

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review

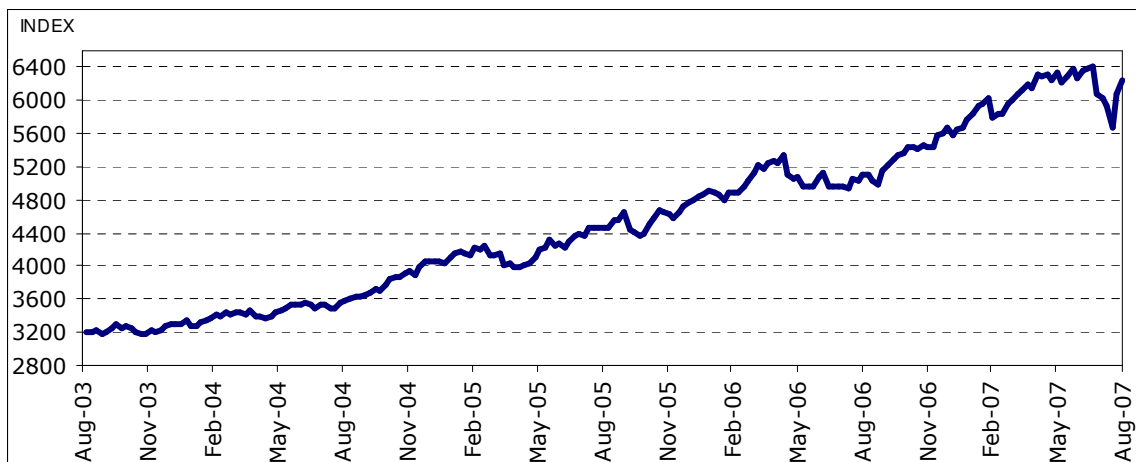
August 2007

- Volatility continued in August due to the ongoing fallout from the US subprime debt markets. The ASX200 finished the month higher (+2.4%), after trading in a range of over 500 points during the period.
- The Consumer Staples, Healthcare and REITs sectors outperformed, while the Utilities, Telecommunications and Consumer Discretionary sectors lagged. The Australian dollar ended August 3.0% lower at US\$0.824.
- August was also a busy month for news flow, with the majority of Australian companies reporting their FY07 profit results. Results from the main reporting season were largely in line with analysts' forecasts while overall earnings revisions were modest.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	2.4%	9.2%	27.1%
S&P/ASX 200 Industrials	3.0%	4.9%	25.0%
S&P/ASX 200 Resources	0.7%	26.6%	34.5%
S&P/ASX Small Ordinaries	-3.9%	9.7%	33.0%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	-5.0%	-9.1%	-6.5%
Consumer Staples	3.9%	-2.3%	0.2%
Energy	-1.7%	7.6%	-3.8%
Financials	1.4%	-5.0%	-6.2%
Health Care	3.7%	2.4%	18.4%
Industrials	-0.3%	-1.5%	6.5%
Information Technology	-1.1%	-10.0%	0.8%
Materials	-1.4%	15.3%	9.8%
REITs	5.9%	-7.9%	-5.2%
Telecommunications	-4.4%	-3.8%	6.1%
Utilities	-3.5%	-8.6%	-4.7%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index
(August 2003 – August 2007)



Source: IRESS

For important information relating to Goldman Sachs JBWere's interests in companies or trusts the subject of this report, please see the inside or outside back cover of this report.

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Brambles Limited	24.6	Allico Finance Group	-17.6
QBE Insurance Group	16.3	Babcock & Brown Ltd	-16.1
Dyno Nobel Limited	16.3	Sigma Pharmaceutical	-15.7
WorleyParsons Ltd	13.9	Paladin Resources	-15.6
Leighton Holdings	11.8	Zinifex Limited	-15.2
Stockland	11.1	Tattersall's Limited	-14.7
Amcor Limited	11.0	Incitec Pivot	-14.1
Goodman Group	10.9	Insurance Australia	-11.8
DB RREEF Trust	10.7	Macquarie Bank Ltd	-11.2
Ansell Limited	10.5	Oxiana Limited	-11.0

Source: IRESS

Significant Company/Economic News

Retail/Consumer Staples/Beverages

Analysts: Phillip Kimber & Paul Ryan

Billabong (BBG) declined again this month following its result and the near-term uncertainty surrounding US consumers following the sub-prime melt down. **Woolworths (WOW)** reached record heights following another solid result. Momentum in Australian Food & Liquor continues to remain strong, reflecting WOW's significant investment in its competitive position in second half 2007. This drove WOW's strong sales growth. **Coles Group (CGJ)** continued to track lower as uncertainty surrounds Wesfarmers' bid given its declining share price. The market reacted favourably to **Foster's Group (FGL)** result, up around 6% on the day of the result. It was evident from the result that revenue momentum has accelerated, with good wine sales growth, while Australian sales force issues stabilised and efforts to drive mix kicked in. The company also announced capital management of \$350m via combination of off- & on-market buybacks in the 2008 fiscal year.

Insurance

Analyst: Ryan Fisher

AXA (AXA) tracked sideways this month despite a solid interim result, driven by the Australia/NZ business, while the HK business was broadly in line with the market's expectations. **AMP (AMP)** finished the month higher, after being sold off quite heavily during the market shakeout in late July / early August. CEO Andrew Mohl's will step down at the end of 2007. It was mixed month for the general insurers. **QBE (QBE)** jumped following its impressive result. **Insurance Australia (IAG)** suffered following its weak result which came in well below expectation. **Suncorp (SUN)** tracked higher after announcing a good result, with no major surprises in the Banking, Wealth Management or PMN General Insurance (GI) numbers.

Banks

Analyst: James Freeman

ANZ (ANZ) provided a trading update to the market covering the first 10 months of the year. ANZ highlighted that revenue for the full year is expected to be at the higher end of current target range of 7-10% with cost growth expected at the top end of target range of 5-7%. **Commonwealth Bank (CBA)** reported its results with underlying cash earnings that fell below our expectations. The result highlighted that the banking franchise continues to struggle to deliver strong growth. **Adelaide Bank (ADB)** and **Bendigo Bank (BEN)** both delivered headline growth of +10% at their result. ADB and BEN announced their potential merger, subject to ADB shareholder approval. **Westpac Banking Corporation (WBC)** announced the IPO of BT Investment Management to be completed within the calendar year. WBC is set to retain majority ownership of the entity with the remainder going to staff within the division, institutional and existing retail investors. WBC noted that listing a portion of the investment management business will allow BT to be more competitive in setting remuneration structures for key investment management staff. WBC also announced the appointment of Gail Kelly as CEO to replace the outgoing David Morgan.

Energy**Analyst: Anthony Bishop**

Woodside Petroleum's (WPL) interim result was materially below our expectations, mainly due to higher D&A and non field operating costs. WPL announced that its African asset options are being considered, with potential exit flagged. **Santos (STO)** declined, before regaining some strength towards the end of the month. The company's result was in line at an operational level; however headline net profit after tax was impacted by the appreciation of the Australian dollar and higher depreciation charges. Production guidance for CY07 and CY08 was reaffirmed, signalling essentially no production growth into CY08. Banjar-Panji mudflow liability remains uncertain - whilst there was no change to Santos' provision, if an agreement is not reached on the liability split between the parties the Santos Board believes the outcome could be "significantly different" to that provided for.

Gaming**Analyst: Adam Alexander**

Aristocrat's (ALL) result was slightly ahead of guidance, however ALL benefited from a lower than expected tax rate. The key take outs from the result were: 1) Japan was very weak and outlook comments on Japan were very uncertain; 2) International was very strong, highlighting increased market share in Macau and strong growth in Europe; and 3) Demand in the US remains subdued. The company also announced a capital management program designed to regear the balance sheet. While **Tabcorp's (TAH)** result highlighted operating cost increases; controllable cost base increased against operating revenue growth. CEO, Elmer Funke Kupper repeatedly described the rise in costs as 'Unacceptable' and announced a clear priority to reign in costs. Initial signs from full venue smoking bans in Victoria appear to be less severe than our forecasts.

Healthcare**Analyst: Hamish Tadgell**

News on the proposed takeover of **Symbion Health (SYB)** by **Healthscope (HSP)** continued to dominate headlines. Primary Health (PRY) continued to build on its stake in SYB reaching c.20% by month's end. PRY has yet to disclose its intentions regarding this stake in SYB. Also during the month the ACCC announced that it will not oppose the proposed takeover of SYB by HSP. **Resmed (RMD)** finished the month lower after a volatile month. The company's 4Q07 result was broadly in line with our expectations with total sales growth up 12% on the previous corresponding period. The main issue was that US sales growth remained flat at 10% on previous corresponding period, impacted by discounting, tough comps, product recall and roll-off of motor division external sales. **Ramsay Health Care (RHC)** ended the month lower following consensus downgrades. RHC's reported FY07 result was broadly in line with expectation, however the key issue was the lower than expected FY08 guidance, with the company guiding for 'low double digit growth' in FY08.

Diversified Resources**Analyst: Neil Goodwill**

Month-end share price comparisons fail to capture the enormous volatility in the prices of resources equities during August, associated with the ebb and flow of the sub-prime mortgage crisis. Not surprisingly, the whippiest stocks have been the pure-play metal producers, but even the diversifieds have traded within unusually wide ranges. **Rio Tinto (RIO)** oscillated within a 12% trading range, while **BHP Billiton (BHP)** saw a trading range equivalent to 14% of its end-August share price. BHP also delivered a record full year profit of A\$16.7bn, sighting continued strong demand from China for raw materials as the main driver.

Media**Analyst: Christian Guerra**

News Corporation (NWS) has a solid result, which showed momentum across all businesses. Cable Networks and Sky Italia were the key drivers, offset by losses from MyNetworkTV. From the quarterly numbers, Film was the one segment well below our forecast due to a substantial amount of print and advertising costs absorbed during the quarter. **Publishing & Broadcasting (PBL)** rallied post its result, which was affected by the timing of the PBL Media transaction. The company highlighted good cost control. **Fairfax Media (FXJ)** declined following the announcement of its full year result. The result highlighted that Australian publishing (excluding Rural Press) remains subdued. **Southern Cross Broadcasting's (SBC)** gave a result slightly ahead of GSJBW expectation and at the top end of consensus, while **West Australian Newspapers (WAN)** came in ahead of our forecast, with the WA ad market momentum continues unabated. **Seek Limited (SEK)** jumped on the back of its result with margins exceeded targets once again.

Australian Equities: Key Issues for Portfolio Strategy

- Credit market concerns heightened during August, initially driven by continued fallout in the US sub-prime debt market. The mood for derisking overflowed into the broader credit and equity markets, as a sharp deleveraging of portfolios ensued, which was accompanied by a widening of credit spreads. However, given the significant recovery we have seen in equity markets during the latter part of the month, we suspect the market is already anticipating the US Federal Reserve to cut interest rates in an attempt to restore market confidence. Therefore, a key focus for investment markets is how the US Federal Reserve will respond to the recent swift deleveraging of portfolios, especially in light of the action it took recently by reducing the inter-bank lending rate by 50 basis points.
- In our view, the key issue for investors for the remainder of 2007 remains the risks to earnings expectations from a renewed slowdown in the US economy (US consumer) and the potential impact this will have on global growth. We do remain sceptical that the market has factored in all the bad news post the recent US credit squeeze, and expect that volatility is likely to continue into September/October, as we see news stemming from the US which is likely to carry a mixed response, especially as further evidence of exposure to US credit woes emerges. We also maintain the near-term news flow around the US consumer and broader economy remains susceptible to further correction.
- While the fallout from the US sub-prime mortgage sector has without doubt reverberated throughout equity markets, the epicentre of this shock is largely US specific. At this stage we continue to be relatively optimistic with regard to global growth. While moderate damage to markets in our region appears to have endured, the underlying impact of a slowdown in US markets on the combined economies of Brazil, Russia, India and China (BRICs) appears to be moderating. The four BRICs economies represent more than twice the contribution to global growth as the United States, and possess strong momentum. This is good news on the domestic front given our increasing trade relationships with these developing markets.
- Domestically, overall numbers stemming from the reporting season appear robust. Results to date suggest a strong trading environment, with profit margins remaining intact. However, we perceive the bias toward a lower payout ratio as representative of a more cautious approach to the domestic outlook, in contrast to previous years. The recent tightening in credit markets effectively represents an increase in funding costs, particularly given Australia runs a current account deficit funded heavily offshore. Moreover, the competition for capital may make it more difficult for Australia to finance its current account deficit at unchanged exchange rates.
- 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. In the current environment we recommend sticking to the large-cap end of the market, which typically outperforms in periods of rising volatility. Given the strong global growth outlook and expectations for a weakening Australian Dollar on a 12 month view, we retain a preference for stocks leveraged to the improving global economic cycle and with offshore earnings.
- Stocks that we prefer on this basis include Westfield (WDC), News Corporation (NWS), Singapore Telecom. (SGT), Resmed (RMD) and Macquarie Communications Group (MCG). With the Australian financials relatively well insulated from the US sub-prime issues, we also view QBE Insurance (QBE), AXA Asia Pacific (AXA) and banking stocks including Westpac Bank (WBC) and National Australia Bank (NAB) as providing good long term relative value.

GSJBW Market Forecasts:

As at 31/08/2007	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
S&P/ASX 300	16.7x	15.0x	13.1x	11.7	11.5	14.8	3.3	3.6	4.0
S&P/ASX 300 Industrials	17.7x	16.5x	14.9x	13.2	7.2	10.5	4.0	4.4	4.8
S&P/ASX 300 Resources	14.6x	12.7x	10.4x	11.6	15.6	22.6	1.9	2.0	2.3

Source: GSJBW Research estimates

Value Analysis

Recent market volatility has provided potential opportunities for investors to take advantage of buying quality companies trading at attractive prices. While we have seen a significant recovery in equity markets during latter part of the month, we do remain sceptical that the market has factored in all the bad news post the recent US credit squeeze, and expect volatility to continue over the coming months.

Given the increase in volatility and shifting expectations around what is an appropriate PE multiple for stocks to trade on, we believe investors who are prepared to take a longer term view should focus on Discounted Cash Flow (DCF) valuations, which are based around long term earnings and our discount rates which remain unchanged in the current environment. When valuing a company using the DCF approach, analysts look through short term market 'noise' and focus on a companies cash flow generation and factors that can influence this such as industry structure, business model and execution risk.

The table below list companies that we consider to be quality long-term portfolio holdings, and are currently trading at a discount to our DCF valuation. We have also analysed where individual share prices are currently, relative to their highs of 24 July (the peak level for the ASX200 Index). The stocks are listed in order of their current discount to our DCF valuation (starting with those providing the largest discount). Should these discounts to our long-term based DCF valuation widen as a result of further market volatility over the coming months, we would view this as an opportunity to build positions in good quality, large-cap companies at attractive prices.

Stock	Name	Price as at 31-Aug-07	Price as at 24-Jul-07	% change since 24-Jul-07	GSJBW DCF	Prem./ Disc. to DCF	Rec.	PER (x)		Yield%
								FY08E	FY09E	
PBL	Publishing & Broadcasting Ltd.	\$17.92	\$19.16	-6.5%	\$24.35	-26.4%	BUY	19.2	17.1	3.4%
JHX	James Hardie Industries N.V.	\$8.10	\$8.55	-5.3%	\$10.77	-24.8%	BUY	14.8	12.1	4.4%
MCG	Macquarie Communications Infra.	\$5.80	\$6.18	-6.1%	\$7.70	-24.7%	BUY	84.1	38.9	7.9%
NWS	News Corporation	\$26.63	\$27.60	-3.5%	\$31.56	-15.6%	BUY	18.1	14.9	0.5%
SKI	Spark Infrastructure Group	\$1.86	\$1.91	-2.6%	\$2.19	-15.1%	BUY	74.4	40.4	9.9%
RMD	ResMed Inc.	\$5.03	\$4.81	4.6%	\$5.87	-14.3%	BUY	27.6	22.5	0.0%
ALL	Aristocrat Leisure Limited	\$14.00	\$13.95	0.4%	\$15.65	-10.5%	BUY	18.9	15.3	4.9%
MAP	Macquarie Airports	\$4.35	\$4.33	0.5%	\$4.78	-9.0%	BUY	18.1	16.9	6.2%
BBG	Billabong International Limited	\$15.85	\$17.00	-6.8%	\$17.13	-7.5%	BUY	17.2	14.6	3.7%
AGK	AGL Energy Limited	\$15.40	\$16.45	-6.4%	\$16.54	-6.9%	HOLD	17.0	14.4	3.5%
SUN	Suncorp-Metway Limited	\$20.10	\$20.17	-0.3%	\$21.45	-6.3%	HOLD	12.6	11.9	5.7%
FGL	Foster's Group Limited	\$6.32	\$6.36	-0.6%	\$6.70	-5.7%	BUY	16.0	14.5	4.2%
NAB	National Australia Bank Limited	\$39.94	\$40.62	-1.7%	\$42.25	-5.5%	BUY	13.3	12.1	5.0%
MTS	Metcash Limited	\$4.76	\$4.69	1.5%	\$5.00	-4.8%	BUY	17.6	15.4	4.1%
RHC	Ramsay Health Care Limited	\$10.52	\$11.35	-7.3%	\$11.04	-4.7%	HOLD	17.1	14.7	3.1%
WOW	Woolworths Limited	\$29.92	\$27.68	8.1%	\$31.00	-3.5%	BUY	23.2	19.7	2.9%
WDC	Westfield Group	\$20.93	\$19.60	6.8%	\$21.64	-3.3%	BUY	18.6	17.5	5.4%
AXA	AXA Asia Pacific Holdings Limited	\$7.54	\$7.75	-2.7%	\$7.75	-2.7%	BUY	19.5	17.6	3.1%
RIO	RIO Tinto Limited	\$93.52	\$99.50	-6.0%	\$94.90	-1.5%	BUY	10.1	8.2	1.7%
QBE	QBE Insurance Group Limited	\$34.85	\$31.45	10.8%	\$35.30	-1.3%	BUY	14.0	13.5	4.1%
WBC	Westpac Banking Corporation	\$27.20	\$26.80	1.5%	\$27.40	-0.7%	BUY	13.2	12.0	5.3%

Source: Iress, GSJBW Research

Insurance Sector Update

With recent volatility in equity markets, it is worth considering the Insurance stocks which provide defensive characteristics during times of market turbulence. One standout in the sector is QBE, which we believe is defensive, with relatively little operational sensitivity to market fluctuations. QBE has the lowest exposure to equity markets of all the insurers (less than 10% of total investments, less than 25% of shareholders fund investments) and ~60% of its equity investments are in offshore markets. Its fixed income investments are of high quality (95% rated Moody's Aa3 or better) and relatively short duration (average 0.6 years). In addition, the company is conservatively provisioned, has plenty of balance sheet capacity and we expect it to generate strong profit margins in coming years. It therefore remains our preferred stock in the sector. At the time of its first half results announcement, management indicated that it is close to the finalisation of an enhanced reinsurance deal that will cap the group's aggregate exposure to catastrophic events (thus limiting the impact that an unusually bad year of claims could have on its profitability).

Elsewhere in the sector, IAG sits at the other end of the spectrum to QBE, having recently delivered a disappointing result accompanied by an uncertain outlook. After adjusting for a number of one-off items, operating profit was well below consensus expectations, yet the stock continues to trade at a higher price-earnings multiple than its peers. The stock is on a current dividend yield of 5.6%, however management has indicated the dividend is unlikely to grow in coming periods (and our dividend forecasts are dependent on a higher-than-peers payout ratio of ~75%). As a result, we have downgraded our recommendation on IAG to a sell (27 August at share price \$5.11).

We believe better value and less uncertainty can be found elsewhere in the insurance arena. In contrast to IAG, Suncorp-Metway (SUN) delivered better-than-expected profits in the half year to June and is trading on a lower price-earnings ratio than IAG. Management also provided much clearer guidance on its earnings outlook.

Turning to the wealth management side of things, AMP has attractive long term dynamics, with growth in superannuation, good cost control and a clean balance sheet. However, its momentum over the near term will be linked to the momentum of equity markets, which may not be as strong as it has been in recent periods. When compared to AXA, the operations of AMP are mainly Australian based, where the superannuation and investment business dominates. AXA on the other hand writes more than half of its business in Asia, where the products are very capital intensive. As compensation for this, the AXA Asian life businesses carry profit margins that are many multiples ahead of what the equivalent is in developed markets like Australia.

Both stocks have attractive growth prospects, although AXA should have more downside protection, due to: its lesser dependence on equity markets for growth; its on-market share buyback program; and its Parent company's clear interest in eventually owning 100% of the stock. We therefore favour AXA over AMP, in particular for those investors with a longer term investment horizon. The benefits of AXA doing business in developing markets looks set to continue, which should flow through to investors in future periods.

Overall, the General Insurance side of the sector should provide a relatively defensive shelter to any further equity market gyrations. On the other hand, the Wealth Managers will be a lot more sensitive to short-term market volatility, but have more attractive long term growth prospects. In terms of sector preferences, QBE remains our preferred stock in the sector. It has strong defensive characteristics, attractive growth prospects, and is in the process of locking in reinsurance protection that will limit its losses from catastrophic claim events to ~8% of premium. We would also favour AXA as a long term growth play and SUN as a defensive exposure to the sector, while IAG is our least preferred stock and a key funding idea amongst the General Insurers. Despite a clouded outlook, the stock is trading at a premium to its peers, leading us to conclude there is better value elsewhere in the sector.

Year End June	QBE	SUN	IAG	AXA	AMP
Share Price (31 August)	\$34.85	\$20.10	\$5.03	\$7.54	\$10.52
12 Month Price Target	\$37.70	\$21.50	\$5.00	\$8.80	\$10.75
Recommendation	BUY	HOLD	SELL	BUY	HOLD
FY08 PER (x)	13.2x	12.2x	13.5x	19.8x	18.9x
FY08 Yield (%)	4.3%	5.9%	5.8%	3.1%	4.8%

Source: Iress, GSJBW Research

Portfolio Management: REITs Sector**REITs****Analyst: Simon Scott**□ **Westfield Group (WDC): Buy**

Share Price as at 31/08/07: \$20.93; 12 Month Price Target: \$22.68

Year End Dec.	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	1830.9	1990.6	2203.6
EPS Growth (%)	7.6	3.4	5.3
PER (x)	20.1	19.5	18.5
Yield (%)	5.1	5.1	5.4

Source: Company data, GSJBW Research estimates

Westfield Group (WDC) is an integrated property group that specialises in the shopping centre segment of the property development arena. The group recently reported a very solid profit result, with operating segment earnings per share up 5.7% on the previous period. The group demonstrated growth from its developments in the United Kingdom and Australia. While its portfolio in the United States produced a slightly disappointing result, the overall outlook for WDC is positive, and looks set to provide further revenue growth over coming periods. WDC is our top pick in the REITs sector, based on its strong performing portfolio of assets, and impressive array of projects both in progress and in the pipeline. We believe these projects to be of strategic value to Westfield, providing opportunities for the group to make further acquisitions and to potentially increase earnings to above the peer average.

At present the group has sixteen projects under construction. Ten projects were successfully completed during the 2007 financial year, and it has allocated a further A\$10b to new projects going forward. WDC also conducted a rights issue that enabled it to reduce its gearing level to below 30%, which gives them an edge over other peers in the sector. It also has a strong balance sheet which points to a possible growth strategy, especially where some value might be achieved through acquisitions, where management can focus on value in light of current market volatility. We believe the management team to be highly competent in the property development arena, and would see any share price weakness over the coming months as a good buying opportunity. The stock valuation is defensive and it appears relatively attractive versus its Australian and US peers.

REITs**Analyst: Simon Scott**□ **Bunnings Warehouse Property Trust (BWP): Sell**

Share Price as at 31/08/07: \$2.48; 12 Month Price Target: \$2.23

Year End June	2007 Actual	2008 Estimate	2009 Estimate
Net Profit (\$m)	39.1	39.4	41.2
EPS Growth (%)	3.2	0.8	4.6
PER (x)	18.2	18.0	17.2
Yield (%)	5.2	5.3	5.5

Source: Company data, GSJBW Research estimates

Bunnings Warehouse Property Trust (BWP) is a real estate investment trust with a majority of its holdings in warehouse retailing property. In particular, the Trust owns properties utilised by Wesfarmers Limited's hardware division, Bunnings. We believe that BWP's earnings are likely to be under pressure in the short to medium term given the recent increase in funding costs. The trust also recorded large gains from the revaluation of its assets over the past 12 months. This increase in asset valuation however has resulted in an increased management fee expense, which has not been accompanied by rental growth. BWP is unlikely to grow earnings and distributions through acquisitions given the current market conditions. Tight capitalisation rates (ratio between the net income produced by an asset and its capital cost) and increasing borrowing costs mean that finding quality acquisitions that would be accretive to earnings is difficult for BWP. This was recently highlighted by BWP's failure to acquire a portfolio of 11 Bunnings properties, which were sold to another bidder on a low capitalisation rate.

In our view, BWP's portfolio has been aggressively revalued, and of concern is the revaluation gains have been predominantly driven by cap rate compression and not income growth. The net effect of this is that earnings are negatively impacted by the increased management fee. In addition, on our analysis BWP is less attractive than its peers on a valuation basis and we consequently remain comfortable with our Sell recommendation.

Portfolio Management: Emerging Companies**Emerging Companies****Analyst: George Batsakis**□ **Oakton Limited (OKN): Buy**

Share Price as at 31/08/07: \$5.40; 12 Month Price Target: \$7.10

Year End June	2007 Actual	2008 Estimate	2009 Estimate
Net Profit (\$m)	20.5	29.5	35.9
EPS Growth (%)	38.6	40.5	18.0
PER (x)	23.2	16.5	14.0
Yield (%)	3.7	5.2	6.1

Source: Company data, GSJBW Research estimates

Oakton Limited (OKN) operates in the IT services area, specialising in customised software development and systems integration. OKN has now been listed for seven years and over this time has produced consistent strong earnings growth with the exception of only one year (when it closed and wrote-off its Products division). The company has positioned itself as a niche provider, with a view to servicing top-tier organisations.

We see a key advantage of the OKN business model resting in its size, which enables it to have much lower overhead costs than some of its larger rivals. Over the years, OKN has built up a solid blue chip client base, and is now on the IT services provider panel of many of these companies, ensuring a regular flow of work and a continuous deployment of consultants with these clients. We also believe that the firm has benefited from a protracted period of IT spend within the corporate sphere, with many companies now viewing IT as a necessary component of fixed cost spending to maintain their competitive advantage.

Thus OKN appears to have strong growth ahead of it on the back of consistent IT spend by its clients, and in line with its aim to further establish its brand within Australia. We view Oakton as our preferred pick in the IT sector, niche positioning, a solid operating model and strong potential for growth both domestically and offshore. From a valuation perspective, the stock looks attractive, currently trading at a discount to both our current valuation and 12 month price target, and we recommend the stock as a BUY.

Emerging Companies**Analyst: Greg Ward**□ **Flexigroup (FXL): Buy**

Share Price as at 31/08/07: \$2.53; 12 Month Price Target: \$3.78

Year End June	2007 Actual	2008 Estimate	2009 Estimate
Net Profit (\$m)	29.3	35.1	41.7
EPS Growth (%)	28.9	18.7	18.9
PER (x)	18.5	15.6	13.1
Yield (%)	2.2	4.6	5.4

Source: Company data, GSJBW Research estimates

Flexigroup (FXL) is a provider of rental finance for the IT equipment, electrical appliance and other retail markets in Australia and New Zealand. FlexiGroup relies on its retail partners to 'pull' customers into their stores and then offer the FlexiGroup options. Thus FlexiGroup benefits from the strong marketing spend of large retail chains as well as from marketing by competing finance providers such as those offering interest-free loans. FXL has a good distribution network, with a strong sales force of 11,000 third-party staff working in well-known retailers including Harvey Norman and Noel Leeming. We are positive on the outlook for FXL in light of its recent full year result. The company reported a significant increase in profit (~29%), with an overall result around 6.5% ahead of prospectus. This was mainly due to growth in the higher margin IT channel, lower bad debts and self funding of the company's loan portfolio.

We believe the group has attractive growth opportunities both here and abroad. It has a relatively defensive model in place, with an earnings profile which we believe is understated due to the company's conservative accounting treatment. While we are of the view that the stock has underperformed in the lead up to the full year result, we see this as attributable to a lower understanding of the business due to delayed access to financials and operations. We expect this to reverse following the result, which has provided the market access to financials, management and operations. In essence, we are comfortable maintaining a positive view on FXL. On a twelve month basis, we see the stock as an attractive investment at current levels, trading well below our target price. With strong cash generation, an attractive industry structure and a sound business model, we recommend the stock as a BUY.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

Westpac Banking Corporation	Woolworths
National Australia Bank	Foster's Group
Macquarie Communications Infrastructure Group	Qantas
BHP Billiton	AMP
Commonwealth Bank of Australia	Spark Infrastructure
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 August 2007:

Added: QAN, SKI

Removed: TLS, IAG

Trimmed: CBA, WES

Increased: SUN, WOW

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

Earnings per Share Growth	10.3%
Price to Earnings Ratio	16.0x
Average Yield	4.8%
Franking	88%

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 August 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	10.8%
Price to Earnings Ratio	16.3x
Average Yield	3.6%
Franking	74%

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 August 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	9.5%
Price to Earnings Ratio	15.3x
Average Yield	3.2%
Franking	78%

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 August

STOCK	ASX CODE	Old Recommendation	New Recommendation
Australian Agricultural Company Limited	AAC	HOLD	SELL
Adelaide Brighton Limited.	ABC	HOLD	SELL
Brambles Limited	BXB	HOLD	BUY
Insurance Australia Group Limited	IAG	SELL	HOLD
Independence Group NL	IGO	HOLD	SELL
Investa Property Group	IPG	SELL	HOLD
Felix Resources Limited	FLX	HOLD	SELL
Minara Resources Limited	MRE	HOLD	SELL
Multiplex Group	MXG	SELL	HOLD
Oakton Limited	OKN	BUY	HOLD
Publishing & Broadcasting Limited	PBL	BUY	HOLD
Perseverance Corporation Limited	PSV	SELL	HOLD
Ramsay Health Care Limited	RHC	HOLD	BUY
Seek Limited	SEK	BUY	HOLD
Singapore Telecommunications Limited	SGT	BUY	HOLD
Transurban Group	TCL	HOLD	SELL
Telstra Corporation Limited	TLS	SELL	HOLD
Transpacific Industries Group Ltd	TPI	HOLD	SELL

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Price (\$A) 31-Aug-2007	12 Month Price Target (\$A)	Recommendation
Australian Agricultural Company Limited	AAC	\$2.69	\$2.86	HOLD
Adelaide Brighton Limited	ABC	\$3.59	\$3.50	HOLD
Adelaide Bank Limited	ADB	\$15.60	NR	NR
Australian Infrastructure Fund	AIX	\$3.40	\$3.30	HOLD
Aristocrat Leisure Limited	ALL	\$14.00	\$15.58	BUY
AMP Limited	AMP	\$10.52	\$10.75	HOLD
Australia and New Zealand Banking Group	ANZ	\$28.99	\$32.92	HOLD
Austbrokers Limited	AUB	\$4.30	\$5.77	BUY
AXA Asia Pacific Holdings Limited	AXA	\$7.54	\$8.80	BUY
Billabong International Limited	BBG	\$15.85	\$20.91	BUY
Bendigo Bank Limited	BEN	\$15.09	NR	NR
BHP Billiton Limited	BHP	\$38.42	\$44.39	BUY
Boral Limited	BLD	\$7.89	\$8.53	HOLD
Bunnings Warehouse Property Trust	BWP	\$2.48	\$2.23	SELL
Brambles Limited	BXB	\$13.80	\$14.49	HOLD
Commonwealth Bank of Australia	CBA	\$55.15	\$56.02	SELL
Coca-Cola Amatil Limited	CCL	\$9.51	NR	NR
Coles Group Limited	CGJ	\$14.17	\$14.97	HOLD
Computershare Limited	CPU	\$10.30	\$11.10	BUY
Crane Group Limited	CRG	\$17.38	\$21.80	BUY
David Jones Limited	DJS	\$5.17	\$5.56	HOLD
Foster's Group Limited	FGL	\$6.32	\$7.10	BUY
Felix Resources Limited	FLX	\$4.71	\$5.44	SELL
Fairfax Media Limited	FXJ	\$4.64	\$5.30	HOLD
Flexigroup Limited	FXL	\$2.53	\$3.78	BUY
Hills Industries Limited	HIL	\$6.72	\$6.10	HOLD
Healthscope Limited	HSP	\$5.49	NR	NR
Insurance Australia Group Limited	IAG	\$5.03	\$5.00	SELL
Independence Group NL	IGO	\$5.78	\$5.25	HOLD
Investa Property Group	IPG	\$2.99	\$3.00	HOLD
James Hardie Industries N.V.	JHX	\$8.10	\$10.77	BUY
Macquarie Communications Infrastructure	MCG	\$5.80	\$7.08	BUY
Minara Resources Limited	MRE	\$5.87	\$6.70	HOLD
Metcash Limited	MTS	\$4.76	\$5.28	BUY
Multiplex Group	MXG	\$4.99	\$5.05	SELL
National Australia Bank Limited	NAB	\$39.94	\$48.17	BUY
News Corporation	NWS	\$26.63	\$34.51	BUY
Oakton Limited	OKN	\$5.40	\$7.10	BUY
Origin Energy Limited	ORG	\$9.97	\$10.13	BUY
Publishing & Broadcasting Limited	PBL	\$17.92	\$22.20	BUY
Perseverance Corporation Limited	PSV	\$0.09	\$0.10	SELL
Qantas Airways Limited	QAN	\$5.58	\$6.70	BUY
QBE Insurance Group Limited	QBE	\$34.85	\$37.70	BUY
Ramsay Health Care Limited	RHC	\$10.52	\$11.95	HOLD
RIO Tinto Limited	RIO	\$93.52	\$107.88	BUY
ResMed Inc.	RMD	\$5.03	\$6.41	BUY
Southern Cross Broadcasting (Australia)	SBC	\$17.38	NR	NR
Seek Limited	SEK	\$8.20	\$9.45	BUY
St George Bank Limited	SGB	\$34.31	\$38.80	HOLD
Singapore Telecommunications Limited	SGT	\$2.92	\$3.21	BUY
Sonic Healthcare Limited	SHL	\$15.41	\$15.80	HOLD
Spark Infrastructure Group	SKI	\$1.86	\$2.19	BUY
Santos Limited	STO	\$13.25	\$12.50	SELL
Suncorp-Metway Limited	SUN	\$20.10	\$21.50	HOLD
Symbion Health Limited	SYB	\$4.16	NR	NR
TABCORP Holdings Limited	TAH	\$15.29	\$16.18	HOLD
Transurban Group	TCL	\$7.16	\$7.13	HOLD
Telstra Corporation Limited	TLS	\$4.37	\$4.69	SELL
Toll Holdings Limited	TOL	\$13.60	\$15.25	HOLD
Transpacific Industries Group Ltd	TPI	\$10.92	\$13.22	HOLD
Tattersall's Limited	TTS	\$4.19	\$5.06	HOLD
West Australian Newspapers Holdings	WAN	\$15.35	\$13.90	SELL
Westpac Banking Corporation	WBC	\$27.20	\$32.59	BUY
Westfield Group	WDC	\$20.93	\$22.68	BUY
Wesfarmers Limited	WES	\$38.56	\$42.55	HOLD
Woolworths Limited	WOW	\$29.92	\$32.55	BUY
Woodside Petroleum Limited	WPL	\$45.30	\$51.50	BUY

All valuations and Prices in A\$ unless otherwise stated

Source: IRESS, GSJBW Research

Disclosure of Interests:

Company Specific Regulatory Disclosures

See company-specific regulatory disclosures for any of the following disclosures required as to companies referred to in the report: manager or co manager in a pending transaction; financial advisor in a strategic corporate transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures: **Ownership and Material Conflicts of Interest:** Goldman Sachs JBWere policy prohibits its analysts, assistant analysts and their respective associates owning securities of any company in the analyst's area of coverage. **Analyst compensation:** Analysts are paid in part based on the profitability of Goldman Sachs JBWere, which includes investment banking revenues. **Distribution of recommendations:** See the distribution of recommendations disclosure on the following page.

Compendium Report

Please see disclosures at <http://www.gsjobw.com/Disclosures>. Disclosures applicable to companies included in this compendium report can be found in the latest relevant published research.

Global Product; Distributing Entities

This report has been prepared by the Goldman Sachs JBWere Investment Research Division for distribution to clients of affiliates of Goldman Sachs JBWere and pursuant to certain contractual arrangements to clients of affiliates of The Goldman Sachs Group, Inc. (Group) (Collectively, Group and its affiliates, "GS").

Group owns indirectly 45% of the ordinary shares of Goldman Sachs JBWere Pty Ltd and Goldman Sachs JBWere Group Holdings Pty Ltd. Each share in Goldman Sachs JBWere Pty Ltd is stapled to a share in Goldman Sachs JBWere Group Holdings Pty Ltd, such that a share in one cannot be dealt with separately from a share in the other. Research views, investment opinions and recommendations published by Goldman Sachs JBWere Pty Ltd are developed independently from those published by the Goldman Sachs Global Investment Research Division.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897); in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union. Persons who would be categorized as private customers in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this material in conjunction with the last published reports on the companies mentioned herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risk warnings is available from the offices of Goldman Sachs International on request. Unless governing law permits otherwise, you must contact a Goldman Sachs entity in your home jurisdiction if you want to use Goldman Sachs JBWere's or GS's services in effecting a transaction in the securities mentioned in this material.

European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also be distributing research in Germany.

General Disclosures

This research is for clients only, as stated above. Other than disclosures relating to Goldman Sachs JBWere, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than some industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs JBWere and/or its affiliates conduct a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Investment Research Division.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.

In producing research reports, members of Goldman Sachs JBWere Investment Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs JBWere considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients.

Disclosure information is also available at <http://www.gsjobw.com/Disclosures> or from Research Compliance, Level 42, 1 Farrer Place Sydney NSW 2000.

Research Analyst Certification

Each equity and strategy research report excerpted herein was certified under Reg AC by the analyst primarily responsible for such report as follows: I, Tom Goode, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Copyright 2007 Goldman Sachs JBWere Pty Ltd ABN 21 006 797 897 AFSL 243346

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Goldman Sachs JBWere.

RECOMMENDATION DEFINITIONS

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 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
CS	Coverage Suspended. GSJBW has suspended coverage of this company.
NC	Not Covered. GSJBW does not cover this company.

Price Target

Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

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.

Prior to 20 July 2007, GSJBW had a dual-horizon recommendation system: Short Term & Long Term. The Short Term factors were Relative Earnings Outlook, Earnings Momentum, News Flow, Relative Performance, and Valuation Support. The Long Term factors were Industry Structure, EVA™ Trend, Growth Option and Price/DCF.

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 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	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
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts 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

EVA™ Trend: ¹	ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 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

Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
Yield:	Yield relative to the REIT sector average. Used instead of Earnings revision.

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 30 June 2007

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	14%	13%
Hold	51%	54%
Buy	35%	33%

* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 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.

© 2007 Goldman Sachs JBWere Pty Ltd – ABN 21 006 797 897

Goldman Sachs JBWere Offices

Melbourne

Telephone (03) 9679 1111
Facsimile (03) 9679 1493

Sydney

Telephone (02) 9321 8777
Facsimile (02) 9321 8621

Brisbane

Telephone (07) 3258 1111
Facsimile (07) 3258 1112

Adelaide

Telephone (08) 8407 1111
Facsimile (08) 8407 1112

Perth

Telephone (08) 9422 3333
Facsimile (08) 9422 3399

Canberra

Telephone (02) 6218 2000
Facsimile (02) 6218 2001

Overseas Offices

New York
Christchurch

London
Wellington

Auckland
