



CRITERION

with TIM BOREHAM

Traffic Technologies (TTT) 21.5c

WE wish Ray Horsburgh, former Smogon Steel chief and current chairman of Toll Holdings and the Essendon footy club, the best of luck in his new role as chairman of the floundering traffic management group. He'll need it. Keeping Toll's Paul Little in line and sacking legendary Essendon coach Kevin Sheedy will look a doddle compared with turning Traffic around.

We understand Traffic's insto holders were ready to move from their usual fence-sitting position and vote against Traffic chairman Sam Kavourakis, one of two directors up for re-election at tomorrow's AGM. According to Traffic, Kavourakis intends to stay on as a director, so ceding the chairmanship may have ensured his survival.

Traffic is in a mess. Five out of seven of Traffic's divisional managers have quit or been sacked and the CFO chair has been warned by no fewer than three occupants, one in two separate stints, since Traffic's listing in early 2005. The most recent CFO, David Oswin, left in early September after refusing to sign off on the 2006-07 accounts.

The Traffic flow continues to be one way, with at least three more senior managers at the Guardrail business humping their blurs last week. Joint CEO Con Scripps departed in early August, after which Traffic issued a dire profit warning.

Traffic is also facing two damages actions from the vendor of its DeNeeffe Signs business. And if that's not enough, Scripps is rumoured to be forming a rival business based on Traffic's model of acquiring privately owned operators. In August, Traffic reported \$2.7 million of underlying (EBITDA) earnings for the year to June, having

Clinuvel's main target is a preventive drug for organ transplant patients who are vulnerable to skin cancer because of immuno-suppressing drugs. Fair-skinned patients are 65 to 100 times more likely to contract skin cancer relative to peers with original innards.

Clinuvel unveiled yesterday a phase two testing program of its photo-protective compound CUV1647, involving 150 Australian and European transplant patients. The news should have excited investors but shareholders, 65 per cent from Europe, are a weary lot. That's what happens when you set out to perfect a safe fake tan but digress to weightier applications.

The trials will take two years and, if successful, there's more hard graft for years. But Wojgen has his eyes on the prize.

"I am absolutely convinced that when you bring this drug to market more opportunities will arise," he says.

Naturally, Clinuvel is reluctant to hype such an opportunity as a UV prophylactic for beautiful folk who want to fry in the sun. But Botox wasn't intended to treat wrinkles, either. Clinuvel shares have been punished since London hedge fund investor Absolute Capital Management Holdings ran into sub-prime strife. ACMH still holds 20 per cent of Clinuvel, but many of its clients, who were also Clinuvel shareholders, sold in a panic.

Criterion last rated Clinuvel a hold at 90c on September 4, having previously assigned an avoid at 83c in early February. We sound a bit like Simone warning Shane he's got one more chance at text-message-free fidelity, but we'll give Clinuvel one more shot and assign a speculative buy.

Exclude Clinuvel's \$60 million cash stockpile and investors have valued Clinuvel assets at \$90 million, which on global valuations is small beer for a compound in phase two and three trial stages.

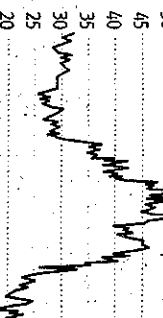
Foster's Group

(FGL) \$6.37

IF Foster's faces a wine-induced earnings crunch as many suspect, management was putting on a brave face to shareholders yesterday. Chief brewer Trevor O'Hov's message was that the

GRID LOCK

Traffic Technologies closed at 21.54, up 1.5c



2006

2007

Source: Bloomberg

earlier downgraded market expectations of a \$6 million-plus result. Traffic-light maker Aldridge, bought for \$37 million in May, is the only division making any decent dough.

Last week's September quarter cash-flow statement shows positive cash flow of \$2.2 million, but that doesn't include an \$800,000 interest payment due just after cut-off date. Although Traffic reported cash of \$5 million, the company has drawn down \$40 million of its \$41 million credit facility, with banker Westpac unlikely to be so munificent next time around.

In its early days, Traffic attracted *Criterion's* praise as a hot performer in a burgeoning sector. In August, we rated it an avoid at 27.5c. Traffic shares have more than halved from a May 30 high of 53c but look to have found a floor around 20c. Still, we maintain an avoid call. It has some decent assets and may be acquired by someone who can drive it to full potential, but life's too short to hang around in a Traffic jam.

Liassatos says Traffic is "on target" with its forecast earnings of current-year EBITDA between \$9.5 million and \$10.5 million. On current showings, that's a stretch target.

Cinuvet (CUV) 47c

WE'RE reliably informed that Cinuvet's Melbourne HQ has a Doomsday Clock-style timepiece that ticks down to a February 2009 deadline, the date by which the skin disorder outfit expects to file its first drug approval application. According to Cinuvet's suave Gallic chief, Philippe Wolgen, the company is on track to seek US "orphan drug" (fast-track) approval for a drug to treat sufferers of absolute sun intolerance (shadow chasers who are so sensitive to sunlight they can't leave their house). That's a small market.

premium drops is boosting per-case revenues, with further price rises expected in Australia and California.

The real earnings threat comes from the Australian dollar's inexcusable rise, which wipes out \$4.5 million every time it appreciates US1c against the greenback. But fundamental wine conditions are OK.

Anyone perusing a scathing Merrill Lynch report would have concluded otherwise. The firm, which already had a sell on Foster's, argues that Foster's has destroyed \$2 billion to \$2.5 billion of shareholder value since buying Southcorp for \$3.5 billion three years ago.

"Our view is that Foster's needs to break itself up to avoid further loss in shareholder value," the firm says.

"Although the value of the break-up may not differ significantly from the current share price, it would prevent further capital being lost in the future."

There's always a cogent argument for drinking wine, at least before the effects of the third bottle kick in, rather than making it. But we can't help thinking the custodian of powerful brands such as Penfold's, Wolf Blass and Beringer should be able to turn a guild and learn from its value-destroying lessons of the past.

We rated Foster's a long-term buy at \$6.32 on August 29 and maintain the call. After all, Foster's also makes beer, which in this country hides many sins. borehamnt@theaustralian.com.au

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Price	\$ Change	Bank	Market Cap (\$mill)	Share Price	\$ Change	
20	+0.07	Orica Ltd	33	10.045	30.91	+87
55	-1.75	Origin Energy	44	8.005	9.15	-03
12	+0.01	Oxiana Ltd	53	6.484	4.20	+17
55	-2.3	PBL Limited	25	14.179	20.82	-15
09	+0.02	Paladin Res	70	4.936	8.19	+46
64	-85	Perpetual Ltd	100	3.072	74.36	+50
75	-0.04	Platinum A/Mgmt	93	3.276	3.75	-02
74	+0.02	OBE Insurance	13	28.777	32.50	+13
88	-2.2	Qantas Airways	31	11.629	5.91	-07
00	-1.63	Resmed Inc	20	3.455	4.50	+09
27	+0.05	Rio Tinto Ltd	8	50.250	110.00	1.90
90	-0.07	Santos Ltd	39	8.819	14.03	-31
78	+28	Sewer Network	85	3.621	13.66	+20
95	-0.9	Sims Group	88	3.561	28.15	-79
70	-0.09	Sonic Health	63	3.629	17.22	-52
00	-1.08	St George Bank	15	20.202	36.35	+102
00	+1.3	Stockland	28	13.416	8.95	-06
05	+0.02	Tabcorp	40	8.168	15.56	+28
05	+0.07	Tate & Lyle	66	5.302	4.19	-06
03	+0.02	Telecom NZ	54	6.477	3.55	+01
08	+0.18	Toll Holdings	5	61.410	4.68	-06
6	+0.08	Transfield	38	9.051	13.31	-17
4	+0.05	Transpacific	99	3.106	15.68	-22
05	+0.05	Transurban Grp	94	3.163	11.15	+16
7	+0.08	United Group	89	7.875	7.77	+04
08	+0.02	Westarists Ltd	22	3.484	21.30	+07
03	+0.35	Westfield Grp	10	17.052	43.94	+16
0	+1.10	Westpac Bank	7	42.339	21.80	-06
0	-0.42	Woodside Petroleum	17	56.960	30.54	+59
5	-0.10	Woolworths Ltd	11	41.219	57.00	+50
8	+0.3	Worleyparsons	32	11.038	48.00	-79
		Zimlex Ltd	41	8.107	16.65	-92