



Special Report



Special Report: This Year's Value Opportunities in Today's Market

During the last 12 to 18 months the stock market has been hard hit by the global financial crisis, growing unemployment rates and a struggling housing market. This has resulted in a significant drop in investors' confidence.

Though the outlook may appear uncertain, Mr. Alexander Beer, an analyst for State One Stockbroking Ltd, gladly found the time to highlight some of the things one can anticipate in 2009.

According to Mr. Beer the standout industry groups that are expected to perform well this year include the industrial and energy sectors.

"The expected 2009 earnings yield on industrial is the best I's been in 10-15 years," Mr. Beer commented, "The forecast yield for industrials is 28.1% (Aegis) annualised for a P/E of 9.3x in 2009.

"In energy stocks, the supply side issues that existed in 2008 have not disappeared and OPEC will likely tighten supply as required to ensure \$70-\$80US per bbl prices. The forecast yield on energy stocks is 21.1% (Aegis) annualised on a P/E of 18x in 2009."

In regards to the outlook for the mining sector Mr. Beer stated, "Whilst it seems unlikely now, the long term effect of increasing your money supply is inflation, so commodities could eventually prove a wise investment given they will protect investors from this scenario further down the track if real returns on bank accounts turn negative. The eventual mining sector winners will be low debt, low cost producers who can survive the current credit & metal price squeeze."

Another item to consider is that even though the market is subdued, there are still many opportunities available for investors represented by growth stocks – those growing their earnings faster than the market supported by good news flow- and value stocks – those that are fundamentally sound and have positive momentum.

To start off 2009 on a sound foot, the Australian Investor is highlighting such companies, which have a solid foundation in place to potentially continue to grow and develop throughout the year overcoming the challenging market conditions.

These are companies that have chosen to not merely focus on the negative aspects of the volatile markets. While they have taken a realistic approach to the situation – imposing stricter cash management strategies – they have also chosen to capitalise on the opportunities the markets have presented, such as soaring gold prices and collapsing asset prices that have resulted in the ability to acquire valuable assets at cost-effective prices.

One such company is Galaxy Resources, an emerging industrial mineral company that is strategically focused on production of lithium and tantalum, which are currently in short supply and anticipated to face high future demand growth.

For 2009 Galaxy will be predominately focused on the development of its flagship project – the Mt Cattlin lithium / tantalum project. The Company completed a definitive feasibility

study at the project that confirmed the economic and technical viability of the project and indicated it is a robust project with the potential to begin production during Quarter 3, 2010.

Mr. Iggy Tan, Galaxy's Managing Director informed the Australian Investor, "One of the key attributes of the Mt Cattlin project is that it is a low lying ore body and hence the strip ratio and mining cost is much less. Additionally, it is close to existing Ravensthorpe township and Esperance Port infrastructure.

"Another important aspect for Galaxy is that we are in an industry that has very stable pricing. While the volatility of the financial market will slow the world economy's growth, we believe the demand for lithium will continue to grow due to its use in the development of electric vehicles."



Carbon Energy is also strategically positioned to capitalise on its portfolio of prospective assets which it will leverage off into 2009 creating a sustainable foundation for growth and development.

Mr. Andrew Dash, Carbon Energy's Managing Director stated, "Our objective is to produce low cost energy with improved environmental performance through the application of Carbon Energy's world leading UCG technology.

"Our priorities for 2009 fall into three key areas, first we are looking to rapidly commercialise our technology by developing major energy and manufacturing projects with our commercial partners, secondly, continuing the development of our UCG technology and, thirdly increasing access to coal resources both in Australia and overseas.

"The success of recent commercial trial plant in Southeast Queensland has generated significant interest amongst major industrial and energy players from within Australia and overseas. As such we believe the Company is poised to make a significant change to the future way in which the world meets its future energy and industrial needs."



For 2009 Kingsrose Mining Limited is also in a strong position with its aim to generate shareholder wealth by building on its precious metal production profile via continued production at its Comet Vale project, whilst simultaneously completing its advanced, high-grade Way Linggo gold-silver project in Indonesia.

Mr. David Hatch, Kingsrose Mining's Managing Director informed the Australian Investor, "One of the key attributes that will enable us to achieve continuous growth during these challenging market conditions is our focus on positive cash flow. Changes at Comet Vale mean that the project is now in the position where its gold production will be cash flow positive for 2009, which will provide us with greater resources to develop our second project – Way Linggo.

The Company anticipates that Way Linggo will be commissioned by the September 2009 quarter. By the December quarter of 2009, the Company aims to be producing at an annualised production rate of around 40,000 ounces of gold equivalent.



Another well positioned stock for 2009 is Commquest Ltd - a fully integrated marketing, technology and communications group that is strategically positioned as a leader in the Australasian market.

As a result of this prime position the Company is profitable and has experienced solid growth in the majority of its business. It appears its success and achievements are likely to continue in 2009 as Commquest maintains its innovative, effective business strategy.

Mr. William Scott, Commquest's Chief Executive Officer explained to the Australian Investor, "One of the key factors that will fuel our continued growth and development in 2009 is that approximately 76% of our business is in the direct marketing and digital sector. These arenas are forecasted to have good growth in the future as they are areas in which you can quantify a strategy."

Another important attribute of the Company that further strengthens its position for future development is that it owns the largest digital group in Australasia, Next Digital, and has over 350 staff members in its direct marketing business.

Mr. Scott commented, "We believe Commquest is in a prime position to continue to advance throughout 2009, with a lean-mean-fighting-machine approach to the market and its volatility. We intend to keep our costs down and ensure we have good opportunities in our pipeline to maximise the potential value for our shareholders."



Polartechncs also has a number of positive features that bode well for 2009. The Company is a listed healthcare industry operator that is committed to utilising the best medical technology available to provide affordable cancer screening products and services to those markets where early detection of target cancers can lead to significant reductions in existing mortality rates.

For 2009, the Company will be particularly focused on its specialisation of women health screening systems to capitalise on a huge gap in the market of self sampling products for women.

Mr. Ben Dillon, Polartechncs' Managing Director informed the Australian Investor, "One of our key near term priorities is to build our sales revenue pipeline for these products. Initially our target markets will be offshore, primarily in China, Korea and India, which represent countries with a more advanced awareness of self screening products. We intend to establish initial sales in these regions and then build on these sales into other markets."

To enable Polartechncs to overcome the share market volatility it is leveraging off the support of its key shareholders, its commercial partners and global network of distributors, which have all expressed a great interest in bringing the Company's products to market.

"Reflecting the value of this support we were able to raise \$1.188 million in a placement of convertible notes to offshore sophisticated investors in December 2008," Mr. Dillon informed the Australian Investor, "Further we have confidence in our ability to raise additional working capital as needed."



Another company with strong fundamentals for 2009 is UraniumSA, an uranium-only explorer specialising in sediment-hosted uranium mineralisation within an extensive portfolio of properties in South Australia's Gawler Craton.

Its particular focus for 2009 will be the development of its principle asset – the Mullaquana project where it has a new uranium discovery.

Mr. Russel Bluck, UraniumSA's Managing Director informed the Australian Investor, "UraniumSA is focused on drilling-out a resource of uranium at Mullaquana and on advancing the project to the commencement of in-situ leach field trials as rapidly as is practicable.

"As we progress towards this goal, we will continue to maintain our tight focus on successful exploration supported by a strong culture of corporate governance, planning and budget control."

The value of this approach is reflected in the Company's strong track record of consistently delivering on time and to budget.



Alkane Resources is also in a prime position for continued growth in 2009 leveraging off its strategic location in the central west of New South Wales, as well as the potential represented in its quality, multi commodity projects.

Mr. Ian Chalmers, Alkane Resources' Managing Director informed the Australian Investor, "At this stage we have two fundamental objectives for 2009. Firstly, our aim is to complete the feasibility study at our Tomingley Gold Project, which is scheduled for the middle of this year. The development of this project will put us back into gold production, potentially resulting in a substantial cash flow for the next five to ten years. It is anticipated the project will generate up to 70,000 ounces of gold a year which translates into cash flow of about \$40 million a year.

"Secondly, we will continue to advance the development of our Dubbo Zirconia Project – a world class resource that we have been working on for a number of years. We are aiming to complete the feasibility study on this project by late this year or at the latest by the middle of 2010."

He added, "The main aspect at this stage is that we have a substantial amount of cash in the bank that will fund us through the completion of the Tomingley feasibility study. As for the further development of the project we have been talking to banks and are confident financing will be available in some form. Realistically, at this stage we are not hampered by financial constraints."



Central Petroleum is also in a solid position for 2009 as it is strategically positioned with the largest acreage portfolio in Australia – comprised of 50 million acres 100% operated -

which represents one of the biggest underexplored single country exploration packages under single operatorship in the world.

Mr. John Heugh, Central Petroleum's Managing Director informed the Australian Investor, "In regards to our exploration we have taken the appropriate steps with government departments to ensure that we can, if necessary, undertake the minimum amount of exploration so that we are able to retain our solid cash reserves in this challenging time."

This is a cautionary position as the Company has emerged from this financial crisis with more than enough funds to keep it running for the next several years.

Mr. Heugh told the Australian Investor, "While we await our joint venture partner's conclusions on the study of new data acquired in 2008, we are focused on finding an appropriate joint venture partner or partners that will compliment the strategic partnerships we already have in place and enable us to increase our exploration activity.

"We believe Central Petroleum's outlook for the short term is steady and for the longer term we think it is brilliant. We are strategically positioned with an extensive land package in an area that partially surrounds producing fields that have continuously been in production since the mid 1980s. Plus, we have the team to make the most of this position and a market, in the medium to long term, where demand is increasing. As a result, we are excited by the future for Central Petroleum and believe we will overcome the current volatility in the market, with excellent far reaching results."



Furthermore, Pike River Coal Limited is set for an exciting 2009, by leveraging off the quality of its premium hard coking coal; its established long term contracts; its diversified customer base; and its solid board and management team.

Mr. Gordon Ward, the Managing Director and CEO of Pike River Coal informed the Australian Investor, "A key attribute that will aid our future growth is a willingness by buyers to recognise Pike River Coal's very high quality and enter into long term contracts.

"In fact, we have already sold around 55% of all the coal mined over the 18-year life of the mine to two Indian companies – Saurashtra Fuels and Gujarat NRE - who are also major shareholders of the Company. This is a long term relationship in which those companies have a vested interest in Pike River Coal performing well."

The Company's foundation for future development is also strengthened by its breakthrough to coal in mid-October 2008 and the substantial completion of its mine development and infrastructure.

Mr. Ward added, "We are optimistic about the future outlook for Pike River Coal. We are listed in the Top 50 NZX companies and the only listed coal company in New Zealand. We intend to maximise the value of this position and the potential value of our mine to capitalise on the anticipated growth in the demand for premium hard coking coal that we believe will be driven - in the long term – by the Indian and Chinese economies."



The last company to make it into our Value Stock feature is Legend Mining Limited, which intends to maintain its growth and development throughout 2009 by leveraging off its solid cash position and strong management team, with its recently released quarterly report

indicating its ability to have a productive quarter despite the continuing uncertainty of the financial markets.

Mr. Mark Wilson, Legend Mining's Managing Director informed the Australian Investor, "One of the most important attributes that has enabled us to achieve these results is our strong cash position, which provides us with a solid foundation to fund our exploration activities. Along these lines, we have recently announced an investment in Independence Group with the strategy of increasing our cash position without diluting our shareholders – giving us more buying power in the market."

"Additionally, we have an excellent team that is able to extract value from our existing projects and quickly react to opportunities that may present themselves in the market place, which we are able to utilise our cash reserves to pursue as new projects."

For 2009, Legend Mining intends to continue to advance the development of its three main projects in Western Australia: Pilbara (nickel-copper, zinc-copper, iron ore); Mt. Gibson (zinc-copper-gold, with an existing resource of 500,000 ounces of gold at 1.97 g/t); and Gum Creek (copper-nickel-PGE, gold, iron ore).



Broadly speaking, Mr. Beer noted that 2009 will present the best opportunities for investment in stocks in probably 10-15 years.

"Without doubt, these opportunities come along only 2-3 times every 50 years, and for those that have cash available (very few after 2008), this could prove to be one of the most rewarding years in recorded history," he told the Australian Investor, "To quote Warren Buffett 'A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly fear is now widespread, gripping even seasoned investors.'"

Mr. Beer also noted that it is important obtain investment advice from a qualified and experienced stockbroker, especially if you are investing for the first time without having any experience in equities investment.

It is not the role of the Australian Investor to make specific stock recommendations....it is our role to provide you with up to the minute information about what companies are doing.

Value Stocks is part of our series of features in which we have invited the included companies to explain their activities, priorities and ambitions.

These are companies that welcome enquiries from potential or current investors, are keen to keep the market informed, and most importantly, provide you with the information you need to make an informed decision.

We have spoken to each of the featured companies, and a more detailed explanation can be found in our company's research section.

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