Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review — September 2007

- The Australian equity market bounced back during September, buoyed by news of rate cuts in the US which reduced near term concern over the state of the US economy. The ASX200 finished the month 5.6% higher.

- Investors shifted focus to the Global stocks most leveraged to the strong growth from Asia. Some concern remained around the Financials as credit spreads remained high, while oil and gold prices rose over September. The Materials, Energy and Healthcare sectors outperformed, while the REITs, Information Technology and Consumer Staples sectors lagged. The Australian dollar ended September 7.1% higher at US$0.882

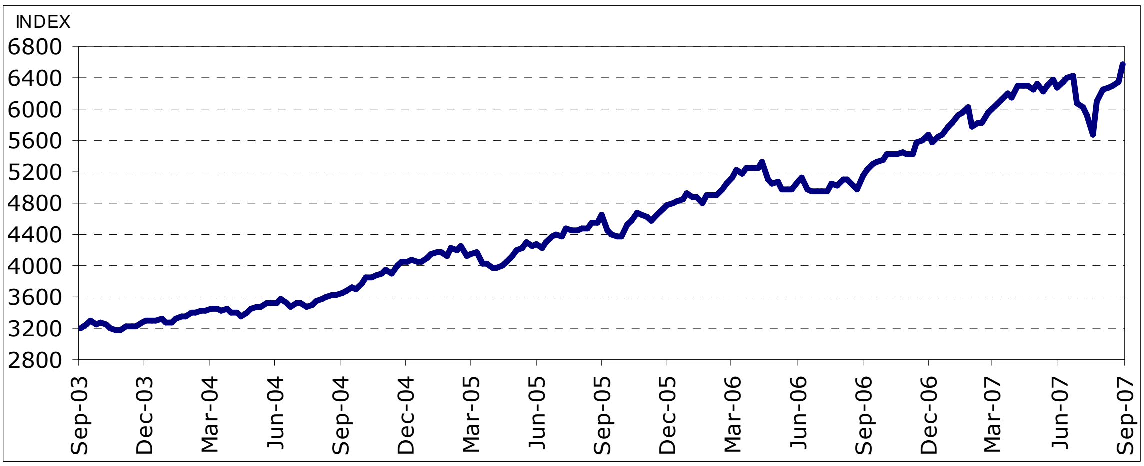
- The key issue for investors over the remainder of 2007 is how the US economy performs in light of the increased risk of a slowdown, and the potential that this would have on global growth. We continue to prefer sectors leveraged to growth from China, which remains intact, while also maintaining a defensive bias given uncertainty in the earnings outlook.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	5.6%	11.6%	32.4%
S&P/ASX 200 Industrials	2.6%	5.3%	24.8%
S&P/ASX 200 Resources	15.2%	35.5%	60.8%
S&P/ASX Small Ordinaries	4.6%	10.2%	36.7%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	-2.9%	-13.4%	-13.6%
Consumer Staples	-4.4%	-8.6%	-6.8%
Energy	4.8%	9.8%	6.8%
Financials	-2.8%	-5.3%	-9.8%
Health Care	1.2%	2.0%	8.9%
Industrials	-1.9%	-3.2%	-1.1%
Information Technology	-14.7%	-27.4%	-18.2%
Materials	8.9%	22.4%	28.3%
REITs	-3.3%	-3.5%	-12.3%
Telecommunications	-5.6%	-15.2%	-3.6%
Utilities	-3.8%	-11.1%	-13.9%

Source: GSJBW Research, IRESS

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

(September 2003 – September 2007)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Fortescue Metals	40.3	Futuris Corporation	-13.1
Incitec Pivot	30.6	James Hardie	-12.0
Lihir Gold	28.3	PaperlinX	-10.1
Paladin Resources	27.7	Centro Properties	-10
Newcrest Mining	23.9	Computershare	-9.8
Leighton Holdings	17.5	Bendigo Bank	-9.2
Oxiana	16.9	Boral	-8.9
Cochlear	16.4	CSR	-7.4
Babcock & Brown	16.1	Sigma Pharmaceutical	-6.1
BHP Billiton	16.0	Billabong	-5.5

Source: IRESS

Significant Company/Economic News

Media & Telecommunications **Analysts: Christian Guerra & Adam Alexander**

News Corporation (NWS) traded sideways during the month in light of increasing concerns over the health of the US economy. **Publishing & Broadcasting (PBL)** regained momentum this month, strengthening after a series of announcements, in addition, PBL and **West Australian Newspapers (WAN)** announced the sale of Hoyts to Pacific Equity Partners. **Telstra's (TLS)** share price declined during September. During the month, the Attorney-General, Philip Ruddock, imposed varied conditions on Telstra’s carrier licence. **SingTel (SGT)** continued to trade higher following a good quarterly result in August. During the month Optus indicated that OPEL had received in-principle approval for A$958m in funding for the rural and regional broadband network.

Retail **Analyst: Phillip Kimber**

Billabong (BBG) declined again this month, continuing to be impacted by concerns regarding a US consumer slowdown. **David Jones (DJS)** declined in September, despite reporting a strong FY07 sales result which saw NPAT (pre-NRIs) rise 35%. **Harvey Norman (HVN)** rose over the month on no company-specific news flow.

Gaming **Analyst: Adam Alexander**

During the month, **Aristocrat (ALL)** received ATO approval to proceed with its proposed $100m on market buyback, which is anticipated to commence early in the new year. Uncertainty surrounding the impact of the equine flu weighed heavily on the stock prices of **Tabcorp (TAH)** and **Tattersalls (TTS)** during the month. While racing continues in the southern States there is some offset to the impact on Wagering earnings for both TTS and TAH.

Consumer Staples **Analyst: Phillip Kimber**

Woolworths (WOW) was flat over the month with no company-specific news flow, while **Metcash (MTS)** fell over the month on no company-specific news flow. **Coles Group (CJG)** rose over the month despite reporting a weak FY07 Profit result. **Coca-Cola Amatil (CCL)** traded down late in the month after two announcements. First, that CCL had made a conditional offer to acquire troubled juice and fruit producer Golden Circle. **Foster’s Group (FGL)** continued to move higher following its better than expected FY07 result.

Energy **Analyst: Anthony Bishop**

Woodside Petroleum (WPL) strengthened during the month after announcing it had signed a contract with PetroChina for the export of Browse LNG. **Oil Search (OSH)** jumped mid month as the media (South China Morning Post, 17/9/07) reported that CNPC Exploration (a joint venture between CNPC and PetroChina) was preparing a takeover bid for the company. **Australian Worldwide Exploration (AWE)** continued drilling in New Zealand, with two more failed exploration wells (Taranui and West Cape).

Banks **Analysts: James Freeman & Ben Koo**

Issues coming from the US sub-prime market continue to flow over into the Australian banking sector in the form of concerns over conduit exposure. As such, the banks noted conduit drawdown exposures of between nil and $6bn. This equates to an average potential fall in Tier 1 capital of 0.1% which all banks are able to support given their current capital ratios. **Westpac (WBC)** provided an update on its group strategy during the month and its NZ and Business Banking divisions, with signs that group's momentum continues with strong volume growth and margin decline. Following on from the trading update provided in August, **ANZ Banking Group (ANZ)** noted that it sees that Liquidity levels remain strong and access to debt markets is good, especially at the short end of the curve. **Adelaide Bank (ADB)** traded down on rumours that the bank may require emergency funding (IRESS). **Macquarie Bank (MBL)** surprised the market by releasing a statement that it expected see profit growth in 1H08.

Insurance **Analyst: Ryan Fisher**

Given most insurers were on post-result road-shows in September, there was little news flow during the month. **AMP** announced that Craig Dunn (currently MD of AMPFS) will replace Andrew Mohl as CEO of the group. **AXA** announced it is one of 4 insurers considering purchasing a stake in MAA Assurance in Malaysia. **Insurance Australia (IAG), QBE** and **Suncorp (SUN)** lagged for most of the month (as investors/traders trimmed their defensive stock positions given the market rally).

Healthcare **Analyst: Robert Gilderdale**

The status of the proposed takeover of **Symbion Health (SYB)** by **Healthscope (HSP)** continued to dominate headlines during the month. **Sonic Healthcare (SHL)** completed its acquisition of Bioscientia, having obtained regulatory approval and settled the transaction slightly ahead of schedule. **Sigma Pharmaceuticals (SIG)** downgraded its FY08 guidance - the second time in three months. The company cited lower than expected compliance rates with its Embrace program, and deferred launches of generic products. **Cochlear (COH)** rallied during the month on the back of its strong FY07 result.

Industrials **Analysts: Matthew McNee & Paul Ryan**

Wesfarmers (WES) ended the month higher as the Coles deal passed some significant milestones throughout September. **Orica (ORI)** dipped and then recovered on the news late in the month that Orica had entered into an agreement to acquire Excel Mining Services. **Dyno Nobel (DXL)** rose throughout September as it was reported that DXL and **Incitec Pivot (IPL)** were in continued takeover discussions (AFR, 17/9/07) following IPL's announcement last month that it had acquired a 13% stake in DXL. **Brambles' (BXB)** continued to rally amidst uncertainty regarding the intentions of both **Asciano Group (AIO)** and **Toll Holdings (TOL),** which were revealed to be on its share register in early August. **Asciano Group (AIO)** recovered slightly after its August share price collapse following revelation of the Brambles stake. **Qantas Airways (QAN)** went sideways as higher oil prices offset commencement of the company's 10% on-market buyback and strong July traffic statistics. **James Hardie (JHX) and Boral (BLD)** both fell during the month, as more negative data came out of the US. **CSR Limited (CSR)** ended lower as the market reacted negatively to the company's takeover of DMS Glass. **Adelaide Brighton's (ABC)** share price rallied mid-month in sympathy with the index, but otherwise moved sideways on very little news flow.

Diversified Resources **Analyst: Neil Goodwill**

Sentiment on commodities and resources continues to ebb and flow, seemingly with each economic data release from the USA, and with every twist in the unfolding saga of sub-prime mortgage fallout. Yet the role of the US in most physical commodities markets is now very much subordinate to that of China, for which growth rates continue to surprise us positively. In this environment **BHP Billiton (BHP)** and **Rio Tinto (RIO)** both enjoyed double-digit gains. BHP also enjoyed support from press articles (e.g. AFR 26/9/07) ahead of the release of its annual report, indicating that a major upgrade to ore reserves at Olympic Dam would be announced.

Australian Equities: Key Issues for Portfolio Strategy

- Volatility in global markets continued throughout September, as the broader impact of a weakening US housing sector raised concerns about the growth outlook for the US economy. The key near term risk remains a renewed slowdown in the US economy (declining consumption from housing downturn, tighter credit markets) resulting in a prolonged period of sub-trend growth.

- While the US sub-prime problem has been the origin of swift de-leveraging and a flight to quality, of greater concern to the health of the US economy is the spill-over effect from the US housing market, including evidence of a tighter labour market emerging in US firms, coupled with diminishing consumer spending. The decision to cut US interest rates may alleviate some of these pressures in the near term, however it further highlights the extent of recent sub-prime credit woes, and highlights an increasingly unclear US economic outlook. As a result, Goldman Sachs have reduced their US growth forecasts (refer Table 1 below) and continue to watch for further news-flow, as the credit crisis continues to play out.

- Despite increased volatility in global asset markets due to the fallout of the US sub-prime debt markets, global growth expectations remain largely intact driven by Asia (China). We anticipate global growth is less dependent on the strength of the US, with the emerging economies of Brazil, Russia India and China (BRIC economies) increasing in significance. While the US housing slowdown and credit crisis continues to filter through financial markets, there is evidence to suggest this is more of a country specific issue that will not impact the overall growth conditions of the global economy. In this context, we believe the strong and improved fundamentals in China as well as in the rest of emerging Asia stand a good chance of decoupling from a further weakening of the US economy (refer Table 1 below). This remains a positive for domestic equities given our increasing trade relationships with these developing markets.

Table 1

Real GDP	**2005**	**2006**	**2007e**		**2008e**	
% chg yoy	**Actual**	**Actual**	**Goldman Sachs**	**Consensus***	**Goldman Sachs**	**Consensus***
US	**3.1**	**2.9**	**2.0**	**2.0**	**1.8**	**2.4**
Japan	**1.9**	**2.2**	**2.0**	**2.3**	**2.1**	**2.1**
Euroland	**1.5**	**2.9**	**2.6**	**2.6**	**2.0**	**2.2**
China	**10.4**	**11.1**	**12.3**	**11.3**	**10.9**	**10.6**
New Zealand**	**2.2**	**1.5**	**2.3**	**2.6**	**1.1**	**2.3**
Australia**	**2.8**	**2.7**	**4.3**	**4.1**	**3.0**	**3.6**
Advanced Economies	**2.6**	**3.0**	**2.6**	**2.6**	**2.2**	**2.5**
BRICS	**9.0**	**9.6**	**10.3**	**9.6**	**9.4**	**9.1**
World	**4.4**	**4.9**	**4.7**	**4.5**	**4.2**	**4.3**

Source: Goldman Sachs Research estimates, GSJBW Research estimates**, Consensus Economics (Sep 07)*

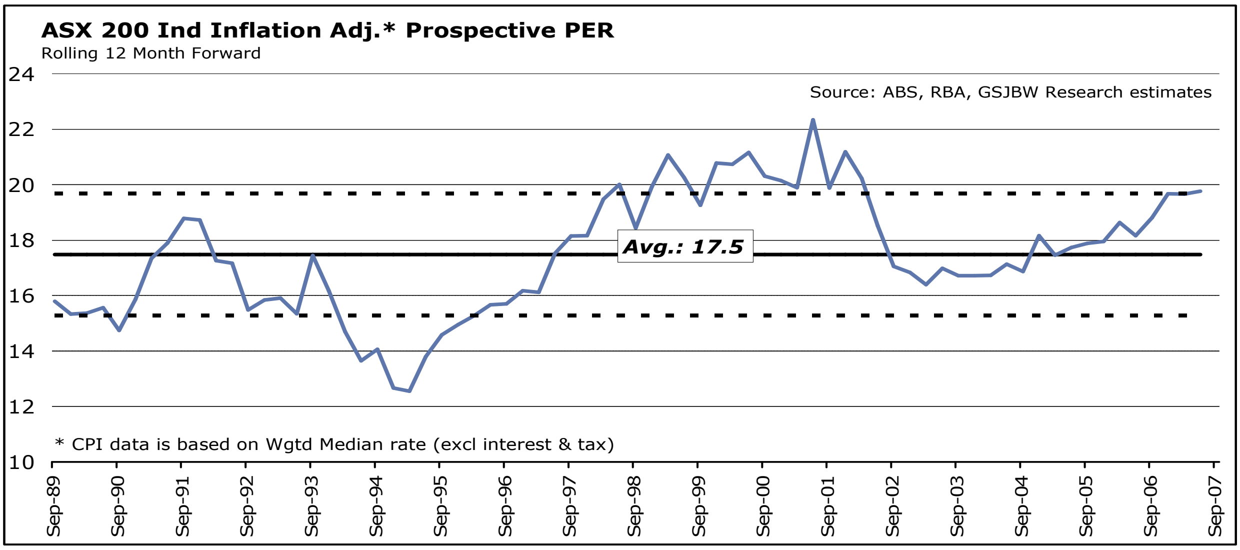
- Increasing inflation expectations are the longer term risk for equities. China is moving from an exporter of deflation (cheap exports) to becoming an exporter of inflation as increasing labour costs and a rising currency result in higher export prices. If inflationary pressures accelerate from here we would expect central banks to be more aggressive with interest rate policy, which would have a negative impact of the earnings outlook for equities.

- In Australia, economic momentum remains positive, with growth now travelling well above non-inflationary 'potential'. Uncertainty remains as to whether another rate increase will be necessary in the near term, following the strong June quarter growth figures. However, we believe the RBA will keep rates on hold into early 2008 as it monitors the impact of the August rate hike and tighter credit market conditions resulting from the US sub-prime fallout.

- As we move into 2008 growth we expect growth to slow, with rising debt servicing costs and other necessity good prices (food, petrol, utilities) likely to be a significant headwind to the household sector over the coming year. Consequently 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.

- Equity valuations have rebounded sharply following falls in mid-August and are back at fully valued levels (refer Chart 1 below), particularly in the Industrials. We expect volatility will remain high for the next 2-3 months, with economic news flow out of the US the key short-term driver. With increasing risks around US growth and uncertainty around the housing downturn and flow on to the broader economy, we remain cautious on what the market is currently pricing in. Investors in Australian equities have been quick to price out the risks of the last few months, despite ongoing uncertainty around the flow on effects of credit market stress. There appears to be somewhat of a disconnect between equities and other asset markets, which remain more risk averse. While we expect liquidity to be 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.

Chart 1



- 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.

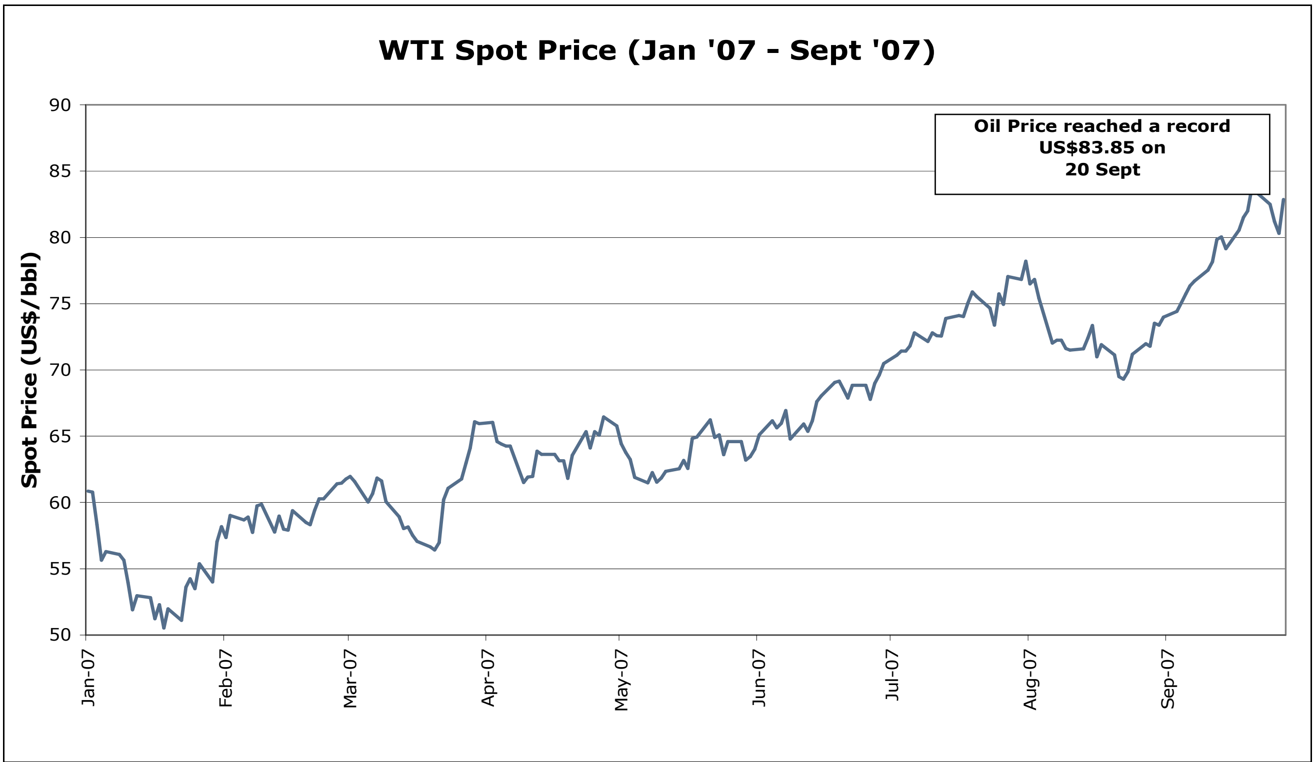
- Stocks that we prefer on this basis include Westfield (WDC), Woolworths (WOW), Singapore Telecom. (SGT), Ramsay Healthcare (RHC) and Macquarie Communications Group (MCG). With the Australian financials relatively well insulated from the US sub-prime issues, we also view QBE Insurance (QBE), AXA Asia Pacific (AXA) and banking stocks including Westpac Bank (WBC) and National Australia Bank (NAB) as providing good long term relative value. While the Resources have experienced a strong rerating over recent months, valuations are fairly priced, and we remain positive on the fundamental long-term outlook for the diversified miners BHP Billiton (BHP) and Rio Tinto (RIO).

GSJBW Market Forecasts

As at 30/09/2007	**Price Earnings Ratio (PER)**			**Earnings Per Share Growth (%)**			**Dividend Yield (%)**		
	FY07	**FY08E**	**FY09E**	**FY07**	**FY08E**	**FY09E**	**FY07**	**FY08E**	**FY09E**
S&P/ASX 300	17.7x	15.8x	13.7x	12.4	12.1	15.8	3.1	3.4	3.7
S&P/ASX 300 Industrials	18.1x	16.9x	15.3x	14.0	7.3	10.2	3.9	4.3	4.6
S&P/ASX 300 Resources	16.8x	14.4x	11.5x	12.0	16.9	25.6	1.6	1.8	2.0

Commodities Update: Oil

Crude Oil traded at record prices during September, with the WTI spot price reaching US$83.85 during the month, following the release of US data showing a larger than expected drop in inventories – down 3.8 million barrels versus consensus forecasts for a 2 million barrel drop (refer to the below price chart). Crude prices were also driven higher over September on expectations that energy demand would remain high following the Federal Reserve's decision to cut interest rates. Other factors behind the rapid increase have included anticipated inclement weather in the Gulf of Mexico inhibiting further production from that region, and OPEC discussions surrounding production hikes if oil prices remain above US$80 for several weeks.



As a result of ongoing strength in the oil price, we revised our price forecasts during the month. Our calendar year price forecasts for WTI (US$/bbl) are now (previous price forecasts are shown in brackets):

2007	2008	2009	2010	2011
$67.14 (65.00)	$65.50 (60.50)	$59.00 (56.50)	$52.00 (52.00)	$50.00 (50.00)

These changes reflect our 'moderation scenario' of oil prices and accordingly we note that our long term oil price forecast remains unchanged at US$41.00/bbl (escalated for inflation from 2012). The upgrade to our price forecasts are a reflection of the mounting upward pressure on oil prices. The key trends underpinning our revised forecasts include:

- Continued strength on demand growth: Global oil demand growth reaccelerated during 2007 despite continued US$60-$70/bbl oil prices
- Non-OPEC crude oil supply remains stagnant: the expectations for production growth from non-OPEC producers is limited, and supply continues to fall well below consensus expectations calling for high growth
- OPEC spare capacity is expected to stay at minimal levels: the focus of oil supply now stems from OPEC, however while we believe the cushion of spare global oil production is likely to diminish, we do maintain that OPEC's spare capacity will be manageable.
- Geopolitical issues that also place upward pressure on our price assumptions

Following our increased oil price forecasts, our updated earnings forecasts for the energy stocks are summarised in the following table:

Stock Code	12m Target Price	Dividend Yield (FY08)	Dividend Yield (FY09)	EPS Growth (FY08)	EPS Growth (FY09)	PE Ratio (FY08)	PE Ratio (FY09)	Premium / (disc.) to Val'n
WPL	$51.50	2.6%	2.6%	21.8%	3.1%	23.5x	22.8x	33.8%
AWE	$4.00	0.0%	0.0%	630.9%	-45.5%	7.2x	13.2x	33.3%
BHP	$44.37	1.5%	1.9%	8.0%	28.3%	13.6x	10.6x	69.2%

Source: GSJBW Research Estimates

The revised oil price forecasts present no changes to our price targets for the stocks most impacted by the price upgrade. Our preferred energy exposures remain Woodside Petroleum (WPL) and Australian Worldwide Exploration (AWE). We also remain with our SELL recommendation on Santos (STO).

Woodside (WPL): While we recently downgraded our recommendation on the stock to a HOLD, based on a rapid appreciation in the share price (WPL is currently trading at a ~47% premium to our valuation), we still maintain it is a quality stock possessing a strong earnings profile, long life reserves and with favourable exposure to the LNG market. We therefore maintain a positive view on WPL over the longer term, and retain it as our preferred large cap in the sector.

Australian Worldwide Exploration (AWE): We retain our positive view on AWE given its attractive earnings profile and ongoing exploration program. AWE has several features that make it attractive, including exploration and discovery of resources in the Otway and first Indonesian exploration entry and remains our preferred small cap stock. However we note the recent lack of success in the first two wells of its NZ exploration program together with a production decline that is likely from fiscal year 2009.

Santos (STO): Our least preferred stock in the sector, where we maintain our SELL recommendation. While we identify growth opportunities for Santos, there is some uncertainty around their timing and implementation, while they are likely to also carry lower margins. There has also been a cloud over merger activity, in particular there continues to be the unresolved issue of restrictions on shareholder/and or corporate activity. Should these issues unwind, it is likely we would revisit our view on the stock.

BHP Billiton (BHP): Petroleum accounts for ~18% of our Net Present Value (NPV) for BHP, with earnings from oil production set to increase during the 2008 fiscal year. We maintain our positive outlook for the diversified resource companies, with BHP still our preferred stock over Rio Tinto (RIO), while the oil price upgrades only serve to reinforce this view.

Sector Update: Real Estate Investment Trusts

Following the conclusion of the August FY07 reporting season, we have taken the opportunity to review some of the key themes that have arisen in the REIT sector over the past 12 months and highlight our key investment ideas within the sector.

One of the more interesting recent trends for the REITs has been the including of development profits in an attempt to drive earnings growth. A number of the property trusts have implemented this strategy by creating non-residential product on their balance sheets and subsequently selling it to either a managed fund or third party. The commercial sector is a particular focus given the current strength of the market for Office assets.

Another observation from reporting season was that the compression cycle in cap rates (ratio between the net income produced by an asset and its capital cost) has slowed down significantly and, over the next 12 months, we believe most valuation uplift will be created by quality developments and earnings growth (as opposed to asset price appreciation). The growth in earnings from overseas investments continues, particularly with the purchase of several operating businesses in Europe. In Australia, performance in the Retail sector remains strong, with solid growth in operating income and full occupancy at most regional and super-regional malls.

Our key buying ideas in the sector are Goodman Group (GMG), Macquarie Countrywide (MCW) and Westfield Group (WDC).

Goodman Group (GMG) is an internally managed, vertically integrated industrial property group. GMG owns, manages, and develops industrial property and business space in Asia Pacific and Europe. The company's operations encompass funds management, property services and property development. GMG has many positive attributes including quality assets, a robust strategy, a global platform, and amongst the strongest earnings and distribution growth prospects in the Australian REIT sector. Recent new initiatives, such as the expansion into Japan, will be significant drivers of value longer term and there is also opportunity in the untapped market of the United States, along with a much larger presence in China.

Macquarie CountryWide Trust (MCW, formerly CountryWide Retail), has a geographically diversified portfolio of supermarket-based retail properties located throughout Australia, New Zealand and the US. It aims to provide a secure income stream with the prospect of capital growth. We view MCW's portfolio as arguably the highest quality retail portfolio with a non-discretionary focus in the Australian REIT sector. Capital recycling (sales and reinvestment) remains a major part of MCW's future growth strategy, and we expect that the volume of assets being recycled will continue to increase. MCW has recently established a presence in Europe and we see this market, along with Asia, as a good expansion opportunity.

Westfield Group (WDC) is an internally managed, vertically integrated shopping centre group undertaking ownership, development, design, construction, funds/asset management, leasing and marketing activities. WDC remains as one of our top picks in the REIT sector, due to its strongly performing portfolio, enormous develop pipeline and impressive balance sheet, which we believe gives the trust significant flexibility. WDC is trading at a discount to our valuation, and the key catalyst to a rerating is the market fully capitalising the excellent value that is being created by the development business.

Stock	12m Target	Dividend Yield		EPS Growth		PE Ratio	
Code	Price	(FY08)	(FY09)	(FY08)	(FY09)	(FY08)	(FY09)
GMG	$7.18	4.9%	5.2%	7.9%	7.7%	20.6x	19.1x
MCW	$2.25	7.9%	8.2%	4.6%	3.1%	12.6x	12.2x
WDC	$22.68	5.2%	5.6%	5.3%	6.2%	19.1x	18.0x

Source: GSJBW Research Estimates

Portfolio Management

Emerging Companies **Analyst: Chris Savage**

- **MAC Services Group (MSL): Buy**
  Share Price as at 30/09/07: $2.50; 12 Month Price Target: $2.83

Year End June	2007 Actual	2008 Estimate	2009 Estimate
Net Profit ($m)	11.7	17.5	22.8
EPS Growth (%)	47.3	7.3	29.1
PER (x)	21.9	20.4	15.8
Yield (%)	1.2	2.6	3.5

Source: Company data, GSJBW Research estimates

We have recently initiated coverage on the MAC services group with a BUY recommendation. The group provides accommodation services to regional and remote areas, servicing the needs of mine owners, contracted mining service providers and other essential contractors. The company has made a number of strategic purchases in lucrative locations enabling them to develop a captive market in accommodation, catering, cleaning and maintenance services. MAC services recently announced its expansion into Western Australia, representing the first occasion it has strayed from the Queensland market.

Our favourable view on the stock is supported by several key attractions including the uniqueness of the business model, where it designs, builds and owns the accommodation provided while further leveraging from management of the accommodation villages, a source of ongoing revenue. With over 50% of the total rooms held by MAC services contracted for up to 5 years, MSL has strong recurring revenue supported by good visibility in earnings. Also given the strategic location of MSL accommodation villages near major mines, a captive market is evident with consistent strong demand from mine operators.

While we have a favourable view of the stock, some of the key risks to our view include concentrated exposure to the coal industry in Queensland, growth largely dependent on the addition of new rooms and facilities, around 40% of rooms are not contracted, and forecasts that assume a long term occupancy rate of 80%. While the stock is currently trading at a sizeable premium to the average PE ratio of the small industrials market, we are comfortable with our favourable view given the strong operating model of MAC Services and the high level of recurring revenue.

Healthcare **Analyst: Robert Gilderdale**

- **Sigma Pharmaceuticals (SIP): Sell**
  Share Price as at 30/09/07: $1.46; 12 Month Price Target: $1.33

Year End June	2007 Actual	2008 Estimate	2009 Estimate
Net Profit ($m)	101.8	75.9	87.4
EPS Growth (%)	14.7	-19.3	14.8
PER (x)	13.2	16.3	14.2
Yield (%)	6.1	4.9	5.6

Source: Company data, GSJBW Research estimates

Sigma Pharmaceuticals Limited (SIP) is a pharmaceutical business including the manufacturing, development and distribution of pharmaceuticals for companies across Australia. SIP sells and distributes Pharmaceutical Benefits Scheme (PBS) drugs, private prescription drugs and over the counter (OTC) drugs. The company also manages a range of generic products in Australia.

Sigma recently reported its 1H08 profit results, downgrading guidance for the full year by 11-16%. Following SIP's guidance downgrade, the company is still forecasting ~60% of earnings will be generated in 2H08. We continue to have reservations over the potential for SIP to achieve a material earnings uplift in the second half, sufficient to meet the company's revised guidance. The risks of greater compliance (minimum required level of SIP products/services) in the company's 'Embrace' Program requiring further investment and/or ongoing generic competition impacting new product launches are the key drivers of our cautious outlook.

Whilst we acknowledge risks to this cautious outlook being: 1) a favourable regulatory decision in terms of CSO allocation; or 2) industry M&A (most likely in consumer and potentially wholesale distribution), on balance we believe risk remains skewed to the downside. Consequently, we have downgraded our recommendation to Sell.

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

No changes to the Income Portfolio during September 2007:

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

Earnings per Share Growth	10.2%
Price to Earnings Ratio	15.7x
Average Yield	4.8%
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 September 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	7.4%
Price to Earnings Ratio	16.7x
Average Yield	3.6%
Franking	73%

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 September 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	10.1%
Price to Earnings Ratio	15.8x
Average Yield	3.1%
Franking	77%

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 September

STOCK	ASX CODE	New Recommendation	Old Recommendation
Nufarm Limited	NUF	**HOLD**	**BUY**
Woodside Petroleum Limited	WPL	**HOLD**	**BUY**
Cochlear Limited	COH	**HOLD**	**BUY**
Sigma Pharmaceuticals Limited	SIP	**SELL**	**HOLD**
Felix Resources Limited	FLX	**SELL**	**HOLD**
Transpacific Industries Group Ltd	TPI	**SELL**	**HOLD**
Bluescope Steel Limited	BSL	**HOLD**	**SELL**
APA Group	APA	**BUY**	**HOLD**
Origin Energy Limited	ORG	**HOLD**	**BUY**

Source: GSJBW Research

GSJBW Initiation of Coverage in September

STOCK	ASX CODE	New Recommendation	Old Recommendation
Aquarius Platinum Limited	AQP	**BUY**	**-**
St Barbara Limited	SBM	**HOLD**	**-**
The Mac Services Group Limited	MSL	**BUY**	**-**
Sedgman Limited	SDM	**BUY**	**-**
Norfolk Group Limited	NFK	**BUY**	**-**

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Price ($A) 28-Sept-2007	12 Month Price Target ($A)	Recommendation
Adelaide Brighton Limited	ABC	$3.95	$3.50	HOLD
Adelaide Bank Limited	ADB	$14.13	$16.09	NR
AGL Energy Limited	AGK	$15.87	$16.36	HOLD
Asciano Group	AIO	$8.97	$9.58	HOLD
Australian Infrastructure Fund	AIX	$3.16	$3.30	HOLD
Aristocrat Leisure Limited	ALL	$13.90	$15.58	BUY
AMP Limited	AMP	$10.54	$10.75	HOLD
Australia and New Zealand Banking Group	ANZ	$29.70	$33.12	HOLD
Australian Worldwide Exploration Limited	AWE	$3.45	$4.00	BUY
AXA Asia Pacific Holdings Limited	AXA	$7.80	$8.80	BUY
Billabong International Limited	BBG	$14.98	$20.91	BUY
Babcock & Brown Infrastructure Group	BBI	$1.74	$1.67	HOLD
Bendigo Bank Limited	BEN	$13.70	$17.40	NR
BHP Billiton Limited	BHP	$44.55	$44.37	BUY
Boral Limited	BLD	$7.19	$8.53	HOLD
Brambles Limited	BXB	$14.76	$14.36	HOLD
Coca-Cola Amatil Limited	CCL	$9.00	$9.64	NR
Centro Properties Group	CNP	$7.37	$8.61	HOLD
Cochlear Limited	COH	$77.96	$73.12	HOLD
Computershare Limited	CPU	$9.29	$11.10	BUY
Crane Group Limited	CRG	$17.07	$21.80	BUY
CSR Limited	CSR	$3.11	$3.47	NR
David Jones Limited	DJS	$5.10	$5.56	HOLD
Dyno Nobel Limited	DXL	$2.70	$2.19	HOLD
Foster's Group Limited	FGL	$6.53	$7.16	BUY
Fairfax Media Limited	FXJ	$4.72	$5.30	HOLD
Coles Group Limited	CGJ	$15.40	$15.44	HOLD
Goodman Group	GMG	$6.91	$7.18	BUY
Hills Industries Limited	HIL	$5.85	$6.10	HOLD
Healthscope Limited	HSP	$5.76	$6.56	NR
Harvey Norman Holdings Limited	HVN	$5.96	$6.16	HOLD
Insurance Australia Group Limited	IAG	$5.25	$5.00	SELL
Incitec Pivot Limited	IPL	$85.54	$73.62	HOLD
James Hardie Industries N.V.	JHX	$7.13	$10.77	BUY
Leighton Holdings Limited	LEI	$51.50	$42.18	SELL
Macquarie Bank Limited	MBL	$84.40	$85.52	HOLD
Macquarie Comm. Infrastructure Group	MCG	$6.09	$7.08	BUY
Macquarie Countrywide Trust	MCW	$1.99	$2.25	BUY
The Mac Services Group Limited	MSL	$2.50	$1.74	BUY
Metcash Limited	MTS	$4.72	$5.28	BUY
National Australia Bank Limited	NAB	$39.71	$48.17	BUY
Newcrest Mining Limited	NCM	$28.00	$28.00	BUY
News Corporation	NWS	$26.70	$34.51	BUY
Origin Energy Limited	ORG	$10.30	$10.13	HOLD
Oil Search Limited	OSH	$4.25	$4.25	HOLD
Oxiana Limited	OXR	$3.88	$4.04	BUY
Publishing & Broadcasting Limited	PBL	$19.70	$22.20	BUY
Paladin Resources Limited	PDN	$7.74	$5.49	SELL
PaperlinX Limited	PPX	$3.04	$3.50	HOLD
Qantas Airways Limited	QAN	$5.58	$6.75	BUY
QBE Insurance Group Limited	QBE	$33.80	$37.70	BUY
Ramsay Health Care Limited	RHC	$10.70	$11.84	HOLD
RIO Tinto Limited	RIO	$108.22	$108.14	BUY
Southern Cross Broadcasting (Australia)	SBC	$17.14	$17.40	NR
Seven Network Limited	SEV	$13.10	$12.60	HOLD
St George Bank Limited	SGB	$35.39	$38.80	HOLD
Singapore Telecommunications Limited	SGT	$3.05	$3.21	BUY
Sonic Healthcare Limited	SHL	$15.60	$15.80	HOLD
Sigma Pharmaceuticals Limited	SIP	$1.47	$1.33	SELL
Spark Infrastructure Group	SKI	$1.95	$2.19	BUY
Santos Limited	STO	$15.05	$12.50	SELL
Suncorp-Metway Limited	SUN	$20.30	$21.50	HOLD
Symbion Health Limited	SYB	$4.17	$4.30	NR
TABCORP Holdings Limited	TAH	$15.15	$16.18	HOLD
Ten Network Holdings Limited	TEN	$2.72	$3.02	HOLD
Telstra Corporation Limited	TLS	$4.36	$4.69	SELL
Toll Holdings Limited	TOL	$13.11	$15.25	HOLD
Tattersall's Limited	TTS	$3.97	$4.60	HOLD
West Australian Newspapers Holdings	WAN	$15.52	$13.90	SELL
Westpac Banking Corporation	WBC	$28.50	$32.59	BUY
Westfield Group	WDC	$21.70	$22.68	BUY
Wesfarmers Limited	WES	$42.00	$42.55	HOLD
Woolworths Limited	WOW	$29.71	$32.55	BUY
Woodside Petroleum Limited	WPL	$50.20	$51.50	HOLD

All valuations and Prices in A$ unless otherwise stated

Source: IRESS, GSJBW Research

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

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Sell	14%	13%
Hold	51%	54%
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* 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.

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Melbourne		**Sydney**		**Brisbane**	
Telephone	(03) 9679 1111	Telephone	(02) 9321 8777	Telephone	(07) 3258 1111
Facsimile	(03) 9679 1493	Facsimile	(02) 9321 8621	Facsimile	(07) 3258 1112
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Telephone	(08) 8407 1111	Telephone	(08) 9422 3333	Telephone	(02) 6218 2000
Facsimile	(08) 8407 1112	Facsimile	(08) 9422 3399	Facsimile	(02) 6218 2001

Overseas Offices

New York London Auckland
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