Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review January 2007

- The ASX200 recorded a sixth consecutive monthly gain in January. The 1.8% increase was driven by the Industrials – up 2.4%. The Resources Index was down marginally. Over the year to January, the Industrials have delivered a gain of 26.8% while the Resources are up 6.4%.

- It did not take long for the merger and acquisition frenzy to reappear post the Christmas break. A number of deals were announced, notably in the utilities and health sectors.

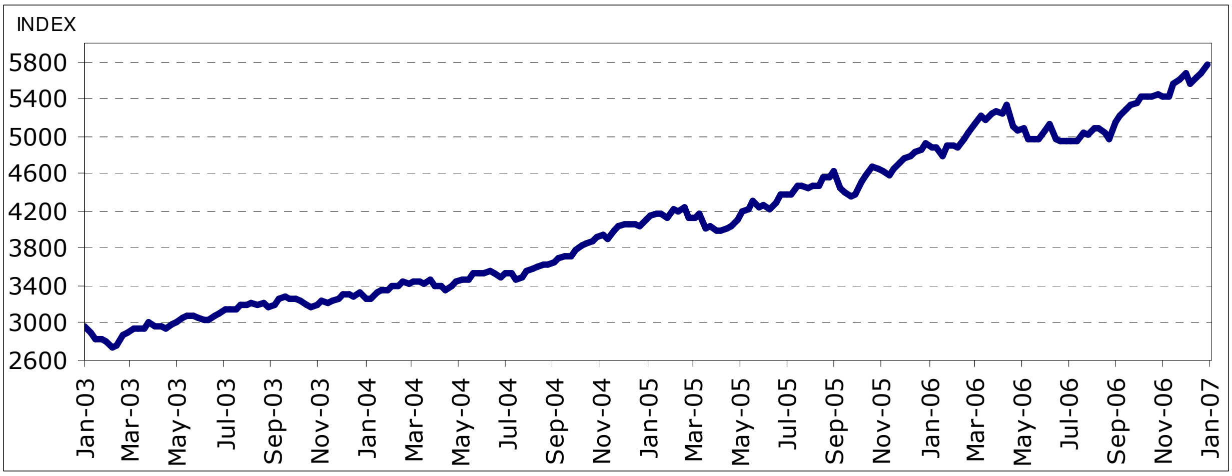
- Valuations within the ASX200 Industrial universe now look expensive, both in absolute terms and relative to the level of interest rates. We recommend our clients do more selling than buying over the next three months.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	1.8%	18.3%	22.2%
S&P/ASX 200 Industrials	2.4%	23.1%	26.8%
S&P/ASX 200 Resources	-0.4%	1.8%	6.4%
S&P/ASX Small Ordinaries	1.9%	24.3%	31.8%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	-1.5%	6.5%	9.1%
Consumer Staples	-1.7%	5.6%	7.4%
Energy	-3.0%	-20.3%	-21.7%
Financials	0.5%	3.1%	5.0%
Health Care	1.1%	9.4%	7.5%
Industrials	2.5%	9.0%	4.9%
Information Technology	3.2%	1.9%	8.2%
Materials	-1.7%	-11.6%	-13.4%
REITs	0.5%	7.3%	16.6%
Telecommunications	1.1%	3.3%	-6.6%
Utilities	6.3%	11.7%	14.6%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index

(January 2003 – January 2007)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

In January, the best and worst performing stocks (absolute share price returns) in the ASX 100 were as follows:

Best	% Change	Worst	% Change
Alinta	18.6	Newcrest Mining	-20.7
West Australian Newspapers	16.0	Zinifex	-12.7
Toll Holdings	14.7	Oxiana	-11.7
Multiplex Group	11.5	Sigma Pharmaceuticals	-11.4
Origin Energy	9.7	PaperlinX	-9.7
Symbion Health	9.0	Adelaide Brighton	-8.3
Leighton Holdings	8.8	Publishing & Broadcasting Ltd.	-8.1
Brambles	8.2	Iluka Resources	-6.2
Harvey Norman	7.4	Billabong International	-6.1
Goodman Fielder	7.2	Santos	-5.8

Source: IRESS

Significant Company/Economic News

Energy **Analyst: Anthony Bishop**

- **AGL Energy (AGK): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/01/07: $17.31; Valuation: $17.00
- **Origin Energy (ORG): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/01/07: $9.07; Valuation: $7.40

The utilities sector is engulfed in corporate activity. Early in the month, AGL Energy made a preliminary merger approach to Origin Energy concerning the possibility of a nil premium scrip merger between the entities. AGL stated that it would seek the ownership split between AGL and Origin to be ~50/50 with cost savings from removing duplicated effort and resources savings of $150m pa. ORG responded that AGL's approach was "preliminary only" and it "does not propose to take any further steps in relation to this until it has completed an evaluation". Consequently it remains to be seen what Origin will do next. ACCC considerations will also be important to a merger proceeding.

Utilities **Analyst: Kynwynn Strong**

- **Alinta Limited (AAN): Short Term Marketperform; Long Term Hold**
  Share Price as at 31/01/07: $14.02; Valuation: $12.00

Early in the month, a group of four executives from Alinta, including the CEO and the chairman, announced they were working on a management buyout (MBO) proposal. The MBO group is being advised by Macquarie Bank, which is also considering participating in the proposal. Although the potential structure has not been disclosed, we suspect the MBO group will seek to buy the management contracts over Alinta's assets while the existing Alinta shareholders will retain ownership of the underlying assets. Later in the month, conflict of interest concerns led to the resignation of the CEO and chairman. The independent directors moved to ensure that any interested parties were free to present restructuring/takeover proposals to the board.

Materials **Analyst: Ian Preston**

- **Newcrest Mining (NCM): Short Term Marketperform; Long Term Buy**
  Share Price as at 31/01/07: $20.90; Valuation: $12.96

The NCM share price fell sharply post a disappointing December quarter production report. Production volumes fell short of expectations and cash costs were higher. In addition, the company downgraded the Telfer supergene ore reserve by 0.5moz (12%) of gold and 19kt (11%) of copper. This downgrade follows the earlier downgrade of this reserve by 0.8moz in August 2006. NCM also raised the probability of a downgrade to the Telfer underground and sulphide component of the open pit. NCM expects to complete this estimate for the underground by July 2007 once sufficient data is available and for the sulphide open pit reserve by July 2008.

QBE Insurance (QBE) **Analyst: Ryan Fisher**

- **Investment View: Short Term Outperform; Long Term Buy**
  Share Price as at 31/01/07: $30.80; Valuation: $29.50

Following on from the purchase of Praetorian Financial Group in December, QBE announced its intention to acquire Winterthur US from AXA SA. QBE expects both acquisitions to be completed in 2Q07. Winterthur US is a property & casualty insurer trading mainly under the names of General Casualty and Unigard. QBE will acquire Winterthur US for US$1.16bn plus a loan repayment to AXA SA of US$557m.

Symbion Health (SYB) **Analyst: Hamish Tadgell**

- **Investment View: Short Term Marketperform; Long Term Buy**
  Share Price as at 31/01/07: $4.14; Valuation: $3.56

Late in the month, Primary (not covered by GSJBW Research) announced that it has acquired a stake in Symbion Health and put a 'confidential proposal' to the company. We believe there are several motivating factors driving PRY's decision to look at potential consolidation opportunities including (1) increasing competitive pressures; (2) a desire to maintain its premium market rating, and (3) crystallizing the value of synergies from potential M&A. This potential deal may well prove a trigger for further M&A activity across the health sector.

Multiplex Group (MXG) **Analyst: Simon Scott**

- **Investment View: Short Term Marketperform; Long Term Hold**
  Share Price as at 31/01/07: $4.45; Valuation: $4.27

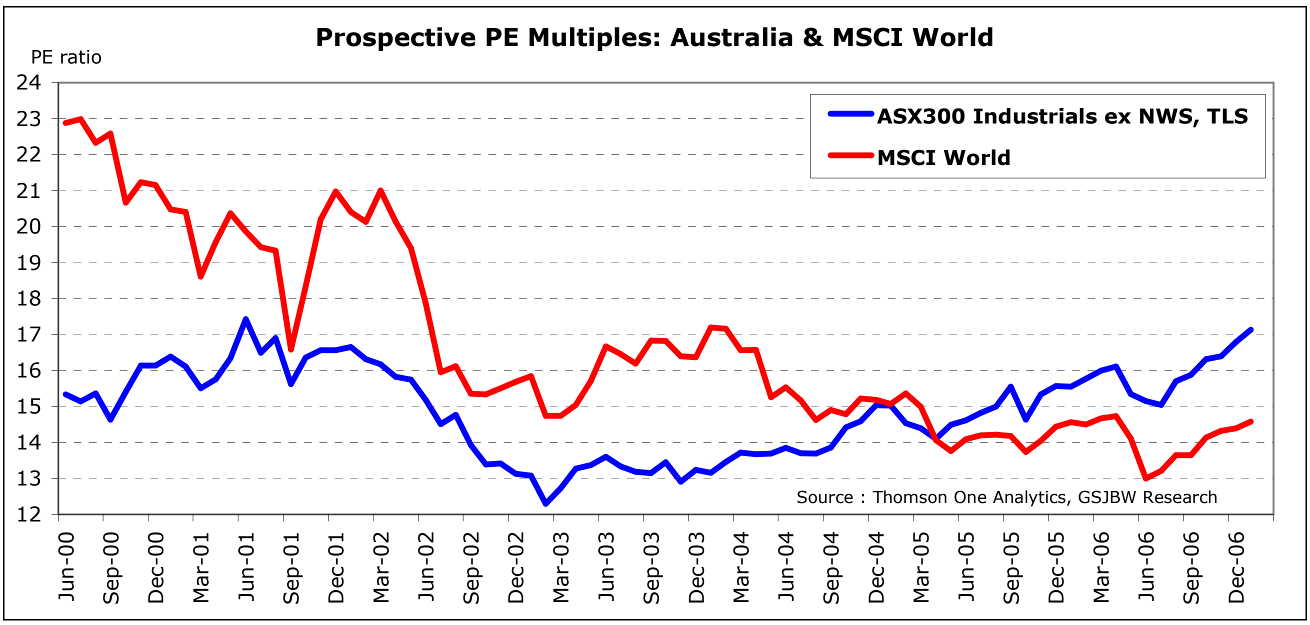
The Muliplex share price rose sharply post an announcement that it had received a request from a third party (unnamed) to commence discussions that may lead to a proposal in relation to the acquisition of MXG securities and/or assets. The third party has had preliminary discussions with Roberts Family Nominees (RFN), MXG's largest shareholder. With over a forty-year history with Multiplex we believe it is unlikely the Roberts family would be a seller of the entire business and walk away from it completely. Hence, it is probable that they ultimately could become part of any proposal to privatise MXG.

Economics **Analyst: Tim Toohey**

- **Consumer Price Index: December Quarter**

The market was relieved when the December quarter inflation figure was softer than expected. The CPI contracted by 0.1%qoq (largely reflecting lower petrol prices) to be 3.3% higher over the year. Importantly, both the RBA's underlying inflation measures were also well below consensus expectations, and see the average of the two underlying measures back within the RBA's 2-3% target band, thus alleviating the immediate need for another rate hike.

Prospective P/E Multiples of the World versus Australia



Australian Equities: Key Issues for Portfolio Strategy

- While the consensus is looking for another solid year for the global economy in 2007, such an outcome is yet to be locked in. A sharp contraction in housing activity is now hitting the US economy (housing starts have fallen 27% since February 2006). This drag will be at its most material through the first half of 2007. To date, the balance of the US economy (i.e. consumer & business spending) and the balance of the world economy have not shown any material signs of being hurt by this slump. While we still believe the global economy will continue to perform relatively well into 2007 and 2008, there are likely to be times over the next 6 months where the credibility of this view will be tested. Accordingly, we expect global financial markets exhibit bouts of heightened volatility.

- Since mid-2006, global equity markets have performed strongly on the back of expanding PE multiples. The lower oil price has also assisted the uplift in investor confidence. We remain comfortable that the basic fundamentals for global markets are sound, but performance is likely to be more subdued and volatility more pronounced as investors work through the macro environment described above and some slippage in 2007 profit forecasts. (The latter is now coming through, led by the Energy and Technology sectors). While US interest rates have peaked for this cycle, the unfolding slowdown in the global economy will need to clearly quell inflationary pressures for US rates to fall through 2007. Outside the US, Goldman Sachs Research is looking for further policy tightening in Europe, Japan and China.

- While Australia's recent economic performance has been mixed, there has been sufficient strength in the nominal economy and private sector spending to underpin profit outcomes – at least for the large listed sector companies. Coming into 2007, however, private sector activity looks to be easing and the nominal environment is poised to weaken as the income injection from rising commodity prices starts to fade. Add in the drought – a risk that will quickly spread beyond the agricultural sector if it fails to rain next autumn, and we can only conclude that business conditions in Australia are going to deteriorate through 2007. After growth of 2.7% in FY06, GSJBW Research expects production (GDP) to expand by 2.5% in FY07 and 2.6% in FY08.

- Investors took comfort from the benign CPI figure for the December quarter (most core measures rose by ~0.5%). While the RBA would have been similarly relieved, it is unlikely that their outlook for the economy/inflation would have changed materially. Signs of capacity stress, particularly in the labour market, are still evident and despite the three rate increases in 2006, the overall policy stance does not look restrictive. In this regard, the RBA, along with other central banks, has drawn attention to signs of speculative behavior, notably the rise of leveraged buy-outs and heightened M&A activity, both evidence that interest rates are not an impediment to asset valuations or activity. Thus, while our base case view is that the next movement in Australian rates will be down (the cash rate is currently 6.25%), this is unlikely to occur before late 2007. Notably, cash is now the highest yielding asset class available to local investors.

- We believe the ASX200 Industrials is expensive both in absolute terms and relative to the level of interest rates. Valuation multiples are now at levels which have, in the past, proved unsustainable. While the frenzy of merger and acquisition activity accounts for a portion of the valuation premium, at some point this theme will dissipate. If, in the interim, long term interest rates have edged higher (a global risk for 2H07) and profit estimates for FY08 and FY09 have eased, the market will be very vulnerable. We will get a better feel for the risks post the December half reporting season which has just begun. In this regard, we remain sceptical of the consensus view that the majority of industrial stocks will continue to deliver profit margin expansion. Even if we are being overly cautious in this regard, the potential for valuation relief from earnings upgrades looks to be low. Investors need to be open to the idea that there may come a point where the risk/return trade-off (on a 1-2 year view) for the Australian Industrial market is no longer attractive and that significant profit taking is warranted.

- Outside the pure-play nickel & zinc exposures, the resources sector has languished over the past six months. Macro risks emanating from the softer US economy, and the more mixed trend in commodity prices, has eroded investor confidence and injected some uncertainty into the short term outlook. In particular, the ongoing weakness in the copper price (37% off its May 2006 high) has reached a point where it is negatively impacting 2007 earnings estimates for BHP Billiton and Rio Tinto. While these various risks are likely to remain potent through early 2007, we remain comfortable with the medium term prospects for the sector and would look to build positions in the major stocks when they are trading at a discount to our valuations.

- We are finding it very difficult to identify large-cap industrial stocks that offer compelling absolute value. While reluctant to be an aggressive seller prior to the reporting season (good results will be rewarded, poor results will become takeover targets!), investors should approach the next 3 months with profit-taking in mind. Areas to review include the REIT sector (trading at 13% premium to GSJBW Research valuation), the utilities sector (all stocks have benefited from M&A activity/speculation), the telecommunications sector (where company performance is unlikely to meet the expectations of the recent strong global rerating) and the health sector (valuations very full post recent share price strength).

GSJBW Market Forecasts:

As at 31/01/2007	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E
S&P/ASX 300	16.2x	14.8x	13.5x	23.2	10.5	9.9	3.6	3.7	4.0
S&P/ASX 300 Industrials	18.8x	17.4x	15.9x	7.8	8.8	9.5	4.2	4.2	4.5
S&P/ASX 300 Resources	12.0x	10.7x	9.7x	53.1	13.2	10.1	2.2	2.6	2.9

Source: GSJBW Research estimates

Profit Reporting Season: Nothing short of perfect will do

The profit reporting season for the December half has just commenced and will continue through February. The market is enjoying perfect weather at the moment, but valuations, particularly within the industrial universe, are now entering the very expensive range. The reporting season will therefore have to be perfect. The M&A frenzy currently engulfing the market will not last forever. When it ends, investors will refocus on fundamental valuations. This reassessment will not be pleasant unless FY08 and FY09 profit estimates are looking strong and credible.

Coming into the reporting season, the macro environment has been supportive. In particular;

- Overseas markets have been strong, largely on the back of P/E multiple expansion.
- The benign CPI (inflation) reading from the December quarter left investors far less concerned about another near term rate increase from the RBA.
- Merger and acquisition activity continues at a rapid pace, with a number of deals already announced since the beginning of the year. In this environment, valuations fundamentals take a back seat. It is highly likely that the downside risk for stocks that deliver poor profit results during the reporting season will be relatively contained as the market speculates that such stocks will be vulnerable to takeover.

Thus, we are reluctant to be an aggressive seller prior to the reporting season (good results will be rewarded, poor results will become takeover targets!), but investors should approach the next 3 months with profit-taking in mind. ***We believe the ASX200 Industrials is expensive both in absolute terms and relative to the level of interest rates. Valuation multiples are now at levels which have, in the past, proved unsustainable***. While the market's aggregate profit estimates for FY07, FY08 and FY09 should hold up through the reporting season, we are unlikely to see any upgrades, certainly of the scale that would take the industrial market from being 'very expensive' to 'comfortably valued'.

Having said that, the marginal investor is clearly still 'bullish' and will approach the reporting season from the perspective of looking for something to buy. To do this, they will need to price stocks on the basis of FY08/FY09 earnings (a long way off!) as it is only on this basis that 'value' appears. The following table highlights the major industrial stocks within the GSJBW research universe that look to be well-placed in this regard. We believe that these stocks will do well, ***from a relative performance perspective***, in the event that they deliver profit results that provide credibility to their strong earnings forecasts for FY08 and FY09.

Stock	EPS Growth			P/E	*PEG	Yield	L/T
	F2007	F2008	F2009	F2008	F2006	F2008	Rec
Core ASX 300	**10.5%**	**9.9%**	**1.9%**	**13.5**	**1.6**	**4.0%**	
ASX300 Industrials	**8.8%**	**9.5%**	**7.8%**	**15.9**	**2.1**	**4.5%**	
BHP Billiton	18.2%	15.3%	-9.7%	8.5	0.7	2.6%	BUY
Seven Network	71.1%	17.7%	13.1%	16.3	0.7	2.9%	HOLD
Healthscope	39.9%	18.0%	10.6%	16.7	1.0	3.9%	BUY
United Group	7.7%	35.7%	11.9%	14.7	1.0	4.5%	BUY
Oakton	31.6%	23.1%	10.5%	16.9	1.0	5.5%	HOLD
Ramsay Healthcare	21.8%	23.8%	16.8%	17.5	1.2	2.9%	BUY
Fosters Group	23.9%	14.6%	9.0%	15.7	1.2	4.1%	BUY
Computershare	37.2%	14.4%	9.6%	19.2	1.2	2.1%	BUY
Metcash	11.9%	22.1%	14.8%	15.8	1.3	3.7%	BUY
Billabong	16.0%	19.2%	19.0%	16.7	1.3	3.6%	BUY
Woolworths	17.5%	19.1%	13.3%	18.9	1.4	3.4%	BUY
SingTel	10.3%	16.3%	21.0%	15.9	1.5	3.6%	BUY

Source: GSJBW Research Estimates as at 31/01/07
**F2006 PEG is the average of F2007/08 EPS Growth divided by F2006 PE*

Looking at the resources, this will be the first reporting season in the last three years where the sector is not enjoying the added support of significant positive earnings revision. While the story varies from commodity to commodity, the aggregate outlook is being held back by the recent reduction in the oil and copper prices. In the absence of positive earnings revision, the market may shift its focus to actual operational outcomes where ongoing cost escalation and production delays are likely to remain a negative feature. A possible positive offset to this will be the potential for capital management announcements, as many of the stocks – notably BHP Billiton and Rio Tinto – are sitting on very strong balance sheets and robust free cash flow. The following table provides a summary of our key commodity price forecasts for 2007 and 2008.

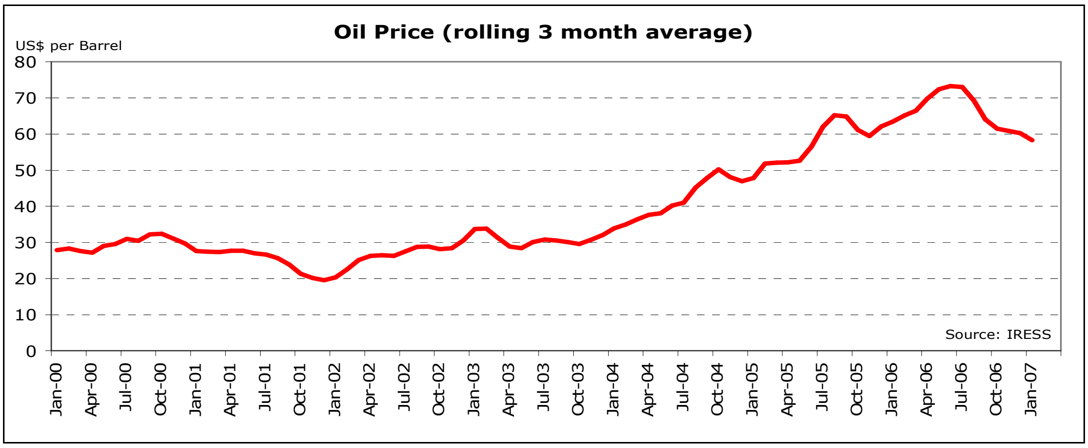
Commodity	Units	Current Price	Cal. 2007	Cal. 2008	Long Term
Gold	US$/oz	645.3	646	672	520
Oil	US$/bbl	56.4	61.5	52.5	40
Copper	US¢/lb	253.9	309	260	148
Nickel	US¢/lb	1753	1121	1140	555
Aluminium	US¢/lb	126.4	98	90	104
Zinc	US¢/lb	155.2	184	115	77

Last Updated: 31 January 2007 *Source: GSJBW Research Estimates*

Energy Sector Update: Focus on production growth

Oil Price Outlook

The oil price has trended down since the middle of 2006 (refer chart below). Fundamentally, this reflects softer than expected demand courtesy of what has so far been a relatively benign northern hemisphere winter. On the supply side, we have been of the view that oil industry capacity utilisation was running at exceptionally high levels, with the erosion of the spare capacity 'cushion' over the past 3 years instrumental in driving prices higher. However, a number of OPEC member nations recently lowered production levels in response to the falling oil price, and thereby ameliorated capacity constraints.



For oil prices to moderate further, either demand growth has to slow materially or supply growth rapidly expand. Goldman Sachs believes that for demand growth to pull back significantly there would have to a rapid change in the behaviour of US motorists whereby high fuel consumption vehicles were replaced with more efficient means of transport and/or a postponement of the improving lifestyle aspirations of citizens in countries such as India and China. On the supply side, Goldman Sachs believes that the lead-time for developing sufficient new capacity is substantial. They point out that the most prospective countries for new investment, including Iran, Iraq, Saudi Arabia and even Russia, carry with them high levels of geopolitical risk.

While we recognise an easing in oil's current fundamentals, our average price forecast for 2007 remains higher than the current spot price, reflecting what we believe will remain a tight supply/demand balance into the medium term and the high probability (in our view) of geopolitical supply constraint/price support at some time during the current year. For 2007, we forecast an average oil price of US$61.50/bbl, but with successively lower annual averages in 2008 (US$52.50/bbl) and 2009 (US$45.00/bbl).

We will watch with interest for signs that OPEC will be able to manage quota compliance sufficiently to maintain an oil price above US$50/bbl, but at this stage we are a little sceptical on this front. Indeed we believe that with a longer-term view, a 'cushion' of spare capacity will be re-established within the OPEC system, allowing the oil price to trend back towards our long-term price assumption of US$40/bbl.

Investment View

We believe that long term value has emerged within the sector for investors prepared to look through the recent oil price weakness. In our view, the scope for structural growth in volume will be a significant factor in assessing the performance of energy stocks over the next 2-3 years. In light of this, we think it is timely to revisit stocks that provide substantial leverage to the oil price (the following table shows the impact of a US$1/bbl change to our long-term oil price assumption) as well as strong production growth.

Company	Valuation		Difference	Recommendation	
	GSJBW	+US$1/bbl	%	S/Term	L/Term
Australian Worldwide	$2.28	$2.30	+1.0%	Outperform	Buy
BHP Billiton	$25.49	$25.57	+0.3%	Outperform	Buy
Oil Search	$4.44	$4.48	+0.9%	Outperform	Buy
Woodside Petroleum	$28.79	$29.03	+0.9%	Outperform	Buy

Source: GSJBW Research Estimates

Our preferred oil exposures are: Woodside Petroleum (WPL), Australian Worldwide Exploration (AWE), Oil Search (OSH) and BHP Billiton (BHP).

However, we remind investors that production risk remains, given the difficult operating conditions faced by oil companies (and global mining companies) – i.e. operating/capital cost pressures, delays (such as WPL's Otway Gas Project) and tight labour supply. There remains upside risk to our capex estimates for all of our preferred stocks.

Stock Overview

Woodside Petroleum (WPL)

In terms of current projects, management expects the first gas shipment from the Train 5 LNG (WPL 12.5%) in the fourth quarter of calendar 2008, although we note that most of the output from Train 5 is yet to be contracted. Remedial drilling at Enfield (a significant driver of earnings growth in calendar 2007 – WPL 60.0%) is due to commence in late March. Following further delays, we now expect the start-up for the Otway Gas Project (WPL 51.6%) in the third quarter of calendar 2007, while production at Stybarrow (WPL 20%) is on track for start-up in calendar 2008 but higher development costs are likely.

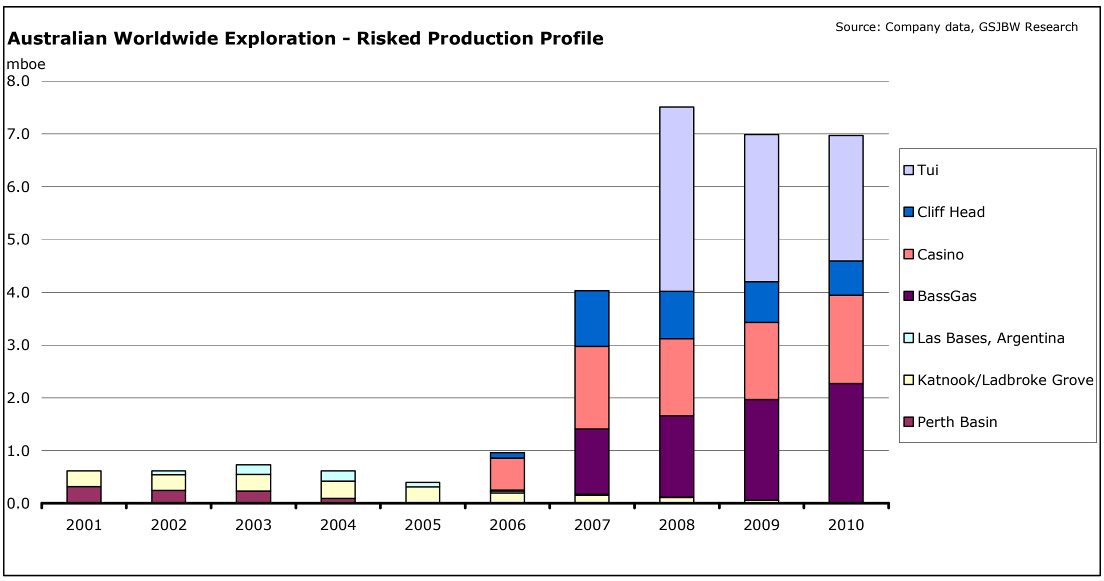
There are a number of other potential projects which could drive growth over the longer term, including Sunrise, Pluto, Browse, Neptune, and Tiof.

At current levels, we believe WPL offers an attractive risk/reward proposition for investors taking a long term view. WPL is a high quality company with several growth opportunities, a strong exploration program (particularly offshore drilling in Libya which we expect to commence in early 2007 – WPL 60%) and substantial exposure to the improving LNG market. We note that, given the large capital expenditure requirements over the coming years, ongoing commodity price strength is important for maintaining WPL's cash flows through this period.

Australian Worldwide Exploration (AWE)

AWE's three core projects (Bass Gass, Casino and Cliff Head) started production in 2006 and the company expects Tui (AWE 20.0%) will start up in mid-2007. With regard to current projects, production at Cliff Head (AWE 27.5%) commenced in 2006 and recent electrical and related facility problems have now been rectified. Production from the Casino Gas project (AWE 25%) was slightly lower than we expected for the second quarter FY07, due to seasonality and the annual planned maintenance shutdown. Regarding BassGas (AWE 30.0%), both gas and condensate sales commenced in June 2006, however production for the quarter was lower than expected as the company experienced ongoing commissioning issues at the onshore gas plant.

AWE's strong earnings growth profile is driven by significant increases in production over the coming years (refer below chart). We note that the stock is trading on a forecast fiscal 2008 P/E of ~6x – which we do not view as challenging. In terms of exploration, an extensive program has commenced (key wells to come include West Cape and Hector) and will continue into next year providing scope for some further positive news flow.



AWE remains our preferred small cap oil stock given its strong earnings growth profile, oil price leverage and management's proven ability to trade assets and add value through step-out exploration. Our positive investment view on the stock is also driven by the company's ongoing exploration program and corporate appeal.

Oil Search (OSH)
Oil Search Limited (OSH) operates oil and gas exploration and development in Papua New Guinea (PNG) together with further interest in the Middle East and North Africa. The company's major producing operations are Kutubu and Gobe oil fields and the Moran development. In 2005, it discovered the Nabrajah oil field in Yemen which is now in production.

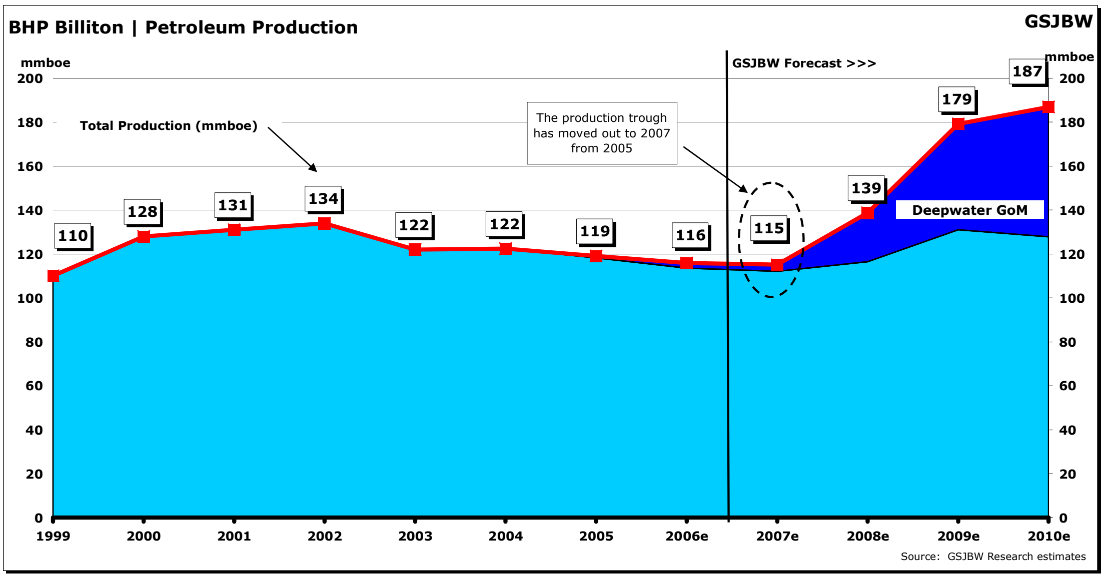
The participants of the PNG Gas Project (OSH ~37%) recently announced they have shelved development plans for the project. However we note OSH has a number of other potential gas commercialization options including ammonia/urea, methanol, Juha gas and liquids stripping as well as further LNG development options which more than offset the impact of the PNG Gas Project not proceeding (and are now included in our valuation).

Oil Search's oil exposure remains completely unhedged, and we consequently see earnings risk weighted to the upside. We maintain our positive long term view on the stock based on our expectations of a firming oil price and ongoing oil exploration program, together with the upside offered through the commercialisation of its static gas resources. The key risks to our positive view are lower oil prices and/or a failure to progress the growth options.

BHP Billiton (BHP)
The Gulf of Mexico is planned to be the third core business in petroleum, which we expect will be the main driver of production growth. There are currently 3 projects in ramp-up stage in the Gulf of Mexico: Mad Dog, Atlantis South and Neptune.

Petroleum accounts for ~18% of our forecast FY07 Earnings (EBIT) for BHP. Since we do not expect Atlantis South will be on line until the second half of calendar 2007 (following further delays and cost increases), we anticipate petroleum production for BHP will bottom in fiscal 2007 before entering a period of sustainable growth (refer chart below) - previously we had thought 2005 to be the low point.

Figure Four



We believe BHP's petroleum business is undervalued. If we apply the P/E at which WPL trades to BHP's petroleum assets, the remaining businesses would be left trading on a forecast FY07 P/E of 7.5x (compared to Rio Tinto on 9.5x).

Portfolio Management: Emerging Companies

The Photon Group (PGA) **Analyst: George Batsakis**

- **Investment View: Short Term Outperform; Long Term Hold**
  Share Price as at 31/12/06: $5.80; Valuation: $5.75

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	12.7	16.5	20.0
EPS Growth (%)	35.0	27.1	13.7
PER (x)	22.9	18.0	15.8
Yield (%)	3.5	4.6	5.0

Source: Company data, GSJBW Research estimates

The Photon Group (PGA) is a specialist marketing services company. Operations comprise Business Intelligence services (eg consumer research), Digital and Interactive (eg internet advertising), Sales and Presence marketing (eg in-store product demonstrations, merchandising), Mass Communications (eg advertising agency services) and Specialised Communications (eg public relations). The group has operations in Australia & New Zealand.

PGA has made a number of acquisitions over the past year and the company's track record on these has been positive, benefiting from the acquisition of high-growth privately-owned businesses at relatively low earnings multiples. We also expect PGA to achieve high organic growth, reflecting greater demand from marketers for measurable advertising campaigns and new ways to reach consumers given greater media fragmentation, a shift away from traditional media (eg free-to-air TV, etc.) and the popularity of new technology (ie internet, mobile, pay tv, iPods, social networks, etc.). PGA is well placed to benefit from these trends given its range of specialist and traditional marketing services (ie research, direct, internet, interactive, ad agencies).

We believe PGA will deliver strong growth in earnings over the next 3 years, driven by a number of acquisitions made over the past year in combination with high organic growth. As such we maintain our positive view on the stock.

Reckon Limited (RKN) **Analyst: Chris Savage**

- **Investment View: Short Term Outperform; Long Term Buy**
  Share Price as at 31/12/06: $1.08; Valuation: $1.24

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	8.3	9.5	10.6
EPS Growth (%)	24.0	14.5	9.9
PER (x)	17.3	15.1	13.7
Yield (%)	3.7	4.2	4.7

Source: Company data, GSJBW Research estimates

Reckon (RKN) is a software and services business with operations involving the development, distribution and support of personal financial and accounting software. The company holds the rights to distribute the Quicken range of financial software in Australia, New Zealand, Hong Kong, Singapore, Malaysia, Indonesia and the Philippines.

Reckon looks cheap relative to our valuation as well as in comparison to the emerging companies sector. We expect strong earnings growth in the near term driven by improving retail sales for Quicken, in addition to improved new business and service sales for the Advanced Professional Solutions (APS) business as it overcomes recent resource constraints. Another positive is that a large percentage of Reckon's revenue is recurring (56% across the whole company), coming from subscriptions in the Quicken business and from annual licence fees and maintenance revenue in the (APS) business.

We maintain our long-term Buy recommendation, reflecting the strong earnings growth we believe is achievable for at least the next few years and the likelihood that future earnings will be boosted by bolt-on acquisitions. We are also comfortable with the industry structure given Reckon operates in a duopoly in Australia with MYOB, which is likely to continue as both players appear to be behaving rationally.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

Westpac Banking Corporation	Alesco Corporation
Commonwealth Bank of Australia	Tabcorp Holdings
AGL Energy	Coca-Cola Amatil
Macquarie Communications Infrastructure Group	Hills Industries
Rio Tinto	Foster's Group
St. George Bank	West Australian Newspapers
Promina Group	Crane Group
Wesfarmers	David Jones
Woolworths	Publishing & Broadcasting
Australian Infrastructure Fund	Rural Press

Our changes to the Income Portfolio during January 2007:
Reduced:
Increased:

Income Portfolio Summary: Fiscal 2007 (*Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	8.3%
Price to Earnings Ratio	16.5x
Average Yield	4.4%
Franking	90%

Source: GSJBW Research estimates

Defensive Portfolio – (Inception Date: October 2002)

BHP Billiton	St. George Bank
Westpac Banking Corporation	Tabcorp Holdings
Macquarie Communications Infrastructure Group	Foster's Group
Woolworths	Mirrabooka Investments
National Australia Bank	Rinker Group
AGL Energy	Publishing & Broadcasting
Australian Infrastructure Fund	Sonic Healthcare
Rio Tinto	Wesfarmers
Brambles	Coca-Cola Amatil
Promina Group	Origin Energy
Ramsay Health Care	

Our changes to the Defensive Portfolio during January 2007:
Reduced: Origin Energy
Increased: Brambles, Mirrabooka Investments

Defensive Portfolio Summary: Fiscal 2007 (*Please note MCG and AIX are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	13.7%
Price to Earnings Ratio	15.1x
Average Yield	3.6%
Franking	83%

Source: GSJBW Research estimates

All figures or amounts stated in the table above are an estimate only and provided by way of illustration.
Actual figures or amounts may vary from those figures or amounts

Balanced Portfolio – (Inception Date: October 2002)

BHP Billiton	Aristocrat Leisure
Macquarie Communications Infrastructure Group	Computershare
Woolworths	Healthscope
National Australia Bank	News Corporation, Inc.
Westpac Banking Corporation	Origin Energy
Promina Group	Publishing & Broadcasting
Rio Tinto	St. George Bank
AGL Energy	Sonic Healthcare
Brambles	Billabong International
Alesco Corporation	Wesfarmers
AXA Asia-Pacific Holdings	
Rinker Group	

Our changes to the Balanced Portfolio during January 2007:
Reduced:
Increased:

Balanced Portfolio Summary: Fiscal 2007 (Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	16.3%
Price to Earnings Ratio	15.4x
Average Yield	3.3%
Franking	78%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

BHP Billiton	Promina Group
National Australia Bank	Aristocrat Leisure
Rio Tinto	Healthscope
Woolworths	Macquarie Capital Alliance Group
Brambles	Publishing & Broadcasting
Rinker Group	Sonic Healthcare
News Corporation, Inc.	Symbion Health
St. George Bank	Alinta
Australian Foundation Investment Company	Billabong International
Alesco Corporation	Origin Energy
ConnectEast	Cochlear
Computershare	

Our changes to the Growth Portfolio during January 2007:
Reduced: Origin Energy
Increased: News Corporation, Inc.

Growth Portfolio Summary: Fiscal 2007 (*Please note AAN and CEU are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	18.3%
Price to Earnings Ratio	15.5x
Average Yield	2.9%
Franking	83%

Source: GSJBW Research estimates

All figures or amounts stated in the table above are an estimate only and are provided by way of illustration. Actual figures or amounts may vary from those figures or amounts

Core Plus Portfolio – (Inception Date: November 2006)

BHP Billiton	Wesfarmers
Brambles	Austbrokers
Woolworths	Australian Worldwide Exploration
AGL Energy	Codan
Aristocrat Leisure	JB Hi-Fi
Promina	Minara Resources
Rio Tinto	Reckon
St George Bank	Pan Australian Resources
Sonic Healthcare	Seven Network
Westpac Banking Corporation	Tassal Group
Rinker Group	Transfield Services

Our changes to the Core Plus Portfolio during January 2007:
Reduced:
Increased:

Income Portfolio Summary: Fiscal 2007

Earnings per Share Growth	23.7%
Price to Earnings Ratio	15.7x
Average Yield	3.1%
Franking	89%

Source: GSJBW Research estimates

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GSJBW Recommendation Changes in January

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Multiplex Group	MXG	Marketperform	Outperform	Hold	Buy
Tabcorp Holdings	TAH	Marketperform	Underperform	-	Hold
Macquarie Prologis Trust	MPR	Underperform	Marketperform	-	Sell
Toll Holdings	TOL	Outperform	Marketperform	Buy	Hold
Tishman Speyer Office Fund	TSO	Marketperform	Outperform	Buy	Hold
Perilya	PEM	-	Outperform	Hold	Buy
Zinifex	ZFX	-	Outperform	Hold	Buy
Kagara Zinc	KZL	-	Outperform	Hold	Buy
Bendigo Mining	BDG	Marketperform	Underperform	Sell	Buy
DB RREEF Trust	DRT	Underperform	Marketperform	-	Hold
Macarthur Coal	MCC	Outperform	Marketperform	-	Hold
Commonwealth Property Office Fund	CPA	Underperform	Marketperform	-	Hold
Macquarie Office Fund	MOF	Marketperform	Underperform	-	Hold
Alinta	AAN	Marketperform	Underperform	-	Hold
Perseverance Corporation	PSV	Marketperform	Underperform	-	Hold

Source: GSJBW Research

GSJBW Initiation of Coverage in January

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Flexigroup	FXL	Marketperform	-	Buy	-
Downer EDI	DOW	Outperform	-	Hold	-

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 31 Jan 2007)	Valuation	Short Term Recommendation	Long Term Recommendation
Alinta Limited	AAN	$14.02	$12.00	Marketperform	Hold
AGL Energy	AGK	$17.31	$17.00	Not Rated	Not Rated
Australian Foundation Inv. Co.	AFI	$5.51	$5.30	-	Buy
Australian Infrastructure Fund	AIX	$2.67	$2.50	Marketperform	Hold
Aristocrat Leisure	ALL	$16.11	$14.35	Marketperform	Buy
Alesco Corporation	ALS	$12.08	$10.97	Marketperform	Buy
AMP	AMP	$10.47	$8.75	Marketperform	Hold
Austrbrokers Holdings	AUB	$5.40	$5.01	Outperform	Buy
Australian Worldwide Exploration Ltd.	AWE	$2.56	$2.34	Outperform	Buy
AXA Asia Pacific	AXA	$7.22	$6.80	Marketperform	Buy
Billabong International	BBG	$16.34	$15.50	Outperform	Buy
BHP Billiton	BHP	$26.04	$25.49	Outperform	Buy
Brambles	BXB	$13.88	$12.45	Outperform	Buy
Commonwealth Bank of Aust.	CBA	$50.04	$43.00	Underperform	Hold
Coca-cola	CCL	$7.83	$7.20	Underperform	Hold
Codan	CDA	$1.36	$1.50	Outperform	Hold
Connecteast	CEU	$1.42	$1.56	Marketperform	Buy
Centro Properties Group	CNP	$9.03	$6.93	Marketperform	Hold
Cochlear	COH	$56.45	$55.51	Marketperform	Buy
Computershare	CPU	$9.16	$8.20	Outperform	Buy
Crane Group	CRG	$14.46	$14.40	Marketperform	Buy
David Jones	DJS	$4.52	$3.55	Marketperform	Hold
Fosters Group	FGL	$6.77	$6.60	Outperform	Buy
Hills Industries	HIL	$5.41	$4.50	Marketperform	Hold
Healthscop	HSP	$6.15	$5.25	Marketperform	Buy
Harvey Norman	HVN	$4.08	$3.60	Marketperform	Hold
Iluka Resources	ILU	$6.24	$6.01	Underperform	Hold
JB Hi-Fi	JBH	$6.65	$5.65	Outperform	Buy
Macquarie Communications	MCG	$6.10	$6.83	Marketperform	Buy
Macquarie Capital Alliance	MCQ	$4.39	$5.20	Marketperform	Buy
Minara Resources	MRE	$6.23	$5.49	Outperform	Buy
Metcash	MTS	$4.61	$4.90	Outperform	Buy
Mirrabooka Investments		$2.15	$2.28	-	Buy
Multiplex Group	MXG	$4.45	$4.27	Marketperform	Hold
National Australia Bank	NAB	$40.42	$37.79	Marketperform	Buy
Newcrest Mining	NCM	$20.90	$12.96	Marketperform	Buy
News Corporation	NWS	$31.45	$30.20	Outperform	Buy
Oakton	OKN	$4.70	$4.38	Outperform	Hold
Origin Energy	ORG	$9.07	$7.40	Not Rated	Not Rated
Oil Search	OSH	$3.52	$4.44	Outperform	Buy
Onesteel	OST	$4.73	$4.33	Not Rated	Not Rated
Publishing & Broadcasting	PBL	$19.62	$21.85	Outperform	Buy
Photon Group	PGA	$5.80	$5.75	Outperform	Hold
Promina Group	PMN	$7.25	$6.00	Not Rated	Not Rated
QBE Insurance	QBE	$30.80	$29.50	Outperform	Buy
Ramsay Healthcare	RHC	$11.70	$10.83	Marketperform	Buy
Rinker Group Ltd	RIN	$18.60	$19.37	Marketperform	Hold
Rio Tinto	RIO	$76.60	$77.14	Outperform	Buy
Reckon	RKN	$1.08	$1.24	Outperform	Buy
Seven Network	SEV	$11.75	$10.05	Outperform	Hold
St.George Bank	SGB	$33.25	$31.46	Marketperform	Hold
Singapore Telecom	SGT	$2.96	$2.45	Marketperform	Buy
Sonic Healthcare	SHL	$14.50	$15.08	Outperform	Hold
Symbion Health	SYB	$4.14	$3.56	Marketperform	Buy
Tabcorp Holdings	TAH	$17.46	$16.50	Marketperform	Hold
Tassal Group	TGR	$2.08	$1.77	Outperform	Buy
Transfield Services	TSE	$9.23	$8.93	Marketperform	Buy
United Group	UGL	$13.17	$14.86	Marketperform	Buy
Westpac Banking Corporation	WBC	$25.07	$23.22	Outperform	Hold
Wesfarmers Ltd	WES	$38.15	$34.61	Marketperform	Hold
West Australian Newspapers	WAN	$13.55	$9.05	Outperform	Hold
Woolworths	WOW	$23.75	$21.20	Outperform	Buy
Woodside Petroleum	WPL	$37.35	$28.79	Outperform	Buy

All valuations and Prices in A$ unless otherwise stated — Source: IRESS, GSJBW Research

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RECOMMENDATION DEFINITIONS

Short Term	
Underperform (UP)	Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe
Marketperform (MP)	Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe
Outperform (OP)	Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe
Long Term	
Sell (S)	Stock is expected to underperform the S&P/ASX 200 for beyond 6 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for beyond 6 months
Other Definitions	
NR	Not rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs JBWere policies in circumstances when Goldman Sachs JBWere is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

Research Criteria Definitions

The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

SHORT TERM (0-6 MONTHS)	
Relative Earnings Outlook:	Forward looking assessment of risk to consensus EPS estimates relative to estimated EPS risk across the market.
Earnings Revision:	The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure.
News Flow:	The consideration of stock specific news flow, market and/or cyclical thematics and other issues such as index changes. Addresses two issues: (1) What is the potential news flow; and (2) What is the share price reflecting?
Relative Performance:	Historic rolling 3 month performance versus the broader market. Stocks are rated according to their relative ranking.
Valuation Support:	Considers a range of valuation methodologies, including discounted cash flow (DCF) valuation, PER, dividend yield and any other relevant measure.
LONG TERM (> 6 MONTHS)	
Industry Structure:	Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.
EVA™ Trend: [1]	EVA™ trend forecast for coming two years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. (An ROE measure is used for insurance stocks in conjunction with an assessment of the strength of an insurer's balance sheet).
Growth Option:	A qualitative and quantitative assessment of a company's long term growth options that the analyst believes should be considered and possibly recognised by the market.
Price:Base Case DCF:	The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

[1] *EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart*

For Insurers	
Return On Equity:	Rating taking into account the expected level and trend of ROE over the next two to three years.
Balance Sheet:	Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.
For REITs	
EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
Yield:	Yield relative to the REIT sector average. Used instead of Valuation Support.
For NZ Companies	
Relevant Index:	If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 index.

Distribution of Recommendations – As at 31 December 2006

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	14%	11%	Sell	3%	3%
Marketperform	61%	63%	Hold	61%	60%
Outperform	25%	26%	Buy	35%	36%

* No direct linkage with overall distribution as the latter relates to the full GSJBW stock coverage (>200 companies). The above table combines the corporate relationships and recommendations of both Goldman Sachs JBWere Pty Ltd and its affiliate in New Zealand, Goldman Sachs JBWere (NZ) Limited.

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