

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:

- Asciano Limited: Looking for bounce off a wet track
- Alumina Limited: 4Q result

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

Asciano Limited

Last traded: \$1.60

Sector: Industrials

Market cap: \$4,682m

Buy

Price target: \$1.98

Summary of previous report dated 12/01/11

Looking for bounce off a wet track

We have made FY11 earnings changes due to the interruption to the Central Queensland Coal Network. Subsequently we have downgraded FY11 EBITDA by 2.6% and normalised NPAT by 5.1%. FY12 and FY13 estimates are largely unchanged.

Our sum-of-parts valuation is now \$1.75 per share (\$1.78 previously), our DCF valuation is now \$1.77 per share (\$1.78 previously), and our 12-month share price target is now \$1.98 per share (\$2.00 previously).

We retain a Buy recommendation on AIO

While there is still considerable uncertainty around the impact of weather and other issues on AIO's earnings, on balance, we think Asciano has been oversold and is likely to rally in the short term as these issues are clarified in the coming months.



Issue 191

13 January 2011 (4.30pm)

Market Wrap

Humans like to think that they control most things. Then along comes a natural disaster like a flood and it reinforces the fact that there are many things outside our control – especially the weather. While it was clear last year that the La Nina weather event would be significant, there was little that Australians could do to prepare. We didn't know when the rain would fall, what centres would be most affected and how much rain would fall.

Estimating the impact of the floods on the economy can prove to be a moveable feast. The flooding didn't stop in Rockhampton but spread through south-east Queensland. And there is still the prospect of further flooding in other parts of the country, with possibly other significant rain events over the coming days.

The industries most affected are coal, transport, agriculture, tourism, insurance and construction. In general the short-term impact on the economy is negative with business activity and exports curtailed. But it's important to remember that substantial rebuilding will be required over the medium-term, increasing demands on the construction sector.

No one wants to see floods occur and the effects are painful and sometimes tragic. But Australians are used to hardship. We deal with the event at hand and then get about the job of cleaning up afterwards.

Stephen Karpin
Managing Director

Feature Article

Alumina Limited

Last traded: \$2.46

Sector: Materials

Market cap: \$6,003m

Buy

Price target: \$2.95

Summary of previous report dated 12/01/11

4Q result

ALCOA released its 4Q result, providing a proxy read-through for AWC's end of year performance. The result included negative one-off items at the AWAC level of USD29m for the GAAP-AIFRS treatment of commissioning costs at the Alumar expansion and USD45m for foreign currency translation impacts.

The revisions to our numbers have reduced our forecast CY10 NPAT -39% to USD75m and underlying profit -20.5% to USD65m. However our valuation and price target drops less than 1% to \$2.95. Looking through the CY10 result, there is nothing to change our view on the significant upside still to come as the structural shift to index pricing takes hold in CY11.

Reiterate Buy recommendation

AWC remains undervalued by 23% against our price target. Recent stock weakness on the back of the CY10 read-through presents an attractive buying opportunity.

Stocks at a glance

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

Stocks by sector

Energy

| | |
|---|---|
| AQA 13/01/11 Summary of report dated 10/01/11 | Aquila Resources Limited |
| | Last Traded: \$9.66 Market Cap: \$3,616m Sector: Energy Hold Price target: \$9.30 Purple rain Following the continued flooding in Queensland we have downgraded our earnings forecast for FY11 and now expect a loss of \$4.8m, compared to our previous profit estimate of \$18.9m. We have also reduced our FY12 and FY13 earnings forecasts by 13.1% and 0.1%, respectively. Our valuation decreases by \$0.10ps to \$9.30ps. Our downgrades are driven by lower coal production and higher costs estimates at the Isaac Plains mine. We retain our Hold recommendation on the stock. AQA has an interesting mix of carbon steel material projects. Development of this portfolio could generate considerable value for shareholders and transform the company into a diversified mid-tier resources player. However, the company faces some challenges in the near term with various legal disputes with key joint venture partner Vale. |

Our downgrades are driven by lower coal production and higher costs estimates at the Isaac Plains mine.

Financials

| | |
|---|--|
| CMW 13/01/11 Summary of report dated 10/01/11 | Cromwell Group |
| | Last Traded: \$0.76 Market Cap: \$692m Sector: Financials Buy Price target: \$0.82 Initiate with Buy recommendation We initiate coverage with a Buy recommendation and \$0.82 price target, implying an 18.6% total return on a 12-month view. Catalysts to achieve our price target include: (1) expansion of the funds management platform, (2) NTA upside from revaluation of 321 Exhibition St and Qantas HQ, and (3) lease extension at Qantas HQ and new lease at the Kmart Distribution Centre. Furthermore, CMW's superior distribution yield (FY11e 9.5%) is supported by a sector leading 6-year weighted average lease term, minimal lease risk and ~4% p.a. fixed reviews for 61% of the portfolio, providing income certainty and clarity. |

We initiate coverage with a Buy recommendation and \$0.82 price target, implying an 18.6% total return on a 12-month view.

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.

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