

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 articles this week are:

- Myer Holdings Limited
- ResMed Inc.

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

Myer Holdings Limited²

Last traded: \$3.90

Sector: Consumer Discretionary

Market cap: \$2,268m

Buy

Price target: \$4.55

Summary of previous report dated 16/09/10

All systems go

MYR reported a solid underlying NPAT of \$169m and EBIT of \$271m. An 11.5cps dividend was declared. The result was in line with CBA and consensus expectations and at the upper end of guidance. MYR has managed cost very well in recent years and is now more dependent on gross margin improvement and driving operating leverage from sales growth. Significant investment in IT systems should enable extra service levels, improved conversion rates and reduced shrinkage. We expect EBIT margins to expand to 8.8% by FY13. Returns and capital position still need to be considered against off-balance sheet liabilities and MYR's significant off-balance sheet liabilities will severely constrain the company's ability to return capital.

Not priced for upside risk to earnings

We continue to like MYR's price-to-growth characteristics, the potential from substantial technology investment, and ability to leverage the macro-economic environment including improving consumer spending. We maintain our Buy recommendation on MYR. Including roll-forward, our valuation is now \$4.28 per share (from \$4.07) and price target is now \$4.55 (up 4.6%). This generates a forecast TSR of 22.6% over the next 12 months.



Issue 178 23 September 2010 (4.30pm)

Market Wrap

Finally one of the great myths has been debunked. The Reserve Bank has finally acknowledged that housing affordability is not a major problem in Australia. Neither is it worsening dramatically, or alternatively going through the floor. Actually it has been going sideways for the last 5-6 years. The Reserve Bank has come to the view – actually a view held by our economists for some time – by assessing more complete figures on home prices. In the past economists had compared capital city home prices to incomes. But clearly a more accurate measure is to compare home prices in every town and region of Australia with incomes across the country. And that reveals that affordability has been flat since 2004.

Some investors will say 'so what?' – what is the importance of the findings? Well, foreigners have been particularly concerned by the potential for a 'housing bubble' in Australia. That risk has now been defused so foreign investors will have less concern about parking their funds in Australia. So the effects may show up in a firmer share market, but also it may take away another factor restraining our dollar from going higher

Stephen Karpin
Managing Director

ResMed inc.

Last traded: A\$3.44(US\$32.60)

Sector: Healthcare

Market cap:

A\$5,216m(US\$4,936m)

Buy

Price target: A\$4.03 (US\$34.30)

Summary of previous report dated 17/09/10

S9 – hitting the snooze for an extra 30 minutes

RMD released results of a clinical study showing higher average daily usage (i.e. better compliance) with its new S9 platform. The study confirmed the superiority of S9 over older RMD platforms with results showing a 30-minute improvement in daily usage. The study also showed that daily usage improvement was due to only a change in equipment – not environment. We do not believe that the study will lead to a material increase in S9 sales (especially given RMD's market share gains since the launch of the platform). However, the evidence of higher compliance with S9 usage will be a strong selling point to patients, sleep labs/clinics and especially home healthcare companies (DMEs). DMEs are only reimbursed when they are compliant with the stipulated usage that patients must use their device for four hours per night for 70% of the nights in a consecutive 30-day period during the first 9 days of therapy. The unambiguous results of the clinical study demonstrating improved compliance, will therefore provide positive, albeit not overly significant support to sales of the S9 platform.

Buy recommendation maintained

We maintain our Buy recommendation on RMD. The clinical study results will further support the roll-out of S9 in 1H11 and RMD will also benefit from the launch of Escape and Escape Auto and initial contributions from HST. However, we note that RMD will face some difficult comparables in 2H11 and continue to face unfavourable FX headwinds.

Stocks at a glance

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

Stocks by sector

Consumer discretionary

PMV¹ 23/09/10 Summary of report dated 21/09/10	Premier Investments Limited		
	Last Traded: \$7.24 Buy	Market Cap: \$1,122m	Sector: Cons. discretionary Price target: \$7.75
Things can only get better...			
PMV has reported FY10 underlying NPAT of \$63m (down 23.8%), which included an \$18.5m loss from the Portmans brand. FY11 Just Group guidance was maintained at \$100-110m EBITA. A recovery to the Just Group guidance level of earnings is predicated on a number of assumptions, most of which are achievable under reasonable trading conditions. Earnings drivers include improving consumer environment, gross margin expansion and operating leverage. Combined with these positive earnings drivers, PMV management expects a material improvement from Portmans. We are more cautious on Portmans' current repositioning, but even a reduction in the brand's FY10 losses would be a significant contributor to forecast earnings.			
Remains a value opportunity, but needs a catalyst			
We maintain our Buy recommendation and price target of \$7.75. PMV has invested heavily in new stores over recent years and is yet to see the benefits of this capex given a concurrent softening in demand. Based on our expectation of a recovering consumer spending cycle, PMV not only offers an attractive entry into the sector, but is arguably the most sensitive to a cyclical recovery amongst its listed peers.			

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Utilities

DUE 23/09/10 Summary of report dated 15/09/10	Duet Group		
	Last Traded: \$1.74 Buy	Market Cap: \$1,544m	Sector: Utilities Price target: \$2.10
S&P revisions not concerning			
S&P has recently revised the credit rating outlooks to 'negative' from 'stable' for both United Energy (UED) and WA Gas (WAGN), however these revisions are not overly concerning. Both assets are undergoing regulatory resets with recent unfavourable Draft Decisions. But history shows Final Decisions inevitably result in material improvements. While a downgrade for UED to BBB- is not ideal, the benefits of a BBB rating are negligible. For WAGN, the outlook revision is more to do with ownership uncertainty given the BBI EPS stake in WAGN. Also, the terms of the Duquesne sale proceeds (~\$500m) whereby DUE must use this to repay corporate debt are not that onerous. While mechanically this will occur, DUE will develop a new facility of a similar size, leaving DUE with flexibility to make acquisitions with the proceeds or retire debt.			
Buy recommendation retained			
Despite the recent strength, we retain our Buy recommendation on DUE given: DUE is taking steps to simplify its structure (selling Duquesne), but also has an opportunity to acquire an additional 20% interest in the attractive DBNGP asset on favourable terms. Final offers for Duquesne are due in September 2010 and completion by end-CY10.			

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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 PMV

² Members of the Commonwealth Group have received fees within the previous 2 years from MYR

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