



RED HOT STOCKS

HOW OUR RED HOT STOCKS FARED LAST YEAR

Total Return on \$1000	\$3019	\$2355	\$1789	\$1691	\$1675	\$1629
Top Pick	Pengana (now Magellan)	Watpac	Bradken	MobileActive	IRESS Market Technology	Transpacific Industries
Code	PGN	WTP	BKN	MBA	IRE	TPI
What happened in 2006?	Prominent investment bankers Chris Mackay and Hamish Douglass recapitalised the underperforming listed investment company backed by Malcolm Turnbull and renamed it Magellan Financial Group. They listed the Magellan Flagship Fund and own 22pc. Former Pengana HedgeFunds Group stakeholders have kept 30pc of the new entity. James Packer also has a stake.	Watpac is Queensland's largest builder. Investments more than doubled to \$74.3m in the past year; work in hand tops \$550m. It bought management rights company AS Strata and affordable-living development Freedomain. Pre-tax profit doubled to \$26m. It was nominated preferred partner in a public-private partnership for Department of Defence accommodation.	The industrial parts maker has lifted EBITDA guidance for 2006-07 to more than 20pc growth. It raised its exposure to the mining sector with the \$8m buy of the Wundowie steel foundry in Western Australia. It has also partnered with American private equity group Castle Harlan to jointly buy North American steel foundry group AmeriCast, with Bradken buying its 20pc for \$8m.	The listed mobile phone content provider has linked with Allphones Retail to develop, market and distribute mobile phone content to customers of Allphones, which has 132 stores and sold 500,000 handsets last year. MobileActive posted a \$2m half-year loss and is expanding into the US. It says the US gives it an "addressable" market of 218m handsets.	A strong market position and pricing power buoyed shares in the data and services provider last year. Its biggest shareholder is the ASX, which has a 13.7pc stake. Most analysts are bullish on the stock, especially after the \$15m purchase of risk analytics company PlanTech Consulting. About 40 of the top 50 brokers use its IRESS Order System and the other 10 use some IRESS products.	Transpacific executive chairman Terry Peabody was disappointed when buyout firm Kohlberg Kravis Roberts snapped up the Australasian parts of Brambles Industries' Cleanaway and Industrial Services but he has since bought 12 solid-waste businesses and landfill operator Baxter Group. The company also bought Waste Management NZ for \$NZ870m (\$752m).
Expert who recommended the stock in 2006	Michael Birch, portfolio mgr, Wallace Funds Management	Fiona Buchanan, analyst, ABN Amro Morgans	Brad Potter, analyst, Tyndall Investment Management	Tim Knapton, managing director, Interfinancial	Rob Hopkins, MD, SmallCo Investment Management	Rob Hopkins, MD, SmallCo Investment Management
Would they today?	Yes	Yes	No reply	Yes	Yes	Yes
Total Return on \$1000	\$1610	\$1421	\$1411	\$1393	\$1336	\$1223
Top Pick	Advanced Magnesium	Fairfax	ASG Group	Reece Australia	IWL	Platinum Capital
Code	ANM	FXJ	ASZ	REH	IWL	PMC
What happened in 2006?	Advanced Magnesium is working to boost demand for magnesium products, through new proprietary alloys, technologies and applications. It has restructured and recapitalised with \$13m from new investors. At the AGM, MD Ian Hartnell said it was prudently managing cash reserves and working hard to control cash resources to break even with sales by June 30, 2008.	John Fairfax Holdings, set to change its name to Fairfax Media, struck a \$7bn friendly takeover deal with Rural Press. Merger talks between the two companies became more pressing after rival News Corp spent \$385m on 7.5pc of Fairfax, which publishes <i>The Australian Financial Review</i> and <i>AFR Smart Investor</i> magazine. Fairfax's takeover of Rural Press is set to be completed in April.	Perth-based IT services provider ASG has been snapping up acquisitions, including Sydney-based Oracle, managed services group Vindaloo Systems, Assist and Exceed in previous years. Last financial year, ASG's revenue grew 45pc to \$59.3m. Net profit doubled to \$5.2m. It started this financial year with \$40m already booked. Its clients include Qantas and Ericsson.	The plumbing, building and hardware merchant has 267 stores across Australia and NZ after the acquisition of LG Carder in Auckland. The company announced a 15pc rise in Q1 sales. Full-year net profit rose 14.6pc to \$86.8m despite chairman Alan Wilson's concern over "renewed interest rate uncertainty, subdued building activity and the continuing upward pressure on business costs".	IWL trades at a discount to rivals such as E*Trade. It claims 22pc of Australia's online broking market. It generates nearly two-thirds of its gross revenue from transactional broking and gets the remainder from annuity-style activities. It operates on two broking platforms and is working towards a single one within 18 months, offering services including trading of contracts for difference.	Platinum Capital is the most successful of the few Australia-based LICs that invest in global equities. It generated an annual return of 11.9pc in the five years to June 30 while the MSCI fell by more than 1pc. Platinum is trading at a premium to its net tangible assets, but it was at a discount after it first listed in June 1994. It charges a 1.5pc base fee and a 10pc performance fee.
Expert who recommended the stock in 2006	Alan Jury, <i>AFR</i> senior writer	Brad Potter, analyst, Tyndall Investment Management	Frank Villante, chief inv officer, Souls Funds Mngmnt	Frank Villante, chief inv officer, Souls Funds Mngmnt	Martin Pretty, analyst, Bell Potter Securities	John Wasilev, <i>AFR</i> senior writer
Would they today?	Yes (he now owns some)	No reply	Yes	Yes	No reply	Yes

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Total Return on \$1000	\$1124	\$1107	\$1066	\$1059	\$980	\$972
Top Pick	WebCentral	ABC Learning Centres	Portman	Adamus Resources	Customers	CH4 Gas
Code	WCG	ABS	PMM	ADU	CUS	CHX
What happened in 2006?	Melbourne IT unveiled plans in August to buy WebCentral and the two began operating as a single entity on September 11. WebCentral's final accounts showed Australia's largest web and application hosting company struggled to lift revenue. The results, submitted to ASIC, show WebCentral's annual revenue firmed just 1.8pc to \$59.1m, and net profit fell to \$2.8m from \$4.4m.	ABC Learning Centres believes it could double in size over the next two years as it lifts debt to \$1.5bn to fund acquisitions. The group hopes to own 1400 centres in Australia and NZ by 2008, up from 930 at June 30, 2006, and more than 500 in the US by 2007. ABC expects 2007 earnings per share will rise 23pc from 2006, falling short of analysts' expectations of more than 32pc.	Delays in its Koolyanobbing project are to cut production at Australia's third-largest iron ore miner to 7.5m tonnes from a forecast 8m tonnes. Sales totalled \$208.3m, up \$48.5m, but gains were largely offset by a cost increase of \$34.6m to \$109.3m for the half-year to June. Profit rose \$12.3m to \$52.3m, with most gains made in the second quarter when a 19pc jump in iron ore prices took effect.	The gold explorer listed in 2001 at 20c. Its main project is its 90pc-owned Southern Ashanti Gold Project in southern Ghana, West Africa. Adamus started a feasibility study into developing the project after a detailed scoping study. This helped burn \$3.8m in cash in the September quarter, leaving \$10.4m in cash as of September 30. It needs more money to finish its development projects.	Customers, which claims about 7pc of the Australian ATM market, wants a big foothold in China. Executive chairman Greg Baker sees margin pressure in Australia as the industry prepares for the introduction of direct charging for transactions at terminals. But Baker says Australia still offers growth. The fast-expanding company has made five acquisitions and says it would consider more.	In May, CH4 Gas and Arrow Energy merged, forming Australia's largest independent coal seam gas company. The company owns half of the Moranbah Gas Project. It has full operating rights and sole gas marketing rights to the project and of all Bowen Basin assets. AGL Energy bought the other half in June from BHP Billiton for \$93m plus undisclosed contingent amounts.
Expert who recommended the stock in 2006	Tim Knapton, managing director, Interfinancial	Fiona Buchanan, analyst, ABN Amro Morgans	John Wasilev, AFR senior writer	Tim Treadgold, AFR senior writer	Martin Pretty, analyst, Bell Potter Securities	John Colnan, resources mgr, Shaw Stockbroking
Would they today?	The company has been sold	Yes	Yes	Yes	No reply	No (take profits)
Total Return on \$1000	\$763	\$725	\$658	\$613	\$513	\$451
Top Pick	Centennial Coal	Consolidated Minerals	Sino Strategic Int.	Tomahawk Energy	Aust. Renewable Fuels	Electro Optic Systems
Code	CEY	CSM	SSI	THK	ARW	EOS
What happened in 2006?	The coalminer has flagged 2006-07 earnings of \$45m to \$55m before write-downs, well below a consensus forecast of \$92m. Centennial Coal has surprised with the closure of its troubled Newstan mine. It says it is taking a \$49m write-down on the pit, and shutting it within two years. Centennial has also surprised by selling half of its Angus Place mine in NSW for \$80m.	The manganese, chromite and nickel miner has received an unsolicited and opportunistic takeover approach. The West Australian miner had a horror year last year with its core manganese business posting a loss of \$6.5m as other metal prices hit fresh highs. Takeover talk has lifted the stock, but it is still cheap in a market where most resource companies are trading at a premium.	This Australian company operates in China. It opened 353 lottery agencies in Shanghai and plans to have 600 stores by the first quarter of 2007-08. This is an agency commission business and Sino has renegotiated its licence arrangement to make it renewable every five years instead of every 12 months. It also runs the F1 Charity Entertainment Club in Shanghai.	At the end of November, gas and oil explorer Tomahawk, which received a speeding ticket from the ASX, said Schlumberger Energy Services had independently analysed its oil and gas project in Oklahoma. Only half of the 28 wells in which Tomahawk participates were evaluated, hence Tomahawk's total resources could be much higher than Schlumberger's estimates.	West Australian-based Australian Renewable Fuels has struggled since listing at \$1 last May. It blames production delays on technical problems and uncertainty from changes to fuel excise legislation. It has a buyer for up to 80pc of output from its 45m litre-a-year biodiesel facility. It says an independent trader would buy 2m to 3m litres a month for an initial term of six months.	Electro Optic Systems, which makes electronic weapons fire control systems and space surveillance technology, has asked adviser Jefferies Quarterback to look at strategic alternatives for its troubled business. EOS has sounded two profit warnings. It expects a 2006 net loss of \$24.1m, considerably more than the \$800,000 loss flagged in December 2005.
Expert who recommended the stock in 2006	Andrew Pedlar, senior res analyst, Wilson HTM	Andrew Pedlar, senior res analyst, Wilson HTM	Alan Jury, AFR senior writer	Tim Treadgold, AFR Smart Investor senior writer	John Colnan, resources mgr, Shaw Stockbroking	Michael Birch, portfolio mgr, Wallace Funds Management
Would they today?	No (but hold)	Yes	No	Yes	Yes (speculative)	No