Leyland Lines

July 2007

MARKET UPDATE

Leyland Lines is our monthly newsletter providing investors with our insights on the overall market, individual companies and other relevant issues. All the information contained in this newsletter is for general reading only and should not be taken as a personal recommendation. We encourage you to call Leyland Private Asset Management for specific advice in relation to your portfolio.

Welcome to the July 2007 edition of Leyland Lines.

Over the last month, we have seen the overall share market generally trade sideways as many investors await companies to report their yearly earnings in August. As we suggested in June, agricultural stocks have performed well as have oil stocks. In particular, the AED Oil highlighted in the June edition of Leyland Lines has increased by $1.00 during the last month. More recently, the large mining stocks have risen significantly as analysts upgrade their metal price outlooks for 2008 and 2009. There is no doubt that the "stronger for longer" commodity cycle theme is gaining wider recognition and support, and hence investor interest in the mining sector.

In *Leyland Lines* this month, we have pinpointed three companies that offer investors valuable investment opportunities. Each business is trading at price to earnings ratio below that of their growth outlook. Our attraction to these companies is heightened by the fact that they are each global leaders in their respective industries with long-term strategic advantages over their competitors. Aristocrat Leisure supplies over 30 percent of poker machines in Australia; Boart Longyear is a leading supplier of drill rigs and drilling services to the mining industry; and Sonic Healthcare is one of the world's largest medical diagnostics companies, which is expanding in the USA and Europe.

Finally, we review a speculative copper company, Copper Strike, which is looking to establish operations in Queensland. This recommendation comes post our meeting with its Managing Director, Mr Tom Eadie.

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MARKET UPDATE

Aristocrat Leisure Limited (ALL)

Current price: $14.00

We have always respected Aristocrat Leisure's dominance of the poker machine industry. However, its share price has always been restrictive for new investors. Over the last few months, Aristocrat's share price has retraced significantly from a high of $17.55 to $14.00. The key reason given for the price slide is the rise in the Australian dollar, which results in global earnings (particularly US earnings) to be less in Australian dollar terms. In our opinion, the decrease in the share price is overdone as the change in earnings is not that significant – a $0.01move in the currency will have a 1 percent effect on reported net profits. The share price has retreated 20 percent against what should logically be a 5 percent deterioration in earnings in Australian dollar terms.

Formed over 50 years ago in Australia, Aristocrat is the global leader in the supply of gaming machines (poker machines) and gaming technologies. Aristocrat is legally approved to supply poker machines and services to over 200 jurisdictions and is a market leader in Australia, USA, Europe, Japan and now Macau.

Aristocrat maintains its market share by reinvesting 6 percent of its revenues into R&D, which enables it to continue to produce superior games for its clients (casinos, pubs, clubs etc). The reality is, the more attractive the game, the more money the punters will throw at it, and in turn, the more money Aristocrat clients make. Developing new games ensures ongoing repeat business with Aristocrat's clients ordering newer machines for their venues on a regular basis to keep their customers interested.

Analysts and Aristocrat senior management are confident that over the next few years it will continue to increase earnings by between 20-25 percent per annum. This growth will come from:

1. **North America** - which recently approved Tribal casinos adding 60,000 additional machines. Aristocrat currently holds 30-40 percent market share in the various jurisdictions and so will see the financial benefits in 2007/08. Aristocrat also increased its prices by 9 percent, which will help offset the fall in the US dollar. The outlook for 2009/10 in the US is that many older machines will need replacement, which again will benefit Aristocrat.
2. **Japan** - is a more recent market for Aristocrat and one that is set to expand rapidly over the next few years. Growth has been delayed due to slower than expected regulatory approvals, however these approvals are now in place and Aristocrat's management is expecting a strong result in the second half of calendar 2007.
3. **Macau** - is the largest and fastest growing gambling location in the world. Aristocrat is estimated to have over 45 percent market share of machines. Following the completion of The Venetian Resort (later this year), its market share will rise to over 50 percent. With many more casinos planned in Macau and each wanting the latest machines, Aristocrat is extremely well placed to benefit.

From an investment perspective, Aristocrat has historically traded at a significant premium to the rest of the market, reflecting its superior growth in earnings. However, this recent share price pull-back, due to the expectation that its first half yearly result will be hampered by the strength of the Australian dollar, now makes it a relatively good buy. In our opinion, the currency will not affect the ongoing growth of Aristocrat over the next few years, and its share price will recover to its historic premium. On a valuation basis analysts have 12 month target prices of $16.50 to $18.00.

We also note that Aristocrat is now trading circa 20 percent discounts to international peers despite its superior reputation and product. We would therefore not expect Aristocrat shares to remain depressed for too long; and suggest that it might become the target of a corporate takeover.

	FY2007F	FY2008F	FY2009F
EPS	$0.64	$0.76	$0.94
EPS Growth	24%	21%	24%
Price-earnings ratio	21x	17.5x	14.8
DPS	$0.44	$0.53	$0.66
Dividend Yield	3.1%	3.7%	4.7%

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MARKET UPDATE

Boart Longyear (BLY)

Current price: $2.25

Boart Longyear was listed on the ASX in April 2007 when it issued 1.5 billion shares at $1.85 per share. The company comprises two main business divisions:

- Drilling Services - which provides contract drilling services to the mining, energy and civil construction sectors
- Product Manufacturing - which manufactures capital equipment (primarily drill rigs) and consumables for the drilling industry.

Boart Longyear is the market leader in providing drilling services to the global resources market, holding a market share of 17 percent, which is well ahead of its nearest competitors. The company enjoys well-established relationships with virtually all the major mining companies. This provides Boart with relatively consistent workflow, as well as the ability to enter into new regions with the mining companies as they seek out more world-class deposits.

Current commodity prices indicate a strong market outlook for drilling services and products, with mining production and exploration expenditure expected to remain at heightened levels for several years more. Boart plans to take advantage of the favourable longer-term environment to grow its business through a number of growth initiatives. These include geographical expansion, entering new market segments, moving manufacturing into lower cost countries, and de-bottlenecking existing plants.

The drilling services market globally remains highly fragmented. Therefore, Boart is targeting acquisition opportunities to bolster its presence in certain geographic markets. Particular focus is on the industrialising BRIC (Brazil, Russia, India and China) countries where Boart's current presence is relatively weak. The company also intends to expand its operations in emerging drilling services markets such as the Canadian oil sands sector and the coal bed methane industry.

Boart has assembled an impressive management team and board of directors to steer it through its current growth phase. Managing Director, Paul Brunner has a high level of industry experience working for General Electric, Honeywell and Anglo American whilst Chairman, Graham Bradley is largely credited for building Perpetual Trustees into the business it is today.

The company is benefiting from the increase in drilling activities across the mining sector globally. There is a risk that a correction in commodity prices will dampen exploration expenditure. However, current prices are well ahead of costs of production and would have to fall significantly from these levels for there to be a material impact.

Boart is trading on a FY2008 price to earnings ratio of 15x at recent share price levels. This represents reasonable value, as analysts are currently forecasting earnings-per-share growth of 15-20 percent over the coming two years. In addition, there is considerable upside to these earning forecasts should acquisition-based growth opportunities materialize, and buoyant industry conditions persist. Boart Longyear will continue to prosper from the resources boom and warrants serious consideration for clients looking for exposure in the mining services space.

	FY2007F	FY2008F	FY2009A
EPS	$0.102	$0.122	$0.141
EPS Growth	-	19.7%	15.3%
Price-earnings ratio	18x	15x	13x
DPS	-	$0.037	$0..42
Dividend Yield	-	2%	2.3%

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MARKET UPDATE

Sonic Healthcare (SHL)

Current price: $15.43

Sonic Healthcare (SHL) provides pathology and radiology services in Australia, the UK, Germany, New Zealand, the US and Hong Kong.

The company has recently made a further acquisition in the United States known as Sunrise Labs which is located in the greater New York metropolitan area. The laboratory has annual sales revenue of US$75m and employs over 360 Staff. This, together with earlier US acquisitions has led the company to estimate that revenue in the US will equate to approximately $US 500 million per annum.

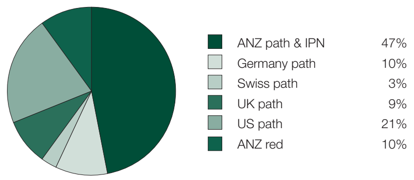
The current forecast PER for the company for the 2007 financial year is around 20.5 and although it does appear high, the acquisitions have brought to fruition a number of significant growth opportunities in the larger European and United States markets.

The share price has been a slight laggard when compared to some other industrial companies over the last twelve months (see chart below). With the recent Sunrise Labs acquisition most analysts have upgraded their forecast earnings for Sonic over the next two years.

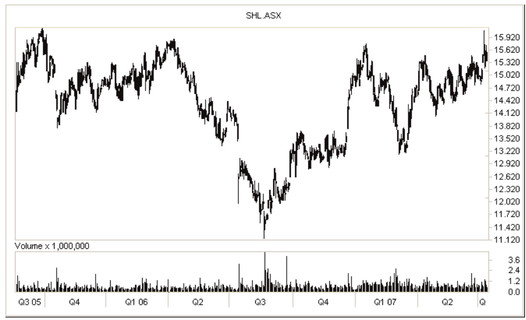
The ageing populations of the western countries where Sonic is expanding its operations point to a continued increase in the demand for both pathology and radiology services over the medium term. The risky elements of the international expansion are the achievement of the historic margins. The US margins are lower than the Australasian market. However in Australia in the previous 6 months of the financial year pathology margins have increased. As the earnings from overseas become greater, currency movements will also play a greater role. The sourcing of financing in the local currencies should soften any adverse affects.

Providing synergies can occur with the acquisitions and margins are maintained, the growth opportunities together with a dividend yield of around 3.5% 30% franked should see the company have an overall return that should better the market over the next couple of years.

EBIT SPLIT
(following Sunrise acquisition)



Source ABN AMRO



Is it time to consider an Individually Managed Account?

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Our senior management has proven track records over many years managing and advising private portfolios.

Individually Managed Accounts provide the following benefits

- Direct Share Ownership
- Day-to-day Portfolio Management
- No Hidden Fees
- Detailed Performance Reporting
- Tax Benefits
- No Entry or Exit fees

If you understand that direct share ownership is a key to wealth, please contact Leyland Private Asset Management.

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MARKET UPDATE

Copper Strike (CSE)

Current price: $0.66

This month we met with Copper Strike Managing Director, Mr Tom Eadie. Copper Strike is committed to exploring base metals deposits in Northern Queensland, with a view to establishing a regional mining development.

Copper Strike listed on the ASX on 24 November 2004, after acquiring a portfolio of tenements from Teck Cominco. The most substantial of these assets was believed to be the Einasleigh deposit, the site of a historic copper mine containing medium-grade copper deposits. Copper Strike also holds other tenements located in Northern and Central Queensland, South Australia and Tasmania. Most promising are the Einasleigh, Chloe, Walford Creek and Jackson deposits detailed below:

1. **Einasleigh and Kaiser Bill** - These two deposits contain large quantities of copper and smaller amounts of gold and silver. Einasleigh has indicated resources of 1.1Mt at 2.9% copper, 0.2g/t gold, and 15g/t silver.
2. **Chloe** - This is proving to be a richer resource than Einasleigh with approximately 2 to 4mt at 6% zinc, 2% lead, 60g/t silver, and 0.3% copper, with the exact Inferred Resources at Chloe due in August. Chloe provides enormous value in the form of its zinc deposits. Continued drilling later this month may show up even more resource and further studies will be necessary to obtain a more accurate assessment of the resource available.
3. **Jackson** - Recent drilling results combined with magnetic data from Jackson (formerly Chloe West) suggests the potential for this deposit to be larger and higher grade than Chloe. Results to date indicate that Jackson may be an equally important component of the development as Chloe. Calculations of the Inferred Resources will be released by August.
4. **Walford Creek** - Given its proximity to Century Mines, Copper Strike has been in negotiations to finalise a joint venture with Zinifex to mine an Inferred Resource estimated at 6.5 million tones at 0.6% copper, 1.6% lead, 2.1% zinc, 25g/t silver, and 0.07% cobalt. Negotiations have become protracted over past few weeks, but are expected to be finalised shortly. Mr Eadie noted that failing this, arbitration may be an alternate means of resolution.

An initial Feasibility Study was completed in March 2007 for joint development of the Einasleigh and Kaiser Bill deposits. The study was based on a 1.5 million tonne per annum milling operation with a mine life of seven years and capital costs around $88 million. Based on a copper price of around US$5,500 per tonne (currently US$8,000) and a cash operating cost of US$3,250 per tonne, the study showed that the project would generate A$86 million in cash and earn an Internal Rate of Return of 19.5%.

Copper Strike is currently working on a revised Feasibility Study, which will assess the viability of incorporating the increasingly important Chloe base metals deposit with Einasleigh and Kaiser Bill in an integrated mining development. Mr Eadie indicated there is potential to ramp up production and at the same time lower total capital costs to around $50 million. He expects completion of the detailed study in August, with a production decision in September 2007. The revised Feasibility Study should show a substantial improvement in project returns.

Copper Strike has to be considered very speculative, potentially offering considerable short to medium term upside. Possible share price catalysts include further exploration success at the various deposits, release of the revised Feasibility Study, and a final decision for a regional mine development with production commencing in 2009.

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