

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:

- BHP Billiton: Strong December quarter production – but anticipated
- Rio Tinto: 4Q production: Iron ore booms, copper recovers, aluminium drags

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: Strong December quarter production – but anticipated

Last traded: \$42.67

Sector: Materials

Market cap: \$146B

ACCUMULATE / OUT PERFORM

Valuation: \$47.45

Summary of previous report dated 20/01/10

Minor upgrade to FY10 earnings

Following BHP's release of another strong quarterly production report we have increased our forecast for FY10 earnings by 3% but we have made no significant revisions to FY11+. We maintain our recommendation and price target.

BHP has been up ~15% since 1 October 2009, driven by continued commodity price strength and resultant earnings upgrades. However, BHP has significantly lagged the performance of RIO (up 38% in the same period) as the market appetite for risk has increased. While we remain very positive on the medium- to long-term outlook, the sector is perhaps overdue for a period of consolidation - we would expect BHP to perform relatively well in a period of consolidation for the sector.



Issue 142 21 January 2010 (4.30pm)

Market Wrap

Australia's listed companies are about to kick off the earnings season – that is, issue their financial results for either the 2009 calendar year or the six months to December.

So *what can we expect?* Well, given that major companies have been markedly increasing the amount of information provided to investors over the years – especially by way of quarterly updates – there is much less focus on the actual results. Earnings season has always been about future guidance and that is even more so now. And the constant flow of information also serves to scale down the importance of the formal earnings report.

The good news is that the “confessional period” ahead of earnings season has been generally positive. Computershare, Flight Centre and Commonwealth Bank have upgraded earnings guidance while Harvey Norman issued upbeat, albeit non-specific guidance. But on the other side of the equation, Worley Parsons, stood out in cutting earnings guidance.

Overall analysts say that the earnings season will be one of contrasts. Domestic-focussed companies will do best, while earnings at globally-focussed companies will likely remain weak, especially in construction and engineering.

Matt Comyn
General Manager

Feature Article

Rio Tinto: 4Q production: Iron ore booms, copper recovers, aluminium drags

Last traded: \$75.55

Sector: Materials

Market cap: \$33,971M

ACCUMULATE / OUT PERFORM

Valuation: \$72.69

Summary of previous report dated 14/01/10

Upgrades to 2009 earnings

Following RIO's release of another strong quarterly production report and stronger than expected commodity prices in December we have increased our forecast for 2009 earnings by 7%. We have made no changes to our recommendation or price target.

RIO is up ~38% since 1 October 2009 driven by continued commodity price strength and subsequent earnings upgrades. While we remain very positive on the medium to long-term outlook, the stock (and sector) is perhaps overdue for a period of consolidation.

Stocks at a glance

Consumer staples

TGR
21/01/10

Summary of
report dated
18/01/10

Tassal Group Limited: Tough first half in transformational year

Last Traded: \$1.83

Market Cap: \$183M

Sector: Staples

BUY / OUT PERFORM

Valuation: \$2.75

Maintain our long-term positive view on the stock

Following analysis of factors likely to impact TGR in 1H10 and beyond, we have downgraded our earnings forecasts. We have not however changed our long-term positive view on the stock.

There are numerous factors that indicate a difficult earnings period for TGR in 1H10, but a number of these are one-off in nature. These factors are tempered by: TGR's plan to increase its salmon volumes by ~58% over FY11-15, the increasing rates of salmon consumption in Australia, along with the attractive duopoly structure that TGR operates in.

Despite downgrades to our earnings forecast we have not altered our long term positive view on the stock.

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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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