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Overseas Market Report - Wall Street Takes Comfort From Rate Rise

US stocks rose as the Federal Reserve raised interest rates, with Lehman Brothers and Goldman Sachs helping to lead the way higher. Stocks had been up, but added to their gains in the late afternoon after the Fed increased interest rates by one-quarter of a percentage point, which the market took as somewhat reassuring.

The Dow Jones Industrial Average gained 40.04 points (0.39%) to 10,244.93, the Nasdaq Composite Index advanced 13.10 (0.69%) to 1,921.17 and the Standard & Poor's 500 Index added 7.10 points (0.63%) to 1,129.30. On the New York Stock Exchange, there were 2,321 issues advancing, 970 declining and 173 unchanged.

Lehman Brothers rose $3.73 (4.9%) to $79.75 after fiscal third-quarter earnings rose 5.2%, beating Wall Street's expectations. Goldman Sachs gained $3.22 (3.5%) to $94.90 after fiscal third-quarter profit rose 30%, helped by strong growth across all segments.

The news carried over to other investment banks, with Merrill Lynch rising $1.87 (3.7%) to $52.97, Bear Stearns gaining $2.35 (2.7%) to $90.09 and Morgan Stanley ahead $1.42 (2.8%) to $52.38.

While brokerage shares were rising, some tech stocks were struggling. PalmOne (Nasdaq) plunged $5.68 (15%) to $31.60. The maker of electronic handheld devices swung to a profit in the fiscal first quarter, but its second-quarter earnings estimate is well below Wall Street's expectations. But competitor Research in Motion, which makes the BlackBerry device, gained $1.84 (2.5%) to $76.45 on the Nasdaq.

Red Hat (Nasdaq) plummeted $1.87 (12%) to $13.23. The provider of software and services for the Linux computer operating system reported that second-quarter earnings more than tripled, but revenue came in lower than expectations.

Dow industrial Altria Group fell 93 cents (2%) to $46.15, after dropping 2.9% on Monday. And Reynolds American lost $1.79 (2.6%) to $68.10 after falling 3.4% the day before. The U.S. Justice Department began its $280bn civil racketeering suit against cigarette makers Tuesday by alleging "flat-out lies" over decades that "victimized the youth of America."

There was plenty of upbeat news among homebuilders helped by news that housing starts in August rose to their highest level in five months, including KB Home, leaping $7.11 (9.3%) to $83.36. The company posted a 20% increase in fiscal third-quarter earnings, driven by higher unit volume and expansion of its construction operating profit margin.

Lennar rose $1.29 (2.8%) to $47.24 after the home builder posted a 12% rise in its fiscal third-quarter profit. Hovnanian Enterprises gained $2.22 (5.6%) to $41.60 after saying it purchased the home-building assets of Rocky Gorge Homes for an undisclosed amount of cash.

Commerce Department reported at 8.30 a.m. EDT (1230 GMT) that housing starts increased 0.6% to a seasonally adjusted 2.0 million annual rate in August, beating expectations for a 1.4% drop. Housing starts rose a revised 9.4% in July.

After the FOMC raised its federal-funds rate to a widely expected 1.75% from 1.50%, the bond market slumped, only to subsequently recover from session lows as the central bank's policy statement was dissected.

The FOMC noted "output growth appears to have regained some traction and labor market conditions have improved modestly," and they also noted "despite the rise in energy prices, inflation and inflation expectations have eased in recent months."

The tone of the statement implies the Fed will continue tightening policy, and federal funds futures were pricing an 84% chance of a 25-basis-point rate increase at the Nov. 10 FOMC meeting. That prospect kept the rate-policy-sensitive two-year note under pressure.

After an immediate post-FOMC swoon in Treasurys that sent the two- and 10-year yields to session highs of 2.51% and 4.11%, respectively, yields pulled back, led by longer-dated maturities. The 10-year note yield fell to a session low of 4.03% before settling around 4.05%.

The FTSE 100 ended 28.9 points (0.6%) higher at 4,608.40. The FTSE finished the session near its intraday high as investors got a handle on some upbeat corporate newsflow.

Base metals were again higher on the LME, with the exception of tin which fell by 0.83%.

Copper prices rose to a five-month high on signs of improved demand in China, the world's

biggest buyer of the metal.

Spot gold rose to its highest level in almost three weeks as a decline in the dollar made the precious metal cheaper for buyers holding euros.

Crude oil rose to a month-high, topping $47 a barrel as concerns grew over the slower-than-expected recovery of oil production in the Gulf of Mexico following Hurricane Ivan.

Equities	Close	% change	Commodities	US$	Close	% change
Dow Jones (US)	10244.93	0.39	Aluminium	US$/t 3mth	1802.0	2.80
S&P 500	1129.3	0.63	Copper	US$/t 3mth	2899.0	1.76
NASDAQ	1921.18	0.69	Nickel	US$/t 3mth	13375.0	0.38
FTSE 100 (UK)	4608.4	0.63	Gold	US$/oz	410.1	0.76
Nikkei 225 (Japan)	11080.87	-0.01	Oil	US$/bbl	47.1	1.60

Australian Market Report - Local Markets to Gain on US Lead

Local shares are likely to gain on the back of rises in US stocks after the Federal Reserve increased interest rates by a quarter of a percentage point to 1.75% and delivered a generally upbeat statement about the economy. Gold and oil stocks should rise on the back of higher prices.

The Australian share market floated mildly higher Tuesday after a weak opening following record high oil prices and poor trading in US markets. The All Ordinaries index rose 0.9 points (0.02%), closing at 3,642.3 and the ASX 200 gained 0.7 points (0.02%) to 3,629.4.

The New South Wales government inquiry into James Hardie Industries NV's fund to compensate asbestos victims said it found the funds to be "significantly inadequate." The inquiry also found "there was no legal obligation for James Hardie to provide greater funding to the foundation," but Commissioner David Jackson noted the company was aware of the need for more funding. Jackson also found that James Hardie media releases to the Australian Stock Exchange were "misleading" and said it is now a matter for Australian government authorities to determine whether any further action should be taken. He also said that James Hardie Chief Executive Peter Macdonald and Chief Financial Officer Peter Shafron breached their executive duties. It also restated its finding that James Hardie's asbestos liabilities won't be less than $1.5bn. JHX closed 21 cents higher (3.76%) to $5.80.

In the resources sector, Monday's gains were curbed with BHP Billion losing 9 cents (0.50%) to $13.85 and Rio Tinto down 4 cents (0.11%) to $37.65. Oil and gas companies strengthened, with Woodside gaining 10 cents (0.52%) at $19.15 and Roc Oil rising 4 cents (2.37%) to $1.73.

Banks were mixed, with CBA gaining 15 cents (0.51%) to $29.78, ANZ shedding 12 cents (0.65%) to $18.36, Westpac Bank gaining 8 cents (0.47%) to $17.00 and NAB rising 3 cents (0.11%) to $27.04.

Telstra continued its slump closing down 5 cents (1.07%) to $4.64 and News Corp shed 10 cents (0.84%) to $11.87.

Cochlear released an outlook statement that said it had potential for robust medium to long-term growth, consistent with its long-term EPS target of 20% growth. The outlook for strong growth will continue in the Americas region over the medium to long term, but in the short term, lower growth trends across the industry in the USA, clinic capacity problems and ongoing issues of awareness and reimbursement will continue to be key challenges. These will be tackled in financial year 2005 but the sales impact will not be immediate. COH gained 10 cents (0.47%) to $21.50.

GUD Holdings announced that it will cease manufacturing automotive filters in Australia from the end of February 2005. The cessation of manufacturing at GUD's Tottenham plant in Victoria will result in a $12.3m pre-tax charge, comprising $3.4m pre-tax in cash costs, principally for 62 employee redundancies, and a non-cash asset write-off of $8.9m pre-tax. The company believes that through this initiative, Ryco's brand quality will be maintained, its market competitiveness will be improved and it will be better placed to sustain solid returns for shareholders. GUD gained 7 cents (0.72%) to $9.85.

Companies commencing ex-dividend trading today include: John Fairfax Holdings, Pacific Hydro.

Equities/Fixed Interest	Close	% change	Currency	Close	% change
All Ordinaries	3642.7	0.04	AUD/USD	0.704	-0.01
S&P/ASX 200	3629.9	0.03	AUD/GBP	0.392	0.03
10-year Bond Rate	5.3267%	0.09	AUD/YEN	77.24	0.10
5-year Swap rate	5.68%	0.53	AUD/EUR	0.57	0.09
90-day Bank Bill Rate	5.4%	0.09	AUD/NZD	1.06	-0.01

Industrial

Aristocrat Leisure (ALL)

Great result, but well priced

Reduce **$7.21**

Event

ALL produced a massively improved profit for the six months to 30 June 2004. On sales up 30% to $525.6m, EBITDA was up 214% from $39.5m to $123.9m. Net profit recovered to $63.3m from just $4.3m in the pcp. EBITDA margin rose from 9.8% to 23.6% and EPS increased from 0.9¢ at the nadir of ALL's fortunes (excluding one-offs!) to a respectable 13.3¢. The dividend was increased from 3¢ franked to 4¢ unfranked.

The headline result was a positive surprise, although it was not particularly transparent at the EBIT level. Operating cash flow trebled to $90m, pushing gearing (net debt/equity) down to only 4%. The Australia and New Zealand markets remained challenging. ALL is well positioned for the growing Native American casino market. Japan's EBIT trebled for the half.

Impact

Cash doubled to $174m, mainly from the extra cash flow and lower working capital. The gearing ratio will increase, as ALL funds the already announced $100m share buy-back. The balance sheet has been well managed, with stated working capital falling from 11% of revenue to 9.6%. There are $185m of June 2006 subordinated convertible bonds on the balance sheet, which could potentially convert to over 31m shares.

ALL forecasts NPAT of $115-135 million for FY2004, subject to market conditions. EPS will be impacted by the share buy-back. Underwriting the DRP has been suspended. The share buy-back may be a pre-emptive partial solution to the potential 2006 dilution.

ALL's gaming business is well positioned for possible North American and Japan growth. Dividends are expected to increase but will be partly franked. There is considerable uncertainty about issued capital. At around $7.20, ALL is trading at 27 times 2004 forecast EPS. With the uncertainties, we have forecast only slight growth for 2005, but there is upside risk if both North America and Japan continue to fire. We suggest NPAT would have to at least double again in FY05 from the expected FY04 level of $126m to justify the current multiple.

While prospects remain, they are already fully priced in.

FYE Dec		2002A	2003A	2004E	2005E
Reported NPAT	$m	80.2	54.0	126.0	129.0
EPS	c	17.6	11.7	26.7	27.0
P/E	x	31.0	16.4	26.1	25.8
EPS Growth	%	-7.9	-33.5	128.2	1.1
DPS	c	12.0	6.0	9.0	12.0
Yield	%	3.1	3.1	1.3	1.7
Franking	%	100	70	--	25

Source: Intersuisse estimates

Great Southern (GTP)

Strong Result. Senate Report concerns provide buying opportunity

Accumulate **$3.19**

Event

GTP's NPAT of $93.2m for the year to June 30, 2004 was slightly above expectations.

The Senate committee recently released its review of Vision 2020, reinforcing the overall goal of increasing growth, but recommending deleting the specific target of 3 million hectares, as a 'distraction'.

With critical product rulings from the ATO, GTP shares offer exposure to management income from plantation and vineyard Managed Investment Scheme (MIS) revenues.

Impact

GTP's growth has mainly come from renewed interest in agribusiness Managed Investment Schemes, benefiting from the Federal Government's earlier 'Vision 2020' to treble plantation acreage. GTP has gained most of the recent MIS inflows, with 37% market share in FY04.

GTP is an experienced plantation manager with skills. GTP doubled its plantable acreage to over 100,000 ha, after acquiring Challenger's forestry assets in March.

GTP benefits from the strong underlying demand for high quality woodchips from both Japan and China. GTP will harvest the first of its 1994 plantings this year. Harvesting fees should continue. Other MIS fees, the main revenue source, depend on whether GTP can keep attracting fund inflows. This could be an area of risk. A major complication is how GTP funds its purchase of new acreage through hybrids. Notes can convert into scrip, heavily diluting EPS. Upside in dividends could be limited.

At around $3.15, GTP is trading on an FY05 P/E of 8 times, partly because of the uncertainties on its capital and direction. The price has still to recover fully from initial perceptions of the Vision 2020 Senate review.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	$m	41.4	91.4	108.7	115.3
EPS	c	20.7	40.3	38.4	38.0
P/E	x	3.2	5.3	8.3	8.4
EPS Growth	%	65.6	94.7	-4.7	-1.0
DPS	c	7.0	10.0	11.0	11.0
Yield	%	4.9	4.9	3.4	3.4
Franking	%	100	100	100	100

Source: Intersuisse estimates

VeCommerce (VCM)

Trademark - The future is hear

Buy **$1.75**

VeCommerce is a small company with a big position in speech recognition in Australia and New Zealand. It supplies a solution for major operators of call centres that shortens customer waiting time, reduces staff load and mis-connections and enhances customer satisfaction.

VCM has cornered the TAB wagering market and has installed its systems into Suncorp Metway, Westpac, many taxi service operators, Pizza Hut, Computerhare and ASX-Perpetual share registries, the Australian operations of Telecom New Zealand and the NZ operations of Telstra.

VCM believes it is the only speech recognition specialist that has built suites of leading-edge

speaker verification and voice enabled e-commerce solutions now used in a number of industries including Wagering and Gaming, Transport and Ticketing, Financial Services, Utilities and Government Services.

The technology enables computers to recognise natural human speech by mapping an acoustic speech signal to text. It automates repetitive, high volume telephone transactions or inquiries and a VCM interface saves the caller from waiting and pressing numbered buttons, rather interacting in a natural conversational way with an accuracy and flexibility that has proven results. VCM says that customers with call centres of say 100 people or more have spent say $2m on a VCM installation and won a payback within 12 months while also increasing product cross-selling and improving customer relations.

VCM is at the start of a likely substantial profit growth. It achieved revenue of $12.9m in the year ended 30 June 2004 with a maiden profit of $452,000. It declared a maiden dividend of 2¢ as token that its three-year 'quiet' development period was over and it recognised the interests of shareholders.

Cash of $6.7m at year-end has since grown despite paying off the only debt of $1.0m, helped by significant work in progress of $3.9m at 30 June. There are no intangibles. NTA per share was 76¢.

VCM technology was incubated in Scitec, an ASX-listed Sydney-based voice, data and networking group. Scitec could not build wealth from its old core business, but sold it off at a substantial profit and returned cash to shareholders, changing its name to VeCommerce and building its new business over the last three years.

After a peak of 90 staff during development, VCM now employs about 60. With modules built for the applications noted above, configuration for a new client has become easier. Some 40% of business comes from New Zealand, Europe and North America and VCM sees plenty of potential globally as well as in Australia/NZ despite already being the leader here.

We are not able to estimate profits. VCM MD Paul Magee says profit growth could be very strong over the next two years but at the same time he is keen to build growth. While his focus is on growth he believes that a solid profit track record will help attract customers, so we can expect a balance from what clearly should be rapid revenue growth. This will come from 'annuity business', the support fees related to contracts already installed, from expansion of business with existing clients - the two telcos into their home territories for example, and finance groups spreading a successful installation across their wider business, and from new clients. In the wagering field VCM now supports 17 TABs internationally and there are many more to go for.

We have noted VCM's progress in winning contracts as its share price has moved from under 50¢ a year ago and expect considerable further success as the story is now proved. With a market capitalisation of $22m, profits could readily exceed $2m in the near term and grow strongly. Buy for significant speculative upside.

Resources

Hardman Resources (HDR)

Situation Update
Hold/Accumulate **$2.07**

Drilling underway in Mauritania

Drilling has commenced in Mauritania, with up to 21 wells to be drilled in the current programme.

Most of the wells are being batch drilled, which means that they are being drilled initially by the West Navigator rig to a depth roughly above the primary target zone, with final drilling and completion to be undertaken by the Stena Tay rig.

Since the program commenced last week, the following activity has taken place:

Dorade-1 exploration well in PSC Block 2 has been drilled and suspended for completion;

Chinguetti-8 water injection well has commenced drilling;

Tevet-1 exploration well in PSC B has commenced drilling;

Capitaine-1 exploration well in PSC B commenced drilling but had to be abandoned due to operational problems. It will be redrilled later.

Impact

In terms of the overall program, three wells will be drilled in PSC Area B, two in PSC Area A and one in PSC Block 2. All are in Miocene reservoir targets where the JV has had 100% success to date.

The PSC Area B wells are planned for the Tevet, Merou and Capitaine prospects. However, in addition to the lower risk prospects, proven by the Chinguetti and Tiof discoveries (both in PSC Area B), some will test new channel areas in the deep water parts of PSC Area A and PSC Block 2. The appraisal programme will consist of three wells into the Tiof discovery and a contingent fourth well.

Because of the batch drilling approach, we do not expect any results until October. Invstors therefore still have an opportunity to buy into HDR in anticipation of success in the program.

In terms of development, the Chinguetti Field has been declared commercial and a fast track development schedule should see first oil production by the end of 2005. If all goes according to plan, first Tiof production could be expected 18 months after Chinguetti by mid-2007.

Pioneer Nickel (PIO)

Situation Update
Speculative Buy **$0.17**

Jubilee to fund major nickel exploration program

We initiate coverage of PIO on the back of the announcement yesterday that Jubilee Mines (JBM) will subscribe for a 10% placement in PIO at a share price of $0.15 (well above the market price of $0.12 before the announcement), as well as agreeing to spend $3.0m over a period of 3 years to earn a 60% stake in PIOs Acra nickel sulphide exploration project.

JBM is an aggressive exploration spender and this deal complements its existing ground position at Emu Lakes, where it now has tied up 140 km of strike of prospective nickel acreage. JBM has an existing joint venture with Image

Resources (IMA) where it is earning a 60% stake and this deal with PIO lies adjacent to these leases.

Impact

PIO emerged in 2003 as a spin-off from its parent, Heron Resources (HRR), taking the sulphide nickel assets out of HRR and leaving HRR with the lateritic nickel assets.

PIO has been a relatively unspectacular sharemarket performer so far, but this deal with JBM could change things. JBM will appoint a representative to the PIO board and subscribe for a 10% placement in PIO.

JBM is an aggressive nickel explorer and has committed to spending $3.0m over a 3-year period to acquire a 60% stake in PIOs Acra acreage, which immediately adjoins its Emu Lakes farm-in with IMA. PIO will also be refunded $230,000 of past expenditure, with JBM potentially moving to 75% ownership by paying a further $200,000 in cash to PIO and spending a further $3.5m on exploration over a further 3-year period.

PIO has a current market cap of $6.4m and had cash reserves as at June 30 of $3.5m.

PIO shareholders can look forward to an exciting time as JBM will aggressively test the best targets its Acra acreage can offer. We initiate coverage with a Spec Buy.

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