

THE USE OF PRICE EARNINGS RATIOS AND DISCOUNTED
CASH FLOW IN THE VALUATION OF COMPANIES

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We are principally concerned tonight with the tantalizing question of the rate of return on investment; and, as we shall see, it is not the past rate of return that interests us, nor even the current rate to any great extent; but rather the prospective rate of return in the future. Writing in 1935, Lord Keynes summed up the problem as follows: "The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible. If we speak frankly, we have to admit that our basis of knowledge for estimating the yield 10 years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London, amounts to little and sometimes to nothing; or even five years hence. In fact, those who seriously attempt to make any such estimates are often so much in the minority that their behaviour does not govern the market."

These sentiments do not augur well for the views I intend to put forward tonight. These views are based on the possibly slender presumption that times have changed greatly since Keynes was writing in 1935, and that, with the growth of professional security analysis and with the great improvement in the basic information available to the investor to-day, it is possible to take a rational forward view of the yield on investment.

The basic aim of the security analyst has always been to establish the prospective rate of return on an investment, and to compare this with returns available from other investment alternatives. The techniques employed by analysts in the valuation of ordinary shares have advanced greatly since specialists in this field first began to appear in the United States in the 1930's. And these techniques have been introduced in the vain hope that it might be possible to value an ordinary share with somewhat the same degree of objectivity and precision as is the case in the valuation of fixed interest securities.

The valuation of a fixed interest security is basically a function of two things: first, the total money payments that will be received by the investor in the future comprising interest payments and repayment of principal at maturity; and second, the rate at which the future money payments should be discounted to arrive at their present value.

The rate of discount chosen depends on the going rate of interest on securities providing an absolute minimum of risk, usually government bonds, plus a premium for the additional risk assumed in investing in corporate debt. In theory, the premium for risk should vary from security to security, since no two companies demonstrate identical degrees of financial strength. In practice, the market in high quality corporate debt is so well established that at a point of time there is reasonable agreement among professional investors as to the excess over bond rate which should be paid by any particular borrower.

However, the analyst is immediately confronted with a number of problems in attempting to apply the same process of valuation to ordinary shares. The future income flow from equity investment is extremely difficult to determine, since a company is not contractually tied to the payment of any particular rate of

dividend and there is no fixed date of maturity at which the equity investor will receive repayment of capital. Moreover, it is not easy to select a rate at which a projected income flow from ordinary shares should be discounted.

The problem of estimating future income flow from an investment in ordinary shares is so complex that even professional investors used to content themselves with a process which implicitly assumed that, unless there was specific evidence to the contrary, whatever had happened in the past would be repeated in the future. This assumption is, of course, wildly unrealistic since the one thing we do know is that whatever happened in the past has very little chance of recurring.

The first step in the analysis of ordinary shares recommended in the text-books was aimed at establishing the absolute security of an investment. I do not wish to embark at length on the methods used to establish whether or not a company is likely to prove a secure investment. These procedures would be well known to you all, and include an analysis of the prospects for the industry in which the company operates, the competitive position of the company within its industry, and the traditional measures, such as asset backing per share and balance sheet ratios.

Having established the standing of a company in point of security, the next step was to decide what price should be paid for the stock. The yardstick used was dividend yield, and the yield selected as being appropriate to a particular stock was determined by reference to three indicators. First, the average yield the market expected from the stock over past periods; second, the average yield available on equities as a whole; and third, the yield obtainable on stocks of comparable standing.

A decision to invest, at this juncture, implied two basic assumptions. First, that the current rate of dividend yield was a reliable indicator of the rate of return over the whole of the life of the investment in the stock; and second, that this rate of return was acceptable in the light of other investment opportunities. The method of determining an acceptable rate of return was comparable to that used in the valuation of fixed interest securities. Just as the yield on corporate bonds was expected to contain a premium for risk over and above the going rate for government securities; so, the return on equities was expected to show a premium for risk over and above the rate obtainable on corporate debt. And it is true that in equity markets around the world, except for very short periods of time, the average yield on ordinary shares from 1900 until the second half of the 1950's showed a margin above the yield to redemption of corporate securities.

I suppose it was reasonable, in the circumstances of the 1930's and 1940's, for the whole emphasis of security analysis to be placed on the preservation of capital invested and immediate return. But the post-war period saw a fundamental change in the investment environment, which necessitated an overhaul of investment policies by professional investors and the development of new techniques of analysis by members of the securities industry.

These changes may be summarized as follows. First, after a period of confusion in the immediate post-war period, there emerged in the 1950's excellent prospects for high and continuing rates of growth in gross national product and in living standards in most industrialized countries of the western world. This prospect sharply contrasted with the experience of stagnation during the 1930's when governments and their advisers were engaged in the gloomy task of dealing with chronic unemployment and apparently diminishing opportunities for investment.

Second, it became clear towards the middle of the 1950's that the emphasis of governments on full employment policies and on economic growth was creating a persistent upward pressure on price levels. In Australia, it gradually came to be assumed by investors that inflation would continue at a rate of 3% per annum for as far ahead as it was necessary to forecast.

For corporations, these two conditions created a possibility for real growth in terms of expansion of output and, shall we say, for windfall profits in the form of inflationary price increases. For the investor, it became necessary not only to seek continuity of dividends from an ordinary share over a period, but also to seek an increase in return to compensate for the persistent decline in the purchasing power of money.

The third change in the investment environment was the carry over of high war-time rates of income tax into the post-war period. For a large segment of the investment market made up of professionals such as life companies, dividends are in effect tax free in their hands, whereas interest receipts are fully taxable at corporate rates. Hence, the higher the level of corporate taxes, the lower the effective return these professional investors can obtain from a given rate of interest.

In these circumstances, it was inevitable that, over a period, the relationship between fixed interest and equity yields would depart radically from the pre-war pattern, either by equity yields declining or by a substantial rise in interest rates. In the event, both these movements were apparent over the decade of the 1950's. Yields on equities declined, while long term rates of interest showed a persistent tendency to rise, until towards the end of the decade there emerged the famous reverse yield gap - i.e., a state of affairs where the average yield on ordinary shares was lower than the yield on fixed interest investments.

A final factor of great importance to the securities industry was the change in company legislation which, in Australia, took place in 1961, compelling companies to make far greater disclosures in their balance sheets and profit and loss accounts than ever before in the past, with the result that, for the first time, analysts were in a position to draw realistic conclusions as to the trend of earnings of corporations from year to year.

These changes in the investment environment only began to be reflected in the Australian share market in the second half of 1958, but from then on those investors who relied heavily on the yardstick of dividend yield, used in isolation, were at a serious disadvantage in making investment decisions. In the first place, investors have always been unduly influenced by current dividend yields, and as yields on stock holding out good prospects for growth declined substantially in the market, yield conscious investors switched an increasing proportion of their funds into high yielding but second-grade stocks. Many of these stocks proved highly unsatisfactory investments, some of them proving fatalities of the credit squeeze in 1961, and others failing to maintain high rates of dividend established during the 1960 boom.

Moreover, companies with an above average potential for sales growth are also those which need to retain a substantial proportion of profits to finance capital expenditure. During a phase of rapid growth, these companies tend to restrict dividend payout in favour of plough-back into new plant and equipment. In these circumstances, past earnings and prospects for future growth in earnings comprise a more significant guide to likely future returns than does the simple yardstick of dividend yield. In market parlance, the big switch in the late 1950's was from buying dividends to buying earnings.

The multiple of earnings is usually expressed as a price earnings ratio which is the price of the stock divided by earnings per share. For example, if a company's stock is selling a \$10 a share and the earnings are \$1 per share, the price earnings ratio is 10 or the stock is selling for 10 times' earnings. And the investor is not interested merely in the current price earnings ratio, but is interested in what this ratio will become in future years as a result of expected earnings growth. The estimate of future earnings is difficult and hazardous and relies heavily on a detailed analysis of the company's performance in the past, with the object of projecting earnings for no more than a short period

ahead. In particular, it has proved highly dangerous to assume that the rate of growth in earnings per share in past periods is indicative of future performance. A number of investigations, both in Australia and abroad, has demonstrated that the leading growth performers of any five year period normally lag substantially behind the averages during the next five years.

The market, however, does give some weight to recent trends in earnings. To arrive at this conclusion, I have studied the earnings performance over a four year period of 180 stocks, which may be taken as representative of the industrial market as a whole, and divided them into two categories: growth stocks and other. Growth stocks are defined as those which showed a compounding rate of increase in earnings per share of 10% in the period 1966 to 1970, and also showed an increase of at least 10% in the last reporting period. The remaining stock showed lower or negative rates of growth in the two periods. There were 44 stocks in the growth category which, at 30th October last, were priced on the market at an average of 12.7 times' earnings, while the balance of 136 stocks were selling at 11.3 times' earnings.

The market is thus paying some premium for past growth in earnings, but this premium is surprisingly small to-day owing to the generally bearish trend in industrials. But the spread of valuations within the growth stock category is extraordinarily wide, ranging from 7 times' earnings to 33 times', and some of the stocks showing the highest rates of past growth are priced at the lowest multiples of earnings. A similar lack of correlation has been demonstrated by the results of investigations conducted in other security markets, and leads to the conclusion that it is impossible to forecast P.E. multiples in the market for individual stocks on the basis of past rates of growth in earnings per share. This conclusion is consistent with the view that expectations, rather than the past record of earnings, exercise the major influence on market valuations.

Given current market prices and current earnings per share for all equities, we have a system of price earnings multiples. But, as with dividend yields, there is really no measure of what the right P.E. multiple for an individual stock should be, except to the extent that it is arrived at by reference to the system of multiples prevailing in the market. And it should be noted that the overall level of price earnings ratios can vary substantially with the prospects for growth in the economy as a whole and the state of confidence in the share market. In 1963, for instance, a list of 100 leading industrial stocks was selling at 20 times' earnings; but, by 1967, the same portfolio of stocks was selling at only 15 times' earnings. Despite the fact that earnings per share rose on the average by 22% for the companies concerned, a depreciation of about 8% occurred on the portfolio in terms of market prices. To-day, the same portfolio is selling at little more than 11 times' earnings.

There have also been quite staggering movements in the P.E. ratios of individual groups of stocks over the past decade. For instance, in 1960 Coles and Woolworths were selling at better than 30 times' earnings, despite the fact that their record of past growth in earnings per share had not been outstanding. A gradual recognition by the market that these companies had entered a phase of profitless prosperity led to a consistent downward adjustment in their P.E. ratios. In 1962, to 20 times' earnings; in 1966, to 15 times' earnings, and to-day to 11 times' earnings.

These huge movements over a period in average price earnings ratios in the market as a whole, and in the ratios applicable to particular groups of stocks, illustrate the difficulty confronting the analyst in selecting an appropriate price earnings ratio for a particular stock at a point of time. They also illustrate the fact that, in isolation, price earnings ratios mean very little at all. They are a tool of analysis to be used in conjunction with dividend yield as a means of arriving at a relative valuation at a point of time.

How does the use of P.E. ratios tie in with the concept put forward earlier that the investor, either consciously or unconsciously, is attempting to achieve a return on his investment over a period which, allowing for a premium for risk, is comparable with an investment in fixed interest securities? The rationalization of this position is, I think, as follows: that, in the post-war period, both professional investors and private individuals began to think of the rate of return from listed ordinary shares as comprising not only the expected flow of dividends but also the capital appreciation which is expected to occur in the market price of the stock. The Sydney Stock Exchange index of all ordinary shares has shown a compound rate of growth of 6.2% per annum over the 24 year period, 1946-1970, while dividend yields throughout the period have averaged approximately 4½%. This has meant that the effective yield on equities, comprising dividends paid plus capital appreciation, has averaged in excess of 10% per annum.

It is this rate of return which the investor is implicitly comparing with rates available from other types of securities. If the market is consistent in capitalizing the earnings of the company at a certain rate, the market price will then rise in accordance with the growth of earnings per share, producing a corresponding capital appreciation for the investor, which is independent of the policy of the board with regard to dividend pay out. But we have seen that the market is subject to major fluctuations in the rate at which it is prepared to capitalize the earnings of industrial companies as a whole, and that the rates of capitalization applied to individual groups of stocks are subject to many vagaries. Herein lies the danger of too rigid an application of price earnings ratios in the valuation of ordinary shares.

If I am correct in believing that the average investor to-day regards the future yield on investment as an amalgam of dividends plus capital gain on the market, then the tax status of realized capital gains becomes a matter of the greatest concern to the analyst. And I think that even the most disinterested observer would be compelled to admit that the tax situation with regard to capital gains in Australia is far from clear.

In the light of experience of taxation here applying to gains on listed securities, the situation appears to be: that certain major institutions, such as life companies and banks, are taxed on all gains irrespective of the time period for which the securities have been held: that certain institutions, such as superannuation funds, are specifically exempt from tax: that some institutions, such as unit trusts, appear to be exempt as a matter of convention established in a number of test cases at law: that other, such as investment companies, may or may not be taxed depending on the pattern of their investment activities: that private individuals used not to be taxed on gains unless they established a record of actively carrying on business as traders: but that to-day the authorities appear to have widened their definition of share trading to such an extent that it is no longer possible to say in advance whether or not a transaction carried out by an individual will prove to be taxable. Simultaneously, we have the Commonwealth Treasury regularly advertising for subscriptions to special bonds, the redemption price of which increases over a period producing for the private investor a capital gain which is invariably tax free.

A detailed discussion of capital gains taxes lies outside the ambit of this address. But if, in practice, the individual investor and the investment company must now operate on the expectation that realized gains from sale of shares will be taxed as income, then a major change in investment behaviour is in prospect. To illustrate the point, let us examine the case of an investor paying tax at the margin at the rate of 50%. If he purchased an investment yielding 2% in the expectation of an annual capital gain of 8%, his prospective yield after tax, assuming gains are tax free, would be 9%. But, if he must pay 50% tax on any

realized capital gain, the prospective yield on the investment after tax is reduced to little more than 5%, depending on the date at which the gain is realised and tax paid. In this circumstance, the margin of yield after tax over an average fixed interest investment may be insufficient to compensate for the additional risk of investing in equity. This is a major factor overhanging Australian equity markets to-day.

I would now like to turn to another method of capitalizing earnings known as discounted cash flow. Until the 1960's, analysts in Australia were mainly concerned with methods of valuing shares of industrial and commercial enterprises. But these methods proved totally inadequate in attempts to value developing mines, and in particular those industrial companies which had begun to move into the natural resource field. For example, from 1960 to 1966, the shares of B.H.P. were selling at between 16 and 23 times' earnings, which conformed to the average price earnings ratios of major growth stocks in the Australian market. In 1967, however, the shares moved to a level of 48 times' earnings as against a market average of 16, rose to a peak of over 60 times' earnings and even to-day are standing at 33 times' earnings as against a market average of slightly over 11. This staggering change in the market valuation of B.H.P. has been associated with the Company's major discoveries of oil and natural gas in Bass Strait, and, to a lesser extent, with the opening up of new mining ventures, such as iron ore at Mount Newman and manganese at Groote Island. These new developments so altered the Company's earning expectations, that past history was no guide whatsoever to any reasonable market valuation.

The value of a new discovery, such as B.H.P.'s oil and gas, can only be assessed by an attempt to capitalize in present day values the flow of earnings expected to accrue to the equity holder over the period during which it is assumed a new mineral discovery will be fully exploited. The theory of such a valuation comes readily to the investment analyst, because it is the same in principle as that used in calculating the present value of a dated fixed interest security.

With a mining stock, we have a known or assumed life of the mineral resource; we can calculate the annual income which should be available for distribution to equity holders; and assumptions can be made as to the amount of capital which should be repaid at the end of the period. This gives us the basis for a calculation of present value comparable to that which we apply to fixed interest securities.

Here, unfortunately, the comparison ends. The assumptions on which we must base income calculations for a mining venture are complex and uncertain. Unlike interest payments, distribution to shareholders in mining ventures flow unequally from year to year depending on the build-up of profitability in the venture. Moreover, the rate of discount used in the calculation of present values is open to debate, and the rate which is appropriate to one type of investor may not be appropriate to another. Let us look at these problems in more detail.

In reviewing the assumptions which must be made in cash flow projection, I shall also try to defend the usefulness of making projections at all, since many people feel that mining situations are indeterminate and that all judgements of value are therefore purely subjective.

The first assumptions we must make relate to the annual production of salable products in each year over the life of the mine. The production rates, we assume, will depend on the extent of probable reserves, the grade of ore, and the likely recoveries of salable products from this grade. Obviously, these assumptions will be based on exploration and development work carried out at the mine which must be sufficient to build up, with reasonable certainty, extent and grade of reserves. Assumptions concerning the recovery of salable products from a given grade of reserves can be hazardous, since no one orebody is identical to any other and

each type of ore presents its own unique metallurgical problems when it comes to the extraction process. However, over the past few years a vast amount of information has become available on the mining and treatment of minerals, and unless special problems are presented by a particular type of mineralization, which usually become fairly well known in mining circles, it is possible to arrive at reasonable assumptions for the likely output from a known volume and grade of ore.

In calculating the gross revenue available over a period from mine output, the basic assumptions that have to be made concern the future of metal prices. Here we come to an immediate source of dispute. Traditionally, it has been held by conservative investors that the future of metal prices is unpredictable, and that mining companies are subject to fluctuations in fortunes of a quite different order of magnitude to those experienced by industrial companies. But there is another school that believes that fundamental changes have taken place in metal markets during the post-war period, three of which are regarded as the most significant.

The first is that, in regard to the major metals entering into international trade, either producers or governments, or a combination of both, have co-operated in an attempt to establish a degree of price stability. These efforts in markets for metals such as copper, nickel, aluminium, tin and rutile seem to have been relatively effective on the downside: that is, they have prevented the prices of these metals from falling below certain basement levels. They have not, however, prevented free market prices rising very substantially from time to time in accordance with movements at the margin in world demand and supply. Second, the major users of metals, most of which are now multi-national companies operating directly or indirectly throughout the western world, have become concerned to obtain assured sources of supply by means of entering into long term contracts. For instance, the major developments Australia has seen in the mining of iron ore, bauxite and coal, have been made possible in the early stages by the existence of long term contracts for the purchase of output entered into by major overseas groups. Lastly, long term projections of the demand for minerals of all types in the western world demonstrate that, with the enormous rise in world living standards which is expected to take place during the balance of the twentieth century, the major metals are likely to be in under, rather than over, supply. This pressure of demand, coupled with the high rate of inflation experienced throughout the post-war period, is felt likely to exert an upward pressure on metal prices in the future rather than the opposite.

By contrast, selling prices for a wide range of industrial products have become less predictable in the post-war period than was previously the case. Anti-trust legislation has helped to undermine methods of price stabilization such as resale price maintenance. The diversification policies of major corporations have greatly increased the mobility of capital, both on a national basis and internationally, with the result that to-day there are few areas of industry which are free of competitive pressures. And, in Australia, there exists the particular problem of a changing philosophy of protection through the Tariff, which has exercised a great influence over the price structure of many affected industries. It cannot be assumed to-day, therefore, that selling prices for industrial products at given volumes of output will be any more stable over the next decade than prices for mine products.

The next range of assumptions concerns the cost of mining, treating and transporting products from the mine. This is a field for the technical experts, but here again a vast amount of information is now available on actual costs of mining and processing various types of ore in Australia. There are only two points I want to make in relation to projecting costs: first, that in all such projections a provision for cost escalation must be made; and second that provision for capital expenditure must be made throughout the life of the mine. In contrast to an industrial type operation, only

a proportion of the capital expenditure involved in a mining operation is spent prior to initial production, while a comparatively high proportion is spent throughout the life of the mine to expand and improve facilities.

The calculation of earnings available for equity involves merely deducting from the gross revenue from salable products in each year the calculated costs of mining, treatment and realization. It is then necessary to deduct taxation and royalties, provision for additional capital expenditure, and loan repayments, in order to find the cash flow available for distribution to shareholders. Having established the probable income flow for the life of the mine, it is then possible, by choosing an appropriate rate of discount, to calculate the present value of this cash flow to the equity holder.

The analyst is interested not only in calculating a present value based on a selection of the most likely assumptions, but is also interested in the extent to which the present value would be affected by changes in one or other of the variables entering into the earnings projection. In the case of a well-established producing mine, the principal source of uncertainty is the future of metal prices. For example, it is clear that the profitability of a low-grade mine will be more affected by fluctuations in metal prices than is the case with a high-grade producer. By calculating earnings appropriate to a range of metal prices, the analyst can demonstrate the sensitivity of the projections to changes in price. Similarly, with mines in an early stage of development, it may be necessary to carry out a series of earnings projections to take account of a range of ore grades, recovery rates, and production costs.

The process of measuring the responsiveness of earnings to changes in the basic variables entering into the calculation is known as sensitivity analysis. In order to investigate thoroughly the range of possible earnings, it is necessary to carry out a massive number of calculations which can only be managed effectively by use of computers. Having established a range of values for earnings, it is possible, by statistical methods, to establish the degree of confidence attaching to a range of present values based on earnings projections. This is, in fact, the procedure adopted by major corporations in evaluating the feasibility of development projects such as the construction of a natural gas pipeline or the bringing into production of a major orebody. If there is too great a degree of uncertainty as to the profitability of a new venture owing to the range of possible values attaching to a particular variable, a project will not go ahead until a more certain basis for planning is achieved. For instance, a company may enter into a long term sales contract for a proportion of output in order to reduce price uncertainties, or may expend very substantial sums of money on a drilling programme in order to prove up the extent and grade of the orebody.

As yet, few analysts in Australia have adopted in full these sophisticated techniques. The main barriers to their adoption are the tedium of transferring calculations of this nature onto computers, and the fact that the ordinary investor does not have at his disposal the detailed information available to the large corporation carrying out a feasibility study. In practice, therefore, the analyst makes an earnings projection based on those assumptions which he feels are most likely to prove realistic, and then attempts to demonstrate the sensitivity of this projection to changes in one or more of the variables about which he feels a high degree of uncertainty.

In choosing the rate of discount to be applied in obtaining the present value for a mine, we encounter the same old problem that was discussed in relation to choosing the appropriate dividend yield or P.E. ratio for a stock; namely, what rate of return is appropriate to a particular investor. There is one school of thought which believes that the selection of a discount

rate is a purely subjective decision for the individual investor, based on the minimum rate of return he must achieve from equities in the light of other investment avenues available to him. And it is true that the rates of return required by different classes of investor are affected by tax considerations and varying assessments of premiums for risk over and above the going rate of return on fixed interest. But there still remains the possibility that there is an average minimum rate of return required by the market as a whole, and it seems unlikely that this can be less than the effective yield on equities I have already mentioned of 10% or more established in the market throughout the post-war period. In view of rises in market rates of interest during the past 12 months, it is safe to assume that a rational investor should be seeking a minimum return of the order of 12% from investing ordinary shares.

If this is the case, it may seem completely irrational to find analysts in this country happily using discount rates varying from 5-10% in present value calculations. But, here again, one must take into account that the investor, in determining the yield he requires on listed securities, will also pay regard to the potential for capital appreciation on the stock market over a period. To illustrate this point, the discount rate which supported the issue price for the recently listed Robe River venture appeared, on reasonable assumptions, to be in the vicinity of 8-9%; yet the shares on listing have risen in a matter of weeks to more than double the issue price.

Hence, the use of a 12% discount rate would, in most circumstances, be far too conservative, while a 5% rate appears absurdly low. My view is that the analyst might use the going rate of interest on debentures, which over the last decade has averaged about 8%, as a benchmark for arriving at present values for listed shares. I am not convinced that there is any virtue in varying the discount rate, as some analysts do, according to the view taken of the comparative degree of risk attaching to different mining ventures, unless the risk factors have been calculated separately in accordance with the principles of sensitivity analysis I have outlined.

In arriving at the present value of a stock, it must always be remembered that all we have produced is an investment yardstick, which is only as good as the assumptions on which the cash flow is based. Applied to Australian mining stocks over the past few years, P.V. calculations based on reasonable assumptions and using an 8% discount rate, have in most cases produced values substantially below current market prices. The margin has narrowed in bear markets and widened in bull markets. But if we calculate the ratios of present values to market prices, we do obtain a ranking of stocks in terms of the margin for prospects being paid by investors over and above intrinsic values; and we do obtain a measure of the downside risk on an individual investment.

Of course, it is most unwise to rely solely on present values in the making of investment decisions. I have mentioned before that the market normally capitalizes near term earnings at a higher rate than those further off in time. In determining the price to be paid for a stock to-day, it is useful to calculate price earnings ratios for the years ahead, using the current market price of the shares and earnings in the cash flow projection. For once a mine is in production, the price of the stock on the market is more likely to move in accordance with disclosed earnings than with changing estimates of present value.

I have attempted tonight to outline the three main techniques of capitalizing the return on an investment in order to arrive at a valuation of listed securities, and to explain how the traditional procedure of capitalizing current dividends has been supplemented by methods of capitalizing current and future earnings. This exercise has proved much lengthier than I had at first envisaged, and I fear there are many basic issues of interest to you all which I have not had time to raise. But two omissions are of particular importance, and I don't think should pass unmentioned.

The first is that I have been solely concerned with the single objective of an investor acquiring shares for portfolio purposes. The question of valuation for the purpose of takeover or merger has not been raised. Second, I have not dealt, as originally intended, with the valuation of unlisted companies. I have pointed to the fact that a significant part of the yield expected by the equity investor is in the form of hoped for capital appreciation. Deprived of this prospect, the stock market would sell at a much lower valuation of earnings than is presently the case - possibly as much as 50% lower. Thus, the use of P.E. ratios established in the share market as a guide to the valuation of unlisted securities, can in many cases be dangerously misleading.

I might end by restating an underlying theme of this address: that however mathematically elegant may be the present or future techniques employed by analysts, the valuations they derive will be based as much on matters of judgment as of fact, and the process of analysis itself will continue to be more in the nature of an art than a science.

NOTES ON TABLES

The attached tables set out for the larger Australian industrial companies earnings per share for the past five reporting periods; the increase in earnings per share for a four year period and for the last reporting period; and the dividend yield and P/E ratio for each stock at 30 October 1970.

In constructing the price earnings ratio series, the earnings figure used has been adjusted to allow for the effects of rights issues, share placements, outstanding options and convertible notes. The per share earnings figure thus relates to all shares outstanding, after making allowance for the conversion of options and convertible notes on issue. Past earnings per share have also been adjusted for the dilutional effects of bonus issues or rights issues at substantial discounts from the then currently prevailing prices.

For companies with 30 June balance dates, earnings per share have been calculated for the period June 1966 to June 1970, but for companies balancing at December the earnings per share figures are shown for the period 1965 to 1969. In any event, the earnings per share figures shown were those available to the market as at 30 October 1970. In some instances, companies have made forecasts of earnings or have disclosed sufficient information in interim reports for a rational forecast of the current year's results to be made. The stocks involved have been marked with an asterisk indicating that the P/E ratio is based on an estimate of earnings, rather than the earnings per share disclosed at the last balance date.

SELECTED PRICE EARNINGS RATIOS BY INDUSTRY AT 30th OCTOBER, 1970.

COMPANY	EARNINGS PER SHARE						% Inc. of latest over 4 yrs.		Div. Yield	P/E
	1965	1966	1967	1968	1969	1970	yr. over prev. yr.	Yield		
<u>AUTOMOTIVE</u>	Average for Larger Australian Industrials (excluding Diversified)								5.2	11.3
Borg-Warner (Aust.) Limited	14.2	(8.3)	10.5	23.8	20.9		47.2	(12.2)	5.3	6.8
Chrysler Australia Limited	25.0	18.0	23.2	24.8	37.7		50.8	52.0	nil	4.6
National Consolidated Limited		13.0	13.3	13.1	14.4	15.6	20.0	8.3	5.4	9.6
Olympic Consolidated Industries Ltd		6.6	8.2	9.0	9.3	9.6	45.4	3.2	7.9	7.4
RepcO Limited		9.8	11.3	10.0	12.6	13.4	36.7	6.3	4.9	13.0
<u>BANKS & FINANCE</u>									4.7	11.1
Alliance Holdings Limited		8.1	9.8	12.2	13.9	16.0	97.5	15.1	4.6	7.9
Associated Securities Limited		9.8	9.9	10.2	11.6	12.9	31.6	11.2	4.4	13.9
Australian Guarantee Corporation Ltd		10.5	11.3	11.8	12.7	14.6	39.0	15.0	4.5	12.0
Bank of Adelaide		13.2	15.9	17.1	17.7	15.0	13.6	(15.3)	4.4	11.5
Bank of New South Wales		25.6	29.8	40.0	41.6	43.0	68.0	3.4	3.2	14.5
Commercial & General Acceptance Ltd		13.3	14.2	16.0	20.0	24.6	85.0	23.0	3.2	15.5
Commercial Banking Co. of Sydney Ltd		16.4	19.1	22.6	21.5	22.7	38.4	5.6	4.7	11.8
Commercial Bank of Australia Limited		13.7	16.8	20.0	19.0	17.7	29.2	(6.9)	4.9	12.9
Custom Credit Corporation Limited		8.8	10.1	12.0	13.4	15.6	77.3	16.4	3.7	10.9
I.A.C. (Holdings) Limited	9.5	10.7	12.0	12.5	15.9		67.4	27.2	4.5	7.8
Mercantile Credits Limited		9.8	10.0	10.1	9.9	12.4	26.5	25.2	7.8	8.0
Mutual Acceptance Limited		7.7	8.6	10.2	12.2	14.3	85.7	17.2	5.8	7.6
National Bank of Australasia Limited		13.1	18.3	22.0	22.9	24.6	87.8	7.4	4.7	10.2
<u>BEVERAGES</u>									3.1	17.6
Carlton & United 'Z'		20	21	21	24	25	23.0	4.2	3.6	14.6
Castlemaine Perkins Limited		28	32	37	41	43	53.6	4.9	2.6	16.1

COMPANY	E A R N I N G S P E R S H A R E					% Inc. over 4 yrs.	% Inc. of latest yr. over prev. yr.	Div. Yield	P/E
	1965	1966	1967	1968	1969				
<u>BEVERAGES - Continued</u>									
Courage Breweries Limited	n.a.	n.a.	(5.5)	(13.1)	(7.3)	32.7	n.c.	nil	n.c.
Lindeman (Holdings) Limited	10.0	11.3	12.5	14.2	15.5	55.0	9.1	2.1	20.3
Penfolds Wines Australia Limited	8.9	9.5	9.7	11.8	11.6	30.3	(1.7)	3.0	20.0
Schweppes (Australia) Limited	9.0	9.0	9.4	6.0	8.5	(5.6)	41.7	5.5	11.8
South Australian Brewing Co. Limited	8.6	8.3	9.9	9.9	10.8	25.6	9.1	4.4	13.6
Swan Brewery Company Limited	6.3	7.2	7.3	8.6	10.3	63.4	19.8	2.6	26.5
Tooheys Limited	6.7	7.2	7.4	7.5	9.9	47.7	32.0	3.7	15.0
Tooth & Company Limited	15.3	15.3	16.7	18.0	23.2	51.6	28.9	3.5	20.9
<u>BUILDING MATERIALS</u>									
A.R.C. Industries Limited	11.2	7.3	6.3	12.4	13.6	21.4	9.7	4.7	9.8
Australian Gypsum Industries Limited	10.4	10.7	11.9	12.5	13.1	26.0	4.8	5.2	9.2
Brick and Pipe Industries Limited	8.7	9.3	11.2	13.0	14.8	70.1	13.8	5.8	9.0
Brickworks Limited	59	71	87	75	78	32.2	4.0	4.1	9.4
Concrete Industries (Monier) Limited	4.4	5.7	6.1	9.2	9.3	111.3	1.1	6.6	10.1
Hardie (James) Asbestos Limited	28.0	22.4	22.4	26.4	28.8	2.8	9.1	3.6	13.0
Humes Limited	19.5	24	20	18.5	20	4.1	9.9	8.2	7.8
Hunter Douglas Limited	21	24	25	25	26	23.8	4.0	5.5	8.5
McIlwraith (John) Industries Limited	10.3	10.1	11.8	9.1	10.9	5.8	19.8	8.2	8.4
Newbold General Refractories Limited	7.0	8.3	9.3	7.5	8.2	17.1	9.3	7.1	10.7
P.G.H. Industries Limited	8.8	8.5	9.0	10.0	9.5	7.9	(5.0)	7.1	9.5
Rocla Industries Limited	10.5	11.0	12.7	14.4	12.8	21.9	(11.1)	4.7	13.1
<u>CEMENT & QUARRIES</u>									
A.P.C.M. (Australia) Limited	9.6	7.5	7.5	7.1	7.8	(18.7)	9.9	6.1	11.6

COMPANY	EARNINGS PER SHARE						% Inc. of latest		Div. Yield	P/E
	1965	1966	1967	1968	1969	1970	over 4 yrs.	yr. over prev. yr.		
<u>CEMENT & QUARRIES - Continued</u>										
Australian & Kandos Cement Holdings Ltd		8.1	8.4	5.7	6.6	7.9	(2.5)	19.7	6.0	12.3
Blue Metal Industries Limited		5.3	5.6	7.1	9.2	12.0	126.4	30.4	3.9	13.8
Boral Basic Industries Limited		n.a.	n.a.	n.a.	13.8	15.0	n.c.	8.7	3.6	14.5
Cockburn Cement Limited	n.a.	n.a.	12.6	14.8	22.0		n.c.	48.6	2.8	16.4
Consolidated Quarries Limited	9.6	8.9	14.6	15.1	21.4		122.9	41.7	2.7	17.2
Farley & Lewers Limited		6.9	7.1	11.7	11.4	17.7	156.5	55.2	2.8	16.7
Pioneer Concrete Services Limited	10.8	10.8	11.2	10.4	12.2		13.0	17.3	5.8	11.2
Queensland Cement & Lime Company Ltd		22	24	23	26	34	54.5	30.8	4.7	13.0
<u>CHEMICALS & PETROLEUM</u>										
Ampol Petroleum Limited		5.1	4.4	5.8	7.6	8.1	58.8	6.6	6.9	9.7
Commonwealth Industrial Gases Ltd	16.1	12.3	16.6	18.1	19.7		22.4	8.8	3.8	16.2
I.C.I.A.N.Z. Limited	10.9	9.6	10.8	12.8	15.4		41.3	20.3	5.6	10.0
Sleigh (H.C.) Limited		3.8	4.4	5.6	6.3	5.4	42.1	(14.3)	8.3	10.9
Union Carbide A.N.Z.		17.0	23.9	26.0	29.6	41.0	141.2	38.5	2.5	14.4
<u>CONSTRUCTION & PROPERTY</u>										
Hooker Corporation Limited		3.2	5.2	6.4	7.5	9.1	184.4	21.3	3.5	15.0
Jennings (A.V.) Industries (Aust.) Ltd		10.6	16.1	15.9	15.4	16.2	52.8	5.2	6.1	7.0
Landall Holdings Limited		n.a.	12.0	16.5	16.7	16.5	n.c.	(1.2)	9.5	5.1
Lend Lease Corporation Limited		8.4	9.2	10.2	12.7	16.2	92.8	27.5	2.4	19.8
Mainline Corporation Limited		n.a.	n.a.	9.6	15.0	19.6	n.c.	30.7	2.2	14.5
R.D.C. Holdings Limited	10.6	11.6	13.7	14.4	17.0		60.4	18.0	4.3	12.8
Stocks & Holdings Limited		14.5	19.4	23.6	35.3	41.1	183.4	16.4	1.3	14.8

COMPANY	E A R N I N G S P E R S H A R E					% Inc. over 4 yrs.	% Inc. of latest yr. over prev. yr.	Div. Yield	P/E	
	1965	1966	1967	1968	1969					1970
<u>CONSTRUCTION & PROPERTY - Continued</u>										
Travelodge Australia Limited		7.2	7.5	7.9	8.2	7.8	8.3	(4.9)	4.8	16.8
Westfield Development Corp. Limited		8.3	8.8	12.7	19.4	24.1	190.3	24.2	1.6	20.2
<u>DISTRIBUTION</u>									7.3	8.1
Adams (William) & Company Limited		17.3	14.9	15.6	16.3	16.8	(2.9)	3.1	8.6	9.1
Australian Motor Industries Limited		21.0	19.7	16.2	17.7	15.1	(28.1)	(14.7)	10.6	4.4
Australian National Industries Limited*		3.5	3.0	3.6	4.3	10.0	185.7	132.5	5.0	9.2
Blackwood (J.) & Son Limited		30.0	29.6	32.2	34.8	37.7	25.7	8.3	4.6	9.7
Larke Consolidated Industries Ltd		9.2	12.9	13.8	13.8	14.3	55.4	3.6	7.9	5.3
McPhersons Limited		7.8	6.8	6.3	5.5	6.4	(18.0)	16.3	7.0	9.6
Steelmark Limited		N O T A V A I L A B L E							7.1	9.2
<u>DURABLES & ELECTRICAL</u>									6.3	9.0
Amalgamated Wireless (A/sia) Limited		11.1	12.7	13.8	13.9	14.9	34.2	6.5	5.7	9.3
E.M.I. (Australia) Limited		20	22	24	27	32	60.0	18.5	2.5	12.0
Email Limited	3.3	6.7	8.9	9.0	8.2		148.4	(8.9)	11.0	6.9
General Industries Limited	23.6	18.4	18.7	23.4	15.8		(33.1)	32.5	8.5	8.9
Hanimex Corporation Limited		16	15	16	14	12	(25.0)	(14.3)	8.9	9.7
Kelvinator Australia Limited		11.0	11.0	12.5	12.3	15.7	42.7	27.6	6.1	7.1
Kempthorne Mistral Limited		n.a.	n.a.	11	11	9.8	n.c.	(10.9)	10.0	8.1
Malleys Limited		8.3	9.5	9.8	7.5	4.2	(49.4)	(44.0)	nil	10.0
Vulcan Industries Limited		10.2	14.7	15.7	17.0	19.1	87.2	12.3	4.2	9.2
<u>ENGINEERING & FABRICATING</u>									6.0	9.6

COMPANY	EARNINGS PER SHARE					1970	% Inc. over 4 yrs.	% Inc. of latest yr. over Prev. yr.	Div. Yield	P/E	
	1965	1966	1967	1968	1969						
<u>ENGINEERING & FABRICATING - Continued</u>											
Clyde Industries Limited		9.2	8.6	10.6	11.8	13.0	41.3	10.2	8.3	6.9	
Comeng Holdings Limited		12.5	13.1	12.7	13.8	16.1	28.8	16.7	8.0	6.9	
Crane (G.E.) Holdings Limited		26	21	23	29	29	11.5	0.0	3.7	13.9	
Cyclone Company of Australia Ltd		12.4	12.6	9.7	12.5	18.8	51.6	50.4	7.0	6.7	
John (M.B.) & Hattersley Limited		19.6	14.6	15.5	16.4	13.8	(29.6)	(15.9)	8.7	7.9	
Johns & Waygood Perry Engineering Ltd		18	17	16	17	15	(16.7)	(11.8)	9.1	7.6	
Kohler J. & Sons Limited		11.8	13.5	14.0	17.5	18.3	55.1	4.6	4.4	9.4	
N.K.S. (Holdings) Limited		18.7	18.7	20.0	21.8	21.8	16.6	0.0	8.3	7.1	
OPSM Industries Limited		10.9	11.5	11.8	13.2	13.5	23.8	2.3	3.3	16.0	
Overseas Corporation (Australia) Ltd		9.2	9.2	11.3	12.9	13.6	47.8	5.4	3.7	12.6	
Protector Safety Industries Limited		15.9	16.7	17.4	20.0	20.8	30.8	4.0	2.7	11.2	
Sims Consolidated Limited		8.9	9.2	8.9	8.4	13.3	49.4	58.3	6.2	9.0	
Tubemakers of Australia Limited		9.5	9.5	9.0	10.4	11.3	18.9	8.6	5.0	9.6	
Wormald Brothers Industries Limited		13.5	8.0	13.7	17.9	20.0	48.1	11.7	6.1	9.4	
									6.0	10.2	
<u>FOOD & CONSUMER ITEMS</u>											
Allied Mills Limited	10.0	10.4	10.4	11.8	15.5		55.0	31.3	5.6	8.6	
Arnotts Limited		n.a.	n.a.	n.a.	n.a.	9.2	n.a.	n.a.	5.7	9.5	
British Tobacco Company (Aust.) Ltd	16.0	17.7	20.0	23.7	25.6		60.0	8.0	6.4	8.5	
Cadbury Australia		N O T A V A I L A B L E								5.9	10.2
Consolidated Foods Limited		7.1	7.0	7.6	7.9	6.4	(9.9)	(19.0)	8.2	8.2	
Gillespie Brothers Holdings Limited		17.0	16.1	8.5	19.0	12.1	(28.9)	(36.3)	8.5	9.8	
Huttons Limited		8.5	5.3	7.8	8.7	9.0	5.9	3.4	7.1	8.6	
Jones (Henry) Limited	23.2	22.3	23.3	19.1	16.4		(29.4)	(14.1)	6.4	13.3	
Kiwi International Company Ltd	n.a.	n.a.	12.3	15.0	14.1		n.c.	(6.0)	5.9	9.6	
Life Savers (A/sia) Limited		12.5	14.2	17.2	14.1	16.4	31.2	16.3	5.6	9.0	

COMPANY	EARNINGS PER SHARE						% Inc. of latest			P/E
	1965	1966	1967	1968	1969	1970	4 yrs. over	yr. over Prev. yr.	Div. Yield	
<u>FOOD & CONSUMER ITEMS - Continued</u>										
Marrickville Holdings Limited		10.3	10.7	5.5	11.4	12.0	16.5	5.3	8.2	6.3
Mauri Brothers & Thomson Ltd		8.8	8.4	8.7	7.8	8.4	(4.6)	7.7	5.0	12.4
Morris, Philip (Australia) Limited		40	52	58	78	90	125.0	15.4	3.2	7.9
Nicholas Australia Ltd		4.3	4.0	7.9	9.3	8.2	90.7	(11.8)	6.9	10.9
Petersville Australia Ltd		3.7	3.0	3.1	3.1	1.7	(54.1)	(45.2)	nil	13.1
Pioneer Sugar Mills Limited	16.5	13.9	13.7	15.4	22.2		34.5	44.1	6.2	8.9
Provincial Traders Holding Limited		7.1	7.4	7.7	8.7	9.4	32.4	8.0	7.3	8.9
Q.U.F. Industries Limited		6.7	7.7	8.3	8.0	7.0	4.5	(12.5)	8.3	10.7
Reckitt & Colman Australia Limited		n.a.	n.a.	19.1	19.7		n.c.	3.1	3.1	20.0
Rothmans of Pall Mall (Australia) Ltd		31	18	27	32	32	3.2	0.0	8.5	6.1
Stedman (James) Limited		12.0	12.0	12.1	10.2	11.5	(4.2)	12.7	6.3	10.4
Weston (George) Foods Limited	7.4	8.3	8.6	8.6	10.8		45.9	25.6	4.0	12.5
<u>INSURANCE</u>										
									3.4	17.9
Bankers & Traders Insurance Co. Ltd		20	26	32	39	32	60.0	(18.0)	3.3	11.7
Commercial Union Assurance Co. of Australia Ltd		8.3	9.4	12.3	12.1	12.4	49.3	2.5	3.3	15.6
M.L.C. Limited		15.9	15.9	15.9	15.9	16.5	3.8	3.8	3.2	33.1
Mercantile Mutual Insurance Co. Ltd		23	25	27	27	30	30.4	11.1	3.5	14.2
Queensland Insurance	22.6	24.3	28.0	29.4	22.8		0.9	(22.4)	3.6	15.2
<u>MEDIA</u>										
									3.9	12.6
Advertiser Newspapers Limited	8.2	8.2	9.3	9.8	9.8		19.5	0.0	5.0	12.4
Consolidated Press Holdings Limited		0.22	0.16	0.40	0.40	0.35	59.1	(12.5)	4.5	8.3
Fairfax (John) Limited		11.6	12.5	14.0	14.2	15.9	37.1	12.0	4.6	13.2

COMPANY	EARNINGS PER SHARE						% Inc. of latest		Div. Yield	P/E
	1965	1966	1967	1968	1969	1970	4 yrs. over	yr. over Prev. yr.		
<u>MEDIA - Continued</u>										
Herald & Weekly Times Limited	12.2	12.7	14.7	16.1	17.1		40.2	6.2	3.8	20.0
Macquarie Broadcasting Holdings Limited		7.2	10.5	12.2	13.5	14.1	95.8	4.4	4.2	15.7
News Limited		7.4	13.0	14.0	19.6	24.1	225.6	22.9	1.5	14.1
Queensland Press Limited		30	34	37	36	38	26.6	5.5	4.6	12.2
Syme (David) & Company Ltd *		19.6	16.7	18.8	15.8	(7.7)	(148.7)	(139.2)	4.0	6.8
Television Corporation Limited		21	28	29	30	28	33.3	(6.7)	6.5	11.1
United Telecasters Sydney Limited		loss	loss	loss	0.5	0.5	n.c.	0.0	nil	n.c.
<u>PACKAGING</u>										
Containers Limited		12.7	14.5	16.2	17.5	19.9	56.7	13.7	5.6	9.1
Fibre Containers Limited	11.4	8.8	12.2	15.6	19.8		73.7	26.9	4.5	9.3
Gadsden (J.) Australia Limited		16.6	16.5	15.0	13.2	19.8	19.3	50.0	6.7	7.5
Reed Consolidated Industries Limited		11.7	14.0	16.0	16.2	18.1	54.7	11.7	4.0	11.1
Rheem Australia Limited		N O T	C O M P	A R A B	L E	19.1	n.c.	n.c.	3.4	13.1
United Packages Limited		9.1	9.8	10.3	10.4	9.6	5.5	(7.7)	5.0	11.6
<u>PAPER, GLASS & PLASTICS</u>										
Associated Pulp & Paper Mills Limited		13.7	11.2	16.2	15.9	15.1	10.2	(5.0)	5.8	12.3
Australian Consolidated Industries Ltd		19	19	18	17	17	(10.6)	0.0	6.4	9.5
Australian Newsprint Mills Holdings Ltd		20.9	20.3	18.5	20.7	23.1	10.5	11.6	5.7	14.6
Australian Paper Manufacturers Ltd		12.7	11.7	14.5	16.1	18.7	47.2	16.1	6.1	9.2
Glass Containers Limited		n.a.	n.a.	n.a.	n.a.	nil	n.c.	n.c.	nil	n.c.
Nylex Corporation Limited	5.9	6.4	8.3	8.7	10.8		83.0	24.1	4.0	13.2

COMPANY	EARNINGS PER SHARE					% Inc. over 4 yrs.	% Inc. of latest yr. over Prev. yr.	Div. Yield	P/E	
	1965	1966	1967	1968	1969					1970
<u>RETAIL & CHAIN STORES</u>								5.4	10.7	
Coles (G.J.) & Company Limited		7.9	7.5	8.1	8.8	8.9	12.6	1.1	6.9	9.7
Grace Brothers Holdings Limited		9.6	11.1	13.4	14.6	15.6	62.5	6.8	3.2	15.2
Jones (David) Limited		11.6	11.7	12.3	13.6	14.6	25.9	7.4	4.7	11.0
Lowes Limited		9.3	10.5	12.6	14.8	16.4	76.3	10.8	3.0	15.6
Myer Emporium Limited		19.3	21.0	21.5	24.7	24.8	28.5	0.4	4.0	11.1
Permewan Wright Limited		12.5	9.3	10.6	10.7	10.4	(16.8)	(2.8)	8.9	7.0
Waltons Limited		6.8	7.8	12.1	11.2	12.4	82.3	10.7	5.9	9.0
Woolworths Limited		7.6	7.5	7.5	8.3	9.0	18.4	8.4	6.8	10.4
Young (J.B.) Holdings Limited *		10.4	10.6	10.1	14.6	18.0	73.1	23.2	5.2	8.9
<u>TEXTILES</u>								7.2	7.2	
Bonds Coats Patons		18	18	18	18	17.5	(2.8)	(2.8)	7.4	6.8
Bradmill Industries Limited		6.4	7.5	8.8	8.9	7.4	15.6	(16.9)	8.1	8.3
Courtaulds Hilton Limited		N O T	C O M P A R A B L E						7.1	5.2
Dunlop Australia Limited		7.5	11.5	15.6	15.8	16.2	116.0	2.5	9.2	7.5
F & T Industries Limited		4.2	5.5	6.0	6.0	10.7	154.7	78.3	7.3	8.2
Kolotex Holdings Limited	22.0	23.6	26.0	42.6	49.1		123.2	15.2	4.6	6.9
Osti Holdings Limited	22.9	11.7	12.6	14.0	19.6		(14.4)	40.0	7.0	7.7
<u>TRANSPORT</u>								5.0	12.1	
Ansett Transport Industries Limited		7.5	7.6	7.6	8.2	8.2	9.3	0.0	6.9	8.7
Brambles Industries Limited		8.3	8.5	9.3	11.8	11.7	40.9	(0.9)	4.0	14.6
Mayne Nickless Limited		6.9	7.5	9.0	9.6	11.5	66.7	19.8	4.6	13.5
Stephens (F.H.) Consolidated Limited		9.9	10.7	12.3	11.2	12.6	27.3	12.5	5.8	9.0
Thomas Nationwide Transport Limited		5.5	4.1	6.8	9.4	12.8	132.7	36.2	3.9	14.6

<u>COMPANY</u>	<u>E A R N I N G S P E R S H A R E</u>						% Inc. of latest over yr. over Div. 4 yrs. Prev. yr. Yield			<u>P/E</u>
	1965	1966	1967	1968	1969	1970				
<u>DIVERSIFIED</u>										
Adelaide Steamship Company Limited		4.5	4.8	4.9	4.8	7.0	55.5	45.8	6.9	9.0
Austim	n.a.	5.3	4.6	14.5	22.4		n.c.	54.5	6.1	9.4
Australian Controls Limited		13.3	14.6	14.1	14.8	12.3	(7.5)	(16.9)	5.2	11.6
Beau Monde (Australia) Limited		n.a.	n.a.	n.a.	16	24	n.c.	50.0	7.1	11.7
Bell Brothers Holdings Limited		11	19	21	24	24	118.2	0.0	1.6	17.3
Boral Limited		11.2	15.1	13.3	16.2	15.5	38.4	(4.3)	6.7	10.3
Broken Hill Proprietary Company Ltd		27.5	31.0	34.4	37.1	42.2	53.4	13.7	1.9	31.0
Burns, Philp & Company Limited	.19	.22	.18	.23	.23		21.0	0.0	4.1	13.3
Carpenter (W.R.) Holdings Limited		13.5	12.4	13.8	16.1	16.8	24.4	4.3	5.4	10.9
Colonial Sugar Refining Company Ltd		20.0	18.7	21.2	22.2	26.6	33.0	19.8	1.9	24.0
Elder Smith Goldsbrough Mort Limited		21.8	24.9	22.6	25.1	24.2	11.0	(3.6)	7.3	6.9
Gollin Holdings Limited		8.0	9.4	8.9	7.4	5.7	(28.9)	(23.0)	7.1	14.0
Miller (R.W.) (Holdings) Limited		22	19	18	18	14	(36.4)	(22.3)	7.7	11.1
Smith (Howard) Limited	14.9	17.1	16.1	16.2	17.7		18.8	9.3	5.0	14.3
Soul Pattinson		22	24	26	33	35	50.1	6.1	2.5	17.4
Steamships Trading Company Limited		9.3	8.6	8.0	8.8	10.0	7.5	13.6	9.0	6.1
Thiess Holdings Limited.*	5.1	17.6	21.8	20.9	17.4		241.2	(16.8)	1.1	12.8

* Indicates Estimate or Forecast by Company