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FM COVER STORY



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08 January 2010

Hot Stocks 2010

ALTx

By Larry Claasen

It was a testing time last year for AltX companies. The energy that supported the fledgling exchange in 2007 and 2008 all but disappeared in 2009.

The JSE's junior board is now going through its sternest test, as investors lose patience with any company they do not consider big enough to cope with a downturn of the magnitude of the past two years.

This loss of confidence can be seen in the AltX index plunging from a record high of 5 041 points in November 2007 to a low of 1 100 points in December 2009.

So far, the biggest casualty has been food producer Country Foods, but others could follow this year.

Already, the signs are not great for 2010. Construction group WG Wearne and technology group Africa Cellular Towers need to get refinanced.

Others, like microlenders Blue Financial Services and African Dawn, are under pressure on governance issues. Blue Financial Services' constant changing of its auditors and African Dawn getting a qualified audit have cast a shadow over other AltX companies.

Telecom firm Huge Group has also had its fair share of problems, as two of its directors were each fined R5m for not reporting related-party transactions.

Even high-flying companies such as Vox Telecom were not immune to the difficulties of this period. Vox has not only had to deal with the slowing economy but was also caught up in the Dealstream scandal.

Vox's latest results show it has coped relatively well with the recession. It pushed up revenue 13% to R2bn and maintained operating profit of R131m for the year to end-August.

The group has gone through difficulties but it remains the *FM*'s hot pick, for the second consecutive year. At a share price of 33c and a p:e of 5,34, there is a lot of upside to the stock.

The leadership change - Tony van Marken has gone from executive chairman to CEO and Douglas Reed from CEO to MD - is not expected to disrupt the group's operations.

Despite its difficulties, analysts still speak fondly of Vox. They say it is well positioned to tap into the telecom sector because it has a large corporate customer base that allows it to cross-sell new products and the skills to support these products.

It is still open to debate how the new raft of regulations and policies, which are expected this year, will affect the company, but the consensus is that it will help rather than stifle the group's growth.

The sector's consolidation is another reason to buy Vox. With a market cap of R365m - it was valued at R1bn two years ago - it is a relatively easy takeover target for a larger telecom player.

Besides Vox, the *FM*'s other pick is another AltX stalwart, construction group Esorfranki.

For all the talk about a difficult period in the construction industry, the group continues to produce good results. Revenue was up 76% to R1,02bn and operating profit more than doubled to R235,6m for the half-year to end-August.

At a share price of 36c and p:e of 5,83, Esorfranki is nicely priced.

The problem for the group is that construction is expected to slow down after the World Cup. The latter half of the year could be a telling period for the group, which has enjoyed a good run.

Consumer electronics group Ellies remains our dark-horse pick. It has already tapped into

Info Graphics



Tony van Marken,
Vox Telecom
CEO

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the growing pay-TV market with its satellite dishes, and set its elf up to benefit from SA's migration from analogue to digital TV. Its revenue rose 39,1% to R976,8m and operating profit increased by 27% to R113,1m in the year to end-April. If it can turn its negative R53,5m cash position around, it will be more than a good bet.

Last year was a test for AltX companies. This year will tell us whether they passed.

VOX TELECOM

As at Jan 5 2009

Share price: 36c

Market capitalisation: R399m

Price:earnings ratio: 5,83

Dividend yield: -

Year-end (Aug 2009)

Operating profit: R131,9m

Earnings per share: 5,49c

Listed: 2004

CEO: Tony van Marken



Risks and opportunities: The past 18 months have been trying for the technology group. It had to deal with the fallout from the Dealstream crisis and put up with the recession.

But as difficult as this period has been, the outlook for the company is improving. For one thing, government is showing more enthusiasm for liberalising the telecom sector.

The group is better placed than most of its competitors to tap into a liberalised market because it has a large corporate customer base, which allows it to cross-sell new products. And it has the skills to support these products.

Vox is well run but if government procrastinates, a big pay day for the company could be some way off.



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