



# Equities Report

Pick the blue-chips of tomorrow

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## Summary of recommendations

Stock	Recommendation	Company Name	Sector	* Share Price	Target	Stop Level	Time Frame
HGO	Spec Buy	Hillgrove Resources Ltd	Exploration	\$0.22	\$0.42	\$0.14	12 Months
LNN	Buy	Lion Nathan Ltd	Beverages	\$8.25	\$11.00	\$7.15	12 Months

\* at the time of writing the report

**How to use the Wise-Owl Equities Report:** We have divided each stock recommendation up into three specific sections to make it as easy for you to navigate through the key information you need to ensure you have made the right decision in investing.

**Note:** If you just prefer to **DOWNLOAD a PDF version** of the report please go to the **Report Archive** (a submenu item under the Equities Report) and click on the PDF icon to download it.

**Strategy:** Our Equities strategy page is a snapshot of a recommendation, in a very clear, concise fashion. This is where you will find the strategy you can act upon immediately.

**Quantitative and Fundamental Analysis:** After reviewing the strategy summary, you can investigate the first two levels of Wise-Owl analysis that has led us to recommend this stock as a potential wealth creator. This quantitative and fundamental analysis provides you with all the key performance indicators including cash flow and profits, financial performance indicators and sector performance.

**Technical Analysis:** Technical analysis is another unique wise-owl technique employed to further evaluate stocks to ensure you can invest with confidence that the homework and analysis has been done for you.

**Note:** Please note that the following sections are only available to our members in the members section of the website - [www.wise-owl.com](http://www.wise-owl.com) :

- Portfolio Management Section that helps you manage your own portfolio and contains all open recommendations.
- Stock Distribution History that helps you keep track of recommended stocks that have gone ex-dividend.
- Wise-Owl Classroom that is focused on educating and empowering members.
- A vast array of value-added services such as financial calculators, charts, prices and much more.

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# Equities Report

## Recommendation Strategy

### Hillgrove Resources Ltd (HGO)

Recommendation	<b>Spec Buy</b>	Buy	Add	Hold	Sell
Risk Rating	Low	Medium	<b>High</b>		

Sector	Exploration
Index	Small Cap
Market Capitalisation	\$36.54m

#### Strategy

First Recommended	05/03/2006
Share Price *	\$0.22
12 Month Price Target	\$0.42
Suggested Stop Loss	\$0.14

\* at the time of writing the report

#### How many shares do I buy

Trade Size =  $\frac{\text{Amount (\$) you're prepared to lose}}{\text{Market Price} - \$0.135}$

**Note.** Amount (\$) you are prepared to lose is typically 2-3% of the TOTAL amount you have to invest



#### wise-owl Checklist

- ✓ Management team has a track record of exploration success.
- ✓ Emerging mid-tier resources company exposed to copper, gold, garnet, silver, lead, zinc, uranium and natural gas.
- ✓ Gas production from the Gunnedah Basin expected to start late 2006.
- ✓ Kanmantoo Trough offers further exploration potential for copper and garnet.
- ✓ AMP holds a 10.8% interest.
- ✓ Stock has broken out of a recent flag pattern.

#### Summary

This section aims to give you a snapshot of the recommendation in a very clear and concise fashion and more importantly leaving you with a strategy to act upon immediately.

#### Background

Hillgrove Resources Limited (HGO) is focused on exploring and developing Australian resource opportunities. Key projects include a 90-100% interest in the Kanmantoo copper/gold/garnet project in South Australia and a 32.5% interest in the Gunnedah Basin Natural Gas Project in New South Wales.

#### Investment Summary

Hillgrove Resources offers a portfolio of exploration assets in various stages of development. Arguably the most appealing of these are the Kanmantoo copper/gold/garnet project, Gunnedah Basin Natural Gas Project, and newly formed InterMet exploration company that offers exposure to uranium prospects. While these projects are still in their exploration phase, they do offer a mix of commodities that could establish Hillgrove as a future Mid-tier resource company should commodity prices remain strong. The group's ability to secure strategic corporate investors at levels above the companies listed price shows a high level of confidence in Hillgrove's assets. Key drivers of an upward re-rating in the stock include strengthening commodity prices in copper, garnet, uranium and gas as well as the potential for further positive news flow on the exploration front. Hillgrove Resources is a 'Spec Buy' at current levels for growth.

# Equities Report

## Fundamental Analysis

### Revenue & Profitability

	CY 2005	CY 2004	CY 2003
PE Ratio (x)	NA	NA	NA
Revenue per Share (\$)	NA	NA	NA
Earnings per Share (\$)	-0.01	0.53	-0.42
Dividend Yield (%)	0	0	0
Profit Margin (%)	NA	NA	-102.28
Return on Assets (%)	-12.04	957.51	-30.26
Return on Equity	-13.41	NA	NA

### HGO vs. Sector Average

	HGO	Sector Average
PE Ratio (x)	NA	57.49
Revenue per Share (\$)	NA	1.31
Earnings per Share (\$)	-0.01	-0.08
Dividend Yield (%)	0	0.56
Profit Margin (%)	NA	-1186.11
Return on Assets (%)	-12.04	-56.56
Return on Equity	-13.41	-20.98

### Quantitative and Fundamental Analysis

After reviewing the strategy summary, you can investigate the first of two levels of Wise-Owl analysis that has led us to recommend this stock as a potential wealth creator. The quantitative and fundamental analysis provides you with an analysis on; the management team, key operating and profitability ratios, sector performance and the key share price driver.

### Management

Dale Ferguson - Exploration Manager

Dale has 12 years industry experience and has been associated with a number of significant Australian exploration discoveries including Eileen Bore, Copernicus, Big Ben PGM, Fields Find, Weiro and Raven.

Pearce Bowman - Director

Pearce has a wealth of industry experience including time as the Chief Executive Officer of Generation Victoria from 1993 to 1994 and Executive General Manager of WMC Ltd between 1994 and 2000.

### Operating Performance

As an exploration concern HGO remains reliant on equity raisings to further its development. A relatively comfortable cash position has been maintained to date as strategic investors have taken positions in various projects at prices above the stocks listed market price. As recently as the 3rd of March 2006 Anglo Pacific Group took part in a placement worth \$1.5 million for 7.5 million shares at 20c, and a one for two 30c option expiring 31 January 2009.

Fortune 500 company Sempra Energy also established itself as a strategic partner on the 19th of October 2005 through its subsidiary company Sempra Metals. Under this agreement Sempra Metals injected \$2 million in equity for 8 million shares at 25c, and provided a \$6 million loan package. This will ensure that the Kanmantoo project is fully funded right up to the bankable feasibility stage.

### Growth/Value Story

Hillgrove Resources has a variety of exploration interests in copper, gold, garnet, silver, lead, zinc, uranium and natural gas. Perhaps the best of these include a 90-100% interest in the Kanmantoo Trough, a 32.5% interest in the Gunnedah Basin Gas Joint Venture and a 77% interest in InterMet Resources Limited.

The Kanmantoo Trough is an open pit copper-gold mine that has been closed since 1976. With copper prices continuing to break new highs the mine has become economic again and is gearing up for production in 2008. Kanmantoo may be re-rated by the market as it offers significant exploration potential for copper from a current 18.37 MT grading 1.1% copper to a potential 50 Mt of copper at potentially higher grades. Kanmantoo has also recently been shown to hold a substantial garnet resource that could establish it as one of the world's top 3 garnet producers. The Gunnedah Basin natural gas venture is estimated to be one of Australia's largest onshore gas resources holding the equivalent to 20 years of NSW gas consumption. Sales of natural gas from this project may start as early as late 2006. InterMet Resources is an attention grabbing wild card in the portfolio offering early stage exploration exposure to Olympic Dam style deposits of uranium.

# Equities Report

## Technical Analysis

Technical analysis is another unique Wise-Owl technique employed to further evaluate stocks to ensure you can invest with confidence that the homework and analysis has been done for you. The short, medium and long term trends are analysed along with significant charting patterns. Key price levels are discussed that are likely to have an impact on share price performance.

Note:

Please note that the Open and Closed Portfolios as well as the Stock Distribution History are available online on the Wise-Owl website.

After a period of consolidation starting in 1999 the stock moved into a bullish channel in 2003. This upward trend saw the stock reach an all time high of 26.5c in late 2004. A flag pattern then emerged that has now been broken on the upside, suggesting further gains in the share price are probable. Support over the short term can be found at the 16c level, and critical support at the 12.5c level. A break below critical support at 12.5c will signal a reversal of the trend. With volatility on the rise expect strong price whips to occur.

Trends	Short Term Trend (daily)	Medium Term Trend (weekly)	Long Term Trend (monthly)
	↑	↑	↑



Zoom

# Equities Report

## Recommendation Strategy

### Lion Nathan Ltd (LNN)

Sector	Beverages
Index	S&P/ASX 100
Market Capitalisation	\$4,407m

#### Strategy

First Recommended	05/03/2006
Share Price *	\$8.25
12 Month Price Target	\$11.00
Suggested Stop Loss	\$7.15

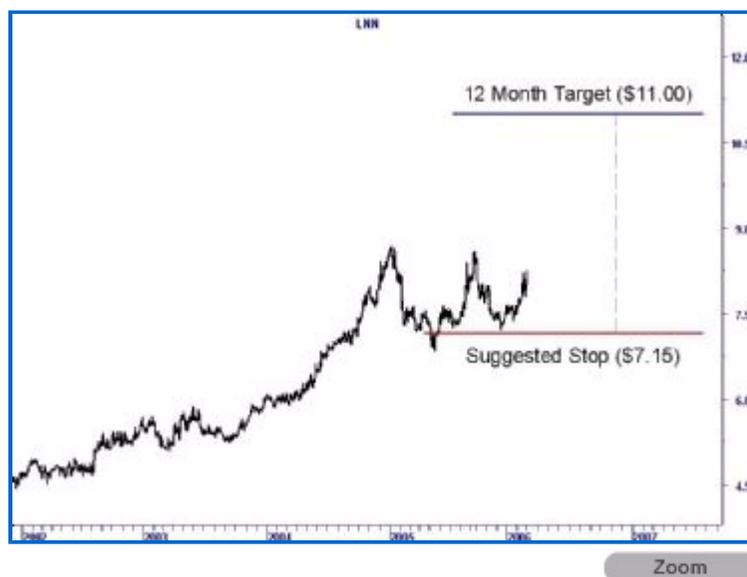
\* at the time of writing the report

#### How many shares do I buy

Trade Size =  $\frac{\text{Amount (\$) you're prepared to lose}}{\text{Market Price} - \$7.140}$

**Note.** Amount (\$) you are prepared to lose is typically 2-3% of the TOTAL amount you have to invest

Recommendation	Spec Buy	Buy	Add	Hold	Sell
Risk Rating	Low	Medium	High		



#### wise-owl Checklist

- ✓ Following a detailed review in 2005 management has stamped a clear strategic direction for the Group.
- ✓ LNN's outlook for earnings is 5% growth for FY06, with higher earnings forecasts in the medium term as strategic initiatives (sales & marketing) unfold.
- ✓ Operates in a duopoly Australian beer market as a major supplier.
- ✓ Looking for acquisitions and has plans to enter the 'dark spirits' category to fuel growth.
- ✓ Improving fundamentals - achieved solid earnings (up 11% to \$225m from pcp) and cash flow growth (up 22% to \$334m pcp) from core brewing business.
- ✓ 46% owned by Kirin Brewery Co. (Japan's biggest brewery), with institutional holders like Maple Brown Abblott (7.1%) and Lazard Asset Management (5.0%).
- ✓ Potential double bottom formation is a bullish signal.

#### Summary

This section aims to give you a snapshot of the recommendation in a very clear and concise fashion and more importantly leaving you with a strategy to act upon immediately.

#### Background

Lion Nathan Ltd (LNN) is Australia's second largest brewer (42% market share). LNN produces, markets and distributes alcoholic beverages such as beer, wine and spirits with operations in Australia and New Zealand (NZ).

Key brands include Tooheys New, Hahn Premium Light, Becks, Heineken, Speights (largest selling NZ beer), and Steinlager (internationally recognised brand, leading NZ premium beer).

#### Investment Summary

LNN's new corporate strategy has its sights on wider ownership and distribution of the Australasian beer, fine wine and spirits brands. LNN is also determined to enter the 'dark spirits' market and is scouting for acquisitions.

The key driver in FY06 for LNN is the Australian beers business (accounting for 70% of total revenue), which appears to be in good shape. As a key player in the stable duopolistic Australian beer market, LNN hopes to ramp up sales following marketing campaigns on beer brands such as James Squire and Hahn.

LNN has taken a disciplined approach to financial management, with improved operating cash flow (up 22% to \$334m on pcp) and solid earnings of \$225m (i.e. 11% higher on pcp). Indicative gross yield is a respectable 6.04%. In support of management's new strategy, stable earnings of 5% in FY06 and higher expected earnings over the medium-term (after FY06), we rate LNN as a 'Buy' at current prices.

# Equities Report

## Fundamental Analysis

### Revenue & Profitability

	09/05	09/04	09/03
PE Ratio (x)	19.60	56.34	14.78
Revenue per Share (\$)	3.29	3.30	3.18
Earnings per Share (\$)	0.42	0.30	0.34
Dividend Yield (%)	3.81	3.93	5.05
Profit Margin (%)	12.79	9.07	10.61
Return on Assets (%)	5.40	3.72	4.22
Return on Equity	9.02	6.53	7.78

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### Management

Geoff Ricketts, Chairman

Prior to acting as a director of LNN over 18 years, Geoff is now chairman of LNN (since August 2001). He also acts as the NZ chairman of Royal Sun Alliance Insurance Company, director of the NZ Stock Exchange, Spotless Group, Taylors Group, Structurflex and The Todd Corporation. Geoff has been closely associated with LNN, spanning nearly 2 decades and brings experience in commercial law, mergers & acquisitions and board governance.

Rob Murray, Chief Executive Officer (CEO)

Rob has been appointed as LNN's CEO since October 2004, following two years on the Board as director. Rob was also the CEO of Nestle Oceania, responsible for a business with more than \$2b in revenue, 14 factories and 5,500 employees. Apart from extensive experience acting as CEO, Rob brings to LNN knowledge in sales and marketing, gained from his early career at Procter & Gamble.

### Operating Performance

In line with earlier guidance, net profit after tax (before significant items) lifted 13.7% to \$230.4m for the period ended 30th September 2005 (FY05), attributed to increased customer demand for core beer brands. The financial highlight has been the improved operating cash flow of \$334m, up 21.9% compared to the previous corresponding period (pcp), mainly from reduced interest expenses and the timing of tax payments. The cash has been appropriately used to reduce debt, which has improved interest cover and other gearing ratios, as well as lifted LNN's financial profile. Management distributed a record annual dividend of 32 cents per share, fully franked for FY05.

As CEO of LNN, Rob stated that 'overall group earnings is in line with its business plan, and gives us confidence that we are on track for our full year (FY06) profit guidance of 5%'. Rob expects earnings to grow higher in the medium term as key strategic initiatives unfold.

### Growth/Value Story

LNN operates as a major supplier in a duopoly Australian beer market. Leveraging its status, LNN is increasing marketing spend to increase sales, with a focus on national premium brands (like James Squire and Hahn) which generate higher margins than regional brands.

The NZ beer business has experienced a very competitive trading market. Following a strategic review of the business in second half FY05, LNN has implemented operational and structural changes to leverage the region's full brand portfolio.

In the wine business, LNN has recently (Oct 2005) entered into the Fine Wine Partners joint venture with Tucker Seabrook, to increase its distribution channels in the wine market.

### LNN vs. Sector Average

	LNN	Sector Average
PE Ratio (x)	19.60	17.83
Revenue per Share (\$)	3.29	9.04
Earnings per Share (\$)	0.42	0.35
Dividend Yield (%)	3.81	3.88
Profit Margin (%)	12.79	9.62
Return on Assets (%)	5.40	7.17
Return on Equity	9.02	21.95

# Equities Report

## Technical Analysis

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LNN traded in a steady uptrend from early 2000 until an all time high of \$8.70 was reached in early 2005. It has since traded in what appears to be a bullish double bottom formation, which suggests a likely retesting of the all time high of \$8.70 soon. Important support lies at the \$7.17 level, and a break through critical support at the \$6.78 level would signal a reversal of the bullish trend.

Trends	Short Term Trend (daily)	Medium Term Trend (weekly)	Long Term Trend (monthly)
	↑	↑	↑



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**NOTES:** AUG recommendation replaced by ABX as a result of the merger (05-02-03). UEL shareholders received \$3.15 from Alinta Limited takeover (25-07-03). MGI completed an off-market takeover for AIP (07-10-03). HRT stock code changed to LRX (30-10-03). FAN 11:10 Share Split (28-10-03). DOW 1:4 Reconstruction (20-11-03). ARL stock exchange code changed to NLX (11-12-03). RBK converted 1-for-3 basis to RBI listed on Toronto Stock Exchange (05-05-04). FLX 1:10 Reconstruction (11-11-04). MPM spun-off Leviathan Resources - LVR shares (18-11-04). GDP exchange code changed to LFE (01-12-04). MPM taken over by LIM. \$1.00 cash and 0.1675 LIM for every MPM share held (05-01-05). Each MGI converted to 0.57 MGQ (01-02-05). AUO taken over by CEY, 10 CEY shares for every 37 AUO shares held (24-03-2005). NVE 1:5 Consolidation (16-05-05). CRD shareholders receive 1 PDL share for every 8 CRD shares from merger. (03-06-2005).