Research Insight

CommSec

News from CommSec research

Welcome to this week's edition of the CommSec Research Insight. Each week we share the unique insights of the CommSec Equities Research team based on the research we prepare for institutional clients (ie fund managers). We provide you with a quick wrap on the state of our share market, a few feature articles on the most interesting recent research reports we've issued and snippets on stocks and sectors that have been making the news.

Feature Article

Our feature articles this week are:

- **Seven Network: On course, destination unknown but worth the ride?**
- **Transfield Services: Big second half, things are looking up**
- **Healthscope: Growth options available but chose wisely**

The comments in the article below are an abbreviated restatement of our analysts' reports.

A glossary of frequently used investment terms can be found at the end of this report

Issue 128 **27 August 2009 (4.30pm)**

Market Wrap

The company profit-reporting season has largely come to an end. And the good news is that it hasn't been anywhere near as gloomy as initially feared.

Certainly profits were down sharply on a year ago with a raft of companies actually recording losses for the past year. But given the drying up of business and consumer confidence locally, and the plunge in activity overseas, the drop in profits hardly comes as a surprise. And it's also important to note that profits were coming off record levels for a number of companies – especially in the resource sector.

In the outlook statements, company chief executives generally kept their cards close to their chests. While there was a general sense that the worst was over, few were prepared to declare victory.

For the sharemarket, another major hurdle has passed. First there was the US profit-reporting season, then our own. Forward-looking investors are now focussed on the shape that the economic recovery will take and what that will mean for profits and share prices.

Matt Comyn
General Manager

Feature Article

Seven Network Limited: On course, destination unknown – but worth the ride?

Last traded: $6.45	Sector: Consumer discretionary	Market cap: $1,227M
BUY / MARKET PERFORM		Valuation: $9.56

Summary of previous report dated 26/08/09

Event

- Seven Network announced its FY09 NPAT (post-TELYS, pre abnormals) of $80.2 versus CBA's $73.6m.

Implication

- Cash, stock and value per share as expected. The half-yearly glimpse of the balance sheet contained no surprises, and remains supportive of our sum of parts in excess of $8.50.
- Hanging on for the ride. Reiterating our positive call on SEV we note our support for the broad SEV strategy, at least as we understand it. Being cashed up with a view to an increasing influence across a range of telco, subscription and FTA media options remains appealing. Accessing the opportunity at a discount remains compelling.
- Returning to the vexed issue of future tax liabilities on SMG sale. The results highlighted once again the issue of potential tax payable on the SMG/KKR transaction. The more imminent any re-organisation of SMG becomes, the more important the tax liability.

Earnings and valuation revisions

- Given the highly variable inputs into SEV's P&L, and the low earnings base, estimates are highly volatile. Our estimates are up on the back of: (1) better-than-anticipated performance in Unwired/Engin; (2) higher dividends following confirmation that SEV's stake in TLS has been retained; and (3) an increased cash rate assumption on SEV's cash.
- Valuation $9.56, up 8.6% and price target $7.68 (up 2.4%).

	FY10			FY11			FY12		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Sales (incl. divs)	111.7	135.3	21%	116.3	140.4	21%	121.2	145.8	20%
EBITDA	48.6	60.4	24%	51.2	62.0	21%	54.1	63.6	18%
EPS (post-TELYS)	21.1	26.6	26%	25.0	30.1	20%	25.1	29.3	17%
DPS (cps)	29.0	29.0	0%	34.0	34.0	0%	34.0	34.0	0%

Investment view

- SEV remains a discounted entry to the possible moves in media in Australia. Issues of governance and holding company discounts are relevant. However, should SEV acquire almost any asset in the current market, the SEV share price is expected to rise by as much as the premium SEV will need to offer the target. No need to find the target, buy the acquirer. We maintain our BUY / MARKET PERFORM recommendation on SEV.

Feature Article

Transfield Services Limited: Big second half suggests things are looking up

Last traded: $3.72 Sector: Industrials Market cap: $1,537M

ACCUMULATE / MARKET PERFORM Valuation $3.87

Summary of previous report dated 27/08/09

Event

- TSE's FY09 NPAT pre amortisation and significant items of $123.6m was above our forecast of $116.3m and consensus. Strangely, profit growth of 16.6% was well above guidance last reiterated on 28 July where NPAT was expected to grow at the low end of 10–20%.

Implication

- Massive 2H09 NPAT growth of 65% on 1H09. NZ and Emerging Markets were the key areas of outperformance relative to expectations. NZ EBIT was $12m compared to our forecast of $3.2m. The uplift all came in 2H09, with EBIT of $12.3m compared to a loss of $0.3m in 1H09. TSE benefitted in particular from the renegotiation of terms on the Chorus contract.
- Overall TSE's EBITA margins were steady. Margins were softer in the US (down 0.6ppt) and the Emerging Markets (down 0.6ppt), but held in Australia (flat) and improved in NZ (up 0.4ppt).
- TSE's balance sheet is improving as gearing is coming down. During FY09 over $83m of net debt was repaid from operating cashflow. The company has delivered on the targets set at the time of the capital raising, bringing the net debt to EBITDA ratio down from 2.98 to 1.73 and reducing the net debt to equity ratio from 87% to 50%.

Earnings and valuation revisions

- Management expects to deliver flat to modest growth in FY10.

- Our EPS forecasts are up 7.3% in FY10 and up 11.1% in FY11 reflecting upgrades to NZ and international business forecasts. Our NPAT forecast implies 5% growth. The DCF valuation is $3.87 (+ 24 cents) and the 12-month price target is $4.18 (+ $1.03).

	FY10			FY11		
	New	Old	Δ (%)	New	Old	Δ (%)
NPAT*	130.1	121.5	7.1	141.6	127.3	11.2
EPS*	31.1	29.0	7.3	33.2	29.8	11.1

*Note: * pre amortisation*

Investment view

- Still some value left. We have highlighted the significant PE differential between TSE and its peer group, in particular UGL which we believe is a good comparator because they share similar drivers. This gap has closed somewhat since we last commented on this on 28 July (Tidying up) (from 4.0ppt to 2.5ppt). However, we still see value in TSE and expect the market to become increasingly confident with the direction of the new leadership.

Feature Article

Healthscope Limited: Growth options available but choose wisely

Last traded: $4.50 | Sector: Healthcare | Market cap: $1,159M

ACCUMULATE / MARKET PERFORM | Valuation: $5.66

Summary of previous report dated 26/08/09

Event

- HSP's FY09 result was slightly better than expected: Underlying NPAT was $88.2m, 4.4% above CBA's forecast of $84.5m. The key drivers were market share gains by its hospitals and pathology businesses as well as tight cost control across the group. CEO Bruce Dixon stated that HSP will focus on investing in its infrastructure and was confident that it "will continue to grow market share and improve margins in 2010".

Implication

- *Solid operational performance overall:* HSP's hospitals delivered another strong performance with market share gains and a higher ACHA management fee. Meanwhile, the domestic pathology business delivered 'like for like' growth of 8% on the back of market share gains and the introduction of copayments. HSP's development projects appear on track but we remain concerned going forward about its ambitious return targets which rely on a 100% incremental utilisation rate.

- *Analytical Reference Laboratories acquisition – looks positive*: ARL generates $30m in revenues per annum and is expected to be EPS accretive in FY10. We assume ARL's margins are consistent with HSP's existing businesses, however, margin upside exists in cost synergies and lab integration. Strategically, HSP will build scale in the volume-driven pathology industry and opens the way for further growth with collection centre deregulation on the horizon.

- *Raising gives flexibility but not strategic clarity:* HSP announced a $140m institutional placement at $4.10 and an SPP. It will use the funds raised to fund the ARL acquisition and pursue future hospital expansions and acquisitions. Given HSP's chequered acquisition track record, our preference remains for HSP to focus on its 'lower risk' development projects. The placement is dilutive to our EPS estimates at a 10.5% discount to last closing price.

Earnings and valuation revisions

- *We have decreased EPS by 1% in FY10 and 2% in FY11*. This was as a result of incorporating the dilutive capital raising, stabilising hospital segment margins (with no evidence to date of private health insurance membership drop outs and FY10 PHI contracting 80% complete) and adding in the acquisition of ARL. We have also decreased our DCF valuation by 5.5% to $5.66 per share with minor changes to capex.

	FY09			FY10			FY11		
	New	Old	*Change%*	New	Old	*Change%*	New	Old	*Change%*
Sales	1654.0	1686.2	*-1.9%*	1842.0	1816.1	*1.4%*	2017.5	1985.2	*1.6%*
EBITDA	225.4	227.2	*-0.8%*	256.0	242.9	*5.4%*	284.7	263.0	*8.2%*
NPAT (pre-NRI)	88.2	84.5	*4.3%*	98.6	89.3	*10.4%*	110.3	98.6	*11.8%*
EPS	35.2	33.8	*4.1%*	34.5	34.9	*-0.9%*	37.9	38.5	*-1.6%*

Investment view

- HSP is currently trading on an undemanding forward PE of 13.1x. It provides exposure to a market-leading, stable hospital business and investments in ‘lower risk’ brownfield and greenfield expansion projects.

- In saying that, HSP could use available funds to pursue riskier acquisitions in the pathology and medical centre space. It will also face a more challenging environment in the pathology sector following recent fee cuts.

- In turn, we maintain our ACCUMULATE / MARKET PERFORM recommendation at this stage. Catalysts include updates on its development projects and further market share gains.

Sector wraps

Following is a summary of a selection of recent sector reports distributed by CommSec research.

Staples	The Kernel: AWB's Brazilian capital all but gone		
27/08/09	ABB: Last Traded: $9.28	Market Cap: $1,604M	Sector: Staples
	AWB: Last Traded: $1.35	Market Cap: $486M	Sector: Staples
	GNC: Last Traded: $7.81	Market Cap: $750M	Sector: Staples
Summary of report dated 24/08/09	ABB: ACCUMULATE / MARKET PERFORM		Valuation: $9.33
	AWB: REDUCE / MARKET PERFORM		Valuation: $1.79
	GNC: ACCUMULATE / MARKET PERFORM		Valuation: $10.13

Event

AWB released an update on the winding-down of its Brazilian operations, announcing $80-95m in wind-down provisions.

Australia's east coast is entering a critical two-week period in which rain on the grain belt is desperately needed or grain volume forecasts will be cut.

Implication

- *Gearing reduction from Brazil wind-down smaller than anticipated*. When AWB announced it would wind down AWB Brazil on 22 July, up to $140m in net corporate debt was thought to be reduced in FY10. However, increased forecast wind-down costs have meant that net corporate debt is likely to be reduced by $30-40m as a result of winding down Brazil.

- *AWB rules out equity raising (again).* AWB is still not close to finalising a distribution model for its rural loan book, which could reduce gearing by up to $150m. FY09 gearing levels will still be elevated (FY09(f) net corporate debt / equity: 89%), even accounting for AWB reducing net corporate debt by at least $200m over the year. An equity capital raising was ruled out.

- *Elevated crop risk in the sector.* An inch of rain on Australia's east coast grain belt is needed in the next two weeks. Moisture stress is starting to occur in northern NSW and Queensland. GNC is the most exposed to grain production volumes but AWB will also be impacted by a smaller-than-expected FY10 crop. South Australia has received timely rain, which aids ABB's FY10 outlook. We will review our grain production volume forecasts in September (wheat: 22.4MT) but note the downside risk.

Earnings and valuation revisions

- We have made no changes to EBITDA forecasts for AWB or GNC. Some interest expense adjustments from new interest rate forecasts have been made. AWB and GNC's DCF valuations have rolled forward to $1.79 per share (up 2 cents) and $10.13 per share (up 6 cents) respectively.

- We have applied a 25% discount to AWB's valuation as its price target ($1.34 per share, up 23 cents) as we see few catalysts to drive the stock towards our valuation. GNC's price target remains $8.65 per share.

Investment view

Sector risk over next two to three weeks. The next two to three weeks is a risky period to hold grain companies. We see significant value in GNC although it is the company most exposed to east-coast crop conditions, which are deteriorating by the day. AWB will not be considered a takeover target until it can resolve its rural loan book funding issues.

Stocks at a glance

Following is a summary of a selection of recent reports distributed by CommSec research.

Stocks by sector

Consumer discretionary

CMJ[1,] 27/08/09

Summary of report dated 27/08/09

Consolidated Media Holdings: Perfect time to REDUCE

Last Traded: $3.21 Market Cap: $2,214M Sector: Consumer discretionary
REDUCE / MARKET PERFORM Valuation: $2.66

Event

- CMJ announced its FY09 results, along with the sale of its stake in SEK, and a major buyback program. Some details remain outstanding and may be addressed in Thursday's briefing. Normalised NPAT of $83.6m was in line with consensus ($80.1m) and CBA ($85.4m).

Implication

- *SEK sale proceeds to be used for value-destroying buyback*. The well-timed sale of SEK shares and the proposed buyback will increase CPH's stake in CMJ, but at current prices the cost is too high. If SEV is going to bid for CMJ, which we doubt, the buyback means it has limited time.
- *Further capital management likely.* Additional support for CMJ at inflated levels will come from expectations of a capital return or special dividend.
- *Underlying operating performance moderate*. Although in line with expectations, the results from Fox Sports and Foxtel (previously advised) highlight the inherent problems of converting minority stakes into near-term earnings. Weaker NPAT conversion may be the result of increased long run strategic value, but securing this value in minority holdings is difficult.

Earnings and valuation revisions

- Earnings changes driven by the removal of SEK associate profits, a 10% buyback in FY10, and lower reported profits from Foxtel. Valuation (sum of-parts) up mainly on SEK proceeds to $2.66 (+10%). Price target $2.85 (+30%) on the impact of M&A speculation and proposed buyback.

	FY10			FY11			FY12		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Equity profits	110.0	101.0	-8%	124.6	95.6	-23%	143.2	107.3	-25%
NPAT ($m)	97.4	95.5	-2%	109.9	87.1	-21%	126.1	98.9	-22%
EPS (cps)	14.1	14.6	3%	15.9	14.0	-12%	18.3	15.9	-13%
DPS (cps)	14.1	14.7	4%	15.9	14.0	-12%	18.3	15.9	-13%

Investment view

- No change to REDUCE call, simply a higher realised price. If SEV isn't going to pounce, the momentum of a buyback provides a good opportunity to sell. Missing this opportunity and eventually owning an even more tightly held stock with a SEV overhang should be avoided. The strategic value of the assets is already in the stock price.

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ALL[1,]
27/08/09

Summary of report dated 25/08/09

Aristocrat Leisure: 1H09 results - Exciting rhetoric paints new picture

Last Traded: $4.44 Market Cap: $2,363M Sector: Consumer discretionary
ACCUMULATE / MARKET PERFORM Valuation: $6.31

Event

- Aristocrat reported 1H09 NPAT in line with pre-release. The result provided the opportunity for a long-awaited strategy update.

Implication

- *Heaps of logic trumps years of great math*s. The strategy session was well executed. The identifiable goals were clear and purposefully developed. We felt it addressed key gaps in previous business plans, including efficiency, customer focus and gaps in the North American market.

- *But the outlook is still subdued.* Operating conditions have not improved and CEO Odell pointed to another 12 months of challenging conditions. As US casinos are recapitalised into 2010, demand growth will return.

- *New stories and new benchmarks*. Building better games, growing recurring revenue, stabilising the pipeline in Japan and localising content generation will move from buzzwords on a page to KPIs of future results. In time they will provide much-needed stock price impetus.

- *With top line growth targeted – the bottom line may have to wait*. Any R&D or broader savings will be re-invested. This reduces our FY09 and FY10 earnings with the benefits flowing later. A higher AUD (88c) into FY10 is also a drag.

Earnings and valuation revisions

- A bullish view of FY10, driven by US recovery, is offset by lower R&D savings, a high exchange rate, and a higher level of debt than expected. The benefits of new strategy unfortunately kick in later. Our valuation increases to $6.31 (+3%) and price target to $4.70 (+4.4%).

	FY09			FY10			FY11		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
EBITDA	186	181	-2.9%	262	251	-4.1%	331	351	6.0%
EPS (cps)	18.7	16.5	-11.9%	28.4	26.5	-6.5%	35.8	37.6	5.0%
DPS (cps)	11.2	8.9	-20.3%	17.0	15.9	-6.5%	26.9	28.2	5.0%

Investment view

- Lacking momentum so timing is critical. CBA believes there is 40% upside in ALL's share price, but it can only be captured in an improving North American market. The fantastic strategy session strengthens the upside but confirms short-term challenges.

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FXJ[3,]
27/08/09

Summary of report dated 25/08/09

Fairfax Media Limited: FY09 results - Bottom but where to now?

Last Traded: $1.50 | Market Cap: $3,528M | Sector: Consumer discretionary
REDUCE / UNDER PERFORM | Valuation: $1.39

We suggest earnings growth out of the advertising recession will disappoint. The structural risks are far too high.

Event

- FXJ reported NPAT (post-SPS) of $226.7m, broadly in line with consensus and previous guidance. The outlook statement was uninspiring highlighting flat-lining revenue rather than any meaningful positive momentum.

Implication

- *Online subdued as expected.* Recent CBA research has pointed to the inferior performance of Fairfax Digital's classified businesses. Another segment restatement in this result highlights the weak profitability of sites such as Drive, MyCareer and Domain.

- *Could operational leverage be overstated?* We find it reasonable to model high single digit rebounds in revenue in 2H10, especially with a relatively buoyant CBA view of the economy. But whether EBITDA conversion will be strong is a large part of the FY09 cost out story – simply newspapers.

- *Downside risks reduced, but momentum lacking*. The dramatic revenue losses in 2H09, strong 1H10 comparables and no visibility on a rebound mean FY10 is likely to be flat at best.

Earnings and valuation revisions

- Minor earnings revisions changes on improved costs. Our valuation is $1.39 (+2.2%) and price target is UNDER REVIEW (was $1.03).

	FY10			FY11			FY12		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	2,591	2,539	-2.0%	2,738	2,699	-1.4%	2,847	2,817	-1.0%
EBITDA	601	606	0.8%	647	652	0.8%	681	689	1.1%
NPAT ($m)	234	242	3.3%	270	277	2.6%	306	313	2.2%
EPS (cps)	10.0	10.3	3.3%	11.5	11.8	2.6%	13.0	13.3	2.2%
DPS (cps)	2.0	2.1	3.3%	2.3	2.4	2.6%	6.5	6.6	2.3%

Investment view

- *Too soon and likely to disappoint.* We suggest earnings growth out of the advertising recession will disappoint. The structural risks are far too high. Recommendation maintained at REDUCE / UNDER PERFORM.

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CIL
27/08/09

Summary of report dated 24/08/09

Centrebet International Limited: FY09 results - On track for a good year

Last Traded: $1.17 | Market Cap: $102M | Sector: Consumer discretionary
BUY / OUT PERFORM | Valuation: $1.70

Event

- CIL's FY09 result was slightly ahead of our expectations with normalised NPAT of $11m (vs CBA forecast of $10.8m). The company advised last month its earnings would be at the top of its previous $10–11m range.

Implication

- *Strong growth post-deregulation*. Overall growth in revenue was driven by a 23% increase in Australian online wagering, indicating that bookmakers continue to secure market share post-deregulation.

- *The hunter may become the hunted*. After trying to unsuccessfully grow by acquisition for the last 18 months, we think the Kafataris interests may be willing to sell at the right price. Ladbrokes are keen to get into this market, and ToteTasmania looks like it might be the more expensive option.

- *Product fees still a risk but less so than expected*. On a worst case basis, we anticipate product fees in FY11 will not exceed $3m, only marginally higher than our current forecast of $2.75m, an approximate 5% negative impact on FY11 EPS.

Earnings and valuation revisions

- Marginal changes to earnings on weaker European wagering turnover. Valuation $1.70 (-1.2%); price target $1.60 (flat).

	FY10			FY11			FY12		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
EBITDA ($m)	16.7	16.5	-1.1%	18.4	18.7	1.6%	19.8	20.2	2.0%
NPAT ($m)	12.6	12.6	-0.2%	13.7	13.6	-0.2%	14.5	14.2	-2.1%
EPS (cps)	14.4	14.4	-0.2%	15.6	15.6	-0.2%	16.6	16.2	-2.1%
DPS (cps)	10.8	10.8	-0.2%	11.7	11.7	-0.2%	12.4	12.2	-2.1%

Investment view

- We believe the regulatory and structural concerns holding back the CIL share price over the last 12 months are overstated. Provided CIL delivers on its guidance of a reduction in marketing costs over FY10, we expect a degree of repricing as CIL returns to double-digit NPAT growth.

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Consumer staples

TGR'
27/08/09

Summary of report dated 25/08/09

Tassal Group Limited: Hogging the market but spending more doing it

Last Traded: $1.73 | Market Cap: $236M | Sector: Staples
BUY / OUT PERFORM | Valuation: $3.14

Event

- TGR announced its FY09 result which was slightly below expectations on normalised earnings ($26.8m vs CBA $27.8m) and increased capex. However, domestic salmon volume growth was very strong.

Implication

- *Colossal domestic salmon volume growth.* Domestic salmon volumes grew at 22.7% (excl. Superior Gold), which will give the market confidence that TGR's FY15 target of producing at least 30,000 HOG tonnes is achievable.
- *Further reductions in revenue per kg are unlikely*. While product mix affects normalised revenue and margins per kg, we see both bottoming in FY09 and steadily rising through to FY15 as TGR increases scale, domestic prices begin to increase again, and TGR sells exports at current prices, which are significantly higher than at the beginning of CY09.

Earnings and valuation revisions

- We have reduced our earnings forecasts from the lower FY09 base. Interest expense has also increased as a result of a higher forecast capex pipeline through to FY15.

	FY10			FY11			FY12		
	New	Old	% change	New	Old	% change	New	Old	% change
EBIT ($m)	47.1	49.3	-4.5%	54.4	56.6	-3.9%	62.4	64.4	-3.1%
NPAT ($m)	30.5	32.9	-7.3%	34.4	38.1	-9.7%	40.2	44.1	-8.8%

- Our valuation has decreased to $3.14 per share (down 5.7%). We have also taken the opportunity to revert to our old target gearing level for TGR of 25% now that TGR is no longer significantly below its target gearing range.

Investment view

- While the increased capex guidance will take investors some time to be comfortable with, TGR still has a dominant position in a duopoly industry with a highly attractive product. Domestic demand for salmon has shown no signs of slowing. Even with increased forecast capex, gearing is not an issue for TGR.
- TGR is trading on an undemanding multiple (8.6x FY10 EPS) and a PEG ratio of just 0.8x. We reiterate our BUY / OUTPERFORM recommendation on TGR.

While the increased capex guidance will take investors some time to be comfortable with, TGR still has a dominant position in a duopoly industry with a highly attractive product. Domestic demand for salmon has shown no signs of slowing. Even with increased forecast capex, gearing is not an issue for TGR

Financials and insurance

SUN[2,]
27/08/09

Summary of report dated 25/08/09

Suncorp-Metway Limited: Always something to offset the positives

Last Traded: $7.88	Market Cap: $9,908M	Sector: Financials
SELL/ UNDER PERFORM		Valuation: $8.30

Event

- SUN has reported an FY09 NPAT of $348m, slightly below our forecast of $349m and in the mid range of its $340–360m guidance.

Implication

- Given that SUN pre-reported high level numbers, the bottom line was no surprise, but the detail was worse than we expected.
- The general insurance result was boosted by a $389m reserve release.
- The life/wealth management division was impacted by a 50% reduction in wealth management earnings.

Earnings and valuation revisions

- We have decreased NPAT by only 1% in FY10; however, there have been some large movements at the business unit levels.
- We have increased banking profits (before bdd) by 14% due to a reduction in operating expenses in 2H09 that will flow through to FY10.
- On the general insurance business (down 8%), we have made minimal changes to our underwriting profit assumptions; however, we have cut back investment earnings on technical reserves and shareholder funds.
- In wealth management (down 6%) we have decreased our funds management forecast.

Investment view

- While we have moved around our business unit earnings forecasts, the aggregate impact on the bottom line is minimal and we have hence not changed our price target ($6.29) and valuation ($8.30).
- Some positive comments (not guidance) by SUN management on the banking business may provide potential upside in the next 12 months. However, the general insurance and life business is performing worse than we thought and this should offset any optimism in earnings.
- We expect the break up story to continue and indeed based on discussion during the briefing this was the case; however, as a continuing business we see no value in SUN at these levels and maintain our SELL recommendation.

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IAG[1,]
27/08/09

Summary of report dated 21/08/09

Insurance Australia Group: Soft guidance the key driver

Last Traded: $3.59 | Market Cap: $7,436M | Sector: Financials
ACCUMULATE / MARKET PERFORM | Valuation: $4.10

Event

- IAG has reported an FY09 NPAT of $181m, below our $228m forecast. This result was driven by lower than expected investment earnings on shareholders' funds and the contribution from the fee-based business.

Implication

- The result was full of adjustments including weather claims, credit spreads, discount rate changes, reserve releases and one-off expenses.
- Making our way through the noise the underlying business appears to be well on track for a recovery in FY10.
- The poorly performing UK and CGU business is gone, the business mix has skewed towards the profitable direct business and yields are moving in IAG's favour.
- However despite this, management provided an insurance margin guidance of 9–11%; this is below last year's 10%+ guidance.

Earnings and valuation revisions

- Following this result we have downgraded our FY10 NPAT by 4% due to a reduction in underwriting profit (down 2%) and investment income on shareholders' funds (down 4%).
- We have decreased our price target $3.60 (previously $3.74).

Investment view

- In the lead up to the result the share price ran hard to $4 on the expectation of a solid FY10 outlook.
- While we see further upside in both earnings and the IAG share price from these levels, we downgrade our recommendation from Buy to ACCUMULATE.
- We think the soft guidance provided by management will not do the stock any favours in the near term and the market will now have to wait a further six months to see evidence of the turnaround in the business.

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QBE'
27/08/09

Summary of report dated 20/08/09

QBE Insurance Group: Saved by investment earnings

Last Traded: $22.20 | Market Cap: $22,477M | Sector: Financials
ACCUMULATE / MARKET PERFORM | Valuation: $28.22

Event

- QBE reported a 1H09 profit of $1,018m, exceeding our forecast by 4%. However the result was held up by investment income, with QBE disappointing on every other metric.

Implication

- The Australian business has again outperformed the other regions with better than expected claims experience and continued growth in premiums.
- Despite positive comments by management, the Americas business continues to fall short of expectations and highlight the failure of prior US acquisitions.
- The biggest surprise and subsequently the driver of QBE's result was investment income. The yield on technical reserves was 4.5% versus our 3% forecast.
- QBE's capital position came in lower than we expected and MCR multiple has decreased further to 1.66x.

Earnings and valuation revisions

- We have downgraded our underwriting profits for both FY09 and FY10; however our bottom line NPAT is up 6% in FY09 and 2% in FY10.
- In line with our earnings changes we have increased our price target by 4% to $22.06 and our valuation by 2% to $28.22.

Investment view

- A more bullish interest rate environment will assist QBE's recovery however as this result displayed, QBE is not in the clear just yet. The deterioration in claims highlight the exposure that is in the QBE book and despite management's best efforts to exclude these so-called GFC claims, they are the exact type of claims that shareholders should be concerned about.
- In addition to this, QBE has seen a further drop in its excess capital position and hence there is no positive takeout for shareholders from that angle.
- We expect continued volatility in the QBE share price for the remainder of 2009 and there is no need to aggressively jump in at these levels.

The biggest surprise and subsequently the driver of QBE's result was investment income. The yield on technical reserves was 4.5% versus our 3% forecast.

ASX
27/08/09

Summary of report dated 21/08/09

ASX Limited: Standing still

Last Traded: $33.52 Market Cap: $5,739M Sector: Financials
REDUCE / MARKET PERFORM Valuation: $37.74

Event

- ASX reported an FY09 NPAT of $314m, down 14% on pcp and 2% below our forecast.

Implication

- The key driver in the difference to our number was a reduction in other revenue due to an improvement in failed settlements, hence a decrease in ASX revenue.
- The slowdown in operating revenue continued from 1H09. Total operating revenue was down 12.4% on pcp as weak financial markets continued to affect activity levels across ASX markets.
- While ASX successfully kept operating expenses flat for the last two years, there is little that can be done to reduce expenses in this business to offset the falling revenue.

While ASX successfully kept operating expenses flat for the last two years, there is little that can be done to reduce expenses in this business to offset the falling revenue.

Earnings and valuation revisions

- We have made minimal changes to our FY10 forecast, only a 1% decrease in NPAT.
- This change is driven by a 3% reduction in our ‘other’ revenue assumption.
- No change to our $34.01 price target and a 4% increase to our valuation as we roll forward another year.

Investment view

- The ASX share price has remained flat for the last three months despite a 15% increase in All Ordinaries, in line with our comments that the market leverage of this stock was previously overplayed.
- With minimal upside to our 5% EPS growth forecast for FY10, we see no need to pursue the stock at these levels.

PTM
27/08/09

Summary of report dated 21/08/09

Platinum Asset Management: Performance fees return

Last Traded: $5.00	Market Cap: $2,805M	Sector: Financials
SELL/ UNDER PERFORM		Valuation: $4.16

Despite our earnings and valuation increases, the PTM share price is still significantly above our price target.

Event

- PTM reported an FY09 NPAT of $126m versus our $121m forecast.

Implication

- The key driver behind the difference to our estimate was performance fees of $6m (despite previous communication that performance fees were paid once a year in December).
- There was also a slight saving on staff expenses that rounded out the difference to our estimate.

Earnings and valuation revisions

- We have increased our revenue assumption by 2% on the back of the performance fee paid in 2H09. However, we note that the key driver remains FUM movements, via markets and inflows.
- We have reduced costs by 5% in line with 2H09 changes.
- FY10 NPAT is up 4% as a result of these changes.
- We have increased our price target by 8% to $3.80 with an upside to earnings due to the return of performance fees and recent equity market increases.

Investment view

- Despite our earnings and valuation increases, the PTM share price is still 25% above our price target and trading at a prospective PE of 22x.
- We maintain our SELL recommendation on PTM.

AMP[2,]
27/08/09

Summary of report dated 20/08/09

AMP Limited: Quality result but all factored in

Last Traded: $6.34 Market Cap: $12,767M Sector: Financials
ACCUMULATE / OUT PERFORM Valuation: $5.86

With continued leverage to equity markets there is additional upside to AMP's earnings; however, based on valuation metrics we maintain our neutral stance and see no need to rush in to the stock at these levels.

Event

- AMP reported a 1H09 result of $362m, which was down 1% on pcp and exceeded our forecasts by 12%. The driver behind the strong result was operating earnings, driven by superior performance in the financial services business unit.

Implication

- The result highlighted the strength of AMP's business model and brand in the current environment, far exceeding its peers.
- The wealth management business was the biggest surprise with revenue margins increasing and costs reducing.
- AMP's life insurance business maintained its low lapse rate, well below industry standards which have all increased in the last six months.
- In New Zealand, the capital investors were less impressive, but still in line or better than AMP's peers.

Earnings and valuation revisions

- We have increased our operating earnings forecast for FY09 by 2% and bottom line NPAT by 6%.

FY09			
Year end:	**Old**	New	Difference
Operating earnings	640	650	2%
Investment earnings	138	130	-6%
Net profit (before sig/mismatch items)	682	702	3%
Net profit (after sig/mismatch items)	**682**	**721**	6%

- We have increased our price target ($5.84) and valuation ($5.86) by 1.5%.

Investment view

- While the result itself was impressive given current market conditions, AMP's share price is up 23% since 30 June and up 70% from its low in March and the upside is now factored in.
- With continued leverage to equity markets there is additional upside to AMP's earnings; however, based on valuation metrics we maintain our neutral stance and see no need to rush in to the stock at these levels.

Industrials

AIO[1,]
27/08/09

Summary of report dated 27/08/09

Asciano Limited: Internally focused on delivering

Last Traded: $1.52 Market Cap: $4,462M Sector: Industrials
ACCUMULATE / MARKET PERFORM Valuation: $1.44

Event

- AIO reported FY09 NPAT (pre significant items) of $9.3m, down $12.4m yoy and above our expectation of $3.7m. The result was well flagged and while revenue was lower than expected, EBITDA was exactly in line with expectations.

Implication

- Queensland coal on track. AIO already has four trains in operation in Queensland and expects to deliver at least $40m in EBITDA in 2H10 from its Queensland coal operations. To achieve this AIO will spend a further $260m capex in 1H10.
- Efficiency review has resulted in $15m in savings; a further $80m is expected. The efficiency review will yield a $30m benefit from re-pricing of coal contracts and a $65m reduction in costs. Of the $95m in annualised savings to be achieved by FY12, half will be achieved in FY12.
- Significant capex spending is still underway. FY09 capex spend was $488m, in line with CBA's forecast of $487m. A further $670m in capex is anticipated in FY10, $40m more than we previously forecast.

Earnings and valuation revisions

- AIO reaffirmed that FY10 would be a tale of two halves. Management guidance is for FY10 EBITDA of $675–700m; we retain our forecast of $712m. EPS is up 4.8% in FY10 and 7.8% in FY11 reflecting lower depreciation and higher EBITDA in FY11. The DCF valuation is $1.44 (- 6 cents) driven by higher capex forecasts and the price target is $1.60 (- 5 cents).

	FY10			FY11		
	New	Old	Δ (%)	New	Old	Δ (%)
NPAT	169.2	162.0	4.4%	244.6	229.0	6.8%
EBITDA	712.0	712.0	0.0%	836.3	825.0	1.4%
EPS	6.2	5.9	4.8%	8.6	8.0	7.8%

Investment view

- CBA Equities Research believes that AIO's revenue has bottomed. Improvements in revenue and earnings depend upon the timing of the macroeconomic turn and continued reform of AIO's cost base (particularly through the efficiency review).
- For AIO, FY10 will be a tale of two halves. With the exception of coal, we expect 1H10 earnings to remain soft before a gradual improvement in earnings in 2H10. It is not until FY11 that AIO's outlook will improve. We retain our ACCUMULATE / MARKET PERFORM recommendation reflecting increased confidence that the recent raising and focus on FY10 debt refinancing will assist in alleviating part of AIO's debt problem. That said, execution risks remain and the outlook for FY10 is not stellar.

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CEU'
27/08/09

Summary of report dated 24/0/09

ConnectEast: Round 2- Equity raising clears the decks

Last Traded: $0.39 Market Cap: $996M Sector: Industrials
ACCUMULATE / MARKET PERFORM Valuation: $0.38

Event

- ConnectEast (CEU) launched a $421m 1 for 2 renounceable entitlement offer at 33cps together with an early release of its FY09 result. The capital raising is fully underwritten and is at a reasonable discount.

Implication

- *Refinance risk significantly reduced.* CEU had $810m to refinance by November 2010 (reduced to $560m due to an early repayment of $250m on 21 July). Together with cash balances bolstered from the November 2008 capital raising of $450m, CEU will be able to completely repay the $810m post this capital raising. The next refinance is not until November 2012 ($810m).

- *Sustainable capital structure*. The capital raising fixes CEU's capital structure. Gearing reduces from 46% to 35% and ICRs will lift to ~1.5x in FY11 which is appropriate for a toll road in ramp up.

- *Clears the decks for a TCL take-over.* TCL remains the natural owner of Eastlink and the capital raising is likely to address the most significant hurdle of a move by TCL on CEU.

Earnings and valuation revisions

Our valuation has fallen 2cps to 38cps driven by the equity raising and lower traffic forecasts offset by a lower cost of equity assumption.

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- Our traffic forecasts sit around 2% below the IMIS projections.

	FY10			FY11			FY12		
	Old	New	%chg	Old	New	%chg	Old	New	%chg
Traffic (AADT)	206	173	-16%	222	207	-7%	227	213	-6%
EBITDA ($m)	123	99	-20%	145	133	-8%	155	145	-7%

**EBITDA estimates include interest revenue.*

Investment view

- We maintain our ACCUMULATE / MARKET PERFORM recommendation with a revised 12-month target price of 36cps (up 1cps). While our target price implies little upside to the TERP, the capital raising eliminates the major risk around CEU and more importantly, makes CEU a significantly more attractive take-over target.

- We have also run some scenarios around different traffic projections and are comfortable that CEU's capital structure is now appropriate with ICRs remaining above equity lock up even if traffic falls 10% short of IMIS forecasts.

- Under our base case forecasts, we estimate that CEU will not pay a 2H10 distribution unless reserves are

EHL'
27/08/09

Summary of report dated 26/08/09

Emeco Holdings Limited: Well positioned for any turn

Last Traded: $0.80 | Market Cap: $505M | Sector: Industrials
ACCUMULATE / MARKET PERFORM | Valuation: $0.72

EHL is seeing early signs of improving utilisation in Queensland, Canada and WA off the back of development projects being re-initiated and continued tightening in the market for larger equipment.

Event

- EHL's FY09 NPAT pre significant items of $57.7m was within the guidance range of $57–58m provided on 13 August 2009.

Implication

- *Utilisation bottomed in 2H09 at 55*%. Utilisation averaged 68% in 2H09, down from 83% in 1H09. The Indonesian and NSW coal markets remained relatively robust through 2H09, above 60% and 75% respectively. Canadian utilisation hit rock bottom in March 2009 at just below 20%.

- *EHL will rebound harder than production volumes*. There is potential upside from better utilisation of capital without spending more, and we expect growth in mining volumes (actual volumes plus pre strip work).

Earnings and valuation revisions

- EHL's guidance assumes continued improvements in end markets over FY10 resulting in forecast NPAT in the range of $46–53m.

- FY10 EPS are up 3.8% and FY11 EPS are up 1.8%. The DCF valuation is 72 cents (+ 2 cents) and the 12-month price target is 78 cents (+ 2 cents).

	FY10			FY11			FY12		
	New	Old	Δ (%)	New	Old	Δ (%)	New	Old	Δ (%)
NPAT	48.9	47.0	3.8	66.6	65.4	1.8	77.4	75.8	2.1
EPS	7.7	7.5	3.8	10.6	10.4	1.8	12.3	12.0	2.1

Investment view

- CBA expects that the coal markets of Indonesia and NSW will continue to hold up. EHL is seeing early signs of improving utilisation in Queensland, Canada and WA off the back of development projects being re-initiated and continued tightening in the market for larger equipment.

- That said, CBA views EHL as fair value but the recent takeover approach suggests potential upside. EHL is trading in line with our valuation and NTA ($0.74 per share). However, there remains upside to the current valuation if the takeover approach becomes a firm offer. We believe the 'best case' offer would be priced at $1.15 which is based on the Coates takeout in 2007. Obviously this was struck in a much stronger market (XJO was at ~6,600) and therefore our 'base case' estimate would be much lower ($0.70–0.90).

MIG'
27/08/09

Summary of report dated 20/08/09

Macquarie Infrastructure Group: FY09 result: Good MIG, Bad MIG… maybe

Last Traded: $1.36 Market Cap: $3,076M Sector: Industrials
ACCUMULATE / MARKET PERFORM Valuation: $2.30

While there remains value in MIG and downside would appear limited at current levels, we are no more certain how this value will be realised

Event

- MIG reported its FY09 result which was slightly below expectations at an operational level ($882m vs CBA $909m). However, the update on MIG's strategic review dominated the outlook for the stock and disappointed.

Implication

- *Operational result was OK*. At the EBITDA level, margins held up notwithstanding lower traffic volumes. Management noted that there were early signs of stabilisation in key economies that MIG operates in (Canada, the US, UK and France).

- *Underwhelming update on strategic review.* The result was dominated by the underwhelming update of MIG's "strategic review": a proposal to split MIG into two vehicles and internalise MIG was void of details, financials and time frames. We see potential benefits in the proposal by ring fencing the bad MIG from the good. While the debt is non-recourse, the proposal would fail to address the sustainability of the capital structures and inevitably reduce the appetite of lenders to roll over debt facilities as they mature in coming years (probably more so under this proposal).

Earnings and valuation revisions

- Minor changes to EBITDA forecasts as noted below.

	FY10			FY11			FY12		
	New	Old	%chg	New	Old	%chg	New	Old	%chg
EBITDA	922	941	-2%	954	973	-2%	1004	1024	-2%

Investment view

- *Retain our ACCUMULATE / MARKET PERFORM recommendation*. We have reduced our valuation to $2.30 per security (down $1.20). Price target is $1.70 per security.

- While there remains value in MIG and downside would appear limited at current levels, we are no more certain how this value will be realised. On our numbers, Good MIG (ex US toll roads) could deliver FCF per security of ~10cps assuming APRR pays distributions and the management contract is paid out with MIG securities for $550m (MAP multiple) and MIG cash is attributed to Good MIG. Bad MIG would be a risky play on a US turnaround and would not pay distributions. So on face value it might work as Good MIG could be re-rated. Inevitably the challenges of such a transaction are sizeable and it fails to address the gearing levels across the roads.

- MIG is expected to provide distribution guidance in December aligning it with operating cashflows. On the expectation that APRR will not pay distributions, we are expecting an FY10 distribution of 5cps. This is unlikely to provide any yield support for MIG relative to its peers TCL and CEU. Further updates on the strategic review remain the key catalysts for MIG.

BXB[3,]
27/08/09

Summary of report dated 20/08/09

Brambles Limited: Awaiting the US review

Last Traded: $7.35 Market Cap: $10,304M Sector: Industrials
ACCUMULATE / MARKET PERFORM Valuation: $7.69

Event

- BXB reported FY09 NPAT (pre significant items) of $469.5m, 5% below our expectation of $495.5m.

Implication

- *Net new customer wins totalled $100m and assisted in offsetting weaker volume growth*. As we expected, iGPS did not dent BXB's net customer wins. That said BXB did suffer from the global slowdown – sales revenue from continuing operations was down 1% (in constant currency).

- *Margins were down across all segments*. Margins were impacted across all segments as a result of the economic slowdown and consequently higher plant and transport costs. The deterioration in margins was most significant in CHEP Americas, down 7.1ppt, followed by CHEP EMEA, down 1.6ppt. For CHEP Americas if Walmart and quality costs are excluded EBIT margins fell by 2.7ppt.

- *US major review outcome still unknown*. Management will announce the outcomes of the US major review in early October 2009. We had hoped for an earlier announcement.

Margins were impacted across all segments as a result of the economic slowdown and consequently higher plant and transport costs.

Earnings and valuation revisions

- Management did not provide specific guidance. However, it indicated that there were early signs of improving macro-economic stability in a number of markets and that destocking by Brambles' customers that has been evident in the last year appears to be coming to an end.

- EPS is revised down 5.7% in FY10 but is unchanged in FY11. We have cut our volume forecasts across the business in FY10. We remain of the view that an economic recovery will lead to a strong improvement in FY11. Our DCF valuation is $7.69 per share (-1%). The 12-month price target is $8.30 (+ 7%, previously set equal to the valuation).

	FY10			FY11		
	New	Old	Δ (%)	New	Old	Δ (%)
NPAT ($m)	514.4	546.5	(5.9)	598.2	601.2	(0.5)
EPS (cps)	36.6	38.8	(5.7)	42.2	42.2	0.0

Investment view

- BXB believes there are signs of stabilisation and destocking has ended. BXB has strong leverage to an economic recovery and we forecast a bounce back in FY11. That said, risk remains around the outcomes of the US major review. BXB will announce the outcomes in early October. While we view the likelihood of the creation of a plastic pool as low, it may be appropriate for some niche customers. BXB is more likely to announce further restructuring costs associated with improving the quality of the US pool. CBA's recommendation is ACCUMULATE / MARKET PERFORM.

Utilities

TCL'
27/08/09

Summary of report dated 26/08/09

Transurban Group: FY09 result: Solid yet docile

Last Traded: $4.16 Market Cap: $5,336M Sector: Utilities
ACCUMULATE / MARKET PERFORM Valuation: $5.48

TCL remains our preferred toll road exposure over MIG and CEU. We expect growth in FY10 FCF and distributions of 4.5%.

Event

- TCL deliver a solid result, albeit slightly behind our and consensus expectations at a statutory EBITDA level ($479m vs CBA $488m). Cost control was again a feature.

Implication

- *Cost out impressive*. Management exceeded cost out guidance by delivering $26.6m (vs $21.4m) cementing the new CEO's reputation as exceptionally diligent at controlling head office costs.

- *Some progress on M2/M5 road widening negotiations*. A more upbeat assessment of the negotiations with the NSW Government was notable especially with regard to the M2. M5 seems somewhat further behind. This is a source of growth for TCL in outer years though additional equity funding might be needed depending on the scope of works given the Capital Beltway absorbs most of the DRP proceeds.

- *No distribution guidance*. Management confirmed its policy of paying out net operating cashflows in distributions and said there would be growth in FY10 without quantifying it.

Earnings and valuation revisions

- We have made the following earnings changes. Our FCF forecasts imply 4.5% in distributions to 23cps. Our revised valuation is $5.48 per security (down $1.27) on lower EBITDA and higher net interest expense forecasts.

			FY10			FY11			FY12
	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
EBITDA	512.3	477.4	-7%	496.9	458.0	-8%	537.9	512.7	-5%

Investment view

- CBA retains its ACCUMULATE / MARKET PERFORM recommendation with a target price of $4.66/share. TCL remains our preferred toll road exposure over MIG and CEU. We expect growth in FY10 FCF and distributions of 4.5%.

- FY11, however, looks problematic with an approximate 8% decline in FCF – in essence the uplift from the Citylink/Monash upgrades is insufficient to offset a full-year impact of the M4 concession ending and the higher interest expense from the maturing infrastructure bond for the M2.

- Post FY11, TCL is in a position to grow free cash more strongly. Finalisation of a deal with the NSW Government on the M2 widening together with any sell down of TCL's 75% interest in the US DRIVe vehicle are likely positive catalysts for TCL over the course of FY10.

APA'
27/08/09

Summary of report dated 25/08/09

APA Group: FY09 result - Beats expectations and guidance

Last Traded: $2.96 | Market Cap: $1,476M | Sector: Utilities
REDUCE / MARKET PERFORM | Valuation: $3.54

Event

- APA Group reported a better-than-expected FY09 result with EBITDA of $458m compared to our forecast of $430m and also APA's guidance of $420–430m.

Implication

- *A strong underlying result but difficult to reconcile the strength.* In particular, the strength of the Victorian earnings caught us out (EBITDA up 31% on pcp) given the regulatory reset outcomes were known. A favourable volume/tariff mix is most likely the explanation. NSW and Qld also surprised on the upside.

- *Gearing still high and refinance task remains significant but our concerns are reduced*. APA is finalising $1b in new bank facilities to refinance debt maturing in June ($900m) and September 2010 ($124m). Notwithstanding the continued challenging debt tenure, the refinance combined with the slightly stronger cashflows does lower APA's overall refinancing risk and provides more confidence that the $900m due in FY12 can be refinanced. APA's ICR is now expected to track closer to 2.0x.

Earnings and valuation revisions

- We have made some upward revisions to our EBITDA forecasts from the stronger result. APA is expected to be able to increase its distribution by 5% consistent with guidance.

			FY10			FY11			FY12
	Old	New	%chg	Old	New	%chg	Old	New	%chg
EBITDA	456.1	470.0	3%	482.3	498.8	3%	509.4	526.0	3%
CFAD per share	37.2	42.0	13%	40.0	42.7	7%	42.5	44.4	5%

Investment view

- We have upgraded our recommendation to REDUCE / MARKET PERFORM with a price target of $2.65 (up 23cps). The principal reason for the upgrade is the higher earnings, better gearing metrics and lower refinance risk. The recent refinances might give APA sufficient time to tap alternative debt markets over the coming 12–36 months to refinance and at reasonable credit spreads.

- That said, we remain of the view that APA's growth profile is suited to a lower level of gearing and so a significant equity raising cannot be ruled out. We continue to see better value in others in the sector, in particular SPN and SKI.

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SKI'
27/08/09

Summary of report dated 24/08/09

Spark Infrastructure: 1H09 result - Solid result but risks remain

Last Traded: $1.14 Market Cap: $1,150M Sector: Utilities
ACCUMULATE / MARKET PERFORM Valuation: $1.75

We remain cautious about SKI mainly due to concerns over the sustainability of debt at the SKI level ($225m to refinance by December 2010).

Event

- Spark Infrastructure (SKI) reported a 1H09 result stronger than expected (operational EBITDA of $307m versus CBA $266m); however, a significant reason for the stronger result was higher (non-cash) customer contributions. Net cashflow was slightly higher ($123.3m v CBA $121.0m).

Implication

- *Higher regulated revenues.* CHEDHA reported growth of 10% (vs 3.5% expected) in regulated revenues on CPI/volume increases but note the inclusion of advanced metering revenues for the first time made a contribution. ETSA was in line with expectations.

- *Unregulated revenues fell but cost reductions offset impact.* Apart from the large step up in (non-cash) customer contributions, unregulated revenues reduced more substantially than anticipated but this was offset by reductions in operating costs within ETSA.

- *Balance sheet looks OK.* Gearing reduced by 1% over 1H09 to 61.3% on a look-through basis. SKI also advised that the existing banks to CHEDHA's $200m Feb 2010 refinance have agreed to roll over until September with CHEDHA's intention to refinance via the USPP market.

Earnings and valuation revisions

- We have increased EBITDA forecasts mainly due to higher customer contributions, and have made only minor changes to cashflow available to distribution forecasts. SKI confirmed its FY09 distribution at 13.56cps.

	FY09			FY10			FY11		
$m	Old	New	% chg	Old	New	% chg	Old	New	% chg
EBITDA ($m)	557.9	615.1	10%	573.8	629.7	10%	579.9	630.4	9%
CFAD (cps)	17.7	17.8	0%	17.4	17.7	1%	17.3	17.1	-2%

Investment view

- *CBA has retained its ACCUMULATE / MARKET PERFORM recommendation with a price target of $1.23 per security*. We remain cautious about SKI mainly due to concerns over the sustainability of debt at the SKI level ($225m to refinance by December 2010).

- SKI also itself noted that further equity will be required to fund growth capex and that further initiatives will be considered in late 2010 when the regulatory outcomes become clearer. If ETSA's capex claim to the AER were to get up, then a capital raising (beyond DRP) and a further distribution cut would seem likely. Until this time, uncertainty will remain and as such we continue to prefer SPN over SKI on a risk/return basis.

DUE'
27/08/09

Summary of report dated 21/08/09

DUET Group: FY09 result: De-leveraging uncertainty

Last Traded: $1.46 | Market Cap: $1,259M | Sector: Utilities
ACCUMULATE / MARKET PERFORM | Valuation: $2.48

Event

- DUE's FY09 result was below our expectations with EBITDA of $616m (compared to CBA's forecast of $635m) mainly due to Duquesne.

Implication

- *Mixed asset results but overall a solid result.* UED surprisingly posted a reduction in EBITDA due to lower industrial volumes whereas Multinet's EBITDA growth was strong due to favourable weather conditions. DBP's earnings incorporated seven months of the 5A expansion.

- *Lower cash released from assets*. The free cash distributed from the assets was lower than we expected driven by higher than expected maintenance capital expenditure and higher levels of cash retention at the asset level.

- *A greater focus on de-leveraging*. DUE is placing greater emphasis on deleveraging and retaining greater operating cash flow in assets than we had anticipated. DUE said that it is likely to make equity injections into the assets over the coming 6-12 months funded from existing cash balances.

Earnings and valuation revisions

- We have made minor changes to our earnings forecasts for DUE. Our DCF valuation has been reduced marginally to $2.48 (down 5cps).

	FY09			FY10			FY11		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
EBITDA	671	656	-2%	712	695	-2%	722	705	-2%

Investment view

- We have downgraded DUE to ACCUMULATE / MARKET PERFORM with a price target of $1.75 (down 27cps). The uncertainty over the coming 6-12 months regarding the quantum, mechanism and timing of de-leveraging at the asset level will limit any short term upside.

- While we believe the quantum of equity injections at the asset level are unlikely to be significant and DUE will be able to fund from existing cash balances, management provided little guidance or comfort in this regard.

- Adding to the uncertainty is the ability of BBI to inject any required equity (for Multinet, WA Gas and DBNGP) as it pursues its own and more severe process of de-leveraging. This could create challenges. We will look to upgrade DUE when further clarity about the de-leveraging process is forthcoming.

The uncertainty over the coming 6-12 months regarding the quantum, mechanism and timing of de-leveraging at the asset level will limit any short term upside.

AGK
27/08/09

Summary of report dated 20/08/09

AGL Energy:FY09 result: Watering down the Phoenix

Last Traded: $13.77 Market Cap: $6,163M Sector: Energy
REDUCE / MARKET PERFORM Valuation: $14.90

The FY09 result has increased the earnings risk for FY10. We expect the stock to trade down until the AGM on 29 October when guidance is provided

Event

- AGL Energy's FY09 result was slightly below consensus and CBA expectations (including customer amortisation costs) at $378.8m. Similarly, operational EBITDA came in at $793m versus CBA $798m.

Implication

- *Retail costs.* Again a disappointment and a continuation of the 1H09 result trends. Billing and process issues caused a noticeable 13.9% increase in operating costs which otherwise clouded a fairly solid retail result at the gross margin level. Merchant delivered a strong result while higher-than-expected wind farm development fees also pushed up the headline result.

- *What happened to the $35m benefits from Phoenix?* Phoenix has been delayed from FY10 to 2H10 and the $35m annualised saving has gone and has been replaced with more vague cost-out targets. As a result, there is uncertainty as to explicit savings the project will deliver despite management undertakings.

- *Focus on balance sheet.* Given S&P treatment of wind farm PPAs and the significantly higher capex than expected, AGK's balance sheet doesn't provide the flexibility that its reported net debt position might suggest.

Earnings and valuation revisions

- We have made adjustments to our earnings due to lower Phoenix savings offset by higher Loy Yang A forecasts. Higher interest costs are included due to significantly higher-than-expected interest expense. FY11 now includes the Oaklands Hill wind farm.

	FY10			FY11			FY12		
	New	Old	Change %	New	Old	Change %	New	Old	Change %
NPAT ($m)	390.2	399	-2.2	424.7	432	-1.7	464.3	466	-0.4
EPS (cps)	86.25	88.2	-2.2	92.82	94.50	-1.8	100.2	96.2	4.1

Investment view

- We have downgraded our recommendation to REDUCE / MARKET PERFORM with a price target of $13.50 (down 20cps).

- The FY09 result has increased the earnings risk for FY10. We expect the stock to trade down until the AGM on 29 October when guidance is provided.

- The significantly higher capex than expected will also drag on the balance sheet moving forward. 'Notional' debt will approach AGK limits in around two years which eliminates any doubt that AGK will need to raise equity for any meaningful acquisitions (if S&P sticks to its guns on the treatment of PPAs).

Happy investing!

Recommendation Definitions

SHORT TERM (over the next 6 months we expect the share price to):

BUY	Appreciate by >10%
ACCUMULATE	Increase between 2% and 10%
REDUCE	Increase by less than 2% or fall by up to 5%
SELL	Fall by >5%
REV	Company is under review - no recommendation available

LONG TERM (over the next 24 months we expect the total return to):

Outperform (O / P)	Exceed market return by >5%
Market Perform (M / P)	Be in line with market return, +/-5%
Under Perform (U / P)	Be less than market return by >5%
REV	Company is under review - no recommendation available

1 Members of the Commonwealth Group hold between 5 and 10% of Consolidated Media Holdings, Aristocrat Leisure, Insurance Australia Group Limited and Asciano Limited.

2 Members of the Commonwealth Group have received fees within the previous 2 years from Suncorp-Metway and AMP Limited.

3 Members of the Commonwealth Group hold more than 10% of Fairfax Media Limited and Brambles Limited.

Glossary of frequently used investment terms

2P	proved plus probable	FUM	funds under management
3P	proved, probable and possible	GEP	gross earned premiums
ABARE	Australian Bureau of Agricultural and Resource Economics	GJ	gigajoule
ACCC	Australian Competition and Consumer Commission	GWP	gross written premiums
AGM	annual general meeting	JV	joint venture
APRA	Australian Prudential Regulation Authority	LNG	liquefied natural gas
ARTC	Australian Rail Track Corporation Ltd	L-R	long run
ATO	Australian Taxation Office	MAT	moving annual total
bbl	billions of barrels	Mboe	thousands of barrels of oil equivalent
bbls	barrels	mom	month on month
bp	basis points	MOU	Memorandum of understanding
CAGR	compounded annual growth rate	MRET	mandatory renewable energy target
CCGT	combined-cycle gas turbine	NAV	net asset value
CEO	chief executive officer	NPAT	net profit after tax
COGS	cost of goods sold	NPV	net present value
cps	cents per share	NTA	net asset backing per share
cpu	cost per unit	OCGT	open-cycle gas turbine
CSG	coal seam gas	OIP	oil in place
CSM	coal seam methane	OTC	over the counter
DCF	discounted cash flow	P/E	price-earnings ratio
D&A	depreciation and amortisation	pcp	prior comparable period
DRP	dividend reinvestment plan	ppt	percentage point
EBIT	earnings before interest and tax	PSI	offering into pipelines
EBITDA	earnings before interest, tax, depreciations, amortisation	SOTP	sum of the parts
EPCM	Engineer Procure Construct Manage	TEUs	twenty equivalent units
EPS	earnings per share	VWAP	volume-weighted average price
ETS	emissions trading scheme	WACC	weighted average cost of capital
EV	enterprise value	WIH	work in hand
FTA	free to air	y-o-y	year on year

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End of Report