

## PORTFOLIO RECOMMENDATIONS

28 September 2009

### **SIGMA PHARMACEUTICALS (SIP)**

*Short Term Buy*  
*Sector Health Care*

Sigma is one of three Australian large pharmaceutical wholesalers. Sigma also manufactures pharmaceuticals and OTC products for in-house brands as well as for contract clients. Through its merger with Arrow, Sigma now develops generic pharmaceutical products, markets and distributes generics for Australian and international pharmaceutical companies in the Australian market. SIP operates in a competitive environment due to PBS spending cuts, generics discounting and fierce competition from two similar sized competitors.

SIP has a good manufacturing base, a diverse product portfolio with strength in generics and a reasonable balance sheet. Whilst its first quarter of this financial year was disappointing its seasonally strong second half should compensate for this. Gearing has been material reduced as well as an improved interest cover, due to capital raising. SIP has modest organic growth prospects, a reasonable PE and a strong ff dividend yield, so despite unattractive fundamentals we recommend a short term buy of the stock.

### **CHALLENGER FINANCIAL SERVICES**

*Short Term Buy*  
*Sector Financials*

CGF is focused on annuities and funds management. It is the largest provider of retail annuities in Australia and offer a board range of investment products, with a focus on products offering guaranteed, long-term income streams.

In August 2009 CGF sold its lending business, extricating the company from low-growth and diverting the company's attention back to its tradition service offering of managed investments. CGF has expanded its life business which has increased the company's proportion of normalised earnings that are recurring in nature.

The increased focused on investment management exposes CGF to a higher margin business. We expect the downside protection offered by annuity

products to be attractive for those who wish to preserve their accumulated savings and will be a catalyst for stronger sales in years to come.

### **BLUESCOPE STEEL (BSL)**

*Short Term Add*  
*Sector Materials*

BSL is the only manufacturer of steel flat products. It holds approximately 80% of the Australian flat products market, with the remaining 20% imported. It has steel production in Port Kemba, NSW and in New Zealand. It also has processes in a number of Asian locations, and a 50% stake in BlueScop North Star Steel.

BLS has purchased IMSA which has enhanced its downstream operations and boosted its US presence. Its attractions include its strong market position and evolving Asia-based growth strategy.

Strong international market has been driving short-term earnings before prices collapsed in mid FY09. High input costs have now largely been digests and its cost base is resetting, relieving pressure in FY10 earnings. BSL is well capitalised and positioned to deliver growth, although there is a downside risk present in the form of the CPRS legislation.

### **SEVEN NETWORK (SEV)**

*Short Term Add*  
*Sector Media*

SEV is an investment company. In 2006 it sold its major assets, a metropolitan free-to-air network, Pacific Magazines and an online JV Yahoo!7, into Seven Media Group (SMG), an unlisted JV with private equity group KKR. SEV owns 48% of SMG. In FY07, SEV sold its interest in the Telstra Dome. It also has other interests in WAN, ENG and GRD.

The long-outlook for SEV is still unclear, as the market waits what management will do with the cash. Investment risks exist, but given the stock is still trading at a discount to NTA, we have recommended a buy.

---

This document has been prepared for the general information of investors and not having regard to any particular person's financial situation, objectives or needs. Accordingly in so far as any information may constitute advice (whether expressed or implied), it is general advice and no recipient should rely upon it without having obtained specific financial advice from their advisor at LeMessurier Securities Pty Ltd. LeMessurier Securities Pty Ltd makes no representation, gives no warranty and does not accept any responsibility for the accuracy or completeness of any recommendation, information or advice contained herein. To the extent permitted by law, LeMessurier Securities Pty Ltd will not be liable to the recipient or any other persons in contract, in tort, or otherwise, for any loss or damage (including indirect or consequential loss) as a result of the recipient, or any other person, acting or refraining from acting in reliance on any recommendation, information or advice herein. LeMessurier Securities Pty Ltd or persons associated with it, may have an interest in the securities or financial products mentioned in this document and may earn brokerage and other fees as a result of transactions in any such securities.

Australian Financial Services Licence: 296877, Best Buys Updated 28/09/09

**For more information please phone (02) 8307 0142**

---