Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review November 2007

- The Australian equity market weakened somewhat during November, with the S&P ASX 200 falling back -2.8%, as investor concern heightened in relation to a potential softening in the US economy, stemming from the continued US sub-prime fallout. While the market reversed out of positive territory, Investors kept a watchful eye on the Chinese economy in terms of its ability to shrug off a potential US slowdown.

- The resources sector claimed attention during the month after BHP confirmed it had approached Rio Tinto regarding a merger, though volatility ensued as corporate earnings revisions pointed to a more challenging outlook in light of the increasing Australian dollar and increasing costs across a number of industries. Technology, Consumer Staples and Telecommunications outperformed, while the REITs, Industrials and Financial sectors lagged.

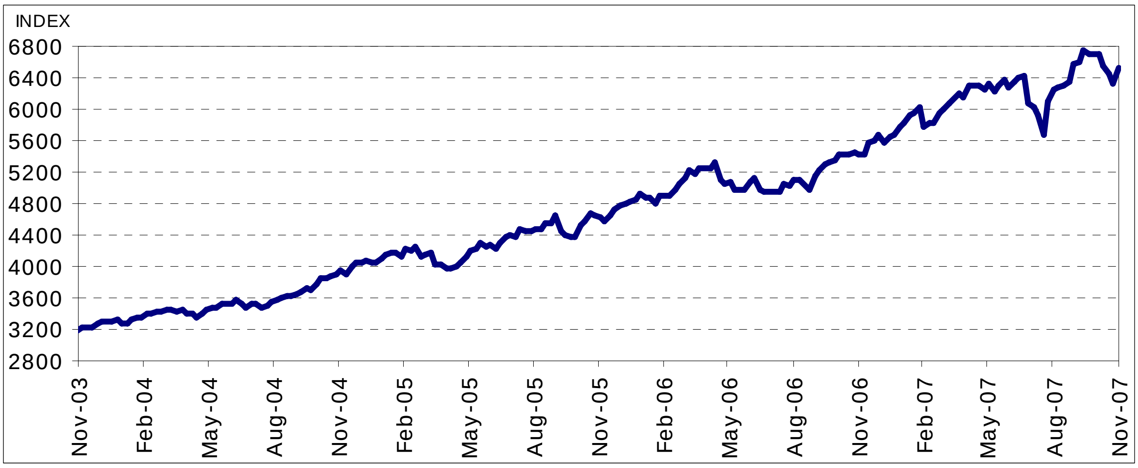
- The key issues for investors as we move into 2008 are the risks associated with a slowdown in the US economy, and China's ability to effectively remain an engine room of growth. While we remain positive on the longer term growth prospects for China, we observe that stocks most leveraged to this thematic appear fully priced in the near term. This coupled with the ongoing risks to the US economy has shifted our focus to more defensive sectors.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	-2.8%	5.7%	23.7%
S&P/ASX 200 Industrials	-3.3%	-0.1%	15.7%
S&P/ASX 200 Resources	-1.5%	26.4%	54.1%
S&P/ASX Small Ordinaries	-3.8%	0.9%	24.8%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	0.9%	-12.1%	-19.0%
Consumer Staples	5.1%	5.1%	9.2%
Energy	0.1%	5.1%	10.7%
Financials	-1.9%	-6.4%	-11.3%
Health Care	1.6%	4.4%	6.6%
Industrials	-2.4%	-5.2%	-4.1%
Information Technology	19.2%	-17.3%	-14.5%
Materials	1.4%	18.9%	26.2%
REITs	-3.5%	-12.3%	-18.4%
Telecommunications	2.9%	-6.9%	10.3%
Utilities	1.5%	-14.9%	-15.4%

Source: GSJBW Research, IRESS

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

November 2003 – November 2007 (Source: Iress)



Goldman Sachs is currently acting as Financial Advisor to BHP Billiton and as such is an associate of BHP Billiton for the purpose of the Takeover Code

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
RIO Tinto	32.0	Downer EDI Limited	-25.5
Bendigo Bank	23.9	Centro Properties	-21.6
Computershare	18.7	A.B.C. Learning	-19.9
Fortescue Metals	13.2	Paladin Energy	-17.0
Cochlear	10.0	Valad Property Group	-15.3
Oil Search	9.2	Babcock & Brown	-15.0
Sigma Pharmaceutical	7.6	Zinifex	-13.3
AGL Energy	6.5	Brambles	-12.9
Telecom NZ Corporation	5.9	Challenger F.S.G.	-12.3
Aristocrat Leisure	5.6	PaperlinX	-12.0

Source: IRESS

Significant Company/Economic News

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

News Corporation (**NWS**) moved down over the month, underperforming the local ASX200 index but outperforming the US NASDAQ. NWS reiterated prior operating income growth rate guidance of "low teens"; noting a relatively solid start to the year, but remaining "cautious" on the ad market moving into CY08. At the Publishing & Broadcasting **(PBL)** AGM, shareholders unanimously approved the company's proposal to demerge its business into 2 entities: Crown and Consolidated Media Holdings.
Seven Network **(SEV)** continued its takeover bid (IRESS) for wireless broadband company Unwired (UNW), increasing its interest to c.85% by the end of the month. Fairfax Media **(FXJ)** completed the acquisition of Southern Cross Broadcasting's metropolitan radio and Southern Star assets from Macquarie Media Group. Telstra **(TLS)** traded sideways despite an upgrade to earnings guidance at its Investor Day on 1 November. SingTel **(SGT)** declined, as it was caught up in the sharp fall in the Asian markets during the month.

Retail/Consumer Staples **Analysts: Phillip Kimber, Paul Ryan**

Billabong **(BBG)** fell during November on no company-specific news flow. BBG continues to be impacted by concerns regarding slowing US consumer spending. David Jones **(DJS)** rose on the back of a strong 1Q08 sales result that was in line with GSJBW expectations. Harvey Norman **(HVN)** rose during November. The AFR reported that HVN reconfirmed guidance for 1H08 NPAT growth of 25% to 35% at its AGM. Woolworths **(WOW)** rose over the month. At its AGM, held on 16 November, management confirmed previous FY08 guidance for sales growth between 19% and 23%. Coca-Cola Amatil **(CCL)** held onto its gains from last month after the completion of sale of its South Korean business for $520m drove its strong share price performance in October. Foster's Group **(FGL)** traded sideways after confirming at its AGM on 31 October that the strong A$ would crimp reported earnings growth, while Lion Nathan **(LNN)** agreed to purchase J Boag & Son for $325m – based on our analysis its a fair to full price for an asset that is very complementary to its brand portfolio.

Gaming **Analyst: Adam Alexander**

Aristocrat **(ALL)** traded higher during a month of limited news flow. Management presented at the G2E gaming conference where it mainly focussed on the opportunities in the new US markets, Australia and Asia. During the month, both Tattersall's **(TTS)** and Tabcorp **(TAH)** held their AGMs. TAH reiterated previous guidance and indicated that it expects the Victorian Government to make a decision on the future industry structure for Wagering, Gaming and Keno in the coming months. TTS's AGM provided comments on the operational outlook for its business segments, falling in line with our expectations.

Energy **Analyst: Anthony Bishop**

The oil price in A$ terms has been significantly above A$100/bbl, indicating an all-time high (in both A$- and US$-terms) received by Australian producers. Woodside Petroleum **(WPL)** downgraded production guidance at its annual investor briefing, disappointing investors - with the share price falling ~7% on the day. Santos **(STO)** weakened while Oil Search's **(OSH)** share price strength was driven by strong oil prices and increasing momentum for the ExxonMobil PNG LNG project. AWE **(AWE)** rallied after increasing booked reserves at the Tui oil field by 30% and revealed plans to produce oil from a fifth production well, to be developed in 2009.

Financials / Insurance **Analysts: James Freeman, Ben Koo, Ryan Fisher**

Macquarie Bank (MBL) reported its 1H08 results, delivering on guidance of 40% pcp earnings growth. Outlook comments where, however less optimistic than expected. Westpac **(WBC)** bid for Rams distribution and brand was accepted by shareholders. AXA (AXA) tracked lower this month while AMP **(AMP)** held up well in a nervous market and may have benefited marginally from the expectation that the new Labor government might consider increasing the Super Guarantee Contribution in the future. Insurance Australia **(IAG),** QBE **(QBE)** and Suncorp **(SUN)** all experienced a relatively quiet month in terms of news flow. IAG's AGM was uneventful, given it had already announced a reduction in its earnings guidance.

Healthcare **Analyst: Robert Gilderdale**

News on the proposed takeover of Symbion **(SYB)** by Healthscope **(HSP)** continued to dominate headlines in healthcare. Both companies announced that the HSP-led Revised Proposal would not proceed after the ATO disallowed the favourable tax ruling on scrip-for-scrip roll-over relief. Separately, HSP entered into an agreement to acquire a 75% interest in NM&IG Medical Pty Ltd. Resmed **(RMD)** tracked higher after releasing its 1Q08 result during the month, while Ramsay Health Care **(RHC)** rallied late in the month after favourable broker reports following its AGM. Sigma **(SIG)** strengthened this month noting it was on track to meet FY08 guidance

Industrials **Analyst: Matt McNee**

Wesfarmers **(WES)** recovered from lows mid-month but finish the month lower. A sell down occurred as Coles shareholders approved the scheme, causing WES to trade near $38 mid-month. The WPPS securities began trading on a deferred settlement basis on November 12. Dyno Nobel **(DXL)** ended close to where it began this month, on little news flow. Incitec Pivot's **(ICL)** share price was quite volatile throughout November as investors digested its FY07 result reported on 14th. Orica **(ORI)** also reported its FY07 results in November with profit up 31%.

Transportation **Analyst: Paul Ryan**

Toll Holdings **(TOL)** traded sideways amidst little news flow. Late in the month TOL's CEO was quoted in the press (Age) highlighting that Brambles was not the company's only option for gaining access to pallet pooling. Asciano Group's **(AIO)** share price decline continued, with weak grain (drought) and coal (capacity constraints) volumes leading to consensus downgrades. Qantas Airways **(QAN)** held up in the face of high oil prices and a blow-out in the jet fuel refiner margin thanks to buoyant demand.

Resources **Analysts: Neil Goodwill, Ian Preston**

Macroeconomic sentiment deteriorated severely in November, as concerns about the fall-out from the sub-prime mortgage issue intensified, and the reality of China's self-imposed credit freeze became clear. Base metals prices softened appreciably, although spot market prices for both thermal and metallurgical coal set fresh records, and iron-ore spot prices remained close to all-time highs. Yet all of these influences were subordinated by the major news of the month - namely BHP Billiton's **(BHP)** proposal to merge with Rio Tinto **(RIO)**. RIO rejected the three-for-one scrip offer as undervaluing its future value, but its share price finished the month some 26% higher, while BHP's price fell by 8.7%. The copper stocks saw mixed performance. Kagara **(KZL)** and Pan Australian **(PNA)** held up relatively well, but Oxiana **(OXR),** Equinox **(EQN)** and Aditya Birla **(ABY)** all suffered double-digit declines. Likewise the major zinc exposures, Zinifex **(ZFX)** and Perilya **(PEM)**, were both down sharply.

Australian Equities: Key Issues for Portfolio Strategy

Daily news flow points to the dichotomy in investment markets: that from the US gets inexorably worse, while that out of China remains dogmatically resilient. The debate is on the tipping point between the two – at what point does the degree of slide in the US translate into a changed outlook for the rest of the world?

The consequence of this debate has a substantial impact on our investment framework. If the US issues are largely self-contained, a continued bias to commodities and growth stocks would be warranted. In turn, we would expect upward pressure to remain on domestic inflation and asset prices and consequently interest rates.

Alternatively, if the outlook for world growth deteriorates, sentiment towards commodity investment would become bearish. However, as corporate profitability and investment would be expected to lag, the domestic economy could actually be relatively strong for much of 2008, especially as interest rate increases would then be less likely.

How can investors position themselves within these two directions? Firstly, in the next 6 months we believe there may be a recovery in the performance of Australian equities. The backdrop would be achievement of higher commodity prices, especially bulks (coal and iron ore), robust half year earnings in early 2008 from market leaders and continued consumer spending. Diversified resource stocks, banks and large industrials with domestic exposure such as WOW, TLS, WES, QAN as well as specific stocks such as CPU, TOL, SEV should perform relatively well in this period.

Recent company updates on the outlook for FY08 reinforces this view, with most of the negative commentary around currency translation and only a few specific cases of operational issues. Lack of domestic demand was not a feature.

In the medium term, more caution is warranted. Commodity price rises are expected to level out and the domestic economy will be facing higher interest rates (if asset and inflation growth is not contained), or lower growth as existing interest rates bite and employment becomes more subdued. And forecasting the A$ movements has become treacherous territory.

This suggests a classic defensive stance with a bias to healthcare, insurance and selected large industrials and financials such as the large banks, TLS, WOW, CTX and ORG. Solid cash flow that can sustain dividend yields and franking will form a base of price support. Traditional yield sectors – property trusts and utilities - have changed their colour in recent years, with more leverage, falling cash flow coverage of the dividends and more earnings from management fees/asset sales than in the past. Only selective opportunities are therefore suitable for defensive style investing here – MCW, APA and MCG.

Investors should set their investment expectations at much more moderate levels than past years – the table below summarises the valuation and yield returns.

As at 30/11/2007	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
S&P/ASX 300	18.0x	16.9x	14.2x	11.8	6.8	19.2	3.1	3.4	3.8
S&P/ASX 300 Industrials	17.7x	16.8x	15.2x	13.4	5.7	10.6	4.0	4.4	4.8
S&P/ASX 300 Resources	18.4x	17.0x	12.7x	9.0	9.0	35.4	1.6	1.6	1.9
Small Industrials	19.6x	17.8x	15.8x	12.5	9.4	12.5	4.5	4.1	4.5

GSJBW Market Forecasts
Source: Company data, GSJBW Research estimates

Note that a higher yield does not necessarily suggest better return – inevitably the average figures are buoyed by a number of companies with high (possibly legacy) yields due to poor operating outcomes.

Achieving a 4% franked dividend is largely on a par with cash rates returns at this time. Upside from equity investing therefore needs to come from operational advantages that corporates can extract. Overall P/E re-rating looks highly unlikely. Our stock selections are judged on the basis that these companies have defendable and proven franchises.

Resources and Commodities

Commodities can be segmented into a number of categories each with different characteristics and prospects.

Bulk commodities - coal and iron ore.

While there are two broad markets for coal –thermal and coking – the price moves tend to mirror each other. Prices are usually set through contracts with major power station and steel groups in advance, though the spot market is a great indicator of the likely direction and magnitude in contract prices changes.
Due to continued high demand out of Asia and a shortage of supply – not least due to restrained rail and port capacity in Australia - GSJBW commodity analysts are forecasting that prices for the 2008/9 fiscal year will be up by well over 50% in US$/ton compared to current contracts. This will take prices to 3 times their level of 2003/04.

Investors need to be aware that the major impact on achieved profit will only be in the 2008/9 fiscal year, but once contracts are established, the outlook will be largely fixed for that period. The potential risks are costs, which are rising at a rapid rate, and production certainty, with mines often working at full rate to fulfil their obligations. Finally, the US$ rate and hedging policies can clearly have an impact.

Our preference for specific coal exposure is Macarthur Coal and Centennial Coal, as well as the diversified groups.

Iron ore negotiations are only expected to be concluded in Q208. In a similar vein to coal, we are expecting large increases of over 30% per ton for contract prices. Once again, the large diversified groups provide the best exposure to iron ore.
These high prices are not expected to be sustained as infrastructure improves volumes, but for some participants, the profit impact of any fall in price will be offset by their participation in those volume increases.

Of all commodity exposure, bulks look best.

Base metals

The outlook for copper, nickel, zinc, lead and aluminium is dependent on the particular demand and especially supply for each commodity. To confuse the picture is a persistent overlay of other issues such as short term economic news, credit availability (specifically in China), export subsidies, volatility in inventory and trading positions. We remain focused on the big picture, that is, the reasons behind demand growth and then the supply curve.

As prices have risen there has been a notable upturn in supply as projects have rushed to fill the gap. Our most positive view on price increases is for copper, which we expect to remain in short supply for the next 3-4 years. Lead is expected to be short until 2009, but only forms a modest proportion of most corporate earnings.

Aluminium price momentum has been moderate for the last 12 months and the commodity is expected to remain in surplus into 2008. The outlook for this metal could easily change to a more positive view, as there is the persistent issue of high energy cost to convert the metal to its useable formats.

We estimate that both zinc and nickel will be in surplus for the next couple of years and expect weaker prices.

These specific metal views are formed in the context that we continue to have a positive long term outlook for commodity market prices due to industrialisation of the developing world and increasing costs of production. Cycles are the normal feature of metal markets – almost across the board. We had a strong rise 2005-2007, now we believe increases will be more selective until the potential for another cycle in about 2010.

Due to our view on copper we believe there is upside to Oxiana, Equinox, Aditya Birla and Pan Australian.

Commodity price forecasts

Commodity	Calendar year average (except coal)	2000	2006	Spot price 30-Nov-07	2007(F)	2008(F)	2009(F)
Thermal coal (FOB Australia - Apr-Mar)	US$/t	29	53	n.a	56	90	90
Copper	USc/lb	82	305	316	330	363	375
Nickel	USc/lb	392	1100	1213	1717	1253	856
Aluminium	USc/lb	70	116	111	119	99	102
Zinc	USc/lb	51	149	117	150	115	91

Source: LME, Tex report, GSJBW estimates

Other minerals

Specialist metals such as molybdenum, cobalt and magnesium can be by-products from other mining activities. As such, they do not form part of a decision on investments, but they do provide a good guide to demand, more abstract from trader and other influences. So far, so good – prices are holding up well supporting the overall thematic towards metals.

Separate class – Gold

Gold is not as much traded as a functional commodity but rather as a financial bell-weather. The fall in the US$ against most currencies has seen gold play its role as a store of value. In this climate of uncertainty, gold is likely to remain well supported and our stock preferences in this sector are Lihir and Newcrest.

In summary, we are positive on resource investment and anticipate good news for the sector in the early part of 2008 as some of these price forecasts come to be realised.

Banks: Moving into a New Year

Historically the banking sector has provided investors a relatively defensive position in the Australian market. On the surface the various operations of each major bank appear to be tracking along without significant cause for concern and future earnings growth depends largely on trends in lending growth, cost containment and credit spreads.

However, the market is sensitive to risk and therefore the acquisitive strategies of NAB and ANZ along with capital requirements of SGB have impacted on investor sentiment in recent weeks. These moves are likely to temper the earnings outlook as they are dilutive in the near term.

Valuation metrics continue to differentiate the majors, with Commonwealth Bank (CBA) and St George (SGB) each trading at premiums to the sector. On balance, Westpac (WBC), appears to present a low risk profile with comparatively robust earnings growth stemming from each of its core businesses, with the exception of the consumer operation (refer to Table 1 below). Australia and New Zealand banking group (ANZ) also presents a good longer-term option given strong retail franchise and likely turnaround in Institutional banking delivering EPS growth in line with peers.

Table 1: Fiscal Year 2008 Divisional Outlook – Below / In-line / Above Peers

FY08 Divisional Outlook - Below / In-line / Above Peers

	Consumer	Business	Corporate	New Zealand	Wealth
ANZ	**Above:** Personal division performing well	**Below:** Small business soft, while SME improving	**Below:** Past underperformance, but new management team	**In-Line:** Good growth so far, but may struggle defending large customer base	**Below:** Growth solid, but upside diluted by JV
CBA	**Below:** Improving volume growth, but margins at risk	**Below:** Underperforming versus peers	**In-Line / Above:** Strong volumes, but treasury departures my impact	**In-Line / Above:** Good track record for growth	**Below / In-Line:** Cost containment and backbook migration issues
NAB	**Above:** Good growth deposits, offsetting softer mortgage growth	**Above:** SME franchise performing above peers	**Above:** Improving fee income to be aided by cost improvements	**In-Line:** New CEO unproven, but strong platform for growth	**Below / In-Line:** Growth solid, but backbook migration could hurt revenue
WBC	**Below:** Treasury pass-thru of funding costs and sharp provision drop in 2H07 is unsustainable	**Above:** Benefits of heavy investment and recruitment starting to pay off	**Above:** Performing well with strong customer demand at improved margins	**In-Line:** Past underperformance, but strong 2H07 improvement	**Above:** Strong growth, new product initiatives, but downside from BTIM sale
SGB	**Below:** NSW drag and underweight in faster growing regions	**Above:** Continuing to target 2x system growth	**Below:** Not a key focus of management	n/a	**Above:** Continued strong growth and above share growth in net flows

Source: GSJBW Research estimates

Turning to the performance of each bank, the quality of NAB's recent result was much improved, with bottom line growth driven by moderate revenue growth and benign cost growth. NAB also reiterated its target to deliver within inflation cost growth out to Fiscal year 2010. More recently however, NAB announced the purchase of Great Western Bank, primarily focussed on the commercial and SME market, located in the mid-west United States. NAB sees this acquisition as a way to enhance its agri-banking business. NAB will look to fund the acquisition through a combination of capital reserves, hybrid debt and through changes to the Dividend Reinvestment Plan (i.e. uncapping).

In our view, the risk of further acquisitions appears to be high, with a fall in the return on surplus capital employed appearing inevitable. This outcome reduces NAB's ability to deliver peer ROE, which we would now expect to drag competitors by ~1%-1.5%. We see this recent move by NAB as increasing the bank's overall risk profile, and it appears difficult for the bank to outperform its competitors or the market. As a result, investors with overweight positions in the NAB might consider switching to either WBC or ANZ.

CBA reported back in August, however the company did provide a recent trading update and a briefing on its Retail business for investors. While we believe that management have made a number of positive changes with signs of improvement, the retail business appears unlikely to deliver any positive earnings surprises in the near term given Mortgage growth improvement is being driven by the less profitable broker channel, while proprietary mortgage growth is weaker. A turnaround in the underperformance of personal and credit cards looks set to take 12-18 months, and while deposit growth should provide some funding and margin support, we have already factored this into our forecasts. The recent briefings has not changed our view that CBA is set to deliver bottom end of peer EPS growth given the underperformance of the retail business (~40% of group). Despite below peer growth, CBA continues to trade at a P/E premium to its peers. As such, we continue to see better value elsewhere in the banking sector.

ANZ produced a solid result and in line with consensus. ANZ chose not to provide further outlook guidance around revenue and costs as has been provided at past results briefings. Key takeouts from the briefing included plans to conduct an underwriting of the Dividend Reinvestment Plan for the second half 2007 dividend, which is expected to raise ~$1bn. This additional capital has been earmarked for "strategic flexibility". Management also highlighted its expectation for softer growth from the Personal division, while the Institutional division was expected to deliver an improvement in performance during fiscal year 2008.

We noted that the new CEO Mike Smith emphasised his focus on expanding ANZ's operations in Asia. While expansion into developing markets represents longer term opportunities driven by the positive macro view on emerging markets, the return on such an investment would need to contribute significantly to the groups overall performance to provide any material impact on earnings. While this may occur over the longer term, it is likely that capital requirements for further expansion in Asia will provide some medium term headwinds for earnings growth, and the ANZ share price. However, from a longer term perspective we see this stock as a growth story.

WBC demonstrated strong earnings momentum with most core businesses set to outperform peers in the 2008 fiscal year. The WBC Institutional Bank performed strongly, and looks set to continue to deliver earnings growth from a increase in lending and trading incomes, while the New Zealand operations and BT wealth management business also experienced positive earnings growth. The banks consumer division appears to be the only laggard going forward, as funding costs increase together with integration expenditures following the RAMS acquisition. While the growth prospects for WBC appear sound, on balance the stock is no longer as cheap as during previous months. Despite this, we continue to believe WBC to be one of the safer bets when pitched against competitors given its relatively lower risk profile (when compared to ANZ's expansionary policy into Asia or NAB's acquisitive growth strategy). We also expect WBC to maintain a superior capital position when compared to its rivals, and maintain an overall positive view on the stock.

SGB continued to deliver good growth across most of its businesses; however this growth has ultimately come at a cost. SGB's result highlighted that its strong RWA growth has caused the bank to run low on capital. Without the support of securitisation, SGB had to employ other capital initiatives including a Dividend Reinvestment Plan underwrite that turned into a share issue + hybrids to retain an acceptable level of capital. While we expect the retail division and business banking to remain strong performers in the medium term, risks are starting to emerge.

The funding of further capital appears ominous, and we believe SGB will be short of capital in fiscal year 2008, especially with the cost of funding increasing and as the fallout from the credit crunch. Further deterioration in the NSW market also poses a risk to its growth outcomes. SGB continues to look expensive, which is difficult to justify should EPS downgrades eventuate or as a result of the bank seeking further capital raisings. We would reiterate investors consider elsewhere in the sector with ANZ and WBC representing better value.

Portfolio Management – Telco Sector Overview

Telstra (TLS) is Australia's dominant telecommunications and information services organisation. The company also provides advertising, directories and information services (Sensis), as well as cable distribution services for Foxtel's cable subscription television services.

Singapore Telecom (SGT) comprises two core businesses (Singapore and Optus) and a portfolio of equity-accounted investments in Asia (predominantly mobile phone businesses).

INDUSTRY STRUCTURE
The telecommunications industry continures to experience structural deterioration, driven by: (1) continued declines in highly profitable fixed line businesses; (2) mobiles market reaching saturation; (3) the rising cost of acquiring and retaining customers (e.g. fixed line, mobiles, broadband); and (4) rising capital expenditure requirements.

The continued growth in: (1) broadband; (2) new IP-based data products; (3) mobiles (both voice and non-voice services); and (4) other new generation services (e.g. online advertising) is generating revenue upside and providing some hope of top line sales revenue growth.

However, while the growth in new generation services may help insulate industry sales from declines in traditional telecom products, it is difficult to see flat or growing margins in the long-term.

This is issue is particularly relevant for incumbents in competitive markets, such as Telstra and Singapore (in the domestic Singaporean market). In a nutshell, Telstra is facing a migration of its customers from high margin traditional products facing little competitive pressures (e.g. fixed line) to lower margin, new generation products in highly contestable markets (e.g. broadband).

This long-term, structural downward pressure on margins is the reason Telstra (and many other telecom imcumbents globally) are pursuing multi-year, capex-intensive business transformation programs (BTP). In Telstra's case, the BTP is highly capital intensive. However, after 2 years (5 year program in total), the signs are positive. Telstra has indicated to the market that it is in line or ahead of its timetable and budget in all major respects. We caution that Telstra is currently navigating the riskiest and most complex part of the BTP (IT transformation program).

FIXED LINE
The deteriorating industry structure has implications for Telstra's earnings and returns. The principal issue is Telstra's highly profitable fixed line business, which is suffering from: (1) fixed-to-mobile substitution (e.g. capped calling plans in the mobile market driving migration); (2) access-based competition (LSS and ULL); and (3) the rising cost of acquiring and retaining customers.

MOBILES

Market
We estimate the Australian mobiles market reached c.98% penetration at 30 June 2007. We believe penetration of the addressable market (i.e. adjusting for age deomographics to obtain a more narrow definition of the available population than 'reported population') was c.125%. We estimate population penetration will reach c.105% by June 2009, while penetration of the addressable market will reach an amazing c.135%!

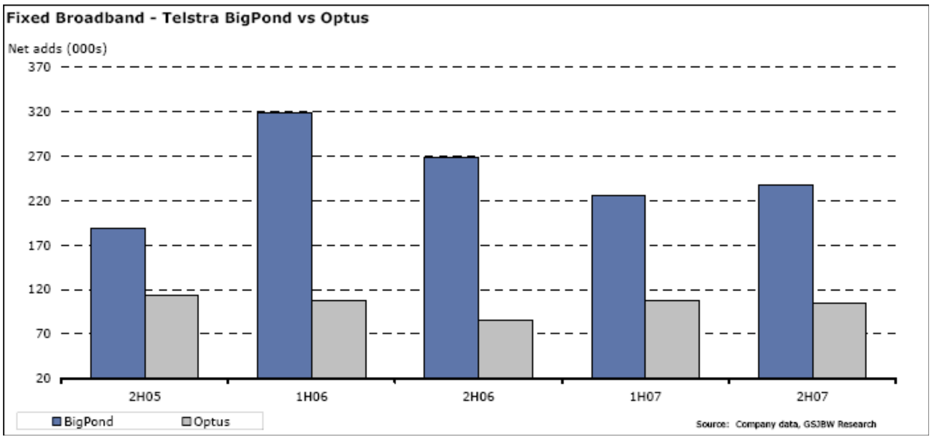
Telstra
Telstra has been on an aggressive customer acquisition campaign since mid-2006. The campaign has cost Telstra dearly, with mobile margins falling from mid- to high 40%s in mid-30%s in 12-18 months. However, the aggressive drive for market share has had a positive impact on Telstra's mobile reveune growth and margins. For the first time in five years, Telstra did not lose revenue share in FY07. Similarly, its mobile KPIs (e.g. usage, average tariffs per minute, non-voice revenue growth) appear to be improving.

Optus
Optus has been under pressure in the Australian mobiles market for some time now. Earlier this year, it responded with two new capped calling plans ($19 capped plan and $49 capped plan) and an aggressive marketing campaign ('Black & White'). Optus' aggressive new strategy appears to be paying off, with the company reporting its best quarterly net customer adds in the September quarter than it has achieved for some time.

BROADBAND

Market
We estimate that Australian household broadband penetration was c.55% as at 30 June 2007. We expect penetration to reach c.75% by June 2010.

Telstra BigPond continues to build momentum and outpace its nearest rival Optus (refer chart below).



We remain positive on the outlook for growth in the wireless broadband market. We estimate there are c.450k wireless broadband customers in Australia as at 30 June 2007. We expect this to grow to 1.5m by 2010. To date, Telstra's network coverage and speeds has resulted in it being best positioned to this fast emerging market. However, in recent times, we have seen aggressive price reductions from Telstra's competitors.

Telstra
Telstra's fixed line broadband business BigPond is performing exceptionally well. In FY07, BigPond managed to raise its market share from c.40% to c.42%. We expect BigPond to reach c.45% market share by June 2008.

In addition, we believe the ALP's Fibre-to-the-Node (FTTN) broadband plan could be positive for Telstra. However, this depends on TLS cooperating with the ALP on the eventual wholesale price (i.e. rate of return on the capital deployed) and becoming more amenable to wholesale services. If Telstra and the ALP are able to bridge the gap between their respective expectations - and agree on a price acceptable to both parties - the network build will go ahead and Telstra will benefit. However, if Telstra refuses to engage with the ALP, the company seems certain to face severe consequences (e.g. draconian operational separation regime, rival builder chosen for FTTN tender, etc.).

SingTel
In SingTel's Australian business, Optus, the potential margin improvement from the newly deployed DSL broadband network is the most important driver of margin expansion at Optus in the near-term (as more customers are migrated on-net, using their lower ULL cost fixed line network).

However, Optus faces a particularly tough challenge in the marketplace, given Telstra's investment into new products, dominance of the BigPond brand, and renewed emphasis on customer service.

SingTel has taken a more aggressive approach to growing revenue and market share in its core markets in recent times, investing heavily to grow market share in mobile and broadband, deploy new products (e.g. IPTV, Wireless@SG, 3G, Optus Fusion) and build scale. While SGT is confident its investment will generate strong returns, the competitor response (StarHub, M1, Telstra) will have an important impact.

GROWTH DRIVERS

Telstra

We believe TLS are intent on transforming the company into Australia's leading media and communications provider. We expect this will see Telstra extensively promote its existing suite of media assets, continue developing media and content businesses (e.g. IPTV) and acquire additional media/content assets and businesses.

Additionally, TLS is using its key strengths (i.e. balance sheet/free cash flow, incumbency) to deploy innovative new products and services (to drive sales) and invest in new platforms (to drive costs down, improve bundling, etc.). Telstra's competitors will find it difficult to match Telstra's investment and may indeed find themselves struggling to compete with Telstra in the marketplace for 'next generation' products and services.

SingTel

SingTel's Associates, which include Telkomsel (Indonesia, SGT's equity ownership 35%), Bharti (India, 30.5%), AIS (Thailand, 21.4%) and Globe (Philippines, 44.6%), are the major drivers of our profit growth forecasts.

With low fixed line penetration in these developing countries, wireless broadband is the only real alternative to deliver broadband to the mass market, which provides a further opportunity for SGT's Associates (although also requires further capex).

We caution that, while these businesses are high growth, they also carry more risk than SingTel's core businesses (country risk, cost of growth/network expansion and increased competition).

INVESTMENT VIEW

SingTel

SGT is our preferred long term exposure within the large-cap telecommunications sector. The key driver behind our positive investment case is that unlike many of its peers, SGT has genuine growth opportunities via its associates. These four businesses are the #1 or #2 ranked mobile player (by market share) in their respective markets. Mobile penetration in these countries is low and SGT's associate businesses are enjoying significant growth in sales and profits as penetration grows.

In addition, SGT has an under-geared balance sheet, which should provide scope for SGT to continue pursuing strategic opportunities (e.g. acquisitions or further investment in existing Associates) or capital management initiatives.

Telstra

With the Australian Industrial equity market looking expensive and increasing uncertainty around the global economic outlook, Telstra may find some macro support (particularly given its disappointing relative performance since its FY07 result in August).

Indeed, in an environment of ongoing volatility and concerns about stocks with potential earnings risk, TLS is likely to be viewed as a relatively safe domestic exposure over the next 6-12 months. The investment case is certainly becoming more interesting given the greater clarity we received at Telstra's recent Investor Day on the path to Telstra's FY10 targets and the sustainable competitive advantage Telstra is building.

We have left our Hold recommendation unchanged as we await concrete evidence the IT transformation is proceeding smoothly and promised cost savings are materialising. Additionally, we would look to see greater certainty on the implementation of the ALP's FTTN plan and whether TLS are willing to cooperate.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: 2002)

Westpac Banking Corporation	Woolworths
National Australia Bank	Metcash
Macquarie Communications Infrastructure Group	Qantas
BHP Billiton	AMP
Wesfarmers	Spark Infrastructure
ANZ Bank	Ramsay Healthcare
Coca-Cola Amatil	Fairfax Media
Tattersalls	Telstra
Suncorp-Metway	Crane Group
Australian Infrastructure Fund	Hills Industries
Foster's Group	Boral

No changes to the Income Portfolio during November 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	2.4%
Price to Earnings Ratio	17.9x
Average Yield	4.8%
Franking	79%

Source: GSJBW Research estimates

Balanced Portfolio – (Inception Date: October 2002)

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

No changes to the Balanced Portfolio during November 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	1.9%
Price to Earnings Ratio	18.5x
Average Yield	3.4%
Franking	73%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

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

No changes to the Growth Portfolio during November 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	4.8%
Price to Earnings Ratio	18x
Average Yield	2.8%
Franking	76%

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 November

STOCK	ASX CODE	New Recommendation	Old Recommendation
Iluka Resources Limited	ILU	HOLD	SELL
Kingsgate Consolidated Limited	KCN	HOLD	BUY
Sedgman Limited	SDM	HOLD	BUY
ANZ Banking Group	ANZ	BUY	HOLD
Caltex Australia Limited	CTX	BUY	HOLD
Reckson New York Property Trust	RNY	HOLD	BUY
Australian Worldwide Exploration	AWE	HOLD	SELL
Select Harvests Limited	SHV	HOLD	SELL
Timbercorp Limited	TIM	HOLD	SELL
National Australia Bank	NAB	HOLD	BUY
James Hardie Limited	JHX	HOLD	BUY
Insurance Australia Group	IAG	HOLD	SELL

Source: GSJBW Research

GSJBW Initiation of Coverage in November

STOCK	ASX CODE	New Recommendation	Old Recommendation
Centro Retail Group	CER	HOLD	

Source: GSJBW Research

Referred to in Document:

STOCK RECOMMENDATION SUMMARY				
		Price ($A)	12 Month Price Target (A$)	Recommedation
Code	Name	30-Nov-07		
ABY	Aditya Birla Minerals Limited	$2.75	$4.64	BUY
AIO	Asciano Group	$7.43	$9.20	HOLD
AIX	Australian Infrastructure Fund	$3.30	$3.30	HOLD
ALL	Aristocrat Leisure Limited	$10.98	$13.66	HOLD
AMP	AMP Limited	$10.14	$10.95	HOLD
ANZ	Australia and New Zealand Banking Group Limi	$28.16	$31.86	BUY
APA	APA Group	$3.68	$4.21	BUY
AWE	Australian Worldwide Exploration Limited	$3.38	$3.10	HOLD
AXA	AXA Asia Pacific Holdings Limited	$7.99	$8.80	BUY
BBG	Billabong International Limited	$14.99	$19.77	BUY
BLD	Boral Limited	$6.41	$7.78	HOLD
BXB	Brambles Limited	$12.36	$13.82	HOLD
CBA	Commonwealth Bank of Australia	$59.65	$55.11	SELL
CCL	Coca-Cola Amatil Limited	$10.00	$10.33	BUY
CPU	Computershare Limited	$10.15	$11.30	BUY
CRG	Crane Group Limited	$16.65	$22.00	BUY
CTX	Caltex Australia Limited	$22.10	$26.00	BUY
DJS	David Jones Limited	$5.00	$5.16	HOLD
EQN	Equinox Minerals Limited	$5.01	$8.50	BUY
FGL	Foster's Group Limited	$6.30	$6.88	HOLD
FXJ	Fairfax Media Limited	$4.74	$5.25	HOLD
HIL	Hills Industries Limited	$6.39	$5.90	HOLD
HSP	Healthscope Limited	$5.45	-	NR
HVN	Harvey Norman Holdings Limited	$7.15	$6.58	HOLD
IAG	Insurance Australia Group Limited	$4.46	$4.60	HOLD
IPL	Incitec Pivot Limited	$90.93	$75.03	HOLD
KZL	Kagara Zinc Limited	$6.37	$7.03	BUY
LGL	Lihir Gold Limited	$3.91	$4.50	BUY
LNN	Lion Nathan Limited	$9.23	$9.89	HOLD
MCG	Macquarie Communications Infrastructure Grou	$5.35	$7.08	BUY
MCW	Macquarie Countrywide Trust	$1.96	$2.25	BUY
MTS	Metcash Limited	$4.37	$5.28	BUY
NAB	National Australia Bank Limited	$38.30	$43.99	HOLD
NCM	Newcrest Mining Limited	$33.76	$35.00	BUY
NWS	News Corporation	$24.24	$31.49	BUY
ORG	Origin Energy Limited	$8.70	$9.60	HOLD
ORI	Orica Limited	$27.96	$31.31	HOLD
OSH	Oil Search Limited	$4.64	$4.25	HOLD
OXR	Oxiana Limited	$3.93	$5.00	BUY
PEM	Perilya Limited	$2.96	$4.50	BUY
PNA	Pan Australian Resources Limited	$1.01	$1.50	BUY
QAN	Qantas Airways Limited	$5.85	$7.00	BUY
QBE	QBE Insurance Group Limited	$32.42	$37.60	BUY
RHC	Ramsay Health Care Limited	$10.97	$11.84	HOLD
RMD	ResMed Inc.	$5.17	$5.98	BUY
SEV	Seven Network Limited	$13.50	$12.60	HOLD
SGB	St George Bank Limited	$36.13	$36.52	HOLD
SGT	Singapore Telecommunications Limited	$3.01	$3.16	BUY
SHL	Sonic Healthcare Limited	$16.73	$16.15	HOLD
SIP	Sigma Pharmaceuticals Limited	$1.64	$1.38	SELL
SKI	Spark Infrastructure Group	$1.98	$2.19	BUY
STO	Santos Limited	$14.30	$12.80	SELL
SUN	Suncorp-Metway Limited	$18.68	$21.45	HOLD
SYB	Symbion Health Limited	$4.05	-	NR
TAH	TABCORP Holdings Limited	$15.27	$16.03	HOLD
TLS	Telstra Corporation Limited	$4.67	$4.79	HOLD
TOL	Toll Holdings Limited	$13.71	$15.21	HOLD
TSE	Transfield Services Limited	$15.36	$15.23	HOLD
TTS	Tattersall's Limited	$4.00	$4.60	HOLD
UGL	United Group Limited	$21.67	$21.48	BUY
WBC	Westpac Banking Corporation	$28.33	$33.04	BUY
WES	Wesfarmers Limited	$43.43	$47.51	HOLD
WOW	Woolworths Limited	$33.85	$32.55	HOLD
WPL	Woodside Petroleum Limited	$48.49	$47.00	HOLD
ZFX	Zinifex Limited	$14.44	$13.00	SELL

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
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 months

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CS	Coverage Suspended. GSJBW has suspended coverage of this company.
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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.

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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.

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Recommendation	Overall	Corporate relationship* in last 12 months
Sell	12%	14%
Hold	54%	55%
Buy	34%	31%

* 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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