



CRITERION

with TIM BLUE

Pipe Networks (PWK) \$4.54

CRITERION well remembers when radio correspondents reporting from far-off places sounded like they were talking down a very long pipeline, complete with booming echoes and the odd crackle. Mostly the sound effects were judged a good thing as they supposedly proved the reporter was actually where he was supposed to be.

Those days are long passed but the era lives on in the name of Brisbane telco Pipe Networks, which will spend \$200 million on a submarine cable to Guam to Australia's north. Pipe could get a bigger slice of the booming internet traffic, which the market agreed with yesterday. Customers signed up to use it so far will not deliver vast profits but merely allow it to break even, according to ABN AMRO Morgans analyst Nick Harris.

For users, it should be good news. Guam has multiple links to Hawaii, the US West Coast and parts of Asia, so it should mean a plethora of high-speed global internet services at competitive rates.

It might make for a rethink too on prices by operators of the Southern Cross cable, owned by Telecom New Zealand-SingTel Optus, and by Telstra, which also wants its own cable to Hawaii.

Until now, Southern Cross has had a tight grip on the market for US-bound internet traffic.

As we all know, Australian broadband speeds are below par in this great country, partly the result of a cosy group of undersea cable operators. "PWK is on track to shake up this group and offer an alternative high-speed low-cost cable into Guam, an international

telecommunications hub," says Wise-Owl.com analyst Simon Guzowski.

"The deal should start contributing to earnings after the 2009 financial year, so this overnight success story will take a couple more years of work to really benefit shareholders.

"Nevertheless, this is one non-resources growth story hard to ignore for the long-term investor. While it may not be exactly dirt cheap at current levels, it does have a strong pipeline of work that should see it continue to grow earnings and its share price."

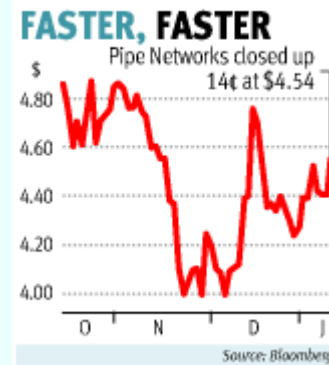
Pipe's share price has run strongly lately after guidance that says it expects revenue in the full year to June 30, 2008, to be between \$33 million and \$35 million, with profits between \$7 million and \$7.4 million.

ABN AMRO Morgans values Pipe Networks core business at \$4.50 and thinks the new cable will add \$1.21 to that.

Investors have done well out of Pipe, which listed in May 2005 at 40c and has been as high as \$5.02 in October.

ABN AMRO Morgans' Nick Harris has a buy on Pipe Networks, with a price target \$5.18 by calendar year end.

Criterion agrees that it's a **buy**.





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theinsider

Black diamonds

Coal of Africa finally broke the rut of sideways share movement last year with a stellar run up above \$2, still well short of its glory days. Wise Owl analysts believe that trend will continue as CZA aims to define 2 billion tonnes of coal in the next 18 months, and start output from some projects.
Close down 2.5c to \$1.745