fatPROPHETS™ 1300 881 177

SIGNATURE DISH RECOMMENDATIONS

19/12/2006 **FAT-AUS-308**

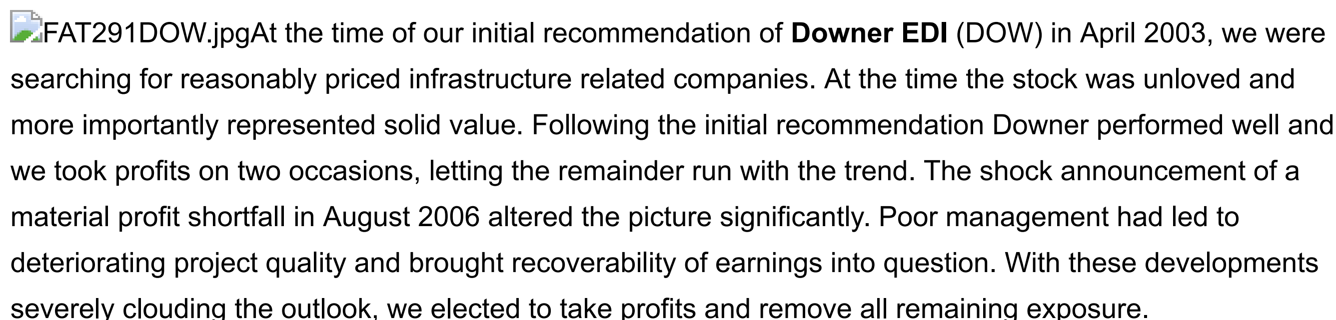
Signature dish recommendations, as the name suggests, represent stocks that fit the staple Fat Prophets diet. These stocks are mostly medium to large capitalisation companies characterised by relatively low price earnings multiples and healthy dividend yields.

FAT263VRL.jpg**Village Roadshow** (VRL) was originally identified as a deep value opportunity in November 2002. Our assessment of the business was that several key business units (cinema exhibition, theme park, and film production and distribution) were seriously undervalued. In our opinion the stock's discount to net tangible asset backing was unjustified. After a hard fought 42 percent gain, we recommended Members sell half their holding in January 2006. While remaining positive on the company's long term potential, a number of write-downs and mixed performance led us to believe that upside potential was limited in the near term.

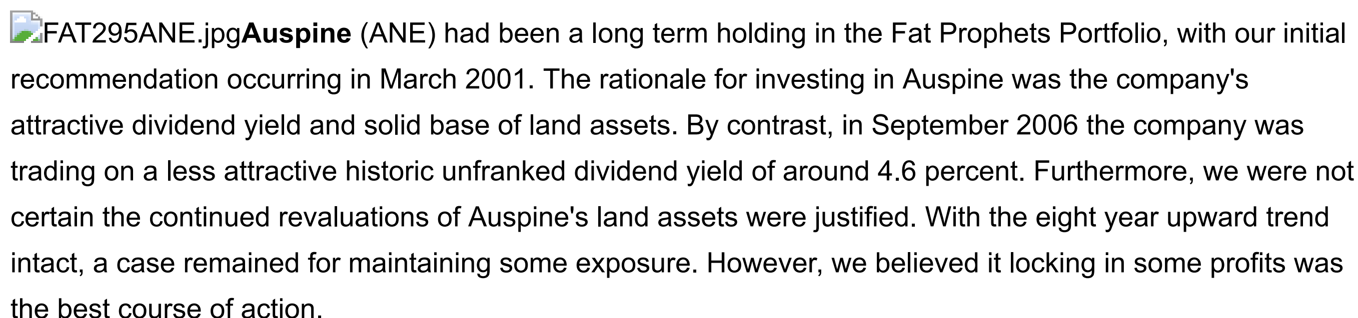
FAT269AWB.jpgWe recommended **AWB**, one of the world's largest wheat marketing firms in March 2005. The company was also the second largest wheat exporter globally and had a monopoly over the domestic wheat market in Australia. AWB's valuation appeared compelling with a PE multiple of 12.5 and a healthy 5.5 percent dividend yield. The revelations that led to the Cole Inquiry came as an unwelcome surprise and weighed heavily on the share price. With the company's credibility severely damaged, and any recovery seemingly a long way off, we recommend Members cut their losses.

FAT270PPX.jpg**Paperlinx** (PPX) entered the Fat Prophets Portfolio in March 2004 at what we believed was a low point in the paper manufacturing cycle. Recent acquisitions had diversified the company's earnings streams and the valuation appeared undemanding. Unfortunately the performance of PPX left much to be desired with the share price lagging the market by a wide margin. Excess supply persisted and higher raw material costs pressured margins. With the company becoming increasingly less attractive from a risk/return perspective, we viewed cutting exposure as the most prudent course of action.

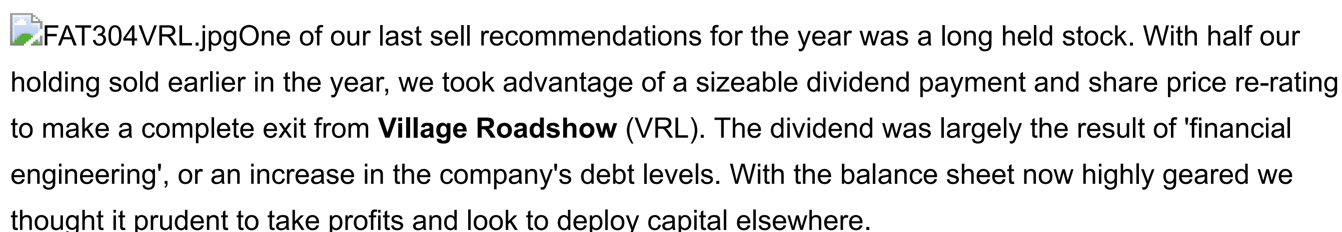
FAT280ANN.jpgThe old Pacific Dunlop conglomerate, now known as **Ansell** (ANN), had persistently underperformed prior to our 2001 recommendation. However, a new management team and a clear strategy gained our attention. We saw merit in this approach and recommended the stock to Members. Since the completion of the restructuring process the share price has been duly re-rated. More recently though, higher input costs are presenting an increasing threat to profitability. We believed Ansell's dominant market position and potential growth from Asia warranted some exposure. However, with cost pressures set to remain for the foreseeable future we recommended reducing exposure by selling half.



FAT291DOW.jpgAt the time of our initial recommendation of **Downer EDI** (DOW) in April 2003, we were searching for reasonably priced infrastructure related companies. At the time the stock was unloved and more importantly represented solid value. Following the initial recommendation Downer performed well and we took profits on two occasions, letting the remainder run with the trend. The shock announcement of a material profit shortfall in August 2006 altered the picture significantly. Poor management had led to deteriorating project quality and brought recoverability of earnings into question. With these developments severely clouding the outlook, we elected to take profits and remove all remaining exposure.



FAT295ANE.jpg**Auspine** (ANE) had been a long term holding in the Fat Prophets Portfolio, with our initial recommendation occurring in March 2001. The rationale for investing in Auspine was the company's attractive dividend yield and solid base of land assets. By contrast, in September 2006 the company was trading on a less attractive historic unfranked dividend yield of around 4.6 percent. Furthermore, we were not certain the continued revaluations of Auspine's land assets were justified. With the eight year upward trend intact, a case remained for maintaining some exposure. However, we believed it locking in some profits was the best course of action.



FAT304VRL.jpgOne of our last sell recommendations for the year was a long held stock. With half our holding sold earlier in the year, we took advantage of a sizeable dividend payment and share price re-rating to make a complete exit from **Village Roadshow** (VRL). The dividend was largely the result of 'financial engineering', or an increase in the company's debt levels. With the balance sheet now highly geared we thought it prudent to take profits and look to deploy capital elsewhere.

DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in: ASX-listed Australian stocks: AAC, AGO, AJA, ALG, AMC, ANZ, APA, APG, AVG, AWC, BCI, BHP, BKN, BOQ, BPT, BRL, BRU, BTR, BWP, CBA, CDD, CFE, CGL, CKF, CNQ, COL, CVO, CZL, DHG, DLS, DNX, DUE, ELD, ENV, EVN, FID, FMG, FPP, GJT, GMG, GOR, GPT, GXL, HUB, IAU, IFL, IGO, ILU, IMF, IPL, JHX, MAI, MFG, MGR, MHI, MML, MMS, MND, NAB, NCM, NEC, NECN, NMG, NUF, OBS, ORE, OSH, OVH, OZL, PAN, POS, PPS, PRG, PXG, QBE, RIO, RXL, RRS, S32, SAR, SDG, SFR, SGP, SHL, SLR, SPK, STO, SUN, SYD, TAM, TLS, TME, TPM, VOC, WBC, WFD, WES, WHC, WOW, WPL, WSA. International stocks: Activision Blizzard, Alibaba Group, Amadeus IT, Apple, Arcos Dorados, Bank of China, Barrick Gold, Baidu, BNP Paribas, BP, Caixabank, China Life Insurance, China Mobile, China Overseas Land & Investment, China Taiping, China Vanke, Cisco Systems, Citigroup, Coeur, Corning Inc., Country Garden, Credit Agricole, Credit Suisse, D.R. Horton, Dai-Ichi Life Holdings, Daikin Industries, Danone, Dr. Reddys Laboratories, ENAV, Euronext, Fanuc, FedEx, Fresnillo, Fukuoka Financial Group, Glanbia, Google (Alphabet), Heidelberg Cement, Heineken, ICICI Bank, Inpex Corporation, James Hardie, KONE Corp., Lennar Corp., LVMH, MGM China, Mitsubishi Corp., Mitsubishi UFJ, Mitsui Fudosan, Mizuho Financial Group, Nintendo, Nippon Telegraph and Telephone, Nissha Printing Co., Nomura Holdings, Panasonic, PICC Property & Casualty, Powerhouse Energy, PPHE Hotel Group, Randgold Resources, Reliance Industries, Resona Holdings, Riverstone, Royal Dutch Shell, Sands China, Societe Generale, Sony Corporation, SPDR Gold Trust ETF, Square Enix, Sumitomo Chemical, Sumitomo Mitsui Financial Group, Tata Motors, TE Connectivity, Telepizza, Tencent, THK Co., Toyota Motor, VanEck Vectors Junior Gold Miners ETF, Volkswagen, Walt Disney, Wynn Macau, Wynn Resorts, XTD, Yaskawa Electric, Zillow. These may change without notice and should not be taken as recommendations.

Copyright © 2000 - 2016 Fat Prophets. All rights reserved. No portion of this website may be reproduced, copied, or in anyway reused without written permission from Fat Prophets.