

**Friday, 2 April 2004**

## Overseas Market Report - Wall Street Advances, Dow Gets Reshuffled

US indices started the quarter by responding to positive jobless and manufacturing figures by posting gains. The Dow Jones rose 15.63 points (0.15%) to 10,373.33; the S&P 500 added 5.96 points (0.53%) to close at 1,132.17; and the Nasdaq was 2,015.01 at the bell, up 20.79 points (1.04%). The indices finished the first quarter mixed with the Dow (0.9%) and Nasdaq (0.5%) both down on the quarter. The S&P 500 ignored the trend to close the quarter up 1.3%.

Ericsson gained \$2.11 (7.60%) to \$29.87 after announcing higher profit margins for the first quarter than had been achieved in the fourth quarter.

Meanwhile, the Dow Jones is getting a face lift with the first change of components since 1999. AT&T (T) corp, Eastman Kodak (EK) and International Paper (IP) are leaving to make way for Verizon communications (VZ), insurer American International Group (AIG), and Pfizer (PFE). The re-jig is effective from April 8 and is designed to reflect the growing importance of the financial and health care sectors to the US stock market.

The announcement of the changes sent the relevant stocks into a spin - up or down - depending on addition or deletion status. AT&T closed down \$0.27 (1.38%) at \$19.30, Kodak finished down \$1.07 (4.09%) at \$25.10, while International paper fell \$0.08 (0.19%) to \$42.18. Verizon added \$0.36 (0.99%) to \$36.90, AIG rose \$1.97 (2.76%) to \$73.32 and Pfizer rose \$0.54 (1.54%) to \$35.59.

Economic news was plentiful and positive. Weekly

Foreign Equities	Close	% change	Commodities	US\$	Close	% change
Dow Jones (US)	10373	0.15	Aluminium	US\$/t 3mth	1740	1.90
S&P 500	1132	0.53	Copper	US\$/t 3mth	3017	1.57
NASDAQ	2015	1.04	Nickel	US\$/t 3mth	14195	2.49
FTSE 100 (UK)	4411	0.57	Gold	US\$/oz	425.9	0.10
Nikkei 225 (Japan)	11683	-0.30	Oil - West Texas crude	US\$/bbl	34.28	-4.10

## Australian Market Report - Wall Street Gains to be Replicated on ASX

Local markets may gain in morning trade following rises on Wall Street due to strong economic data. Local markets closed Thursday higher. The All Ordinaries rose 27.4 points (0.8%) to 3,443.9 and the ASX 200 closed up 30.9 points (0.9%) to 3,446.2.

Major resource stocks led the gains. BHP gained 15 cents (1.22%) to \$12.41; Rio Tinto added 24 cents (0.70%) to \$34.65; and WMC Resources traded up 1

figures of those making initial filings for unemployment fell to 342,000 from 345,000 the week before, although all eyes are still focused on the labor report for March, due for release on Friday.

The Institute for Supply Management released its manufacturing index for March. The index made an unanticipated increase to 62.5 from 61.4 in February, indicating a further expansion in manufacturing. A reading over 50 indicates expansion, and the index has been above this level since May 2003.

Prices for wholesale products, as measured by the Labor department's Producer Price index, rose 0.1% in February after a 0.6% rise in January. The market was anticipating a larger increase.

US treasury prices fell. The yield on the 10-year bond rose to 3.880%, while the 5-year yield is at 2.840%.

The European indices all posted gains influenced by a strong Wall Street opening and a European Central Bank decision to leave eurozone interest rates unchanged. The FTSE 100 rose 25 points (0.57%) to 4,410.7; the Cac 40 jumped 44.75 points (1.23%) to 3,669.98; and the Dax rallied strongly to close at 3,924.85, up 68.15 points (1.77%).

Base metals rose, with aluminium again the star, gaining for the sixth straight session. Spot gold rose marginally, while oil fell. The CRB index fell 2.03 (0.72%) to 281.74.

cent (0.2%) to \$5.13.

Gold stocks rose with the price for gold. Newcrest Mining found 27 cents (2.1%) to \$13.14 and Lihir Gold gained 5 cents (4.24%) to \$1.23.

On Thursday National Australia Bank said it has received amended tax assessments from the New Zealand Inland Revenue Department (IRD) for the 1998 and 1999 years for certain subsidiaries of Bank of

New Zealand, a wholly-owned subsidiary of NAB. The amended assessments, which NAB intends to contest, are for income tax of approximately NZ\$36m and interest of NZ\$21m. NAB was up 21 cents (0.68) to \$31.21.

Other banking stocks rose. Commonwealth Bank was up 21 cents (0.63%) to \$33.51 and Westpac added 37 cents (2.11%) to \$17.92.

HHG said 246.16m shares have been placed by UBS and Cazenove at 48 pence, or A\$1.16 per CHESS depository interest, raising about GBP 118m. HHG was up 1 cent (0.82%) to \$1.23.

Qantas said February passenger numbers increased by 6.5% compared to a year ago, and passenger numbers for the year to February increased by 0.8% from the previous year. Qantas gained 7 cents (2.05%) to \$3.48.

Brambles said it is to enter into a partnership in Dresden, Germany, through the acquisition of 49% of the shares of Stadtreinigung Dresden GmbH (SRD) for a total cash consideration of 13 million euros. SRD holds long term contracts with the City of Dresden (running to 2020) which include the collection of waste and recyclables. Brambles rose 5 cents (0.89%) to \$5.69.

On Thursday PMP announced a new \$330m five-year

debt refinancing package that will replace existing (\$334m) debt facilities which will reduce its annual interest cost by \$7m. PMP shares gained 9 cents (6.29%) to \$1.52.

Hardman said after the market closed Wednesday that it has completed a placement of 72m shares at \$1.10 per share, raising \$79.2m. It also announced a one for six share entitlement issue at \$1.10 to raise \$88.4m (refer to our Morning Notes comments on HDR yesterday). Hardman shares surged 17 cents (13.93%) to \$1.38.

Washington H. Soul Pattinson added 9 cents (1.41%) to \$6.49 after reporting Wednesday that its profit after tax and before non-regular items, for the half year ended 31 January, 2004 was \$40.4m compared to the previous corresponding period of \$40.9m.

Among companies commencing ex-dividend trading today are; Danks Holdings, FKP Limited, Gowing Brothers, KAZ Group, McPherson's Limited, National Can Industries, and Nufarm.

Manufacturing, importing and wholesaling giant, Pacific Brands will commence trading today. Prospectus shares were priced at \$2.50 via a bookbuild process.

Equities/Fixed Interest	Close	% change	Currency	Close	% change
All Ordinaries	3444	0.80	\$A vs \$US	0.7660	-0.09
S&P/ASX 200	3446	0.90	\$A vs YEN	79.54	0.04
90-day Bank Bill Rate	5.510%	--	\$A vs EUR	0.6200	-0.03
10-year Bond Rate	5.468%	0.50	\$A vs GBP	0.4130	--
5-year Swap rate	5.660%	-1.60	\$A vs \$NZ	1.148	-0.03

## Industrial

### Washington H. Soul Pattinson (SOL)

Result below expectations

**Long Term Accumulate** **\$6.49**

#### Event

As mentioned in our review of stablemate and 42.85% shareholder Brickworks on 31 March, in the half-year ended 31 December 2003 SOL's headline NPAT increased by 116% from \$45.4m to \$98.0m. However, non-regular items totaling \$57.6m reduced group equity accounted NPAT to \$40.4m, a 1.2% decline from the \$40.9m of 1H03.

There are significant non-recurring items in associated entities (in Brickworks - the profit of the sale of the investment portfolio) and in controlled entities (in New Hope Corporation - part of settlement of a handling contract received by PT Indonesia Bulk Terminal of \$13.6m) and the tax and minority interest implications make the result less than transparent.

#### Impact

The result is below our expectations mainly due to a lower contribution from Indonesian coal mining and coal trading activities.

The result from Media was pleasing and further solid growth is anticipated in H2 with a similar comment for SP Telecommunications.

We expect continued improvement from the associates Brickworks and Australian Pharmaceutical Industries (23.1% holding) in H2.

Our current year NPAT estimate remains at \$90.8m requiring an H2 figure of \$50.4m to be achieved.

SOL is a conservatively managed and funded conglomerate. It has a complicated organisation structure with interests of less than 100% in a diversified group of companies providing exposure to media, coal mining, building materials, and pharmaceuticals. The interconnection of BKW and SOL, a relic of the days of more accommodating company law, usefully (?) deters predators, as Guinness Peat tested quite recently. The separate listing of companies within the group's sphere of influence provides a transparent valuation of the operations although it denies access to operating cash flows of the individual companies.

The outlook for the largest investment, the 49.8% interest in Brickworks, is positive. The possible spin-off of NBN would create additional shareholder value.

<b>FYE Jul</b>		<b>2002A</b>	<b>2003A</b>	<b>2004E</b>	<b>2005E</b>
Reported NPAT	\$m	66.0	78.7	90.8	102.5
EPS	c	27.7	33.0	38.1	43.0
P/E	x	18.1	16.2	17.0	15.1
EPS Growth	%	44.3	19.1	15.5	12.9
DPS	c	14.0	17.0	19.0	22.0
Yield	%	3.2	3.2	2.9	3.4
Franking	%	100	100	100	100

Source: Aspect Huntley analyst estimates

## Resources

### Pancontinental Oil & Gas (PCL)

Situation Update

**Hold/Speculative Buy** **\$0.17**

#### Market awaits Woodside decision on Kenya

We remind clients that developments in Kenya are about to reach an interesting stage with regard to PCLs offshore petroleum acreage. With recent developments surrounding Hardman, investors are especially keen to see whether PCL really has the potential to duplicate the HDR story.

Over the next 2 months we expect interpretation of the 2D seismic study undertaken by Woodside Petroleum in late-2003/early-2004 to be completed, with WPL then having to make a decision on its immediate commitment to the project based on the results of this seismic data.

Based on the results of seismic interpretation, WPL has 3 options: firstly, it can immediately withdraw from the project; secondly it can commit immediately to a well drilling programme; and thirdly it can commit to shooting further seismic data, which most likely would be 3D seismic.

We anticipate that WPLs decision will be made by the end of May 2004.

#### Impact

Using the experience of WPLs farm-in to HDRs offshore acreage in Mauritania several years ago, WPL at the same decision point elected to shoot additional seismic (3D). Without pre-empting any decision by WPL, we feel that a commitment to shoot additional seismic would be the most likely option. Should WPL commit to further seismic, we anticipate that it would be completed before the end of 2004.

As background, in August 2003 PCL signed a Heads of Agreement with WPL over PCL's offshore Kenyan petroleum Production Sharing Contracts. These PSCs ? L6, L8 & L9 - cover an area of 21,200 sq km and represent around one-third of the entire offshore area of Kenya available under petroleum licences. The majority of the acreage is in water depths of less than 1,000 metres, putting it comfortably within the range of offshore exploration and production operations.

WPL was been attracted to the area because of its potential to host multi-hundred-million barrel oil discoveries similar to those elsewhere in both eastern

and western Africa, such as Mauritania, where it has been involved in numerous large discoveries in recent years after a farm-in in conjunction with Hardman Resources.

Under the terms of the staged agreement that will see WPL become operator of the project, WPL had to shoot at least 2,000 sq km of 2D seismic to earn a 50% stake in the PSCs. This was completed during the December 2003 quarter at a cost of A\$2m-\$3m. WPL now has the right to conduct additional infill 2D/3D seismic in each of the permits if it so elects. To progress, WPL must then elect to drill, and if warranted test, one well in each PSC to increase its stake to 65%, otherwise its 50% stake will revert to PCL and its partner, Afrex. WPL also has the option to increase its stake to 75% by drilling and testing a second well in each permit.

If WPL fulfils all of its seismic and drilling obligations and increases its equity to 75%, the expected expenditure of the total seismic and 6-well programme would be in the vicinity of US\$100m. In this event, PCLs equity would reduce to 10%, with project partner Afrex retaining 15%.

PCL therefore has the potential to benefit from a possibly enormous exploration and testing programme by WPL, under a similar scenario to that of its farm-in to offshore Mauritania. Importantly, PCL will be free-carried through the entire programme, should WPL commit to progress each stage. The proposed exploration programmes and expenditure commitments will fulfil and exceed all existing Kenyan government work obligations for the duration of the earning period.

### Oxiana (OXR)

Situation Update

**Hold** **\$1.01**

#### Go ahead for Khanong Copper Project

OXR has announced its approval for development of the Khanong Copper Project in Laos. The project is expected to produce around 60,000tpa of LME grade copper cathode from the mining of reserves of 15.5Mt of ore grading 5.2% Cu, for 806,000t of copper. Resources were quoted at 25Mt @ 4.2% Cu for 1.05Mt Cu using a 1% Cu cutoff grade.

Construction is underway, with first copper scheduled for the March quarter 2005. Capital costs are estimated to total US\$235m, US\$50m of which has been planned to come from equity and the remainder from project debt. Debt drawdown will follow the signing of financing documentation, scheduled for late-April 2004. In the interim, capital expenditure will be financed out of Sepon cashflows and from cash.

Khanong cash costs have been forecast at a low US\$0.37/lb of copper. At the current copper price of US\$1.35/lb, OXR expects Khanong to generate an annual operating surplus of US\$130m before financing costs and tax.

#### Impact

Our early assessment of the project suggests that it will be a solid cash generator for OXR.

OXR is currently producing cash from its profitable gold

operations at Sepon. That said, copper is more important to the overall valuation of the company. This has been reflected in the share price, which has rallied in recent times on the back of copper price strength.

OXR boasts a suite of projects with exploration appeal and growth potential. In the short-term though, given the recent share price strength, we maintain our HOLD recommendation.

<b>FYE Dec</b>		<b>2001A</b>	<b>2002A</b>	<b>2003A</b>	<b>2004E</b>
Reported NPAT	\$m	1.4	-8.7	8.2	34.5
EPS	c	--	-1.5	0.9	2.9
P/E	x	25864.5	--	76.0	34.8
EPS Growth	%	--	--	--	222.2

Source: Aspect Huntley analyst estimates

*This document is for the confidential use of the recipients only and is not to be reproduced without the authority of Intersuisse Limited. The persons involved in or responsible for the preparation and publication of this report believe that the information herein is accurate but no warranty of accuracy is given. These notes represent a brief snapshot of some corporate news and quick reactions to that news and do not purport to be comprehensive. It is important to note that recommendations are of a general nature and are based on a consideration of the securities alone, and as such are conditional and must not be relied upon without advice from a securities adviser as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Whilst this document is based on information and assessments that are current at the date of publication, Intersuisse Limited has no obligation to provide revised assessments in the event of changed circumstances. Intersuisse Limited, its directors and associates disclose that they may have a relevant interest in the securities mentioned in this document.*

INTERSUISSE LIMITED  
 ABN 14 002 918 247  
 ASX Market Participant  
 AFS Licence No 246827  
 Internet: [www.intersuisse.com.au](http://www.intersuisse.com.au)  
 e-mail: [intersuisse@intersuisse.com.au](mailto:intersuisse@intersuisse.com.au)

**Melbourne**  
 Level 7, 530 Collins Street, Melbourne, Vic, Australia 3000  
 Telephone: (+613) 9629 8288 Facsimile (+613) 9629 8882  
**Sydney**  
 Level 7, 5 Elizabeth Street, Sydney, NSW, Australia 2000  
 Telephone: (+612) 9233 2100 Facsimile (+612) 9233 2117