

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:

- CSR Limited

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

CSR Limited

Last traded: \$1.745

Sector: Building Materials

Market cap: \$2,694M

Hold

Price target: \$1.65

Summary of previous report dated 23/4/10

Uncertainty diminishing after successful appeal

The Federal Court of Australia has allowed CSR's appeal regarding the proposed demerger of its sugar business Sucrogen.

Having successfully appealed the initial Federal Court decision CSR will now revisit a single judge of the Federal Court for stage 1 of the scheme process. This is largely a procedural process as the decision of the Federal Court also effectively approved the process to move to stage 2, namely a shareholder vote. Assuming a successful vote, the scheme will proceed to the final stage of the scheme of arrangement process, namely Federal Court approval. Should all go to plan a demerger could potentially be effected by around July/August this year.

Risk remains, albeit diminishing

Stage 3 of the scheme of arrangement represents the greatest risk to the successful completion of the demerger process. We have made no change to our earnings at this stage. Costs associated with the demerger are included in FY10 and FY11.

Investment view

We believe our Hold recommendation remains appropriate although CSR is trading above our \$1.65 price target.



Issue 156

29 April 2010 (4.30pm)

Market Wrap

A year ago, if someone told you that we would be fretting about Greek finances or a volcanic ash cloud, then you would find it hard to take their views seriously. And while the volcanic ash cloud has cleared, the concerns over Greece have not.

Could Greece derail the global economic recovery or even bring on a new downturn? The short answer is no.

Greece is the 28th largest economy and a third the size of Australia. The only reason Greece is in focus is because there are concerns of contagion. That is, the fear that Greece defaults on its debt, sparking similar actions by other countries like Portugal and Spain. The fears are overblown, but investors still have painful memories about last year's financial crisis.

At the end of the day the debt problems in Europe will be dealt with. But the 'big picture' won't change – it will still be China, and Asia more broadly, driving the global economy.

Stephen Karpin
Managing Director

Sector wraps

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

Insurance	Wealth management		
<p>29/4/10</p> <p>Summary of report dated 27/4/10</p>	AMP ² : Last Traded: \$6.22	Market Cap: \$13,0232M	Sector: Insurance
	AXA: Last Traded: \$6.15	Market Cap: \$5,956M	Sector: Insurance
	AMP ² : Hold		Price target: \$6.82
	AXA: Hold		Price target: \$6.75
	Regulation review season		
	<p>On Monday 26 April the government responded to the previously released Ripoll report with its Future of Financial Advice report.</p>		
	<p>This review is a part of the ongoing analysis of the wealth management industry with the tax review due to be released this Sunday, 2 May and the Cooper review recommendations in late June.</p>		
	<p>The government has addressed the 11 recommendations set out in the Ripoll report, supporting or enhancing further the recommendations in most cases, and not supporting two of the recommendations</p>		
	<p>It is important to note that the reviews are exactly that, with the final say being decided by the government based on the recommendations put forward. On this basis the final shape and impact of the regulation changes are unlikely to be known for some time. The reviews themselves are hence lead indicators of what we can expect to be the likely outcome.</p>		
	Investment view		
	<p>On a standalone basis our AMP valuation is \$6.35, in line with the current share price. The sector is currently focused on corporate action with the outcome of AXA a key driver.</p>		
	<p>Corporate action aside and looking at wealth management earnings, we remain cautious on the sector with further regulation risk in the coming months and likelihood of EPS growth limited to single digits for the next few years on the back of the 'implementation' process.</p>		

Healthcare	Weekly Diagnosis		
29/4/10	CSL: Last Traded: \$32.76	Market Cap: \$19,281M	Sector: Healthcare
	COH ¹ : Last Traded: \$73.76	Market Cap: \$4,107M	Sector: Healthcare
	RMD: Last Traded: \$61.98*	Market Cap: \$4,658M*	Sector: Healthcare
	SHL ² : Last Traded: \$13.95	Market Cap: \$5,349M	Sector: Healthcare
	PRY ³ : Last Traded: \$4.15	Market Cap: \$1,728M	Sector: Healthcare
	HSP: Last Traded: \$4.40	Market Cap: \$1,376M	Sector: Healthcare
	SIP: Last Traded: \$0.46	Market Cap: \$523M	Sector: Healthcare
	API: Last Traded: \$0.58	Market Cap: \$185M	Sector: Healthcare
Summary of report dated 27/4/10	CSL: Hold		Price target: \$35.86
	COH ¹ : Hold		Price target: \$71.41
	RMD: Buy		Price target: \$61.80 *
	SHL ² : Buy		Price target: \$14.92
	PRY: Hold		Price target: \$5.19
	HSP: Buy		Price target: \$5.02
	SIP: Hold		Price target: \$0.52
	API: Hold		Price target: \$0.81
	Budget starts to capture attention		
	Fewer 'hot issues' for healthcare in this year's budget		
	Following the conclusion of COAG and the broad agreement reached by the Prime Minister with the states on healthcare reform and funding, we highlight some risks to other healthcare sector funding in the upcoming budget in light of the additional funding commitments by the PM to woo the states.		
	The cost of the government's health reforms was ~\$3b prior to COAG with initiatives for emergency and elective surgery, diabetes and aged care and the GP workforce. During COAG, the government then agreed to invest an extra ~\$2.4b on sub acute beds, emergency and elective surgery as well as mental health (totalling ~\$5.4b over four years). While we believe some of this additional funding will have already been budgeted for, there is a risk that some funding will be taken from other areas of healthcare spending. Specifically:		
	We highlight the PBS as a potential area of further funding scrutiny as the government tries to reign in the cost of the PBS. We note the next government/Pharmacy Guild agreement is due to be released shortly.		
	We do not expect any significant new changes to pathology to be announced in the budget given the funding review currently underway; however, we flag ongoing operating risks as collection centre deregulation commences on 1 July and we cannot rule out 'tweaking' of service fees. Similarly, we do not expect any significant negative surprise to radiology funding given the additional bulk billing incentives put in place last year.		
	We note the private health insurance means testing legislation which was defeated by the Senate. Some of the savings from this initiative were expected to help pay for public hospitals as well as E-health.		
	It should also be noted that the 'sweeteners' provided to the states could be covered by reduced spending in areas outside the healthcare portfolio.		
	*Price target, last traded price and market cap are in USD.		

Stocks at a glance

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

Stocks by sector

GICs sector

<p>CSL¹ 29/4/10</p> <p>Summary of report dated 27/4/10</p>	<p>CSL Limited</p> <p>Last Traded: \$32.76 Market Cap: \$19,281M Sector: Healthcare Hold Price target: \$35.86</p> <p>Several moving parts suggest Hold</p> <p>Despite the significant decline in CSL's share price on the back of Baxter's (BAX) 1Q10 result, we maintain our Hold recommendation on CSL.</p> <p>While BAX's quarterly result raised some industry concerns, we are reluctant to change our view on CSL at this stage due to the uncertainty about the underlying plasma market growth; the limited transparency over recent market share churn; and CSL reiterating its FY10 guidance on Friday (in response to an ASX query).</p> <p>Investment view</p> <p>We have made no changes to our forecasts or price target at this stage.</p> <p>We expect to see short term buying opportunities in CSL as further clarity on recent market share churn is received at TLCR's 1Q10 result on 5 May.</p> <p>On a 12 month view general concerns about softer volumes and heightened competition between the major IVIG suppliers combined with limited catalysts until CSL's FY10 result are likely to restrict upside in the stock.</p>	<p>We have made no changes to our price target or recommendation for CSL.</p>
<p>LGL¹ 29/4/10</p> <p>Summary of report dated 23/4/10</p>	<p>Lihir Gold</p> <p>Last Traded: \$3.86 Market Cap: \$9,238M Sector: Gold Hold Price target: \$3.00</p> <p>First quarter brings upgrade to guidance</p> <p>Quarterly gold production was down -17.5% on the December quarter but in line with expectations.</p> <p>Full-year production guidance was revised up +4% (midpoint) to 1.0-1.1moz following first quarter performance and review of mine plans. There was no change to cost guidance.</p> <p>Investment view</p> <p>We have made no change to our recommendation or price target.</p> <p>We retain our Hold recommendation and AUD3.00 price target.</p> <p>Our price target and recommendation reflect our forecast prior to NCM's takeover bid. We expect volatility to remain in LGL's stock price and will review our forecasts as appropriate during the bid process.</p>	<p>We retain our Hold recommendation and AUD3.00 price target.</p>

PAG
29/4/10Summary of
report dated
23/4/10**PrimeAg Australia Limited**

Last Traded: \$1.13

Market Cap: \$170M

Sector: Food & Beverage

Hold

Price target: \$1.13

Poor year finishing the way it started

PAG has reported cotton crop damage as a result of tropical cyclones Olga and Ulga. We have subsequently downgraded our earnings forecasts.

Earnings and valuations revisions

We have adjusted our FY10f earnings based on the updated cotton production volumes. Our EBIT from FY11 onwards is unchanged, although net interest is higher based on lower FY10f operating cash flow generated.

We leave our price target unchanged at \$1.13 per share, which is the average agribusiness EV/EBITDA multiple (7.6x) applied to PAG's forecast FY11 EBITDA.

Corporate activity possible but grain price recovery a long way off

We believe in the long-term fundamental drivers of soft commodity demand and that scarce water rights are likely to appreciate over the next five years. The current share price also implies unrealistically low land values for PAG's portfolio. However, we maintain the Hold recommendation because PAG's portfolio capital appreciation generally takes time to translate into investor returns; a share buyback has been virtually ruled out by PAG; and CBA forecasts that a genuine soft commodity recovery will be at least 12 months away.

What is GPG doing on the register?

Guinness Peat Group (GPG) has recently taken a 16.9% stake in PAG. GPG has a hostile takeover bid currently on TAN, a similar rural land and water entitlement company. It is unclear as to whether GPG will add to its stake or whether it will aid PAG in acquiring more rural land and water assets.

We believe in the long-term fundamental drivers of soft commodity demand and that scarce water rights are likely to appreciate over the next five years.

Happy investing!

Recommendation definitions

CBA Institutional Equities Investment recommendations are determined by the covering analyst and reflect the analyst's assessment of a stock's expected total shareholder return (TSR). TSR is calculated as the difference between the analyst's 12-month price target and the current share price plus the forecast dividend yield.

Buy: Stocks with a Buy recommendation represent the most attractive stocks under the analyst's coverage. They are forecast to generate significantly positive expected total shareholder returns.

Hold: Stocks with a Hold recommendation are less attractive than Buy rated stocks. They are forecast to generate flat to slightly positive expected total shareholder returns.

Sell: Stocks with a Sell recommendation are the least attractive stocks. They are forecast to generate flat or negative expected total shareholder returns.

¹ Members of the Commonwealth Group hold between 5 and 10% of LGL

² Members of the Commonwealth Group have received fees within the previous 2 years from CSR, AMP and SHL

³ Members of the Commonwealth Group hold more than 10% of PRY.

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