Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review June 2007

- The ASX200 finishing the June slightly lower (-0.2%), despite setting a new record high during the month. The Resources sector moved higher in June, up 5.8%, while the Industrials Index finished lower, down -1.8%.

- The Materials, Energy and Utility sectors outperformed, while the REITs, Telecommunications and Consumer Discretionary sectors lagged. The Australian Dollar ended June 2.5% higher at $US0.849.

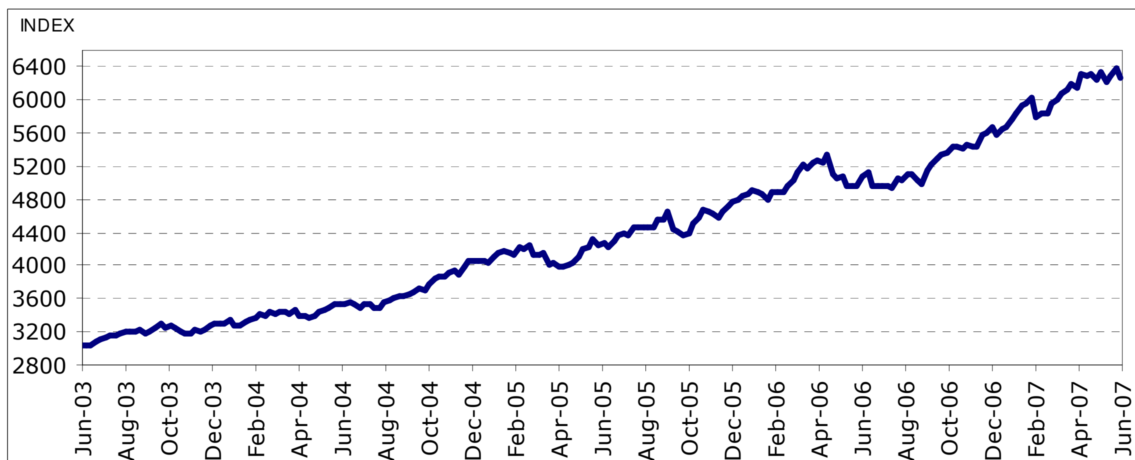
- Overall the equity market maintained its strong momentum during the first half of the year, with the ASX 200 up 12.7% year to date. The Australian market delivered its strongest financial year return in FY07 for 20 years, up 28.7% for the 12 months to June 30.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	-0.2%	12.7%	28.7%
S&P/ASX 200 Industrials	-1.8%	8.8%	29.2%
S&P/ASX 200 Resources	5.8%	28.4%	26.7%
S&P/ASX Small Ordinaries	0.1%	18.9%	44.4%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	-3.3%	-7.2%	0.8%
Consumer Staples	-1.2%	-1.1%	5.4%
Energy	5.5%	10.4%	-7.6%
Financials	-2.1%	-6.6%	-3.6%
Health Care	-2.2%	-3.1%	2.4%
Industrials	1.7%	2.9%	12.0%
Information Technology	-1.3%	10.5%	10.1%
Materials	4.8%	13.5%	-1.0%
REITs	-4.8%	-12.8%	-2.8%
Telecommunications	-5.8%	2.2%	11.4%
Utilities	0.3%	-1.9%	9.4%

Source: GSJBW Research, IRESS

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

(June 2003 – June 2007)



Source: IRESS

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Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Wesfarmers	21.4	Metcash Limited	-12.3
WorleyParsons	17.4	Allco Finance Group	-8.5
Origin Energy	15.5	Bluescope Steel	-8.4
Futuris Corporation	13.0	PaperlinX	-8.4
BHP Billiton	12.8	Sigma Pharmaceutical	-7.8
Toll Holdings	12.7	Macquarie Countrywide	-7.8
Oxiana	10.3	Leighton Holdings	-7.7
Zinifex	9.7	West Australian News	-7.6
Oil Search	9.1	Publishing & Broadcasting	-7.5
Mirvac Group	8.6	CFS Retail Property	-7.3

Source: IRESS

Significant Company/Economic News

Consumer Staples — **Analyst: Phillip Kimber**

Woolworths (WOW) fell due to the continuing uncertainty around its involvement in the current ownership review at Coles Group and the NZ Commerce Commission's decision to decline approval of WOW acquiring 100% of The Warehouse. **Coles Group (CGJ)** also continued to fall on uncertainty surrounding which potential parties will make a formal offer as part of the current ownership review being undertaken by the board. **Metcash (MTS)** fell significantly on the back of a disappointing FY07 profit result. Whilst FY07 earnings were strong and in line with market expectations, commentary on the FY08 outlook was below consensus expectations.

Insurance — **Analyst: Ryan Fisher**

The life insurers, **AMP (AMP)** and **AXA Asia Pacific (AXA),** saw little news flow in June. AXA was, however, hampered by the continued strength of the $A. On the general insurance side, severe storms in NSW caused several hundred million dollars' worth of damage. After taking into account reinsurance recoveries, the net pre-tax cost to the major players is likely to be $169m for **Insurance Australia (IAG)** and $160m for **Suncorp-Metway (SUN). QBE Insurance (QBE)** confirmed that it also had some exposure to the storms, but we expect its losses to be relatively small (given its much lower market share in the relevant product classes).

Infrastructure — **Analyst: Alison Booth**

Macquarie Airports (MAP) agreed to sell its 34.2% stake in Rome Airport for A$1,500m, which was well above both our valuation (A$818m) and MAP's book value (A$844m). The sale increases MAP's ability to undertake some form of capital management (either buyback or special distribution) later this year. Also during the month, MAP completed a refinancing of Brussels Airport, which should release a further ~A$265m to MAP by the end of September 2007, leaving it with over ~A$2b of spare cash at the end of CY07. **Macquarie Infrastructure Group's (MIG)** share price declined as its buyback was largely inactive during the second half of the month, presumably given it entered the pricing period for the performance fee (MIG cannot buy back stock during this period).

Banks — **Analyst: James Freeman**

During the month **Australian and New Zealand Banking Group (ANZ)** announced the appointment of both a new CEO, and head of Asia Pacific. Michael Smith (new CEO) comes to ANZ from HSBC where he was the head of Asia and Alex Thursby (new Head of Asia Pacific) comes from Standard Chartered. These key appointments from the Asian Talent pool highlight ANZ's continued focus on developing its Asia Pacific presence and businesses. **Westpac Banking Corporation (WBC)** provided a market briefing on its Institutional business (WIB). The key take-outs from the presentation were that the business sees a competitive advantage with its client base, capability and people. WIB also sees the alternative investments division as the key area for future growth. There was nothing new (in terms of financials) within the briefing to change our view of the stock.

Energy **Analyst: Anthony Bishop**

Woodside Petroleum (WPL) indicated that it will "go it alone" with its Pluto LNG development (WPL 90% equity), following previous comments that it had received offers from other companies to "swap" the asset (AFR, 26 June). A financial investment decision is expected to be reached for Pluto by August 2007, and the current timeline for the project is to target first LNG cargos by the end of 2010.
Santos (STO) traded strongly again in June. The mudflow in Indonesia continues to attract public attention, with 60 Minutes airing another article on June 17 reporting on the continuing flow of mud from the Banjar Panji well in Indonesia (Santos had 18% equity in the Banjar Panji exploration well). Speculation that the SA government is likely to approve the removal of the Santos 15% shareholder restriction has been in the press (The Australian, 25 June).

Healthcare **Analyst: Hamish Tadgell**

Domestic sector consolidation was the recurring theme for healthcare this month. The ACCC released its Statement of Issues with respect to the **Healthscope (HSP) / Symbion Health (SYB)** merger. Potential issues cited included: (1) competition concerns in the Victorian pathology market; and (2) that the transaction would increase the ability and incentive for co-ordinated conduct between HSP/SYB and **Sonic Health (SHL)** in Vic, Qld and WA. The ACCC is anticipating handing down its final decision by 25 July 2007. Also in relation to this proposed transaction, Sigma Pharmaceuticals **(SIP)** made a joint bid with private equity for the pharmacy and consumer assets (SIP to acquire consumer). Subsequently Ironbridge/Archer Capital (IAC) (the original bidder for these assets) increased its bid for SYB's Consumer & Pharmacy business to $1,085,000,001 i.e one dollar above SIP's proposal or net $10.4m greater than SIP's bid adjusting for the break fee that would have been payable to IAC.

Diversified Resources **Analyst: Neil Goodwill**

June was a good month for **BHP Billiton (BHP)** although more subdued for **Rio Tinto (RIO)** given its strong run in May. BHP saw the resignation of Chris Lynch, Executive Director and President of the Carbon Steel Materials business unit and the retirement of John Fast, Chief Legal Council and Head of External Affairs. In addition, BHP launched its revised Climate Change Policy. RIO held a site tour in WA and NT where analysts visited its iron ore, alumina and uranium operations, which highlighted the value of RIO's expansion projects. This month we upgraded our copper price forecasts for 2008 and beyond, such that we now expect annual average prices to remain comfortably above US$3/lb through to 2011 due to increasing demand forecast from China and an inadequate supply response. Market upgrades in iron ore and coking coal added to earnings upgrade momentum. Thermal coal prices were also lifted due to inclement weather which forced the closure of the Newcastle port and caused damage to rail lines.

Media **Analyst: Christian Guerra**

Publishing & Broadcasting (PBL) began June with the announcement that it had vended its Ticketek and Acer Stadium businesses into PBL Media. In addition, PBL sold a further 25% interest in PBL Media to CVC Asia Pacific. The stock was driven lower by Macau news flow and the c.18% decline in the value of its Nasdaq-listed MPEL investment. Although the monthly Macau visitor and gaming revenue statistics remained supportive, and MPEL announced it had secured funding for its City of Dreams development, it was weighed down by the increased capital cost projections and concerns over Chinese Visa restrictions. **Ten Network Holdings (TEN)** lost ground after major shareholder CanWest decided to retain its 56% economic interest in TEN, after its strategic review failed to find a suitable buyer. The stock continued to track lower following the release of its 3Q07 trading results (for the year to August 2006). Despite reporting a 27% rise in Group EBITDA, the market was disappointed by the lack of outlook comments and the ongoing start-up losses at Eye Corp's UK/US business.

Australian Equities: Key Issues for Portfolio Strategy

- The key issues facing the Australian equity market for the remainder of 2007 will be the ongoing battle between surplus liquidity and valuation risk driving asset allocation; the improving global growth outlook, as China and Europe continue to decouple from a slowing US economy; and the resilience of the Chinese expansion in the face of increasing interest rates and an appreciating currency.

- Recent indicators have suggested that the risks around the slowing US economy are beginning to diminish. As a result of the resilience in the US economy to date, we have adjusted our outlook and no longer forecast any rate cuts by the Federal Reserve for the remainder of 2007. Outside of the US, the global economy is showing signs of an industrial upswing, resulting in commodity price upgrades for Australia's key bulk commodity exports and industrial metals.

- While bond yields have risen sharply over the past month, it is important to note that changing interest rate expectations are a reflection of an improving growth outlook, rather than inflationary pressures. This is a positive environment for equities. The primary risk to this view is an increase in inflationary pressures. If inflation were to pick up we would expect central banks to move aggressively in order to quell these pressures, raising interest rates further.

- As a result of an improving global growth outlook and commodity price upgrades, Australia's terms of trade looks set to continue to bolster domestic income over the remainder of the year. Subsequent to the strong March quarter GDP result and fiscal stimulus resulting from the Federal Budget, we now think it likely that the RBA will raise interest rates ahead of the federal election, rather than waiting until February next year to respond to the risks presented by a strong cyclical upswing (requiring a more punishing series of rate rises later on).

- While valuation risks remain high, particularly for the industrials, the shorter-term outlook for Australian equities is positive, with improving global growth and continued strength in the terms of trade, in conjunction with relatively benign inflation, supporting an extension of the business and profit cycle. The market is further supported by the strong liquidity environment (we continue to forecast an excess demand of approximately $14bn for FY07). Cyclical equities (resources, construction materials and industrial services) are best placed to capture the leverage to the increasing global momentum over this period. Rising bond yields generally have a negative impact on some of the more defensive sectors, particularly banks, infrastructure and utilities. We therefore retain a preference for stocks leveraged to the improving global economic cycle and with offshore earnings.

- However, as we move into 2008 a number of the risks that have been pushed out by the extension of the profit cycle have the potential to re-emerge. If the income boost from the terms of trade fades (increasing import prices combined with slowing commodity price growth), cost pressures/inflation reappear and long-term interest rates edge higher, profit estimates would ease. While we expect liquidity to remain supportive in the short-term, Industrial equities appear to be priced for low-risk, sustained growth, and at some point this theme will likely dissipate.

- From a portfolio construction perspective, we favour stocks with strong balance sheets (i.e., the potential for capital management & corporate activity), pricing power, improving returns (return on capital employed) and solid organic growth.

- Identifying value in this market remains a challenge. Diversified Resources (BHP Billiton, Rio Tinto) remain attractive, particularly in light of our positive view on commodity prices and the low multiples the stocks are trading on. Within the large-cap defensive universe, our analysis shows that Ramsay Healthcare (RHC), Westpac Bank (WBC) and Origin Energy (ORG) provide good long term relative value. Elsewhere, we would continue to utilise the current strength in the Australian dollar to increase exposure to stocks with offshore earnings and/or share price sensitivity such as News Corporation (NWS), QBE Insurance (QBE), Brambles (BXB) and Singapore Telecom (SGT).

GSJBW Market Forecasts:

As at 30/06/2007	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E
S&P/ASX 300	18.5x	16.2x	15.3x	22.3	12.1	9.6	3.1	3.4	3.7
S&P/ASX 300 Industrials	20.0x	18.3x	16.6x	9.8	10.3	10.0	3.7	4.0	4.3
S&P/ASX 300 Resources	15.9x	14.0x	12.9x	52.0	15.4	9.0	1.7	1.9	2.1

Source: GSJBW Research estimates

Resources Update: A Tale of Two Base Metals

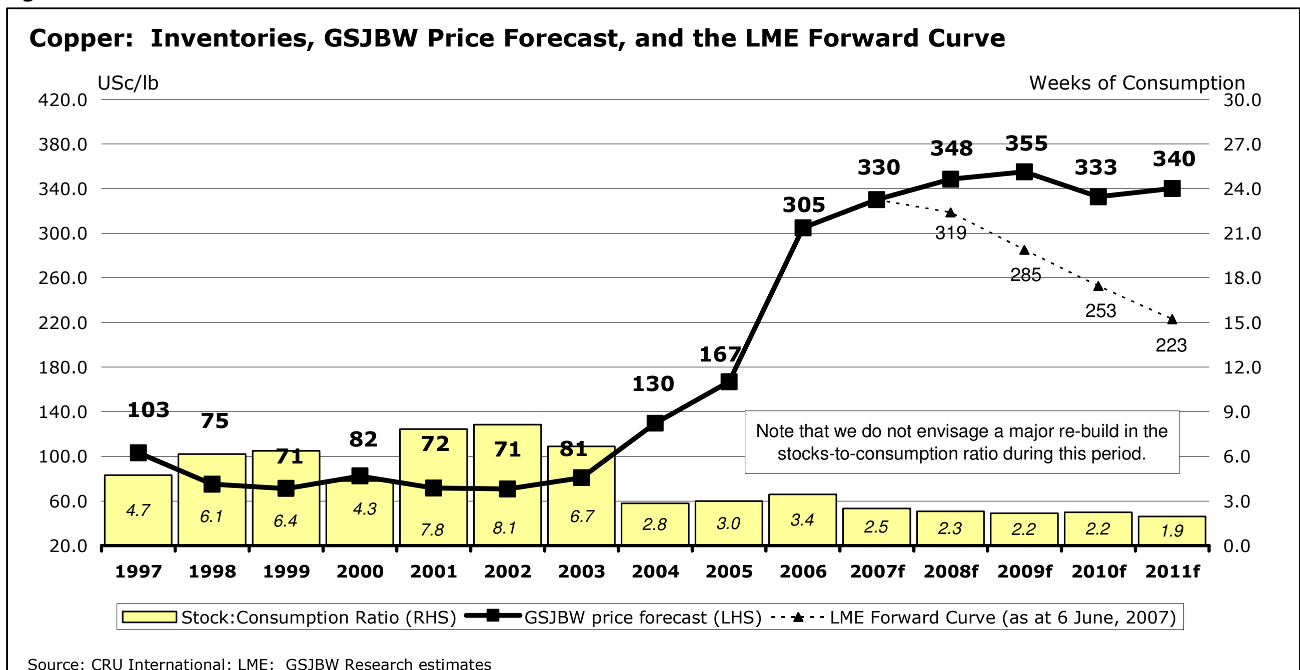
Copper

Copper has the strongest fundamentals of the major base metals and is our preferred base metal for investment exposure. We expect strong Chinese demand and constraints to global supply growth to keep the copper market in shortage through until 2011. The Chinese market has shown seemingly weak consumption of copper over the past 2 years, which we believe has been driven by a destocking of strategic reserves in reaction to record high prices. However, this process now appears to be coming to an end and China remains the key driver behind our expectations for strong copper demand over the coming years.

Recent announcements from China's government clearly point to a shifting investment emphasis from power generation, into building a power distribution network. Power distribution (from the substation to the consumer) is highly copper intensive, and with construction and infrastructure activity in China's second and third tier cities booming, that is where much of the copper is being consumed.

From a supply perspective we forecast copper production to grow, although not at levels sufficient to satisfy the increasing demand outlined above. The current environment is an extremely difficult one in which to achieve timely execution of new mining projects. There is an acute shortage of skilled personnel in many 'mining countries', and the sheer number of projects queued for development has resulted in exceptionally long lead-times for ordering capital equipment. Consequently we believe that the supply side globally will struggle to keep up with the robust demand growth led by China (refer Figure 1).

Figure 1



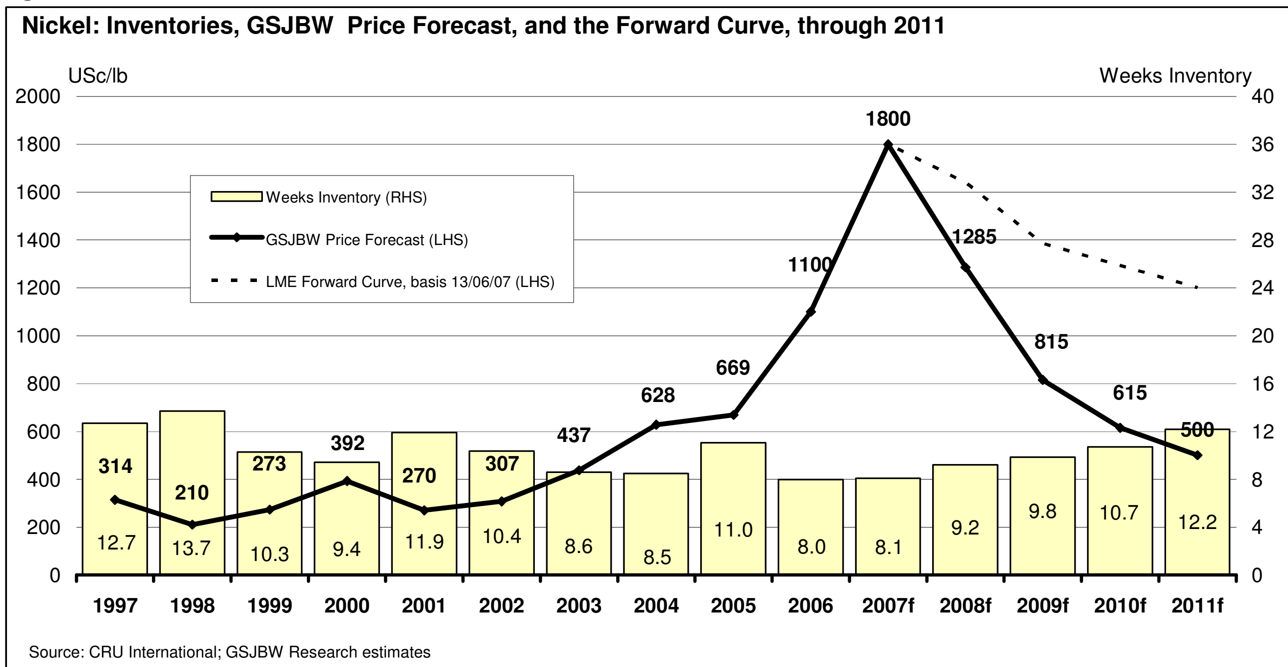
From an investment perspective, we believe that pure-play copper stocks, and even the major diversified resource stocks, are being priced for a fall in commodities prices. By moving away from the notion that the copper price will peak either this year or next, we imply that 'peak-cycle pricing' for copper equities (i.e. low PE multiples) is also inappropriate. We see attractive upside for our preferred companies that offer significant copper exposure. **Our preferred resource exposures remain the large diversified companies Rio Tinto (RIO) and BHP Billiton (BHP),** both of which generate a significant amount of their earnings from copper production. **For pure-play copper exposures, our preferred stocks are: Kagara Zinc (KZL), Equinox Minerals (EQN), Pan Australian Resources (PNA), Oxiana (OXR) and Aditya Birla Minerals (ABY).**

Nickel

In contrast with copper, nickel is our least preferred base metal. Nickel's fundamental outlook continues to weaken, and we believe that prices have further to fall. We believe that the current softening in demand for nickel is a response to recent over-production of stainless steel, particularly in Europe. European stainless makers are also having to cope with imported Chinese stainless steel, which has become an increasingly significant component of European supply.

Of longer-term concern to us is the rapid growth in production of low grade ferronickel (LGFN) in China. Low grade ore is being imported mainly from Philippines and Indonesia and converted in steel furnaces to a low-grade ferronickel product that can be used by a large number of domestic stainless steel producers. Our confidence that this innovative source of nickel is becoming a permanent feature of the market has risen considerably. China's LGFN makers are now accessing higher grade ores, which facilitate a better quality product, and hence improving demand from China's stainless steel makers. Given the steep growth trend of the past two years, we believe that China is likely to continue growing production of LGFN in the coming years, providing a significant alternative source of nickel supply.

Figure 2



From a supply/demand perspective we believe that a significant surplus in the global nickel market will emerge in 2008, and that the market is likely to remain oversupplied for the following 3-4 years. **We would therefore look to reduce investment exposure to nickel.** Based on our commodity price forecasts, nickel stocks are becoming significantly more expensive than other resource stocks on a price to earnings (PER) basis. **We advocate switching from the nickel stocks to copper stocks before the current share prices fall due to the deteriorating nickel price environment, and have thus recently initiated a long-term SELL recommendation on the pure-play nickel exposures of Minara Resources (MRE), Jubilee Mines (JBM), Independence Group (IGO) and Western Areas (WSA).**

Portfolio Management: Building Positions

Media **Analyst: Adam Alexander**

- **News Corporation (NWS): Short Term Outperform; Long Term Buy**
  Share Price as at 29/06/07: $27.15; Valuation: $31.34

Year End December	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	3749.3	4020.4	3753.5
EPS Growth (%)	42.4	8.9	17.2
PER (x)	23.4	21.5	18.3
Yield (%)	0.6	0.6	0.7

Source: Company data, GSJBW Research estimates

News Corporation (NWS) operates in the media industry throughout the US, UK, Europe and Australasia. The company recently presented its third quarter results, and demonstrated solid performance in key business areas. Our predictions for earnings growth remain at the top end of guidance figures provided by management.

Of the company's core business lines, film continues to make a substantial contribution to the bottom line, coming in ahead of our earnings forecasts, capturing both box office demand and DVD sales. NWS also benefits from its other quality assets, which include the internet facility Myspace. With the company looking to further develop its interactive media capability, we believe the internet strategy will benefit our valuation of the stock. Other business lines in the cable television space have enjoyed strong ratings success, and look set to continue their positive contribution to company earnings.

Risks to continued strong performance include a slowdown in the US advertising market, execution risk on the internet strategy, and currency risk. However, we remain comfortable with our long term buy recommendation on NWS, and believe the company has positioned itself with a quality suite of assets that will continue to deliver solid earnings growth.

Portfolio Management: Maintain Positive Outlook

Utilities **Analyst: Kynwynn Strong**

- **Origin Energy (ORG): Short Term Outperform; Long Term Buy**
  Share Price as at 29/06/07: $9.94; Valuation: $9.44

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	310.7	348.8	449.1
EPS Growth (%)	-1.0	6.4	24.5
PER (x)	25.4	23.7	19.2
Yield (%)	1.8	2.1	2.3

Source: Company data, GSJBW Research estimates

Origin Energy (ORG) is a vertically integrated energy company supplying natural gas, electricity and LPG to business and residential customers in Australia and New Zealand. The company's operations cover exploration and production (focused largely on natural gas), retail and trading (providing electricity, LPG, natural gas to retail customers in eastern Australia), generation (both base-load and peak electricity generation plants), and Contact Energy (ORG owns 51.4% of this listed New Zealand business).

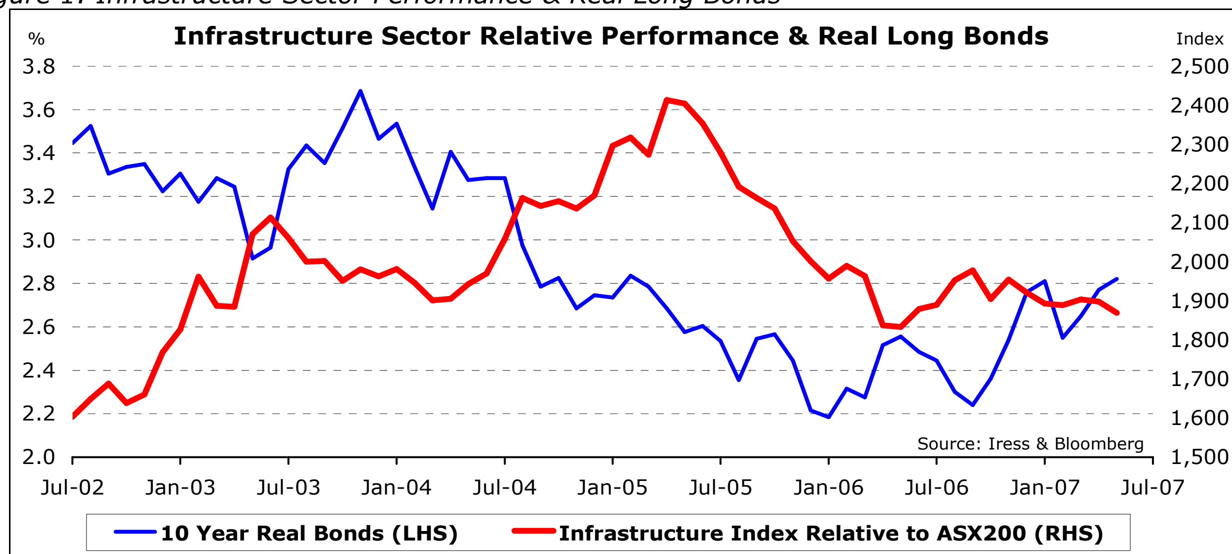
We have recently upgraded our long-term recommendation on ORG to Buy and see further upside potential from a number of existing growth options. ORG's coal seam methane (CSM) reserves offer strategic value and we expect the company will either commercialise this gas via its retail business or use it for generation. If gas prices rise more sharply than expected, ORG also has the ability to commercialise its own gas reserves to meet its retail demand and thereby protect margins, or use them for gas fired power generation to hedge the future requirements of its retail portfolio and/or secure additional contracts. Given ORG produces oil, if the oil price was to strengthen further, it would provide another source of upside. Additionally if a carbon tax is introduced in New Zealand (currently under review), ORG is well placed to benefit via its 51% stake in Contact Energy.

There are two potential risks to our positive view. Over recent months electricity prices have more than doubled and electricity profit margins could fall if retailers are inadequately hedged or unable to pass on these higher costs to the end users. A second risk is any further delays in ORG's upstream projects such as BassGas and Otway Gas.

Infrastructure Sector: Impact of Rising Bond Yields

Historically, performance in infrastructure stocks is negatively linked to rising bond yields. Following our Economist's review of the bond rate outlook, it is timely to consider the impact rising bond yields might have on the infrastructure sector. In essence, the current climate of rising bond yields does not favour the infrastructure sector. With our economists now expecting the 10 year bond rate to increase over the next 12-18 months (to ~6.3%), we believe that the infrastructure sector will lag the broader market (refer to Figure 1).

Figure 1: Infrastructure Sector Performance & Real Long Bonds



Airports, such as Macquarie Airports (MAP) and Australian Infrastructure Fund (AIX) are the favoured stocks in this environment and could seek to benefit from higher global growth expectations, ultimately resulting in higher passenger numbers. MAP is best positioned to perform in this climate, due to its improving operating momentum, potential for yield contraction and due to its potential for capital management. AIX is also well placed however we believe the positive outlook is more than reflected in the current share price.

Toll roads groups including Macquarie Infrastructure Group (MIG), Transurban Group (TCL), and Connecteast Group (CEU), will have mixed performances relative to the forecast macro environment. For those stocks that are heavily reliant on debt to finance distributions, namely MIG and TCL, we view a climate of rising interest rates as a negative. On the other hand, CEU should have sufficient positive news flow to outweigh the impact of rising bond prices, whilst the potential for corporate activity will also underpin the share price.

For other assets including Macquarie Communications Infrastructure Group (MCG), we foresee potential buying opportunities for longer term investors as the stock moves in tandem with bond yields and provides investors with a suitable defensive position. For Babcock and Brown Infrastructure Group (BBI), which has historically not been closely aligned to bond yields fluctuations, we question the longer term growth in this stock given its lack of news flow and increasing exposure to low growth utilities.

We have recently changed our long-term recommendation for MIG to Sell given the stock's low yield relative to peers, combined with no near term growth and minimal cash flow coverage. As such we continue to believe that the risk/reward is unattractive to investors at current prices.

Stock	Price	Valuation	Price / Valuation	Distribution Yield (FY07)	(FY08)	Dist. Growth CAGR FY07-FY10	% of Dist. Covered by Operating CF	Long Term Recommendation
AIX	$3.29	$2.62	126.0%	4.7%	5.0%	5.1%	87%	HOLD
BBI	$1.72	$1.75	98.0%	8.3%	8.7%	5.6%	90%	HOLD
CEU	$1.59	$1.57	101.0%	4.1%	4.1%	0.0%	0%	BUY
MAP	$4.04	$3.99	101.0%	6.4%	6.7%	3.8%	72%	BUY
MCG	$6.33	$7.60	83.0%	6.6%	7.3%	9.4%	95%	BUY
MIG	$3.60	$3.25	111.0%	5.6%	5.6%	0.8%	10%	SELL
TCL	$8.01	$6.12	131.0%	6.7%	7.1%	4.1%	41%	SELL

Source: GSJBWere Research Estimate *Prices as at 29 June 2007*

Portfolio Management: Emerging Companies

Emerging Companies **Analyst: George Batsakis**

- **Mitchell Communication Group (MCU): Short Term Outperform; Long Term Buy**
  Share Price as at 29/06/07: $1.22; Valuation: $1.50

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	2.6	7.6	15.2
EPS Growth (%)	N/A	165.4	63.1
PER (x)	84.1	31.7	19.4
Yield (%)	1.1	1.9	2.9

Source: Company data, GSJBW Research estimates

The Mitchell Communication Group (MCU) was previously known as emitch Limited. emitch was established in 1999 and is a leading online media buying and planning agency in Australia and New Zealand. emitch expanded operations with the acquisition of the Mitchell Group for $97.6m (effective 1 April 2007). Mitchell Group comprises Mitchell and Partners (provides media strategy, planning, buying, invoicing and reporting services to many of Australia's largest advertisers), Stadia Media (exclusive rights to provide advertising space in sporting venues including the MCG and Telstra Dome), in addition to a number of other smaller operations.

The emitch online media buying business has a strong position in the general display internet advertising market (we estimate a 15% share). In 2006, total main media advertising (excluding online increased by 1% to $9.6b, while internet advertising increased by 61% to $1bn. We expect internet advsertising to grow at a double digit rate, consistent with growth in the global internet market. This growth is driven by rising penetration of broadband internet, increasing share of people's media time on the internet and increases in the amount and variety of content on websites (video streaming, online gaming). The Mitchell Group is the largest independent media buying and planning business in Australia/NZ with significant free cash flow and excellent client base. The Stadia Media sports venue marketing business also has good growth prospects.

We recently initiated coverage of the MCU with a long-term Buy recommendation. In our view, MCU is well placed to benefit from the fast growing Australian internet advertising market and the acquisition of the Mitchell group of companies. The stock is trading below our valuation of $1.50 per share and provides a superior earnings growth outlook to the market.

Emerging Companies **Analyst: George Batsakis**

- **Nufarm (NUF): Short Term Marketperform; Long Term Buy**
  Share Price as at 29/06/07: $13.85; Valuation: $11.30

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	121.1	128.5	141.6
EPS Growth (%)	-1.3	5.3	10.2
PER (x)	19.5	18.5	16.8
Yield (%)	2.2	2.3	2.5

Source: Company data, GSJBW Research estimates

Nufarm (NUF) is the largest domestic producer of crop protection products, with operations throughout rural and regional Australia. Recently the company announced its acquisition of the remaining 50% of Agripec, which currently has around 8% market share of the Brazilian crop protection market. This move expands Nufarm's international exposure to include the second largest crop protection market in the world.

We believe the acquisition is a long-term positive for Nufarm, given our view that the Brazilian macro-economic conditions have improved as demonstrated by stabilising US$/R$ exchange rates, higher commodity prices and stronger rural sector confidence. Agripec enjoys a strong financial position with strong cash reserves, and we believe the long term growth prospects of the Brazilian agricultural chemicals market to be positive. Given the agricultural sector moves in cycles, Nufarm's acquisition of Agripec is timely in comparison to its acquisition of the initial shareholding, which occurred at the peak of the cycle.

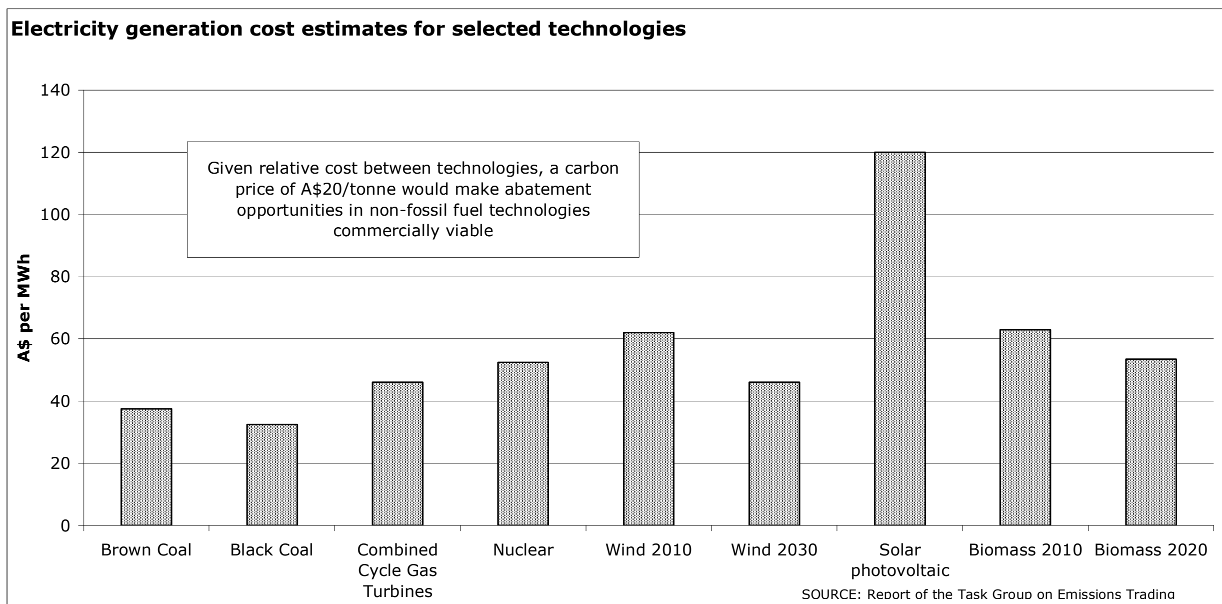
In addition to the Agripec acquisition, we also see opportunities for Nufarm to pursue growth opportunities in US markets through its established presence there, and favour the pursuit of market share in other growth markets. Improved domestic seasonal conditions will also benefit earnings. We currently rate the stock as a long term buy.

Environmental, Social & Governance

Emissions Trading Task Force Report: What does it mean for investors?

The Prime Ministerial Task Group on Emissions Trading publicly released its report this month, which examines the nature and design of an Australian emissions trading system (ETS). The introduction of an ETS will alter the investment landscape, as industry adapts to a more carbon restrictive environment. While it is difficult to quantify the precise cost implications of the new carbon trading scheme until further details emerge, it is worth considering how investors might approach the post ETS environment.

At the core of the task group's recommendation is a "cap and trade" system to be introduced around 2012. This would see the price of carbon determined by market forces, which in turn would impact a broad section of industries beyond those directly involved in electricity generation. Typically those industries able to reduce their emissions below the cap will have surplus credits to sell, while those exceeding the cap would be purchases of carbon credits. It is clear that coal fired power generation is likely to inherit a heavy carbon liability, however the broad nature of the ETS will encompass other energy intensive industries that use fossil fuels as part of their manufacturing or operating processes. As such, investors should be cognisant of the scheme's application across various sectors.



While we conclude the ETS will have wide implications, the absence of a clear policy directive prevents the cost of carbon from being defined with any accuracy. Auctioning of permits versus grandfathering (to give away free) remains an unknown parameter in terms of pricing impact. The task group recommends implementing a hybrid model that would contain a mixture of auctioned and grandfathered permits. This model would potentially compensate those industries most dependent on fossil fuels, thus levelling the playing field to some extent. However, the implications for energy users will likely be higher energy prices as electricity becomes more expensive.

Higher energy prices may seem a daunting prospect for many industry players, however the task group does include several 'valves' in the ETS, including their recommendation to implement a low price of carbon during the initial period of the scheme to allow for necessary transition into the new world. The task group also spells out the potential for a fee based mechanism to accommodate those participants lacking sufficient credits to meet their carbon liability.

It is therefore difficult to foreshadow the direct impact the ETS will have on industry, and ultimately investors, until more prescriptive policy around carbon pricing is revealed. Broadly speaking, the ETS will provide benefits to those industries utilising low emission technologies versus those that are fossil fuel intensive. Clearly the Utilities and Energy sectors will be directly impacted by an ETS. The costs associated with coal fired power generation will increase, which in turn will lead the charge toward alternative sources of energy. Gas producers look set to benefit due to lower emissions, as do renewable energy producers. However the refinery sector is likely to incur higher operating costs, and unlike the retail businesses they may have difficulty passing these onto the end user.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

Westpac Banking Corporation	Woolworths
National Australia Bank	Foster's Group
Macquarie Communications Infrastructure Group	Telstra
BHP Billiton	AMP
Commonwealth Bank of Australia	Insurance Australia Group
Wesfarmers	Hills Industries
Coca-Cola Amatil	Ramsay Healthcare
Tabcorp Holdings	Fairfax Media
Suncorp-Metway	Crane Group
AGL Energy	David Jones
Australian Infrastructure Fund	Boral

Our changes to the Income Portfolio during June 2007:
Trimmed: CBA, WES
Increased: NAB, FGL, IAG

Income Portfolio Summary: Fiscal 2008 (*Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	7.8%
Price to Earnings Ratio	16.6x
Average Yield	4.7%
Franking	89%

Source: GSJBW Research estimates

Balanced Portfolio – (Inception Date: October 2002)

BHP Billiton	Toll Holdings
Macquarie Communications Infrastructure Group	AGL Energy
National Australia Bank	Aristocrat Leisure
Woolworths	Computershare
Westpac Banking	Woodside Petroleum
Rio Tinto	St. George Bank
Brambles	QBE Insurance Group
Ramsay Healthcare	AXA Asia-Pacific Holdings
Wesfarmers	Billabong International
News Corporation, Inc.	Origin Energy
Suncorp-Metway	Singapore Telecom
Publishing & Broadcasting	

No changes to the Balanced Portfolio during June 2007

Balanced Portfolio Summary: Fiscal 2008 (Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	11.7%
Price to Earnings Ratio	16.6x
Average Yield	3.8%
Franking	70%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

BHP Billiton	Toll Holdings
National Australia Bank	Aristocrat Leisure
Rio Tinto	AXA Asia-Pacific Holdings
Brambles	Computershare
Woolworths	Healthscope
Westpac Banking	QBE Insurance Group
News Corporation, Inc.	Suncorp-Metway
Ramsay Healthcare	Billabong International
James Hardie	Origin Energy
Woodside Petroleum	Singapore Telecom
Publishing & Broadcasting	Sonic Healthcare

No changes to the Growth Portfolio during June 2007.

Growth Portfolio Summary: Fiscal 2008 (*Please note AAN and CEU are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	11.1%
Price to Earnings Ratio	15.6x
Average Yield	3.4%
Franking	72%

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

GSJBW Recommendation Changes in June

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Toll Holdings	TOL	Outperform	-	Hold	Buy
Virgin Blue Holdings	VBA	Marketperform	Outperform	Hold	Buy
Austereo Group	AEO	Outperform	Marketperform	Buy	Hold
Independence Group	IGO	Marketperform	-	Sell	Hold
Jubilee Mines	JBM	Marketperform	-	Sell	Hold
Minara Resources	MRE	Marketperform	-	Sell	Hold
Western Areas	WSA	Marketperform	-	Sell	Hold
Macquarie Infrastructure Group	MIG	Underperform	Marketperform	Sell	Hold
Origin Energy	ORG	Outperform	Marketperform	Buy	Hold
Codan	CDA	Underperform	Outperform	Hold	-
Iluka Resources	ILU	Underperform	-	Hold	Sell
Timbercorp	TIM	Marketperform	Underperform	Sell	-

Source: GSJBW Research

GSJBW Initiation of Coverage in June

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Aditya Birla	ABY	Outperform	-	Buy	-
Asciano Group	AIO	Marketperform	-	Hold	-
Challenger Kenedex Japanese Trust	CKTCA	Marketperform	-	Hold	-
Mitchell Communication Group	MCU	Outperform	-	Buy	-

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Short Term Recommendation	Long Term Recommendation	Share Price (as at 29 June 2007)	Valuation
Aditya Birla	ABY	Outperform	BUY	$2.84	$3.31
Austereo Group	AEO	Outperform	BUY	$1.95	$2.30
AGL Energy	AGK	Marketperform	HOLD	$15.17	$16.50
Asciano Group	AIO	Marketperform	HOLD	$10.13	$9.62
Australian Infrastructure	AIX	Marketperform	HOLD	$3.29	$2.62
Aristocrat Leisure	ALL	Marketperform	BUY	$14.37	$15.33
AMP Limited	AMP	Marketperform	HOLD	$10.12	$9.75
ANZ Banking Group	ANZ	Marketperform	HOLD	$28.99	$26.83
Austbrokers Holdings	AUB	Outperform	BUY	$4.35	$5.06
Australian Worldwide	AWE	Outperform	BUY	$3.64	$2.49
AXA Asia Pacific	AXA	Marketperform	BUY	$7.43	$7.30
Billabong	BBG	Outperform	BUY	$17.95	$17.08
Babcock & Brown Infr.	BBI	Marketperform	HOLD	$1.72	$1.75
BHP Billiton	BHP	Outperform	BUY	$35.03	$28.92
Boral	BLD	Marketperform	HOLD	$8.77	$7.71
Brambles	BXB	Marketperform	BUY	$12.18	$13.30
Commonwealth Bank	CBA	Underperform	HOLD	$55.25	$45.10
Codan	CDA	Underperform	HOLD	$0.94	$1.31
Coca-Cola Amatil	CCL	Not Rated	NR	$9.54	$9.00
ConnectEast Group	CEU	Marketperform	BUY	$1.59	$1.57
CFS Retail Property	CFX	Marketperform	HOLD	$2.15	$2.23
Coles Group	CGJ	Marketperform	HOLD	$16.12	$13.60
Challenger Kenedix Japan Trust	CKTCA	Marketperform	HOLD	$1.49	$1.53
Computershare	CPU	Outperform	BUY	$11.29	$9.30
Crane Group	CRG	Outperform	BUY	$16.87	$16.40
David Jones	DJS	Marketperform	HOLD	$5.57	$4.05
Equinox Minerals	EQN	Outperform	BUY	$3.90	$4.01
Foster's Group	FGL	Marketperform	BUY	$6.38	$6.65
Fairfax Media	FXJ	Marketperform	HOLD	$4.70	$5.05
Flexigroup	FXL	Outperform	BUY	$2.96	$2.92
GPT Group	GPT	Marketperform	HOLD	$4.66	$4.81
Hills Industries	HIL	Marketperform	HOLD	$5.33	$4.65
Healthscope	HSP	Not Rated	NR	$5.23	$5.95
Insurance Australia Group	IAG	Underperform	HOLD	$5.70	$5.80
Independence	IGO	Marketperform	SELL	$6.95	$3.89
ING Industrial Fund	IIF	Outperform	BUY	$2.34	$2.48
Iluka Resources	ILU	Underperform	SELL	$6.16	$4.97
Imdex Resources	IMD	Marketperform	BUY	$1.50	$1.50
Jubilee Mines	JBM	Marketperform	SELL	$15.95	$7.81
James Hardie Industries	JHX	Marketperform	BUY	$8.72	$10.17
Kagara Zinc	KZL	Outperform	BUY	$6.38	$4.71
Macquarie Airports	MAP	Outperform	BUY	$4.04	$3.99
Macquarie Communications	MCG	Outperform	BUY	$6.33	$7.60
Mitchell Communication Group	MCU	Outperform	BUY	$1.22	$1.50
Macquarie Countrywide	MCW	Outperform	BUY	$2.02	$2.20
Macquarie DDR Trust	MDT	Outperform	BUY	$1.26	$1.34
Macquarie Goodman	MGQ	Marketperform	HOLD	$6.72	$6.69
Macquarie Infra.	MIG	Underperform	SELL	$3.60	$3.25
Macquarie Leisure	MLE	Outperform	BUY	$3.30	$3.47
Minara Resources	MRE	Marketperform	SELL	$7.28	$5.62
Metcash Limited	MTS	Outperform	BUY	$4.50	$5.00
National Australia Bank	NAB	Marketperform	BUY	$41.02	$41.76
Nufarm Limited	NUF	Marketperform	BUY	$13.85	$11.30
News Corp	NWS	Outperform	BUY	$27.15	$31.34
Oakton	OKN	Outperform	HOLD	$5.63	$5.96
Origin Energy	ORG	Outperform	BUY	$9.94	$9.44
Oxiana	OXR	Outperform	BUY	$3.53	$2.97
Publishing & Broadcasting	PBL	Outperform	HOLD	$19.60	$22.35
Photon Group	PGA	Outperform	HOLD	$6.15	$6.02
Pan Australian Resources	PNA	Outperform	BUY	$0.62	$0.75
QBE Insurance Group	QBE	Outperform	BUY	$31.20	$32.80
Ramsay Health Care	RHC	Marketperform	BUY	$11.21	$11.63
RIO Tinto	RIO	Outperform	BUY	$98.79	$90.39
Reckon	RKN	Outperform	BUY	$1.27	$1.27

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

Company Name	Stock Code	Short Term Recommendation	Long Term Recommendation	Share Price (as at 29 June 2007)	Valuation
Reckson New York	RNY	Marketperform	HOLD	$1.17	$1.32
St George Bank	SGB	Underperform	HOLD	$35.43	$33.58
Singapore Telecom.	SGT	Marketperform	HOLD	$2.67	$2.70
Sonic Healthcare	SHL	Marketperform	HOLD	$15.06	$15.17
Sigma Pharmaceutical	SIP	Marketperform	HOLD	$2.12	$2.74
Santos	STO	Marketperform	HOLD	$13.94	$9.84
Suncorp-Metway	SUN	Outperform	HOLD	$20.17	$21.10
Symbion Health	SYB	Not Rated	NR	$4.08	$3.92
TABCORP Holdings	TAH	Marketperform	HOLD	$17.15	$16.99
Transurban Group	TCL	Underperform	SELL	$8.01	$6.12
Timbercorp Limited	TIM	Marketperform	SELL	$2.10	$2.32
Ten Network Holdings	TEN	Marketperform	HOLD	$2.71	$2.80
Telstra Corporation	TLS	Underperform	HOLD	$4.59	$4.19
Toll Holdings	TOL	Outperform	HOLD	$14.49	$12.65
Tishman Speyer	TSO	Marketperform	BUY	$2.37	$3.08
Westpac Banking Corporation	WBC	Outperform	HOLD	$25.66	$27.09
Westfield Group	WDC	Outperform	BUY	$19.96	$21.99
Wesfarmers	WES	Outperform	HOLD	$45.73	$37.24
Woolworths	WOW	Outperform	BUY	$27.00	$29.30
Woodside Petroleum	WPL	Marketperform	BUY	$45.75	$33.95
Western Areas	WSA	Marketperform	SELL	$4.83	$2.45

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

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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 March 2007

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	12%	12%	Sell	5%	5%
Marketperform	65%	62%	Hold	60%	61%
Outperform	24%	26%	Buy	35%	34%

* 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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