
FINANCIAL REVIEW

Minnows punch above their weight

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Mermaid Marine and Compumedics head a list of impressive profit growth and recovery stories among the smallest stockmarket-listed companies.

The two vastly different companies have market capitalisations of about \$40 million and both have delivered strong earnings revivals in fiscal 2004.

Mermaid Marine, which operates tug boats, workboats, barges and provides contract labour, delivered by far the strongest earnings growth of more than 200 micro-cap stocks covered by Equity **Capital Markets**.

It turned its \$100,000 profit for fiscal 2003 into a \$4.3 million net profit for fiscal 2004.

The company's earnings have been buoyed by increased contract work with major oil and gas companies, including deals to undertake Woodside's trunkline expansion project.

Recognising the cyclical nature of the offshore oil and gas industry, Mermaid has predicted its earnings will dip in the current year before picking up again in fiscal 2006 when a number of Carnarvon Basin and North-West Shelf projects are expected to start.

Compumedics sells computer-based diagnostic technologies for sleep disorders, neurology and cardiology and has a net cash position. It generated a net profit of \$2.4 million in fiscal 2004, up from about \$100,000 the previous year.

Compumedics's revenue climbed by a modest 6 per cent to \$34 million but its earnings before interest, tax, depreciation and amortisation jumped by 55 per cent to \$2.9 million, which the company says reflects strong gains in operational efficiency.

"Micro caps generally met or exceeded what I thought were the earnings expectations," says **Cadence Capital** portfolio manager Karl Siegling, who highlights Forest Enterprises as another stand-out performer. The Tasmanian timber group lifted its annual net profit from \$400,000 to \$6.3 million on the back of production increases, enhanced woodlot investment for its managed investment schemes and new Japanese export contracts.

Forest Enterprises has almost no debt and has net tangible assets of about 39 ¢ a share, or \$90 million in total. Investors in managed investment schemes are paying around the \$7000 a hectare mark, suggesting Forest Enterprises' 24,000 hectares could be worth \$170 million.

With metal and energy prices booming in fiscal 2004, several miners and drillers have delivered superior earnings growth.

Nickel miner Tectonic Resources lifted its annual net profit by 422 per cent to \$12.2 million as a result of increased production from the RAV 8 nickel mine, improved nickel grades and a higher nickel price.

"Some of the mining sector turnarounds, such as Independence Group, MPI Mines and Straits Resources, were particularly strong due to a combination of better commodity prices and increased production," Equity **Capital Markets** director Tim Knapton says.

Electronic financial services firms IWL and E*Trade were among the top 10 micro-cap stocks that delivered strong earnings growth, given the rebound in the stockmarket.