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### **Cheap, nasty... lucrative?**

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6 January 2009

Johannesburg - The wait for your highly speculative penny stock to jump from 5c to 10c or even higher can be either deeply rewarding or as soul-destroying as watching your fund manager drive off in his shiny new German sedan after delivering the news that your portfolio will be down some 60% this year. However, the prospect of big, easy money keeps punters coming back for more. Fin24.com looks at a few of the lowly-rated players on the JSE and AltX exchanges for some prospects. Traders will never tire of telling stories about their penny stock investments that have risen sharply, but often there is a good reason for shares being priced and remaining in the 1c to 10c bracket.

The prospect of a 10-bagger (a share that increases 10 times over) drives every small-cap investor who argues that a move from 1c to 10c is a shorter trip than a share that has to move from 50c to 500c. Companies whose share prices trade in this bracket have often fallen on bad times, been robbed blind, mismanaged or had more changes in "strategic direction" than Old Mutual and simply disintegrated as time goes by. There is no shortage of penny stocks that have simply given up and the names of Global Village, JCI, Afgem and Corvus dot the damaged small-cap landscape. The joys of "scalping" a profit off penny stocks by placing cheeky bids in the market - and if you get your stock, promptly placing them back at a higher level to realise a quick profit - are hugely satisfying. Sometimes it works; more often than not, it doesn't. However, a new year brings new prospects for investors and Fin24.com looks at some of the candidates.

Santova Logistics: Executive director Stanley Donner of Santova Logistics caught the eye when he splashed out R21m to buy shares in his company on December 31 2008 at 7c. The share is trading at 5c and even a move back to the price Donner paid would represent a 40% move. Santova shares reached a 12-month high of 11c per share in March 2008 and are trading on a historical price to earnings multiple of 8.4.

Awethu Breweries: There is an old saying that when times are tough, shareholders turn to beer and bread. Whether the saying was developed for Awethu Breweries is probably questionable. Awethu has been languishing in penny-stock territory for a while now, but there is never any shortage of upbeat comments from management.

Trading down sharply on Monday at 5c (off 55%), shares hit a 12-month high of 17c per share in September 2008. The company trades on a historical earnings multiple of 10. Bioscience Brands: Having recently rejoined the AltX following a takeover and asset injection in failed consumer brands company Wellco, Bioscience Brands and management consultants Arcay have a long way to go to shake off the lingering reputation of its former shell company. Since coming back into the listed environment, Bioscience the company has traded in a highly liquid band of between 3c and 9c per share. Management has recently undertaken a rights issue in an attempt to inject further funding into the business which would allow it to undertake other acquisitions. Arcay previously followed a similar strategy when it took over soap manufacturer Beige and nursed the company from being a suspended share which relisted at 3c to hit a 12-month high of 25c in October 2008.

Zaptronix: Trading at 5c, electronics and communications industry supplier Zaptronix has seen a steady decline in its share price from 18c in mid-2008. In late 2008, Royal Bafokeng Holdings (RBH) - which has a reputation for quality empowerment deals - considered taking a 30% stake in the business. However a downturn in the global economic environment scuppered this deal. If it succeeded in catching the eye of RBH, it might be of interest to other small-cap punters.

Imuniti Holdings: The health and nutrition company that never seems to get any healthier. Sound underlying businesses involved in food and pharmaceutical manufacturing activities have been overshadowed by questionable changes in strategy and management. The company has seen its share price gyrate between 2c and 13c over the last year and is trading at around 5c.

Milkworx: The ice-cream manufacturer that promises so much and delivers so little. Since January 2007, the share has been trading at between 2c and 3c and is at the same level two years later.

Management has indicated that the company will be shifting towards a strategy of higher-quality products. Its board was strengthened with the appointment of Dr Heidi Brummer, who has extensive industry knowledge, as chairperson. Time will tell whether these moves help the company turn the corner. Whether any shares mentioned above may increase tenfold remains to be seen. On the one hand, traders will always argue that the market knows best and has priced the share correctly; on the other, the prospect of a quick doubling of your share remains tempting to even the most cynical players in the trading game.

\*Ashton holds shares in Bioscience Brands.