

Research Insight

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 article this week is:

- **AWB Limited: Good news flow to come but long term issues remain**

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

Feature Article

AWB Limited: Good news flow to come but longer-term issues remain

Last traded: \$1.25

Sector: Staples

Market cap: \$984M

ACCUMULATE / MARKET PERFORM

Valuation: \$1.48

Summary of previous report dated 18/11/09

Poor but well flagged FY09 result

AWB reported a very poor FY09 result (reported NPAT loss: \$250.8m) with few surprises. The result was plagued by one-off losses in chemicals and fertilisers, goodwill impairment, capital destruction in AWB Brasil and items related to AWB 'legacy issues'. No dividend was declared.

Following the result we increased our FY10 earnings forecasts based largely on the new pool management fee structure. On the back of these revisions our valuation and price target is up 6.5% to \$1.48 per share.

Retain our ACCUMULATE / MARKET PERFORM recommendation

AWB has significantly de-risked its business and could have positive announcements in the form of asset sales (AWB Geneva and Hi-Fert), a domestic grain trading partnership, the rural loans off balance sheet, and a likely turnaround in the performance of Landmark.

Over the long term, Landmark is likely to find it difficult to produce consistent top-line growth and AWB's incumbency benefit in wheat marketing will continue to deteriorate. We would have preferred AWB to have undertaken a smaller, less decreptive equity raising and concentrated on making itself an attractive takeover target rather than establishing headroom for acquisitions. On balance, we retain our ACCUMULATE / MARKET PERFORM recommendation.



Issue 138 19 November 2009 (4.30pm)

Market Wrap

The old adage is that it is the 'time in' the market that matters most, not 'market timing'. That is, investors should not try and pick the peaks and troughs of the market.

For a broad, diversified investment portfolio of shares that philosophy is probably still right, although the foundations have been tested over the past two years. But that doesn't mean that investors should have a 'set and forget' approach to their investments. Some industries and sectors are inherently cyclical and investors may need a more pro-active approach to their investments.

Take small companies. From March 2003 to October 2007, the Small Ordinaries index almost tripled. Then the index slid through to February this year, resulting in the index lifting just 6% in six years. Now with the recovery since March the annualised growth of the index has improved to over 12% pa. Clearly it pays to stay on top of the trends.

Matt Comyn
General Manager

Stocks at a glance

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

Stocks by sector

A-REITs

<p>WDC¹ 19/11/09</p> <p>Summary of report dated 12/11/09</p>	<p>Westfield Group: Lacking positive catalysts</p>
	<p>Last Traded: \$12.69 Market Cap: \$26,531M Sector: Financials</p> <p>REDUCE / MARKET PERFORM Valuation: \$13.12</p> <p>3Q result</p> <p>Following Westfield Group's (WDC) 3Q result, we have retained our REDUCE / MARKET PERFORM recommendation.</p> <p>While the operating environments in the US and the UK are showing signs of stabilisation, overall conditions continue to remain relatively weak, highlighted by declining specialty store rents and declining retail sales.</p> <p>Furthermore, weak US conditions are clearly impacting US developments which are likely to result in the US development pipeline remaining dormant for the next 12–18 months. This combined with a lack of potential acquisition opportunities, in our view, results in limited near term positive catalysts.</p> <p>As such we believe the current development pipeline/potential acquisition upside does not justify WDC's current premium to NTA. Consequently we would be looking to enter the stock in the high \$11 range, or when clear signs emerge to support a recommencement in US developments.</p>

Looking to enter the stock in the high \$11 range

Regulated utilities

<p>SPN 19/11/09</p> <p>Summary of report dated 12/11/09</p>	<p>SP AusNet: 1H10 result: Rock solid as you'd expect</p>
	<p>Last Traded: \$0.89 Market Cap: \$1,155M Sector: Utilities</p> <p>BUY/ OUT PERFORM Valuation: \$1.07</p> <p>1H10 result</p> <p>Following SPN's 1H10 result which came in slightly ahead of expectations, CBA has made some minor changes to our forecasts however. The FY10 distribution is covered 105% from FCF and our valuation remains \$1.07 and price target \$0.96 per share.</p> <p>While SPN trades at a premium to its regulated utility peers, this premium is warranted given its unsurpassed balance sheet. Regulatory risk is also considered relatively low and its corporate structure is relatively clean</p> <p>CBA therefore remains comfortable with its BUY / OUT PERFORM recommendation. SPN's defensive characteristics will continue to be valued highly in this market. SPN will be able to continue to grow FCF in coming years underpinned by existing regulatory determinations, the roll out of advanced metering infrastructure and potential contract wins for services beyond the arrangement with Jemena.</p>

While SPN trades at a premium to its regulated utility peers, this premium is warranted given its unsurpassed balance sheet.

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 Westfield Group.

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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More information on our research methodology, organisation structure, summary documenting frequency and recommendations can be obtained at research.commsec.com.au

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End of Report