

Wednesday, 14 January 2004

Overseas Market Report - US Markets Close Lower Tuesday Ahead of Earnings

US markets closed Tuesday lower, ahead of earnings results scheduled for release later in the week. The Dow fell 58 points, 0.55%, to 10,427.18, the Nasdaq dropped 15.34 points, 0.73%, to 2,096.44 and the S&P closed the session down 6.01 points, 0.53%, at 1,121.22. Semiconductor and software shares fell following a weaker-than-expected outlook from SAP. SAP reported a 3% drop in quarterly software revenue, with fourth-quarter revenues down for the tenth-straight quarter year-on-year. SAP fell \$2.27, 5.1%, to \$42.18.

Other tech stocks followed SAP lower. Intel lost 56 cents, 1.6%, to \$33.59 and Yahoo closed the day down 94 cents, 1.9%, at \$48.80.

Accenture fell \$3.25, 12.5%, to \$22.66 after the global consulting firm said earnings will miss forecasts.

Speaking in Germany, Federal Reserve Chairman Alan Greenspan said the growing US trade deficit and weakening dollar were not problems at the moment. Greenspan did warn that rising protectionism could make the global economy less flexible going forward.

Treasury prices rose as stocks fell. The yield on the 10-year bond fell to 4.007%, from 4.092%, while the yield on the 5-year bond was last at 2.948%.

European markets were mixed Tuesday. In London, concerns over the weak US dollar continued to weigh on the market. The FTSE 100 lost 9.5 points, 0.2%, to close at 4,440.10. In Germany the Dax rose 0.3 points, 0.01%, to 3,996.22. The Cac 40 in France closed the day up 16.08 points, 0.5%, at 3,576.18.

Currencies - The euro traded off its highs overnight. It was last quoted at \$1.2764, off its Monday high of \$1.2900. The dollar was little changed against the Japanese yen, last at 106.24. The Australian dollar was little changed, last at 77.84 US cents.

Commodities - Base metals fell on the London Metals Exchange. Gold in London was last quoted at \$424.13 oz. Comex gold was last at \$424.20 oz. Oil continued to gain. West Texas Intermediate was last quoted at \$35.05 per barrel. The CRB Index was down 1.3 points, 0.5%, to 268.41.

Foreign Equities	Close	% change	Commodities	US\$	Close	% change
Dow Jones (US)	10427	-0.55	Aluminium	US\$/t 3mth	1608	-0.83
S&P 500	1121	-0.53	Copper	US\$/t 3mth	2402	-0.33
NASDAQ	2096	-0.73	Nickel	US\$/t 3mth	15350	-2.72
FTSE 100 (UK)	4440	-0.21	Gold	US\$/oz	424.1	--
Nikkei 225 (Japan)	10850	-1.05	Oil - West Texas crude	US\$/bbl	35.05	0.92

Australian Market Report - Local Markets to Open Following Wall Street Losses

Local markets could see losses in early trade on the back of falls on US markets overnight. Local markets closed Tuesday lower. The ASX 200 Index fell 7.4 points, 0.22%, to 3,295.3 and the All Ordinaries closed down 7.9 points, 0.24%, at 3,300.8.

National Australia Bank ended a five-day winning streak after it warned of a \$180m "irregular" foreign exchange trading loss. The bank said four employees have been suspended in relation to this trading and immediate action has been taken to close out the losses and to minimise any further losses from being incurred. NAB shares closed down 47 cents, 1.5%, at \$30.06.

Other banks were mixed. CBA rose for the sixth-straight session. CBA was up 24 cents, 0.8%, to

\$30.80, while Westpac fell 10 cents, 0.6%, to \$16.53.

BHP said it has discovered oil at its Puma well in the Gulf of Mexico. The company said the well encountered approximately 500 feet of net oil pay in Miocene sandstones, and two subsequent sidetrack bores also encountered oil in reservoir intervals of a similar age. BHP fell 1 cent, 0.1%, to \$11.58.

Foster's Group announced a number of senior management changes to its Beringer Blass Wine Estates global wine trade business. Foster's shares rose 2 cents, 0.44%, to \$4.53.

Gold stocks retreated on the back of a weaker gold price. Newcrest Mining fell 18 cents, 1.5%, to \$12.20 and Lihir Gold dropped 3 cents, 2%, to \$1.51. Gold was

last quoted at \$424.13 oz, down from a high of 428.75.

News Corp shares fell. News ordinary shares were down 18 cents, 1.5%, to \$11.86, while its preference

shares were down 19 cents, 1.9%, to \$10.04.

Equities/Fixed Interest	Close	% change	Currency	Close	% change
All Ordinaries	3301	-0.24	\$A vs \$US	0.7790	-0.01
S&P/ASX 200	3295	-0.22	\$A vs YEN	82.73	-0.01
90-day Bank Bill Rate	5.502%	0.30	\$A vs EUR	0.6100	-0.07
10-year Bond Rate	5.543%	-1.50	\$A vs GBP	0.4220	--
5-year Swap rate	5.980%	0.80	\$A vs \$NZ	1.140	--

Industrial

National Australia Bank (NAB)

Foreign exchange losses hit share price

Hold \$30.05

Event

NAB has identified unauthorised trading losses in foreign exchange options.

Loss positions have been closed out to minimise further losses from being incurred.

Losses involved are not expected to exceed \$180m (pre tax) and are understood to have been incurred between October and December 2003.

Four employees have been suspended.

Impact

Precisely not the news the market wanted to hear as NAB recovers from the bungled attempt to establish a strategic position in AMP.

FY04 earnings were already under pressure from underperformance in the UK operations, higher UK pension fund charges and negative currency translation of offshore earnings.

These losses knock another estimated \$125m from FY04 cash earnings - about 3%.

The losses raise serious questions over the controls that are in place within NAB's trading operations. They do little to boost confidence in management.

We have a positive view on bank stocks generally, with NAB the least favoured even before this news and a focus on CBA which is due for its interim report and dividend announcement next month.

FYE Sep		2002A	2003A	2004E	2005E
Reported NPAT	\$m	3592.0	3772.0	3910.0	4180.0
EPS	c	228.3	243.6	260.0	278.0
P/E	x	14.8	13.2	11.6	10.8
EPS Growth	%	-8.0	6.7	6.7	6.9
DPS	c	147.0	163.0	176.0	190.0
Yield	%	5.1	5.1	5.9	6.3
Franking	%	95	100	100	100

Source: Aspect Huntley analyst estimates

Resources

Fox Resources (FXR)

Situation Update

Maintain Speculative Buy \$0.57

Radio Hill moving to production, further drilling success

FXR has advised of continuing exploration drilling success at its Radio Hill nickel mine in WA, with the identification of additional nickel sulphide-bearing ore in four separate zones - A, C, D and 'the New Zone.'

Drilling will continue during Q1 2004 within these zones and other targets in order to increase the size of the mineable orebody.

With regard to the mine reopening study that is occurring concurrently with the drilling, FXR anticipates its completion within the next month.

FXR also anticipates that nickel mining will start as anticipated within Q2 2004, with an initial mine life of two years producing 7,000 tonnes of nickel equivalent metal.

Impact

We initiated coverage of Fox Resources in late-August 2003, based on its status as an emerging nickel producer that we regard as not having the same sort of market recognition as most of its peers. We still hold this view, as FXRs fully diluted market capitalisation is just \$22m.

The attractions of FXR is that it will be producing nickel within 6 months, with very little capital expenditure required. This is because it has all necessary infrastructure, including plant, already on site, and minor refurbishment is all that is needed. A total of \$70m was spent by previous owners Agip and Titan resources on mine infrastructure.

From an exploration perspective, FXR currently has two drilling rigs on site operating underground. Investors will therefore have plenty of action from an exploration point of view.

While FXR currently claim a mine life of 2 years at radio Hill, we anticipate an initial mine life of closer to 3 years, based on a minimum nickel ore grade of 1.25%, with associated copper of 1.25% and cobalt 0.07%. Nickel recoveries of >70% are expected and using a very conservative nickel price assumption of US\$14,000/t and an exchange rate of US\$0.77, we estimate net cashflows of around A\$21m p.a. This compares with FXRs fully diluted market capitalisation of around \$38m. We regard the potential for resource

upgrades as excellent, so FXR is cheap by any measure.

A site visit in late-2003 confirmed our positive view. We met with Don Harper, Project Manager, who has a base metals background with Western Metals. The project has two geologists working full-time, but we understand FXR is looking to further strengthen its team by appointing a geologist with a more regional focus.

We also had the opportunity to inspect drill core, which demonstrated the typically spectacular massive nickel sulphide mineralisation. FXR's reinterpretation of past data has resulted in the drilling and subsequent identification of highly significant nickel mineralisation to the west of the historic Radio Hill orebody, in an area previously thought barren. We believe that this discovery could open up a whole new range of resource possibilities at Radio Hill, in addition to the proven existence of Voisey Bay-like feeder zone at depth, which is yet to be investigated.

From a mining perspective, underground mining conditions are excellent and the rock is highly competent. This contrasts in particular with the historic Kambalda mining area, where underground mining costs are significantly higher. As a comparison, we estimate that mining costs for FXR will be in the vicinity of A\$40-\$45/ton compared with around \$130/ton typically at Kambalda. This gives FXR a significant edge in terms of margins and profitability.

Investors in FXR can remain comfortable that Radio Hill is progressing towards development, perhaps even ahead of schedule, while it also continues to unlock the geological picture at Radio Hill that could lead to a substantial increase in its overall nickel resource base. We therefore retain our SPEC BUY recommendation.

Pancontinental Oil & Gas (PCL)

Situation Update

Speculative Buy **\$0.11**

Market interest grows in African oil plays

We reactivated coverage of petroleum junior PCL in late-August 2003 @ \$0.04, following its joint venture deal with Woodside Petroleum in offshore Kenya. Since then its share price has climbed to a 12-month high of \$0.11 in the past week, as the company announced another offshore African oil deal, this time covering 11,500 sq km offshore Eritrea.

The deal in Kenya sees WPL farm into exploration acreage held in offshore Kenya by PCL, with a commitment to at least completing a seismic programme. Market interest has grown based on the deal, which can be compared favourably to the deal HDR struck with WPL in Mauritania several few years ago. At that stage in its development, HDR had a similar market capitalisation and share price to PCL now.

The deal in Eritrea will see PCL with a 30% stake, followed by Hardman Resources also with a 30% stake and Afrex with 40% (and operator).

Impact

The Kenyan acreage is held under Production Sharing Contracts (PSCs) L6, L8 & L9 and are currently owned 40% by PCL and 60% by unlisted company Afrex. The acreage covers a total area of over 21,000 sq km, comprising mostly offshore acreage.

As part of WPL's farm-in, it will earn a 50% stake by shooting at least 2,000km of 2D seismic at an indicative cost of US\$1.25m. It can then drill a well in each of the PSCs which will take its interest in each permit to 65%, and with the drilling of a second well increase its stake to 75% in the respective permit.

PCL and Afrex will subsequently farm down on a pro-rata basis their respective interests and should WPL drill a second well in a PSC, PCL will retain a 10% equity, with Afrex holding 15% and WPL 75%.

The deal is highly significant for PCL as WPL's involvement brings credibility and just as importantly funding. Furthermore, it gives PCL shareholders a potentially exciting drilling programme of up to 6 wells if WPL elects to drill its full complement of wells under the joint venture.

WPL already has significant offshore Kenyan acreage position, acquiring stakes in four other blocks in May 2003. Kenya is obviously part of WPL's strategy to grow its oil exploration activities in Africa, with an already large commitment to Mauritania in joint venture with Hardman Resources. Importantly, about half of the PCL/Afrex acreage lies in water depths of less than 500 metres, with the deepest water reaching around 1,500 metres.

With regards to timing, WPL is already conducting seismic surveying in its other blocks and will incorporate PCL's blocks L6, L8 & L9 into the programme in Q4 2003.

In Eritrea, the joint venture partners have acquired the exclusive rights to explore for hydrocarbons for the next 7 years. Their interest covers an 11,500 sq km area known as the Massawa Block, which lies in the salt basin of the southern Red Sea. Salt basins have proven to be amongst the most prolific oil producing areas in the world, with the numerous discoveries in Mauritania in recent years being just one example.

With a relatively small market cap. of \$15m, PCL is worthy of a SPEC BUY recommendation. It could potentially be free-carried through tens of millions of dollars of seismic and drilling work by WPL. This will take time however and we recommend PCL for the patient investor. Nevertheless, speculative investors will look for the next potential HDR-like situation, and PCL is the closest thing that offers such blue sky.

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