

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 November 2007 edition of Leyland Lines

The past month has been one of the worst months in global markets for many years.

We have been using the past month to identify undervalued and missed opportunities in the industrial sector (particularly in some mid cap industrials) and we have been re-weighting some portfolios to increase their exposure to the resources sector.

During the month we visited Russell Tate, Chairman of STW communications and we provide a review of that meeting in this edition of Leyland Lines. We also highlight the opportunity to invest in Norfolk Group and Western Areas.

### Contents

*News Corporation*

*STW Communications Limited*

*Norfolk Group*

*Western Areas*

# Leyland Lines

## News Corporation (NWS)

News Corp has significantly underperformed the ASX 200 in the past 12 months; after a stellar performance in the preceding 12 months. We believe this is unwarranted.



To recap – NWS' operations are divided into eight industry segments: films; television; cable network programming; direct broadcast satellite television; magazines and inserts; newspapers; book publishing; and other.

The 'other' refers to News Corp's digital division which includes MySpace.

News Corp is operating extremely well across most of their divisions, and this quarter reported EBIT of US\$1.047bn, up 23% on pcp. The star performers were the film division, cable network programming and Sky Italia. This is the fourth consecutive quarter of double digit growth for News Corp and we believe the market is significantly underestimating the future growth profile for the company. The market is also underestimating the revenue profile of MySpace which could have revenues of over \$1bn in 2008.

Recently Microsoft purchased a 1.6% stake in Facebook (the social networking site directly comparable to News Corp's MySpace). The price paid implies a value of \$15bn on a dollar per user basis; even at a fraction of this price an investment in News Corp provides a free option on MySpace.

News Corp now has US\$8.1bn cash sitting on their balance sheet. With no major acquisitions in the pipeline, we believe the current buyback could well be extended.

The correction in the US Market presents an opportunity to purchase a quality company with high levels of free cash flow, dominant brands, aggressive management and a sound balance sheet.

## NO TIME TO RUN YOUR SELF MANAGED SUPER FUND?

### Leave the worry to us Leyland Individually Managed Accounts

One of the biggest challenges for those people with Self-Managed Super Funds (SMSF) is finding the time to manage investments wisely to gain the best possible return on those investments. So, many of our clients choose Leyland Private Asset Management to manage the equities portion of their personal super fund. Most investors want to maintain overall control, but recognise that their time and market knowledge sometimes limits their investment returns.

**Please contact Leyland Private Asset Management if you would like to talk further about us managing your super fund equity investments.**

MARKET UPDATE

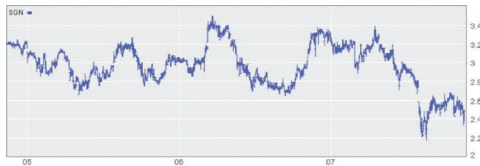
# Leyland Lines

## STW Communications Limited

**Current Price: \$2.48**

STW is Australia's largest advertising and communications group encompassing traditional advertising companies, strategic marketing consultancies, direct marketing and digital advertising operations. Clients include most of Australia's major companies and many international firms including Telstra, Optus, Toyota, IBM, and CBA. Singleton was the name behind the business originally but is no longer involved. The company is run by its Executive Chairman Russell Tate, who worked alongside Singleton for most of his career and is highly regarded in the industry.

As the share price has fallen to what appears to be an attractive level vs. historical profits and share price, we met with Russell Tate during the month to discuss its business and outlook.



Tate put the share price slide down to the dissipation of a takeover expectation from WPP earlier in the year ( explained later ) and a more recent profit downgrade from STW 's 49% owned J Walter Thompson advertising agency. STW currently has a market capitalization of \$529 million and made a \$40 million profit last year. Analysts are expecting the company to report a similar or slightly lower profit for this year to Dec 07. This would place STW on a valuation discount to the market, but the question is, can the company return to growing profits quickly.

In our meeting, Tate was very keen to explain that the downgrade was a short term issue and their business model of being able to offer large corporate clients a complete communications solution was making traction and would result in a superior market position in the years to come. Their model is to use the premier advertising client relationships to offer the same clients solutions for other marketing areas such as direct marketing and the fast growing Digital

Advertising. Digital advertising is still only a minor part of STW revenue at about 10%, however it is the area of the market that has the highest forecast growth rates and STW is Australia's largest digital advertising agency.

From a corporate perspective there is the real chance that if the share price gets too low, then STW major shareholder WPP could well make a full takeover bid. WPP already owns 19.5% of STW and the other 51% of JWT that STW doesn't own and the remaining 33% in Ogilvy Mather here in Australia. Listed in London and the US, WPP is one of the world's largest advertising groups owning the JWT and Ogilvy operations in the US and Europe.

Coming into the end of STW financial year there is a real risk that the earlier downgrade will lead to another disappointing result and therefore we are a little reluctant to buy at this stage. We also believe that the institutions are similarly wary which could lead to further share price weakness in the short term. Should the share price drop to around \$2.20 then we would view it as a good opportunity to accumulate stock in what looks to be a leader in the rapidly expanding digital advertising world.

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## Norfolk Group (NFK)

Norfolk Group listed on the ASX in July 2007. The company owns a collection of businesses which make it a leading engineering services provider in Australia and New Zealand. Its three main business units are:

**Electrical and Communications** – designs, installs and maintains electrical and communication systems and products

**Mechanical** – designs, installs and maintains heating, ventilation, air conditioning (HVAC) and refrigeration systems; also provides duct cleaning, plumbing and pipeline services

**Fire and property services** – manufactures, distributes and installs passive fire protection products and industrial doors; also provides facilities management services

Norfolk enjoys a number of competitive advantages in these three lines of business. The company is run by a highly experienced management team and has a large and highly skilled workforce. This is particularly important in a tight labor market experiencing skills shortages. Operations have diverse scale, both in terms of services offered and geographic coverage. This enables Norfolk to undertake large, complex projects and provide nationwide services to key customers.

Norfolk has brands that are widely recognized, many of which have an established history and entrenched relationships with a diverse base of customers. These include Haden, the leading provider of HVAC services in Australia. Haden was established in 1816 and now has 30 branches across Australia. Another example is O'Donnell Griffin which has been operating since 1906 and is a leading electrical engineering and contracting business with a nationwide presence.

Norfolk's businesses have a history of profitability and consistent margins. Capital expenditure and working capital requirements are modest, meaning the businesses generate strong free cash flow. Moreover, a large and growing part of the company's revenues are derived from maintenance and services contracts. These revenues are recurring and result in more predictable earnings.

The businesses are exposed to attractive end-markets such as infrastructure (road and rail), mining and power generation facilities, with the growth states of Western Australia and Queensland as key markets in terms of revenue. Norfolk's businesses are well positioned to grow organically over the next few years at 5-7% p.a.

Growth opportunities will be further bolstered by bolt-on acquisitions of complimentary businesses which improve the service offering. These acquisitions will also fill any geographic gaps in Norfolk's businesses domestically and facilitate the company's plans to expand its service offering to key customers in overseas markets, particularly in the booming Middle East. There is balance sheet capacity to make roughly \$40 million in bolt-on acquisitions. Assuming standard industry multiples, this would boost Norfolk's EBIT by roughly 30%.

The company is currently trading on a FY08 PE ratio of 14x which represents good value considering the quality of the businesses and high earnings visibility. Current earnings estimates could prove conservative as Norfolk's key markets remain strong and bolt-on acquisitions are high on the company's agenda.

	FY2007	FY2008E	FY2009
EPS	11.8	15	16.9
DPS	-	5.7	9.5
PE Ratio	18x	14x	12.5x
Dividend Yield	-	2.7%	4.5%

Source: Consensus Estimates

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## Western Areas (WSA)

**Current Price: \$5.94**

**Market Capitalization \$988m**

Western Areas is a nickel producer that continues to have excellent high grade nickel discoveries. Following the takeover offer of Jubilee mines by Xtrata most analysts have been doing the numbers on other listed nickel companies that have known reserves and substantial exploration upside. Western Areas, Independence Group, Sally Malay and Allegiance Mining have all been beneficiaries of this sentiment.

Western Areas is starting to produce from the Flying Fox mine which has also had some substantial exploration success only 500 meters from the mine. Further drilling results are eagerly awaited.

Western areas has the potential to produce as much nickel as Jubilee and has similar potential for the mine life to be extended beyond the current 15 years.

One of the greatest attractions for both Jubilee and Western Areas is their high grades of nickel and lack of impurities. These types of resources tend to attract a premium in the international market.

Jubilee Mines has a very similar profile to Western Areas yet it is three times the market capitalization. Analysts have argued that the reason for the difference is likely to be the lack of a lengthy production profile. Western Areas production from Flying Fox has only just started. Further production will commence at Diggers South Mine in 2009 with other areas such as New Morning and Daybreak following. There could also be further mines at Comic Boy and the newly discovered Spotted Quoll.

As the sector consolidates the pricing power of the major producers will increase in a similar vein to the situation that has occurred with the iron ore producers, this will assist all nickel producers.

The exploration potential of Western areas remains significant with areas such as Flying Fox and Forestania offering excellent potential; the Forestania area is actually larger than the Kambalda region where Western mining/BHP has produced for many years. The Flying Fox mine will be Western Area's first mine but the whole Forestania area is over 50 Km in length and contains at least three large nickel systems.

The high grade nickel that Western Areas producers will also set it up as on one of the lowest cost producers in the world.

There has been some talk about a takeover for Western Areas, but Management does control over 20% of the stock so any offer would have to be pretty attractive. There is also the takeoff agreement with Norilsk which covers around 4 year's production which may also be considered a slight impediment.

Nevertheless as there are only a limited number of quality nickel companies in Australia let alone the world it would be no surprise if there was some corporate activity.

The increasing production profile and significant potential to discover further high grade Nickel deposits is likely to see an increasing interest from both institutional and corporate investors.

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