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.

Issue 197 **24 February 2011 (4.30pm)**

Feature Article

Our feature article this week is:

- **BHP Billiton - Shale gas and buyback: 4 mths cash flow spent**

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

BHP Billiton

Last traded: $45.99	Sector: Mining	Market cap: $237,182m
BUY		Price target: $56.00

Summary of previous report dated 22/02/10

Shale gas and buyback: 4 mths cash flow spent

BHP is acquiring Chesapeake Energy's Fayetteville Shale asset for USD4.75b, including the pipeline infrastructure.

The Fayetteville shale gas acquisition will add 415mcf/d of gas production to BHP's portfolio. This adds about 16% to BHP's production on an oil equivalent basis. Reserves & resources will increase by 45% to 5.4b barrels of oil equivalent. The acquisition adds 2.4tcf of proven reserves and 10tcf of resource.

The acquisition price of USD4.25b for the resource of 10tcf appears reasonable given recent transactions – although gas prices in the US are currently low, and gas prices will need to rise in line with the futures curve to justify the price. BHP intends to spend a further USD800-1,000m annually on increasing production from Fayetteville, intending to triple production from current rates.

Market Wrap

The Reserve Bank constantly notes that the extra income being received because of the high terms of trade is a key concern for inflation, but most don't know what that has got to do with them. And rightly so because the gains aren't easy to see and aren't distributed evenly.

Simply, the terms of trade relates the prices that we receive for our exports to the prices we pay for imports. If we get paid more for our exports and we pay less for our imports, it means that we are – collectively – better off. It means more income for Australians

Since 2004 when the terms of trade started to lift in a meaningful way, our exports have increased by $34 billion, with $23 billion of that due to higher prices.

If businesses and consumers use the terms of trade gains to cut debt levels and boost savings rather than spend the extra dollars then the Reserve Bank has less to worry about. And that is precisely what has been happening.

So don't let anyone tell you that interest rates will need to go up because the terms of trade is rising. It depends whether the extra income is spent or saved.

Stephen Karpin
Managing Director

Stocks at a glance

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

Stocks by sector

ELD
24/02/2011

Summary of report dated 21/02/2011

Elders Limited

Last Traded: $0.53 | Market Cap: $237m | Sector: Agribusiness
HOLD | Price target: $0.64

Cyclone damage adds to anticipated one-offs

ELD announced an estimated $8m-$14m impact from cyclone damage to Forestry plantations. However, ELD reiterated that it is comfortable with FY11 underlying NPAT forecasts of $15m-$30m.

We have made underlying earnings changes based on CBA's latest soft commodity price forecasts and lower 1H11f Automotive earnings. We have also added $8m (net expense, pre-tax) to our assumed FY11 significant items (now -$28m post tax).

Our price target ($0.64, down 3.0%) methodology remains a 20% discount to our valuation to reflect the clear risks to the ELD turnaround.

Upside but stars need to align. ELD appears to have survived what CEO Malcolm Jackman described as a 'near-death experience'. Now ELD needs to turn around the operating performance of its core Rural Services division during a period of increased industry competition. We maintain our Hold recommendation on ELD.

GNC
24/02/2011

Summary of report dated 23/02/2011

GrainCorp Limited

Last Traded: $7.40 | Market Cap: $1,467m | Sector: Agribusiness
HOLD | Price target: $8.30

The crop that keeps on giving

GNC has upgraded its grain receivals guidance and provided FY11 NPAT guidance ($115m-$135m), in line with CBA and consensus expectations.

We have adjusted our earnings forecasts based on higher forecast FY11 grain receivals and grain exports (now 6.7MT). Medium-term earnings forecasts were reduced because of a higher assumed effective tax rate of 31%, and increased interest expense following a raised capex profile.

Our price target remains a 15% discount to market and is now $8.30 per share (up 3.1%).

Outlook has never been stronger. We downgraded GNC to a Hold recommendation on 24 January 2011 based on its significant share price appreciation over the preceding months. However, GNC will benefit from the enormous east coast grain volumes in FY11 and has now effectively had its FY12 shipping stem underwritten. We maintain our Hold recommendation on GNC on the basis that there is unlikely to be another catalyst before the next winter crop planting season (May-June 2011).

TGR[4]
24/02/2011

Summary of report dated 18/02/2011

Tassal Group Limited

Last Traded: $1.68 | Market Cap: $245m | Sector: Agribusiness
BUY | Price target: $2.00

Time for free cash flow

TGR reported a poor operating NPAT result of $10.3m (down 13.0%) and no dividend was declared.

TGR had no material new information from its Strategic Review. It has allowed a number of parties to perform due diligence on the company and these enquiries are continuing.

We have upgraded our operating earnings forecasts for FY12-13 following the improved outlook for fish growth. We have also removed our assumption around fully underwritten dividends in future, which aids our EPS forecasts.

Our probability-weighted price target is now $2.00 per share (up 2.6%).

Ready to produce free cash flow and a takeover bid potentially on its way. There is still significant uncertainty around whether an interest in TGR will lead to a successful takeover of the company. However, it appears that TGR's Board is now more willing to put a bid to shareholders. In the absence of a takeover bid, we believe TGR will begin producing meaningful free cash flow from FY12 and has valuation support. We therefore maintain our Buy recommendation on TGR.

ANZ[3] **24/02/2011** **Summary of report dated 18/02/2011**	**ANZ Banking Group Limited**

Last Traded: $24.08 | Market Cap: $62,514m | Sector: Banks
HOLD | Price target: $25.82

1Q11 update: Time for a breather

ANZ reported a 1Q11 underlying profit of ~$1.4b vs our expectations of $1.38b, assisted by a lower BDD charge of $294m (including a $35m overlay).

Revised FY11/FY12 EPS by +2.5% and +2.7% respectively, driven by a lower impairment charge with limited change in core earnings.

Downgrade to Hold. Given reasonably strong 1Q11 updates by peers, an in-line cash earnings outcome for the quarter was somewhat disappointing. Underlying trends suggest margin management is increasingly challenging at ANZ with the pace of volume pick-up unlikely to fully offset this pressure.

While ANZ continues to make encouraging progress with its expansion into Asia, near-term earnings certainty appears lower than peers, with committed spend in support of ANZ's strategy adding greater pressure on core earnings momentum in a still soft credit growth environment.

ABC **24/02/2011** **Summary of report dated 17/02/2011**	**Adelaide Brighton Limited**

Last Traded: $3.27 | Market Cap: $635m | Sector: Building Materials
BUY | Price target: $3.95

FY10 result: Cementing the growth strategy

Adelaide Brighton reported FY10 NPAT of $151.5m, which was above our expectations and below consensus. A final dividend of 9.0cps and a special dividend of 2.5cps were declared, totalling 21.5cps for the full year (5cps special; payout ratio 90.1% including special dividends).

Our earnings changes primarily reflect the inclusion of the Birkenhead and Munster projects and impacts of ABC's announced one-offs. Our new price target of $3.95 (previously $3.80) ultimately reflects medium-term earnings benefits from announced brownfield expansion projects.

Adelaide Brighton is our preferred stock within our Australian building materials coverage. Our positive view is underpinned by the recent share market overreaction around contractual lime and cement supply concerns; its significant pipeline of growth opportunities; excess franking credits expected to support a higher payout ratio and potential capital management; strong balance sheet position, and considerable valuation upside.

JHX[2] **24/02/2011** **Summary of report dated 18/02/2011**	**James Hardie Industries S.E.**

Last Traded: $6.57 | Market Cap: $2,865m | Sector: Building Materials
BUY | Price target: $7.60

3Q11: Looking through the trough

JHX reported 3Q11 underlying NPAT of USD21.0m (USD29.8m pcp) before asbestos adjustments and ASIC expenses.

The key area of difference between the actual result and our expectations was the US performance given the impact of further inventory reductions, rebate accruals, and other non-cash expenses. We were under the impression that the majority of inventory reduction had all been completed through 2Q11. We were also surprised by the weakness in APFC pricing, which was very strong through 2Q11. That said, the peak in APFC margin is impressive given softer volumes through the period. Group EBIT was around 27% below our forecasts.

We have upgraded JHX to a Buy call from Hold given an implied forecast capital return of 14.6%. Valuation aside, our positive view is underpinned by our belief that the JHX business model and strategy remain intact despite the downturn; the high forecast earnings growth of 53% and 39% in FY11 and FY12; a solid financial position and a track record of strong cash conversion (ex asbestos; we are forecasting JHX to move to a net cash position by the end of FY12); the fact legacy issues are increasingly in the past; and significant valuation leverage to a weaker AUD/USD.

STO
24/02/2011

Summary of report dated 17/02/2011

Santos Limited

Last Traded: $14.21	Market Cap: $12,422m	Sector: Energy
HOLD		Price target: $15.10

CY10: Production to increase to 75mmb by '15

STO reported underlying NPAT of AUD376m for CY10, up 46% on CY09. The result is 4% below our forecast, due to higher capitalised interest and lower tax expense than expected.

The final dividend of 15cps is down 5cps as previously flagged as Santos conserves cash for its LNG investment plans.

We have adjusted our financial forecast based on the detail contained in today's report. Our profit forecast increases by 0.4%-2.4% over FY11-13f.

We retain our Hold recommendation and price target of $15.10. Santos has cleared all major commercial hurdles on the GLNG development over recent months. Focus will move on to proving up sufficient reserves and managing the significant development risks. Following the monetisation of half of the company's GLNG interest, our Santos valuation is now more heavily weighted towards PNG LNG. Market focus should turn to the potential acceleration of the Hides gas field appraisal (from 2012) and expansion of PNG LNG as the most likely source of upside in the near term.

OSH
24/02/2011

Summary of report dated 22/02/2011

Oil Search Limited

Last Traded: $6.95	Market Cap: $9,124m	Sector: Energy
BUY		Price target: $7.30

CY10 result: Hides targeted for late-2011

Underlying NPAT for FY10 of USD144.1m, which was 5% above consensus (USD136.7m). Final dividend of US2.0c was in line. The DRP will continue to be fully underwritten in FY11.

We retain our Buy recommendation and price target of $7.30. Development of PNG LNG is company transforming for Oil Search. We view Oil Search's long-term outlook as strong, with LNG production having the potential to lift Oil Search equity share of production to around 36mmboe by 2016. The next major event will be news on expansion options for the PNG LNG project most likely linked to further drilling on the Hides gas field.

SHL[1]
24/02/2011

Summary of report dated 22/02/2011

Sonic Healthcare Limited

Last Traded: $11.26	Market Cap: $4,373m	Sector: Healthcare
HOLD		Price target: $11.88

Result shows need for caution ahead of reform

SHL reported 1H11 sales of $1,513.7m and NPAT of $135m. This was slightly below consensus estimates at the NPAT line. Key drivers were weak margins in its domestic pathology business and higher-than-expected tax and interest expenses, partially offset by margin growth in its offshore businesses. On the outlook, SHL guided to the lower end of its FY11 NPAT range of 5-15%.

This result highlights the significance of regulatory reform in the pathology sector. In turn, we are happy to 'sit on sidelines' in the lead up to the pathology funding review (or at least the release of the second discussion paper within two weeks). Furthermore, we remain cautious about the review given the Government's recent approach to the pathology sector and budget pressures. We retain our HOLD recommendation on SHL.

CMJ
24/02/2011

Summary of report dated 18/02/2011

Consolidated Media Holdings Limited

Last Traded: $2.98 | Market Cap: $1,674m | Sector: Media

SELL | Price target: $2.92

Fox Sports disappoints in low growth market

CMJ has reported 4% growth in underlying 1H11 NPAT to $45.3m (-9% below our estimate) and EPS growth of 17% to 7.8¢ (enhanced by the share buyback). DPS was flat on pcp at 10.5¢ fully franked.

We have put through operational downgrades for Fox Sports and modest upgrades for Foxtel, but a lower-than-expected tax rate has seen our forecast total Associate contributions lift by 1% in FY11 and 8% in FY12. EPS lifts by 3% and 9%, respectively. DPS forecasts are unchanged at 16.5¢ for FY11/12. Our SOTP valuation lifts 1¢ to $2.92/sh.

Retain Sell with $2.92/sh price target. We continue to take a cautious approach towards the pay-TV distributors. While near-term earnings will be supported by ARPU expansion from new services, our view remains that pay-TV operators will have to work much harder to acquire incremental subscribers, with risks to ARPUs to the downside over the medium to longer term and risks to costs to the upside. We also view CMJ's shareholder structure as challenging for minority investors.

PRT
24/02/2011

Summary of report dated 17/02/2011

Prime Media Group Limited

Last Traded: $0.73 | Market Cap: $267m | Sector: Media

SELL | Price target: $0.71

Solid 1H result driven by cost-out

PRT has delivered a strong 1H11 result, with 10% revenue growth flowing through to a 39% lift in EBITDA and a 73% increase in underlying NPAT to $15.7m (CBAf $11.6m).

Retain Sell with $0.71 price target ($0.61 previously). Given our view that the overall TV ad market will slow to c.3% in FY12, combined with revenue share pressures for PRT likely to build (as we anticipate Channel Seven loses share and momentum to Channel Nine), we believe a Sell recommendation is appropriate.

TEN
24/02/2011

Summary of report dated 23/02/2011

Ten Network Holdings Limited

Last Traded: $1.29 | Market Cap: $1,348m | Sector: Media

SELL | Price target: $1.21

Profit warning as TV revenue share declines

Ten has announced the termination of Grant Blackley's recently signed two-year contract and the appointment of Lachlan Murdoch as interim CEO. Ten also provided a trading update, anticipating 1H FY11 (six months to February) group EBITDA of $103m (17% below CBAf), TV EBITDA of $92m (17% below CBAf) and Outdoor EBITDA of $11m (below CBAf of $14.4m).

Given this 1H guidance, we cut FY11 EPS by -16%, valuation by -10% to $1.21/sh and reiterate our Sell recommendation.

Given the disappointing 1H guidance, we have cut our TV revenue share to 27% in FY11 (29.0% previously) and 28% in FY12 (from 29.5%). In FY11, we downgrade group EBITDA by -11% and EPS -16%, and FY12 by -7% and -10%, respectively. Our blended valuation falls by 10% to $1.21/sh.

Retain Sell with $1.21/sh price target ($1.34/sh previously). We remain comfortable sellers of Ten given valuation downside, further risk to revenue share in 2H FY11/FY12 (as Seven maintains momentum and Nine gains momentum) and risks arising from further potential strategy/format changes.

WAN
24/02/2011

Summary of report dated 21/02/2011

West Australian Newspapers Holdings

Last Traded: $5.53 | Market Cap: $1,214m | Sector: Media
BUY | Price target: $7.41

2Q11 result in line, all eyes on SMG merger

WAN's 2Q11 revenue lifted by 1% to $108m (-2% below CBAf) and EBITDA lifted by 1% to $45m (-2.5% below CBAf). However, better-than-expected associates and lower interest expense resulted in underlying NPAT of $27m, coming exactly in line with our estimate.

Minor EPS changes. We have cut our revenue and EPS by 3-7% across FY11 and FY12, largely due to lower revenue for The West Australian. We now forecast c.2% revenue growth in FY11 and c.7% in FY12, as we expect the benefits from a strong resources economy to start flowing through to advertising revenues. Our blended valuation (DCF, EBITDA SOTP and PE) reduces by -5% to $7.41/sh, forming the basis of our 12-month price target.

Reiterate Buy with $7.41/sh price target ($7.76 previously). We continue to believe WAN offers attractive cyclical upside in an economy where expected resources investments should see above-average advertising growth for the next 1-2 years. We also believe a successful completion of the planned merger with SMG would enhance WAN's longer-term earnings profile.

AMC
24/02/2011

Summary of report dated 21/02/2011

Amcor Limited

Last Traded: $7.03 | Market Cap: $8,615m | Sector: Paper & Packaging
BUY | Price target: $7.60

1H11: Unwrapping the Amcor Way

Amcor reported 1H11 NPAT of $267m. This was above our expectations of $258m and consensus expectations of $260m. An interim dividend of 17.0c was declared.

We remain attracted to AMC's defensive characteristics, its solid balance sheet, recently improved financial discipline, strong earnings growth profile, and long-term value appeal. At an FY12f P/E of just 13.3x we remain comfortable with our Buy recommendation.

MGR
24/02/2011

Summary of report dated 22/02/2011

Mirvac Group

Last Traded: $1.29 | Market Cap: $4,389m | Sector: Property
BUY | Price target: $1.45

1H11 result: A year of two halves

1H11 core NPAT ($199.3m ex asset sale profits) was well ahead of our expectations ($169.6m), with the beat driven by various factors, including higher-than-anticipated average residential prices, lower employee benefits, and lower net interest expense. However, despite the strong 1H11 result, the top end of FY11 EPS guidance was unchanged (10.6cps vs 10.5cps CBA).

Our FY11 forecasts remain largely unchanged as we had forecast a skew to 2H11 and the top end of guidance remained unchanged. Our FY12/13 earnings revisions have largely been driven by pushing out our expected timing for residential settlements and do not include asset sale profits.

Our price target and valuation remain largely unchanged.

We retain our Buy recommendation based on our total shareholder return expectations relative to our coverage universe on a 12-month view. In our view, there are still a number of factors to remain positive on MGR, including: (1) continued margin expansion in the residential development business, (2) a 19.5% increase in exchanged contracts, and (3) continued trust performance.

DJS 24/02/2011 Summary of report dated 23/02/2011	**David Jones Limited**		

DJS
24/02/2011

Summary of report dated 23/02/2011

David Jones Limited

Last Traded: $4.60 | Market Cap: $2,364m | Sector: Retail
HOLD | Price target: $5.10

The Clayton's downgrade

DJS has reported 2Q11 comparable store sales declines of 1.1% and downgraded guidance to 'approximately 5%' in 1H11. DJS maintained guidance of 5% to 10% NPAT growth for 2H11.

Valuation has been revised down 2% to $4.80 and price target revised down 1.9% to $5.10.

Earnings resilience, dividends and valuation supportive. DJS has seen a lot of management change of late, needs to invest aggressively in IT to enter the new millennium and may have substantial risk to its financial services earnings when re-negotiated in 2013. However, in the current climate, DJS' (relative) earnings resilience and robust dividends are likely to provide a degree of support if difficult trading conditions continue. We maintain our Hold recommendation on DJS.

WES[1]
24/02/2011

Summary of report dated 17/02/2011

Wesfarmers Limited

Last Traded: $32.60 | Market Cap: $32,769m | Sector: Retail
HOLD | Price target: $35.70

Tail wagging the dog

WES has reported 1H11 NPAT growth of 33.4% to $1,173m and a 65c dividend was declared.

No changes to our FY11 forecasts, but FY12 and FY13 have been upgraded by 3.0% and 3.5%, respectively. Valuation has increased to $33.80 (+3.1%) and price target to $35.70 (+2.7%).

Earnings outlook broad and robust, but adequately in the price. We continue to favour the strong earnings outlook of WES and the fact that growth is derived from a broad and diversified spectrum of WES' assets. While WES offers a three-year EPS CAGR of 20.7% p.a. to FY13, it trades at 15.3% premium to the ASX200 Industrials (ex financials). On this basis, we maintain our Hold recommendation, but WES remains the preferred pick amongst the staple retail sector.

BSL
24/02/2011

Summary of report dated 21/02/2011

BlueScope Steel

Last Traded: $2.13 | Market Cap: $3,923 | Sector: Steel
HOLD | Price target: $2.30

1H11: Steel tough times

BlueScope Steel reported an 1H11 underlying NPAT loss of $47m. This was below our forecast loss of $36m and below consensus forecasts of -$28m. A 2.0cps (fully franked) interim dividend was declared.

We see few positive catalysts for BSL in the short-term. However, given BSL is trading on a 0.7x B/V approaching historical lows, we believe this should provide some share price support in the face of numerous headwinds. We continue to believe a Hold recommendation remains appropriate at this stage.

OST
24/02/2011

Summary of report dated 22/02/2011

OneSteel Limited

Last Traded: $2.81 | Market Cap: $3,751m | Sector: Steel
BUY | Price target: $3.10

1H11: Ironing out steel challenges

OneSteel reported a 1H11 underlying NPAT of $125m. This was broadly in-line with our expectations and above consensus expectations of around $118m. An interim dividend of 6cps (unfranked) was declared.

Our Buy recommendation reflects OST's exposure to appealing iron ore markets (which hold significantly better industry fundamentals when compared to steel) and its lower-risk steel exposure, given its integrated business structure. We believe further upside to our valuation remains, given option value around reserve extensions under Project Magnet Phase II and the expansion of OST's concentrator/pellet plant, conservative earnings forecasts around the recently acquired grinding media businesses, upside risks to CBA's near-term commodity forecasts and potential corporate appeal.

AIO
24/02/2011

Summary of report dated 23/02/2011

Asciano Limited

Last Traded: $1.72 | Market Cap: $5,018m | Sector: Transport
HOLD | Price target: $2.02

1H11 result: Downgrade to Hold

Asciano reported 1H11 EBIT in line with our estimate (EBIT of $271m as compared to our estimate of $272m). We have downgraded our recommendation to Hold.

FY11 normalised NPAT was down 2%, due to weaker Intermodal earnings. No significant changes to FY12 and FY13 earnings.

Our sum-of-the-parts valuation is at $1.81 per share and our 12-month price target is $2.02 per share ($1.98 previously).

Downgrade to Hold. We have downgraded our recommendation on Asciano from Buy to Hold. Asciano has risen 15% in less than six weeks and it is now trading within 5% of our sum-of-the-parts valuation of $1.81. While we still see some absolute value upside in Asciano, we believe there is better relative value elsewhere in the transport sector.

We continue to have long-term concerns about the impact of a third operator on port margins. We expect these issues to be reflected in any sale price for some or all of the container port assets.

QAN[1]
24/02/2011

Summary of report dated 17/02/2011

Qantas Airways Limited

Last Traded: $2.33 | Market Cap: $5,277m | Sector: Transport
BUY | Price target: $3.25

1H11 result: Stay long

Qantas reported 1H11 underlying PBT of $417m, up 56% on pcp and in line with our expectations.

We have made no significant changes to underlying PBT. However, we have upgraded FY11 and FY12 normalised NPAT by 5%, due to lower tax rates as indicated by management.

Our DCF valuation is unchanged at $2.91 per share, while our 12-month price target has increased to $3.25 per share ($3.20 previously).

We retain a Buy recommendation on Qantas. Qantas has good exposure to a cyclical recovery and is still well below our valuation of $2.91. Qantas' mix of passengers allows it to better withstand competitive pressure in the domestic leisure market and pass through fuel costs in premium markets.

VBA[4]
24/02/2011

Summary of report dated 23/02/2011

Virgin Blue Holdings Limited

Last Traded: $0.37 | Market Cap: $806m | Sector: Transport
HOLD | Price target: $0.51

1H11 result: Pain before pleasure

Virgin Blue underlying PBT of $72m was in-line with pre-released guidance and CBA's estimate ($73m).

Hold maintained. We are confident that Virgin Blue is putting in place a platform to move into more lucrative long-haul and corporate markets. However we expect operating conditions to deteriorate in the short-term before a longer-term recovery. Virgin Blue's core market of domestic leisure travel remains highly competitive with excess capacity, and rising fuel prices are more difficult to pass on to its price-sensitive customers.

AGK
24/02/2011

Summary of report dated 23/02/2011

AGL Energy Limited

Last Traded: $14.60 | Market Cap: $6,690m | Sector: Utilities
HOLD | Price target: $15.40

Wind erosion

AGK reported its 1H11 result which was operationally slightly below expectations and recently downgraded guidance.

Maintain HOLD. While value is clearly emerging within AGK, we are reluctant to become more positive particularly in light of what we view as an uninspiring result. The NSW strategy is the swing factor but any upside from AGK's initiatives in this regard are unlikely to be valued until some compelling evidence exists that they will bear fruit.

DUE 24/02/2011 **Summary of report dated 18/02/2011**	**Duet Group**		
	Last Traded: $1.62	Market Cap: $1,469m	Sector: Utilities
	BUY		Price target: $2.00

Rebound overdue

DUE reported proportionate asset level EBITDA of $320m, which was up 6.7% pcp.

Overall, the result was slightly softer than our expectations, with proportionate revenue and proportionate EBITDA lower by 4% and 2.1%, respectively versus CBA forecasts.

We have made downgrades to our proportionate earnings forecasts, mainly due to the higher senior debt levels in UED. This has more than offset the reduced SOLA interest payments. Our price target is reduced slightly to $2.00/security and remains, based on a 10% discount to our asset DCF.

Retain Buy. DUE has taken substantial steps to simplify its corporate structure with the divestment of Duquesne, gradual de-leverage of the assets and more recently, re-capitalisation of UED.

We remain confident that DUE can adequately fund the equity capex requirements of the assets and maintain current distributions. The acquisition of minority stakes in DBP and Multinet Gas would be viewed positively if it were to occur.

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 QAN and WES.

[2] Members of the Commonwealth Group hold between 10% and 20% of JHX.

[3]Members of the Commonwealth Bank Group have received fees within the previous 2 years from ANZ and WBC in connection with a capital raising. IMPORTANT NOTE: Readers should note that Global Markets Research does not provide investment opinions on CBA. This report is intended to provide readers with an analysis of the Australian banking sector. The report may use economic data, market trends, public statements, sector commentaries and data, consensus data, annual and half yearly results and announcements related to institutions in the Banking sector. While this report may give investment opinions and recommendations with regard to other institutions in the Australian banking sector, nothing should be construed as an express or implicit opinion or recommendation by Global Markets Research in relation to an investment in CBA or any of its subsidiaries. Our analysts, and their associates, hold interests in the companies named in this report.

[4]Our analysts, and their associates, hold interests in TGR and VBA.

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

Disclosure and Disclaimer

End of Report