferred model for much of the new infrastructure required by Queensland now and in the future.

But it is a model that needs patient and satisfied shareholders, which means both capital and yield over time will need to be sufficient to keep them coming back for more.

Robert MacDonald
Tony Grant-Taylor

What's on offer

BrisConnections projects: Airport Link, part of Northern Busway and Airport Roundabout Upgrade

Market capitalisation: \$1.2b

Units priced: \$3 each

First instalment: \$1 each

Expected on ASX: Aug 4



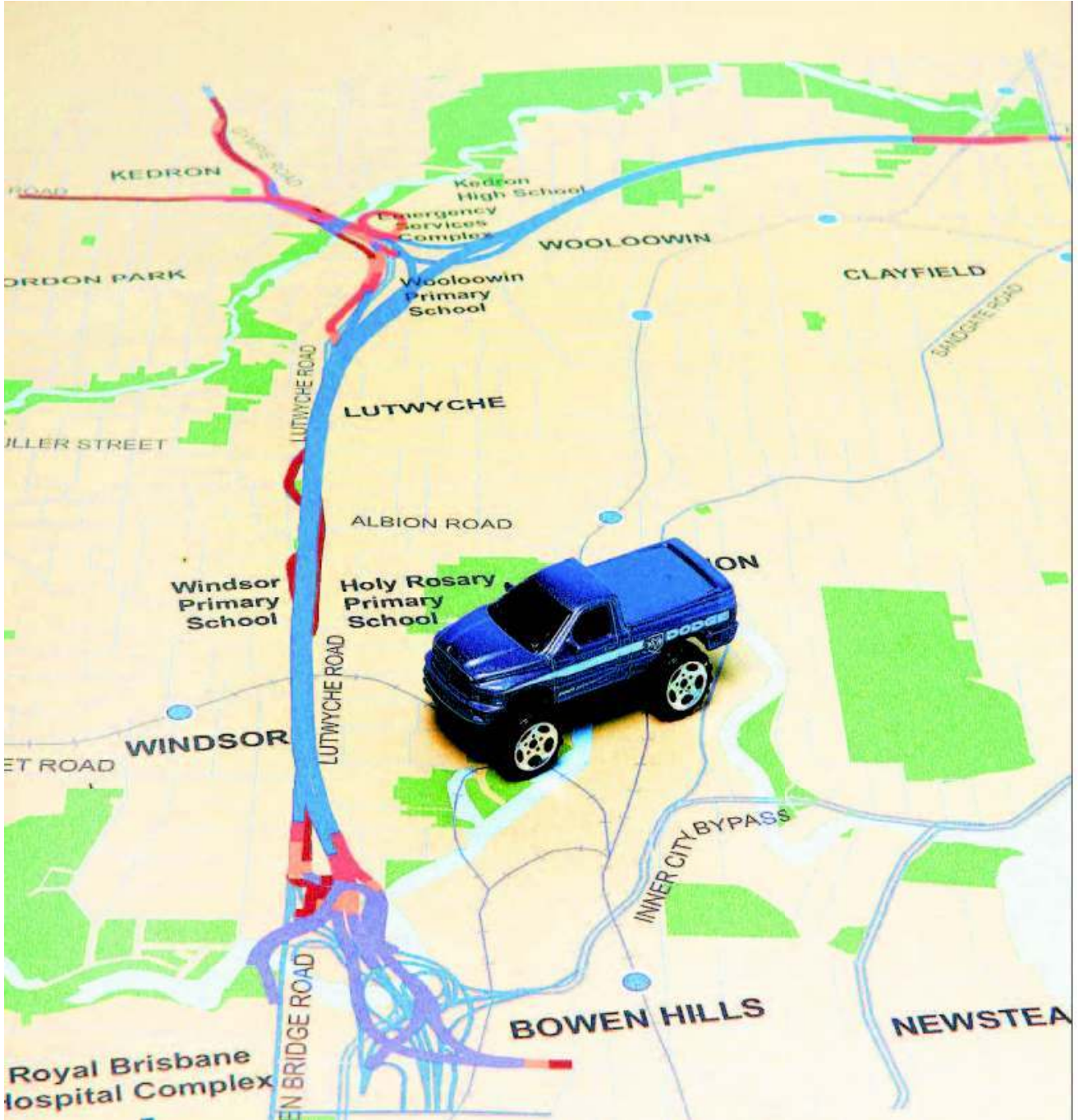
'Airport Link will be a multi-faceted toll road, with multiple connections and will be unique in its functionality within Brisbane'

BrisConnections chairman Trevor Rowe

instalment of 50¢ was paid in August last year, were last week trading at only 30¢ making the yield irrelevant.

Sydney's Lane Cove Tunnel was not floated. But listed investors Leighton and Mirvac were forced to write off 100 per cent of their investments in the project when the original traffic forecasts proved hugely optimistic.

And the Emerald City's Cross City Tunnel was also a disaster as an





INSIDE YourMoney

Leading the charge

Top 20 stocks to buy
in our bear market - Page 80

Just right with a bear in there

Stunned investors have been pulling their money out of the share market at a record rate and keeping it in cash. But as the investment adage goes: diversification is the only free lunch you'll get. For all those people who need to spread their investments *YourMoney* asked two experts for their top ten stocks to buy now. Interestingly, neither picked the same companies. So here are 20 stock picks to set your sights on in Australia's bear market.

- Karina Barrymore



SIMON GUZOWSKI
WISE-OWL
Senior Equities Analyst



AUSTIN ENGINEERING (ANG)

Right now, mining services is a standout sector in terms of value and a bullish outlook.

Austin Engineering in particular has bucked the doom and gloom trend by recently issuing a profit upgrade.

ANG offers engineering, fabrication and maintenance services to the mining sector and as a result business is booming.

AUSTRALIAN STOCK EXCHANGE (ASX)

The ASX is under attack from many angles. There is a risk that investors will lose interest in the stock market until the bulls return and uncertainty around possible deregulation and the loss of its market supervisory role is also circulating.

Yet this stock is trading at almost half its price from just seven months ago so value is starting to kick in.

Its strong brand, low gearing and solid cash flows should hold it in good stead until fortunes improve.

JB HIFI (JBH)

JB HiFi is one of very few companies to have issued a profit upgrade during the last few months.

In the US, consumers have flocked to low cost retail outlets such as Walmart, a trend that could also benefit JBH as consumers look to get the best prices they can.

JBH derives much of its earnings growth from store rollouts, which are continuing at a breakneck pace.

FAIRFAX MEDIA (FXJ)

While Fairfax could suffer

slower earnings if the broader Australian economy continues to slow, its share price already reflects a doomsday scenario more terrible than we expect.

Growth in online business units could see a downturn in traditional print advertising offset to some extent.

Fairfax also boasts a dividend yield above 7 per cent making it a little more pleasant for shareholders as they ride out the share market storm.

LEND LEASE CORPORATION (LLC)

With a great deal of pessimism priced into property stocks, this is a good time for long-term investors to snag some bargains in quality names from this sector.

Lend Lease is now yielding 8.2 per cent after some franking. Unlike some peers this yield is covered by cash flow making it more sustainable.

A prolonged downturn is possible however, so some patience may be required.

NATIONAL AUSTRALIA BANK (NAB)

Despite our banks being in a much stronger position than their US peers, they have still been caught up in a ferocious sell-off.

While the subprime crisis is likely to continue for quite some time to come, the banks are already priced at levels not too far from an Armageddon-type scenario.

If the world doesn't end then there could be some upside from here if you can ride out the subprime crises which should eventually fade.

SUNLAND GROUP (SDG)

Sunland Group once again represents great value now that it has returned to earth.

Unlike many property developers Sunland has low levels of debt, a valuable trait as debt markets are likely to remain uncertain for some time.

Another outstanding feature is that Sunland Group will be generating most of its future earnings from construction projects in the booming gulf states which are in the midst of an extended boom in oil prices.

SUNCORP-METWAY (SUN)

Suncorp-Metway has suffered in a sell-down of all our financial stocks, even though the management team has taken a conservative low risk approach to this business which should reap rewards in the current environment.

SUN's acquisition of Promina has been performing well ahead of expectations thus far and is now expected to generate \$325 million in synergies, well above an initially indicated \$100 million.

SUN's fully franked dividend yield is almost in the double digits.

TOLL HOLDINGS (TOL)

Record high oil prices and fears of an economic slowdown have been a perfect storm for Toll, sending its share price from almost \$14 to under \$6.

Fleet upgrades to more fuel efficient vehicles are reducing Toll Holdings' sensitivity to oil prices. As oil prices fall from bubble levels we could see a short to medium term bounce in Toll's share price.

TFS CORPORATION (TFC)

As supplies of Indian Sandalwood are rapidly diminishing from illegal forestry, TFS is emerging as the pre-eminent source of Indian Sandalwood supply from plantations in northwestern Australia.

Products derived from Indian Sandalwood form the highest value inputs into many top end perfumes including Chanel No.5, Calvin Klein, Yves Saint Laurent and Christian Dior.

A top management team, strong dividend yield and good valuation add to TFS's appeal.

□ www.wise-owl.com



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Page 3 of 4



AGL ENERGY (AGK)

This is Australia's largest energy retailer with a significant gas and electricity customer base.

It is currently in the process of selling its large oil and gas assets in Papua New Guinea. The company might experience some short term weakness but over the coming months the stock is likely to achieve a price target of around \$16.50.

BILLABONG (BBG)

This well known Australian company produces surfwear and sports apparel for the surf, skateboard and snowboard markets. Its target market is less likely to change spending habits during the current financial crisis.

Although short term volatility in the share price could result in a retest of the recent low this month at \$9.63, significant price support exists around the \$10 level, with a medium term target between \$13 and \$14.

BORAL (BLD)

Boral provides construction and building materials to markets in Australia, the United States and Asia.

A risk to this stock's price is a slowing domestic housing sector but the company also has exposure to increased heavy construction activity.

Boral has been subjected to constant selling pressure during the past two years and I now see early signs that buyer support may be returning.

I expect this stock to soon present as a good long-term hold with a healthy dividend yield. My medium term target is around \$7.50.

COCA COLA (CCL)

Coke manufactures, sells and distributes its Coca Cola products around the Australasian region.

Earnings growth during the next couple of years looks solid and the company is paying a handsome 5 per cent dividend yield.

The stock looks to have been oversold during the past seven months and I can see early signs that buyer support may be returning.

Following further confirmation of strength in price, I expect this stock to perform well over the next six months. The next price target is around \$9.

WEST AUSTRALIAN NEWSPAPERS (WAN)

Media stocks have been punished because of the impact of rising interest rates on advertising revenue, however, at current prices this stock is once again beginning to look attractive.

WAN has now broken through significant price resistance at around \$9 and must remain above this level for at least the next three weeks to increase the probability of a further rise to between \$11 and \$12 in the medium term.

WESTPAC BANKING

CORPORATION (WBC)

The expectation in the financial industry is that Westpac will soon take over St George Bank to form Australia's largest financial services company.

If successful, the merger would be the biggest in Australian banking history.

Short term volatility is likely to result in a retest of buyer support around \$20, however, during the coming months the bank is expected to achieve a price target in the order of \$24.

COCHLEAR (COH)

Cochlear is a world leader in the manufacture and distribution of safe and reliable ear implants for those with impaired hearing.

Strong earnings growth is projected over the next one to two years.

Although the stock has been severely punished in the past six months, it is likely to move up from here with short term resistance expected around \$50 and a medium term target between \$55 and \$60.

COMPUTERSHARE (CPU)

Computershare provides technology systems and services associated with its share registry service and is looking to expand its offer internationally.

It is looking at strong earnings growth during the next year and seems to be well valued at its current share

price.

It has been locked in a sideways move during the past eight months and now looks ready to provide a nice return over the next six months, although the stock may still encounter some volatility in the short term.

ENERGY DEVELOPMENTS (ENE)

Energy Developments is a small but interesting energy business which owns and operates power generation, co-generation and waste-to-energy plants worldwide.

At \$0.4 billion market capitalisation it is one of the smallest stocks in my top 10 picks and accordingly may prove to be the most speculative.

I'm awaiting a move above \$3.45 to confirm direction over the medium term.

PALADIN ENERGY (PDN)

Paladin Energy is a likely takeover target for a number of larger uranium exploration companies and is one of the few stocks which moved up in price after having lost significant value when the entire market fell away in January 2008.

The price of uranium is now heading up again after falling dramatically during recent months.

I'm awaiting a move above \$6.39 to confirm direction over the medium term.

www.wealthwithin.com.au



DALE GILLHAM WEALTH WITHIN

With the markets displaying such a large degree of volatility, there continues to be uncertainty.

But given the current market conditions, I have picked the following 10 stocks which have the potential to add value.



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Page 4 of 4

