



This week THE ALCHEMIST gives you:-

- **CHART OF THE WEEK:-** The QC (Quantitative Counsel / Damien Klassen) gives you a look at the 12m Forward P/E for stocks on the 25th percentile of the ASX100.
- **THE HIGH CONVICTION LIST:-** If you are going to do something do it with CONVICTION says THE ALCHEMIST so with that, THE WILSON HTM “ROCKET SCIENTISTS” (that is how THE ALCHEMIST refers to the analysts) have been putting their heads together and come up with a “high conviction” set of buys from their stock coverage universe!!!
- **THE STIG:-** Remember when THE STIG, ALPHA HUNTER or THE PROF make a contribution it is a piece from an anonymous institutional client who is providing some useful insights – this week THE STIG updates us on **SOM!!!**
- **BLUE HORSE SHOE:-** Remember the origins of BLUE HORSE SHOE (that famous movie Wall St)... well this week THE ALCHEMIST alerts you to **ICP....** One of his smart investors recently visited Korea to runs it to ground...

Also in this edition remember **MIDCAP MONDAY** – come along and listen to **Stephe Wilks (Non executive Director) and Alan Treisman (CFO)** of **3Q Holdings** on **10 May @ 4.30PM** so RSVP if you wish to attend.

Not forgetting of course **ALCHEMY ENTERTAINMENT** – which this week gives you:-

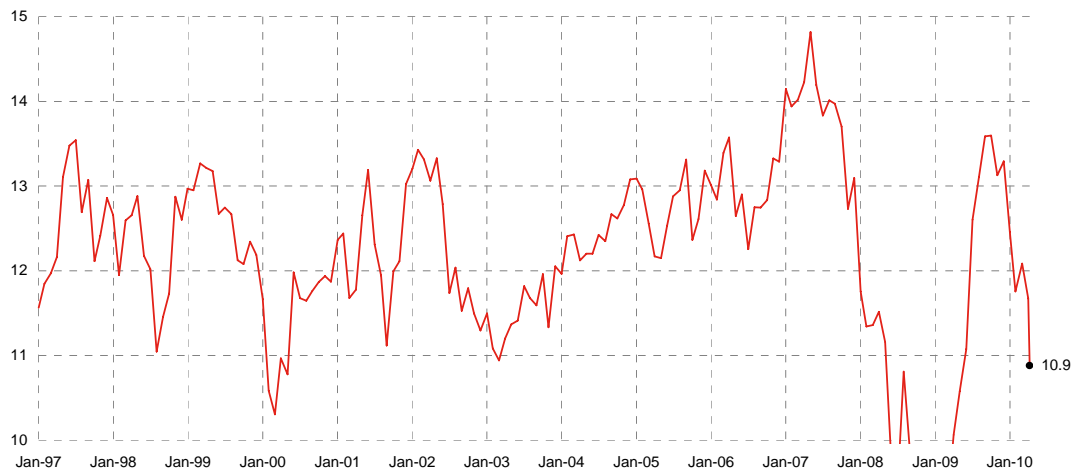
- **THE WATERBOY** – The Waterboy & Steve Wilson (“SW” the Exec Chairman of Wilson HTM) give us their rugby tips – it was a shocking round from both of our experts – but who didn’t have one?
- **SUPER BET WITH “KID PUNT”** – This is a new section where THE ALCHEMIST enlists one of the WILSON HTM Corporate Finance Gurus – *nick* named “KID PUNT” to provide some real ALPHA to those who want a bet on the weekend – not for the faint hearted but you only need one to come through to make a huge return this one provides a return of **1688 to 1!!!!**
- **THE DALLAS COWBOYS STADIUM BLOW UP** – check this out!!

But enough lets get into it.... and **talk ALCHEMY!!!!**

CHART OF THE WEEK

The QC (Damien Klassen) has been busy he has a new product on the market called Valuation Dashboard which is produced each week click on the attached [link](#) for a view.

A look this week at the 12m Forward P/E for stocks on the 25th percentile of the ASX100



Bit of a different angle from the QC this week, looking at the cheapest 25% of stocks where the forward P/E ratio has now dipped below 11x, which it has only done twice in recent times, following the tech wreck in 2000 and during the GFC.

Quite possibly we are in for a ride that takes this lower, but the market does appear cheap nonetheless.

THE STIG'S – SOM A 5 BAGGER!!!!

Remember when THE STIG, ALPHA HUNTER or THE PROF make a contribution it is a piece from an anonymous institutional client who is providing some useful insights – anyway over to you on SOM!!!!

“ALCHEMIST,

I can't remember whether I've covered off on SOM before in these esteemed pages but there is increasing evidence that this stock will be a 5-bagger so here goes;

Stocks that go up 5-10 times typically have:

- global leadership in a niche
- MASSIVE addressable markets
- High margins, ROFE and cash generation
- management who own the stock and are shareholder focused
- very high barriers to entry

If you like ResMed you ought to love Somnomed (SOM) as it is exposed to the same drivers, has the same huge market potential, does very high GP margins and is on the cusp of a significant acceleration in unit sales. Like RMD, SOM is a medical device company which has oral products that aim to treat sleep disorders such as Obstructive Sleep Apnea (OSA). Their OSA product, in which they are the global leader, is like a mouthguard that brings the lower jaw forward and naturally opens the throat. The argument here is that there is much higher levels of compliance (people actually using the device) with a mouthguard than Resmed's CPAP mask.

Mkt Cap	= \$35m
Cash	= \$3.1m
EV	= \$31.9m
FY10 EBITDA	= \$0.5m off 19,000 unit sales
FY12 EBITDA	= \$4m (reflects only a slight acceleration in unit sales, a high A\$ and improvement in GP margins from consolidation of manufacturing)

Like all medial device companies (think SRX) the most important metric to follow is unit sales. This drives profitability and, more importantly, is an indicator of medical community acceptance of the treatment. SOM grew units 56% in the March qtr on pcp and will likely sell 19,000 oral devices in FY10 v 12,500 in FY09.

The opportunity for investors in SOM is that we are at an inflection point which will soon see a significant acceleration in unit sales. This is because:-

- medical community acceptance of SOM's oral devices as a treatment option for OSA is improving,
- SOM are rolling out in to new countries in Europe,
- SOM have recently opened a couple of new distribution partners in the US and
- SOM have a second product (which treats grinding of the teeth) to roll out via their medical network.

Perhaps more excitingly for SOM, Resmed have given an implicit stamp of approval to oral devices as a legitimate treatment alternative for OSA by purchasing a French oral device company called Narval. RMD paid 11x sales for a business losing 2-3m Euro which only operates in France. Put 11x on SOM's \$10m in FY10 sales and you get to a \$2.80 share price (v 91c now).

Longer term it's not hard to see SOM making \$4m EBITDA in FY12 and should unit sales accelerate as anticipated then, due to the 70% GP margins SOM will earn, earnings could double to \$8m in FY13.

As it stands SOM is making significant steps in achieving its financial and operational goals including:

- Reaching profitability in the FY10 year
- Launch of new product line to treat Sleep Bruxism (teeth grinding during sleep)
- Strategic distribution partnerships in the US
- Development of production and distribution capabilities which will see GP margins rise towards 70%
- Favourable regulatory trends in Europe with more countries reimbursing the cost of the oral device

SOM is an outstanding investment opportunity because it has;

- global leadership in a niche market (oral devices for the treatment of OSA)
- a MASSIVE addressable market (same as RMD)
- is profitable with a net cash balance sheet
- favourable regulatory and medical best practice trends (Dr awareness improving, getting reimbursement in Europe)
- management who own the stock and are shareholder focused (yep)
- very high barriers to entry (by way of the medical distribution network and the 5+ years of academic research supporting the use of SOM oral devices)

Well there it was, certainly something to "sleep on" thought THE ALCHEMIST – a nice 5 bagger to be had!!!!

THE HIGH CONVICTION LIST!!!

THE WILSON HTM "ROCKET SCIENTISTS" (that is how THE ALCHEMIST refers to the analysts in general) have been putting their heads together and come up with a "high conviction" set of buys!!!

It will be update from week to week in that must read called SMALL FORTUNES (click [here](#) from last weeks edition) but here is the list as it presently stands (note the prices in the high conviction list are as at Monday):-

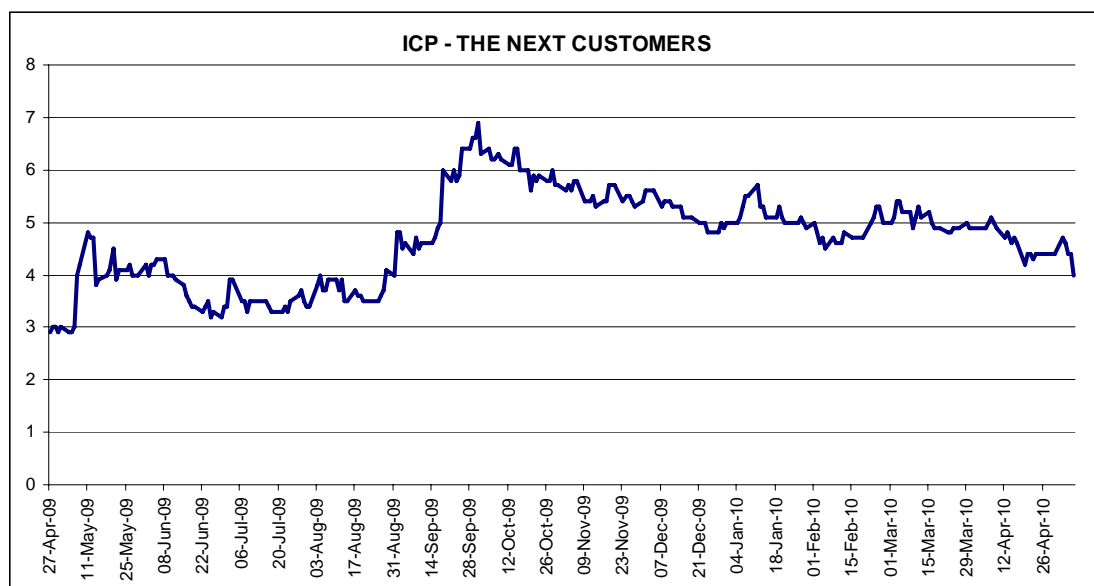
	Rec.	Share Price (\$)	12 mth TSR	Share Price at entry (\$)	Date of entry	Performance
ASX200						vs. XTI
JBH	BUY	19.51	14.7%	19.20	15/04/2010	4.9%
PRY	BUY	4.15	31.0%	4.26	15/04/2010	0.7%
PTM	BUY	4.90	19.9%	5.11	15/04/2010	-0.8%
AWB	BUY	1.04	29.8%	1.10	15/04/2010	-1.7%
Ex-ASX200						vs. XSI
WBB	BUY	11.00	20.8%	10.92	15/04/2010	3.8%
SFH	BUY	1.37	64.4%	1.48	15/04/2010	-4.1%
MAH	BUY	0.73	44.5%	0.82	15/04/2010	-7.9%
RFG	BUY	2.70	37.5%	2.75	15/04/2010	1.2%
TOX	BUY	2.40	33.4%	2.55	15/04/2010	-2.8%

If you want to know why any of these stories are a BUY get on the phone to THE ALCHEMIST on 02 8247 3150.

BLUE HORSE SHOE - ICP!!!!

We all remember that THE ALCHEMIST was ahead of the curve telling the market to buy CUS when it was back around the \$1.00 level... well someone whispered to THE ALCHEMIST that he should have a look at ICP....

Well take a look at this SNAP (BTW the scale is in cents):-



Well ICP has recently updated the market infact this week saying:

“The iCash Group has continued to perform strongly since its interim profit announcement for the period ending 31 December 2009. With our ATM manufacturing capabilities within our Korean based subsidiary, NeolCP, our vertical integration strategy has allowed the Group to consolidate its operations and deliver the platforms required for growth domestically and abroad.”

Get this though:-

“Across the Group, sales volumes and revenues have been trending significantly higher compared to corresponding periods last year. ATM and other cash handling device orders for future production are strong.

Together these initiatives have resulted in substantial new business agreements, providing a positive outlook for revenue and profits in the medium to long term.”

THE ALCHEMIST rang one of his contacts who recently visited the Korean manufacturing facility.... The source said:-

“ALCHEMIST this is a company with:-

- growing operations in Australia;*
- market leading positions in the non-bank retail ATM sector in Korea*
- growth options in China and New Zealand*

Put simply they are selling 600 ATMS a month and the gross margin on those sales is circa \$3,000 a machine (and that is a conservative estimate) accordingly they are generating \$20 million worth of EBITDA on an annualised run rate!!!

ALCHEMIST I have crunched some numbers and this thing can make \$15 million NPAT PA in the next few years... with a market cap of circa \$40 million it is a PE of 2.5x...”

THE ALCHEMIST loves these “hidden gems” – this looked like a BUY to him!!!

Perhaps interested parties should phone THE ALCHEMIST on (02 8247 3150) and we can organise a site visit out to see the latest WMS / EBET machines in operation.

ALCHEMIST ENTERTAINMENT

THE WATERBOY's RUGBY TIPS

Week 11 is down and over Executive Chairman Steve Wilson is closing the gap Waterboys lead is down to 5 after he imploded last week – what tricks can SW pull out of his hat to close gap now???

Over to you Waterboy for this weeks TIPS!!!

THE WATERBOY!!!!

The Waterboy this week will focus virtually exclusively on RahRah since his Mungo brain has receded far into his cranial cavity and refuses to emerge. Admittedly 1/8 exceeds the marks given to Krudd at this weeks "Hot Copper Emerging Iron Ore Miners" conference - but only just. To be fair, that's one more than the Waratah's gleaned from WB after the moderate efforts against the Highlanders last Friday evening. Especially since all the other results went the Waratah's way; if only they'd put in like that magnificent outfit, the Force, had a few weeks prior, they'd be nearly home and hosed for the finals. Mind, they were hosed by the disgusting weather - on the assumption Alchemist has no clients in Invercargill, why the **** would you live in a place like that? (cos we drunk Speights bro'). The Reds were only two

points down early in the second half against the Brumbies but the Canberra (why the **** would you live.....) hoodoo struck again and the locals turned in their best effort of the year. Hopefully you caught the Stormers three magnificent tries which have all but destroyed the Crusaders for the year (even though they're still third).

The upshot of last weekend is that the Brumbies are in better shape, whilst the crunch match is tonight's affair in Wellington between the Hurricanes and the Reds. If the Reds can win, they get an easier home game in week 14 than the likes of the Brumbies or the 'Canes themselves. There's realistically six teams left in with a shot at the final three (the Stormers still have two horror away RSA matches left). The Tahs can redeem themselves with a win against the Chiefs who are on the same luge transporting Krudd and Swan in the opinion polls at present - but that's what we thought last week. A win for the Tah's and 'Canes would set up a must see finale at the SFS next weekend. Oh and the gibbering Sharks coach has now quietened down, though they were ahead at half time. Crap try of the decade must go to Waltie Vermeulen for the Cheetahs against the Blues - if your kid in under 9's scored it, you'd be embarrassed. Summed up the standard of that game - watch on Fox Sports to see..... and the big question is.....can the Lions (home v Blues, away v Cheetahs) record a 0-13 season....and the Jaopies had the temerity to want ANOTHER team in the comp ahead of the Melbourne Rebels.

And for this weeks RUGBY BETS:-

THE WATERBOY*

Hurricanes
Bulls
Waratahs
Brumbies
Blues
Cheetahs / Force DRAW!!!
Stormers

(STD 55/77)

STEVE WILSON** (Exec Chairman WIG)

Reds
Blues
Chiefs
Brumbies
Crusaders
Cheetahs
Sharks

(STD 48/77)

Speculative Bet (STD on \$1 a week +\$3.20= 32% return): Half time/full time Cheetahs/draw at \$61 (beer's on me if that comes in....)
Index Fund Bet (STD on \$1 a week +\$0.10= +0.1% return): Hurricanes giving away 6.5pts start start over the Redsat \$1.90 (sorry Boss)

WB is 0.1 seller after last week's escapades in Mungo where he at least got St George against the Sharks, which clearly utilised what was left of the brain cells. Newcastle are impossible to pick after the prior weeks horror show against the Sharks, and then coming back from 22-12 at half time to run over the Broncos. The Broncs need their old mate Harmichael back, but he was starring on ESPN in red white and green for Biarritz in the #10 jersey with Imoanol Harinordoquy (in a strange looking mask) and Dimitri Yachvili against Munster to make the European Cup final against Stade Toulousain on May 22. The Dogs just need 12 more blokes to play with JAMAL who figured he would give Timana Tahu a glimpse at next week, seven days early. Obviously a great game, since the Dogs fans decided to get stuck into each other at the back of the stand. Decidedly the poorest game of the year was the Roosters win over the Tigers at a packed Campbelltown last Sunday, whilst the Rabbits decided to play when it was all over against Manly.

This weekend sees the first rep games with City/Country in Port Macquarie and the opening of the latest whiz-bang sports stadium in Melbourne, AAMI Park (you'd bloody hope Suncorp were making some money wouldn't you given the number of Stadium naming rights and comps they sponsor.....). Australia haven't lost to NZ in a mid season fixture since Dally Messenger changed sides and given the Kiwi's injuries and the stupid decision to omit the WB's favourite NuZulunder- SKD - the Kangaroos should win in a canter. It's an abridged NRL weekend with only four games, but just about everyone on the paddock is backing up at Brookvale Oval on Saturday night for Manly/St. George. The major other interest will be to see whether the super-taxed Coal & Allied Knights or the untaxed version turns up on Sunday against the Titans. Neither team will be swanning around.....(time to go - Alchemist)

This week's Mungo tips (STD: 35/64): Country, Australia, Dragons, Titans, Storm, Roosters
Speculative Bet (STD on \$1 a week -\$6.00 = -100% return): Gold Coast 1-12 at \$3.40 over
Newcastle
Index Fund Bet (STD on \$1 a week -\$2.72 = -45.3% return): Gold Coast HTH at \$2.00 over
Newcastle

Happy Tipping

THE WATERBOY!!!

SUPER BET – WITH “KID PUNT”

This is a new section where THE ALCHEMIST enlists one of the WILSON HTM Corporate Finance Gurus – nick named “*KID PUNT*” to provide some real fire power to those who want a bet on the weekend – over to you KID PUNT:-

“Kid Punt has decided to take on a new approach and has devised a two pronged strategy. In addition to the usual Kid Punt multi where outrageous returns can be achieved, a “Consensus Punt” has been developed with help from the Sydney Corporate Finance team. Members of the team with “at-risk” capital are given one vote to modify the original “kid punt sporting multi”. With a consensus vote and suggestions from an independent “Captain”, a “lower risk consensus punt” is developed.

This week's Kid Punt delivers a staggering return of **1,688-1** while the Consensus Punt” delivers **241-1**. They are as follows:

St George to beat Manly in NRL	1.55
Gold Coast to beat Newcastle in NRL	2.00
Country to beat City in Rugby League	1.50
Collingwood beat Nrth Melbourne in AFL	1.20
St Kilda to beat Carlton in AFL	1.45
Stormers to beat Sharks	1.41
Waratahs to beat Chiefs in Super 14	1.78
Blues to beat Lions in Super 14	1.32
Jenson Button to win the Spanish F1 Grand Prix	7.00
Phil Mickelson to win Players golf championship	9.00
Total	1,688.71

St George to beat Manly in NRL	1.55
Gold Coast to beat Newcastle in NRL	2.00
Country to beat City in Rugby League	1.50
Collingwood beat Nrth Melbourne in AFL	1.20
St Kilda to beat Carlton in AFL	1.45
Stormers to beat Sharks	1.41
Waratahs to beat Chiefs in Super 14	1.78
Blues to beat Lions in Super 14	1.32
Phil Mickelson to win Players golf championship	9.00
Total	241.24

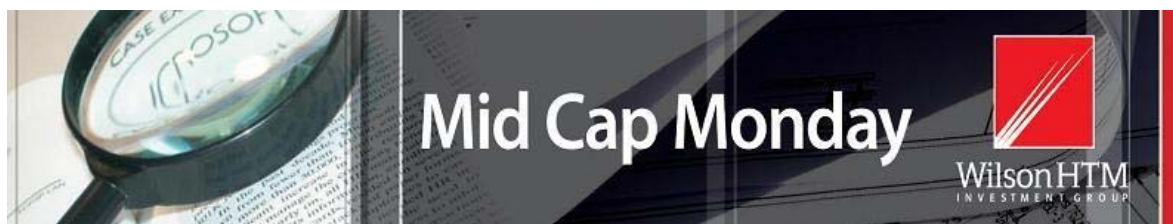
Load Up!”

KID PUNT

THE DALLAS COWBOYS STADIUM BLOW UP

Check this out!!

<http://gizmodo.com/5517106/what-its-like-to-stand-inside-an-imploding-stadium-%5Bupdated>



This week's **MID CAP MONDAY** corporate guest is **Stephe Wilks (Non executive Director)** and **Alan Treisman (CFO)** of **3Q Holdings**.

The format of the meetings are informal, predominantly Q & A so please come ready to join in the discussion.

Where: Level 26 Governor Phillip Tower 1 Farrer Place Sydney

When: Monday May 10th at 4.30pm

Host: Jacqui Fernley

RSVP to your advisor or via return email

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Author

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