

# 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:

- **AGL Energy and Origin Energy: A wRECKed market?**

The comments in the articles 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

#### AGL Energy and Origin Energy: A wRECKed market?

AGK Last traded: \$13.92	Sector: Utilities	Market cap: \$6,212M
AGK: ACCUMULATE / MARKET PERFORM		Valuation: \$14.90
ORG Last traded: \$	Sector: Energy	Market cap: \$
ORG: ACCUMULATE / OUT PERFORM		Valuation: \$21.15

Summary of previous report dated 25/11/09

#### Impact of soft REC prices

- In light of soft REC prices we have reviewed the dynamics of the renewable energy market and compared the strategies of AGK and ORG.

#### Impact for AGK and ORG

- **AGK:** The value of AGK's renewable energy portfolio is unlikely to be factored into AGK's share price until market fundamentals improve. That said, we note potential short-term upside to FY10 earnings from NSW privatisation and the extreme weather conditions in SA. *We maintain our ACCUMULATE / MARKET PERFORM recommendation with a price target of \$14.00/share.*
- **ORG:** Our preference remains ORG given its longer term growth profile and optionality. The key catalyst remains an LNG off take; progress is expected in 1Q CY10. We would take advantage of any short-term pull back in the stock. We retain our ACCUMULATE / OUT PERFORM recommendation and have increased our price target by 85cps to \$16.70.



Issue 138 26 November 2009 (4.30pm)

### Market Wrap

What a difference a year makes. In October last year the sharemarket either rose or fell by more than 1% for 18 days. Unsurprisingly that was the most volatile month in at least the past 15 years. And it didn't improve much in November when there were 17 high volatility days.

But fast forward to the present day and a different picture emerges. In November so far, the Australian sharemarket has experienced just six of these high volatility days. And while the month is not yet over, the total is just over the long-run average of five days.

The more settled environment hasn't just been confined to Australia. In the US, the so-called 'fear gauge' – the Vix – or volatility gauge has fallen to 15-month lows and appears headed for the best (lowest) levels seen in the past two years.

While volatility may be important for traders, for businesses and consumers more broadly, a more settled sharemarket makes for better decision making.

**Matt Comyn**  
General Manager

## Stocks at a glance

### Stocks by sector

#### Consumer staples

GNC  
26/11/09

Summary of  
report dated  
26/11/09

#### GrainCorp Limited: Deregulation benefits will increase over time

Last Traded: \$6.30

Market Cap: \$1,076M

Sector: Staples

BUY/ MARKET PERFORM

Valuation: \$9.39

#### Upgraded to BUY

GNC reported a strong FY09 result (NPAT of 63.2m) which represents a \$83.1m profit turnaround from FY08.

Following the result we marginally increased our FY10 earnings forecasts across all divisions except GrainCorp Malt. We have also increased our FY10 capex assumption and our valuation is now \$9.39 (down 1.2%). Our 12 month price target is \$8.34 (up 1.7%)

Given the recent weakness in GNC's share price, we upgrade our recommendation to BUY / MARKET PERFORM. Fears around El Nino conditions are overdone – they cannot impact the FY10 winter crop and are forecast to end before FY11 winter crop planting season. GNC has clear growth opportunities over the next two years in the form of increased malt capacity and further penetration of the Australian wheat market and is trading at an unjustified 40% discount to the market.

Given the recent weakness in GNC's share price, we upgrade our recommendation to BUY / MARKET PERFORM

**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

## 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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End of Report