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Stock up on bargains

November 28, 2011 - 3:00AM

With the market how it is, more stocks are going for less than \$1, so it could pay to rummage through the bargain bin.

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These specials aren't confined to speculative mining explorers, either.

The going sharemarket discount is 30 per cent below normal values.

The trick is to separate shares that are on sale for less than \$1 because they have a long way to grow from those that have passed their use-by date. New stocks suffer because analysts don't follow them and fund managers don't hold them.

Being unknown might be death in a bear market but it's almost a thrill in a bull one.

In an upswing they suddenly attract attention and are re-evaluated.

Ever heard of Allied Mining and Processing?

You have, you know. It was far and away the best-performing stock over the past 20 years, with a return of 5083 per cent a year, according to CommSec.

Still can't guess? It's the original name of Fortescue Metals Group.

While it was a spectacular success, the other reason small stocks are more likely to out-perform, if you pick the right one, is that they are riskier. "Taking a bit more risk can enhance a portfolio return in the long term," the chief executive of research house and fund manager Lincoln, Elio D'Amato, says.

Then there are older stocks that have landed at Vinnies but are sprucing themselves up. A bear market like this isn't quick to forgive and is prone to mark them down too far.

So here are 10 stocks trading at a \$1 or less analysts say are discounted too far, starting with the cheapest:

1. BSA

Price: 18.5 cents

BSA installs heating, ventilation, airconditioning and fire alarms in offices and factories. It also has a division, oddly named Triple M, that hires out technicians to telcos, broadcasters and utilities, plus it owns Mr Antenna and Mr Alarms.

"It's a nice steady business and pays a 10 per cent franked dividend," the chief investment officer of Clime Investment Management, John Abernethy, says.

Because the price is so low, the 2¢ a share dividend produces a yield of 15 per cent after taking the tax-free 30 per cent franking credit into account. It also paid an extra 1¢ special dividend in 2010-11.

The company has just extended its deal with Foxtel, installing and servicing satellite connections for another four

years. It reported a net profit of \$8.6 million in 2010-11, up 7 per cent.

2. FSA Group

Price: 28 cents

FSA Group says it is "Australia's largest provider of debt solutions" but Abernethy's description will do me: "It's a finance company for people who can't get a bank loan."

Ah, a loan shark?

No, not that. It's more about consolidating debts. It also offers "non-conforming" home loans to those who don't tick all the boxes for the banks, which, strange to say, provide it with the money to lend to those they turned down.

It can also arrange debt agreements to stave off a bankruptcy, something a loan shark is more likely to cause. For small businesses it offers consulting services as well as factoring finance.

It sounds like a stock that would thrive in tough times.

Wouldn't you know, it posted a 20 per cent increase in net profit to \$9 million in 2010-11.

Abernethy likes it because it's trading for less than the 35¢ a share its assets are worth.

"It has a reasonable return and it's paying a dividend," he adds.

3. Fisher & Paykel Appliances Holdings

Price: 28 cents

"This is a cheap stock rather than a great business," the head of equities at Morningstar, Andrew Doherty, says.

Fisher & Paykel, a New Zealand-based white-goods manufacturer and provider of consumer finance, is trading well below the 41¢ a share value of its assets.

It must be New Zealand's only home-grown multinational with annual sales topping \$1 billion thanks to exports to the US, Britain, Europe and Asia from factories in Thailand and Mexico. But as a manufacturer facing intense competition in subdued markets with the burden of a relatively strong currency, it will always be up against it. Yet it's an unlikely China play. Through its hook-up with Haier, Fisher & Paykel will be selling its premium products in the huge, fast-growing Chinese market.

Although it slashed its debt last year with a capital raising and by reducing inventories, its obligations still stand at an Italy-like 113 per cent of equity. It made a profit of \$133.3 million (down 21 per cent), which became a loss of \$166.7 million after one-off writedowns.

"It's had a very poor year but there should be some improvement next year," Doherty says. "The price has been marked down too far on a long-term basis."

4. Coffey International

Price: 37.5 cents

This project manager of high-rise buildings, roads and tunnels has been going for 50 years and has offices around the world.

"It had too much debt and has been re-capitalised," the chairman of Wilson Asset Management, Geoff Wilson, says. "It has a new managing director [John Douglas, appointed in March] who is very impressive. He's cleaned the place up. It had four levels of management structure and he has got this down to one."

"If he's got it right, the price will double in the next 12 to 18 months. We've bought a small holding but will need to keep an eye on it and see if he can do it," he says.

The stock is trading on a lowly price/earnings ratio of six, about half the market's average.

Wilson says it's plugged into the mining sector, which gives it growth and its shares are for sale at a discount.

5. Goodman Fielder

Price: 46.5 cents

A loaf of bread it bakes is worth more than a share in Goodman Fielder.

Despite icons such as Vogel's, Wonder White, MeadowLea, White Wings and Holbrooks, the stock perennially disappoints shareholders. It recently raised more equity - another blow, not to mention cutting its dividend - and is undergoing a strategic review.

Goodman Fielder is squeezed by rising commodity prices on one side and the supermarket home-brand price wars on the other. But, then, it might be its own worst enemy judging by the mea culpa comments of Chris Delaney, its new chief executive, at its recent shareholder presentation, such as "lack of focus", "isolated decisions" and "structural inefficiency".

"A lot of bad news is already in the share price," the head of investments at Macquarie private-portfolio management, Paul Trainor, says. "The dividend yield stacks up despite the cut at 9 to 10 per cent partially franked." Frankly, its main appeal is that the shares have dropped so far that somebody might buy it out.

"Private equity is operating in the food and alcohol space. It wouldn't be out of the ordinary to see it step in," he says.

6. Goodman Group

Price: 58 cents

Goodman? This is a different one in every respect. It's a real estate investment trust (REIT) - or what used to be known as a listed property trust.

REITs were savaged by the global financial crisis because they had too much debt but Goodman has got its down to 38 per cent of equity. It develops industrial properties here and in New Zealand, Asia, Europe and Britain. "It has good completion, good occupancy, liquidity and growth opportunities in the Asian market," the senior investment specialist at Zurich, Patrick Noble, says.

There's a dividend too. At the latest price this yields about 6 per cent.

One day the market will forgive REITs for their earlier debt transgressions and Noble says Goodman is "one of the better ones below \$1".

7. Transpacific Industries Group

Price: 74 cents

Transpacific owns Cleanaway, which collects and recycles waste - something there'll never be too little of. It also does industrial cleaning.

The stock hasn't always been under \$1. In its heyday before the financial crisis struck it was trading above \$10. Still, it's not hard to see why it's been taken to the cleaners itself by the market.

"It was heavily indebted and had to raise capital a couple of times," the portfolio manager at Platypus Asset Management, Simon Bonouvrie, says.

But with the balance sheet no longer an issue, it's a potential turnaround stock. "It's an attractive valuation in the small-cap space and to industry and global peers," Zurich's Noble says. "With no debt maturing until 2014, it can stop focusing on just keeping afloat. Also the paydown in debt will free up operational cash flow."

8. Fairfax Media

Price: 76.5 cents

How embarrassing is this? Fairfax publishes this paper and is trading close to its record low, which is comfortably, or rather uncomfortably, under \$1.

But it was suggested by Platypus's Bonouvrie, so here we are. Mind you, he'd only recommend it under \$1.

Media stocks are finding the going tough, as I can vouch for, being hit by falling advertising and competition from the internet. Fairfax also publishes *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review*, owns metropolitan radio stations and claims Australia's most widely read online news site.

Bonouvrie likes the fact it's floating its digital goldmine Trade Me, the eBay of New Zealand.

"It will reduce balance-sheet debt and provide scope for dividend increases," he says.

9. Sunland

Price: 86 cents

The market hasn't forgiven property developer Sunland from getting heavily involved in the Dubai development bubble - even if it didn't mind at the time - that subsequently burst.

Yet it must have been the only company during the financial crisis to buy back shares instead of issuing new ones. It also has almost no debt.

The stock is trading "at a significant discount" to the book value of its properties of an expected \$1.83 next year, Wilson says.

Sunland's home-and-land packages are now mostly confined to Melbourne, Sydney and the Gold Coast and it plans to extricate itself from its last remnant in Dubai in the next year or two.

It made a better-than-expected net profit of \$21.4 million, up 17 per cent, though it expects this to slip to \$20 million this financial year.

10. Hansen Technologies

Price: 97 cents

This is the company behind your phone, gas and electricity bills but don't hold that against it.

Hansen Technologies supplies the computer know-how for the suppliers to bill you. It's also represented in the US, Britain and New Zealand and does everything from connection to collection.

"It's a monopoly in the sense that these contracts are locked in for a couple of years," Lincoln's D'Amato says.

"It has the three holy grails of investing: defensive earnings, growth prospects and a dividend yield over 6.5 per cent."

It's also debt-free. D'Amato values the stock at \$1.15.

This story was found at: <http://www.smh.com.au/money/stock-up-on-bargains-20111126-1nzsd.html>