Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review 28 February 2006

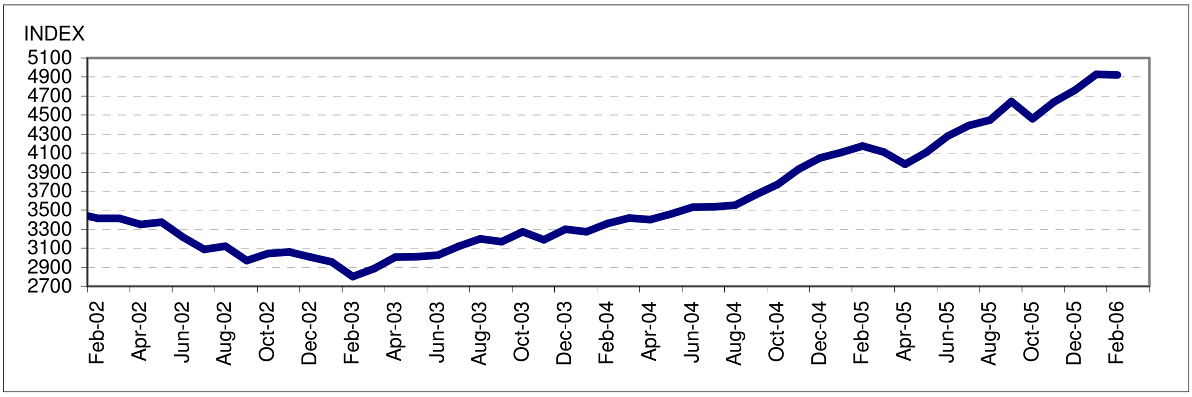
- The Australian market traded higher through the reporting season, recovering from an early slump as profit results from the major Australian companies largely met or exceeded the market's expectations. While there were some specific disappointments (which were met with savage share price reactions), the gains were broad-based, with high quality small-cap companies in particular performing well.
- The economic data flow during the month maintained its largely mixed character, although signs of a strengthening economy continued to gather. Although building approvals maintained their downward trajectory (largely New South Wales), housing finance and private sector credit data were solid. Retail sales maintained their strength, underpinned by broad based wage growth. The standout for the month, however, was business capital expenditure which highlighted the momentum with which the economy is entering 2006.
- Sector performance through February was most influenced by stock-specific events, rather than being reflective of any particular broad-based themes. Corporate activity drove the Utilities sector higher, while the Healthcare sector benefited from generally positive earnings revisions during the reporting season. Meanwhile, Energy stocks suffered as the oil price trended lower, while Materials companies experienced a bout of profit taking.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	0.6%	13.3%	23.4%
S&P/ASX 200 Industrials	2.6%	11.7%	20.7%
S&P/ASX 200 Resources	-6.2%	19.5%	34.7%
S&P/ASX Small Ordinaries	2.1%	11.1%	22.5%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	2.9%	-12.7%	-19.2%
Consumer Staples	0.2%	-9.3%	-11.2%
Energy	-7.7%	-2.7%	27.2%
Financials	2.1%	2.6%	3.0%
Health Care	6.8%	4.8%	20.1%
Industrials	-0.3%	-9.0%	-10.6%
Information Technology	-1.9%	-8.6%	-3.9%
Materials	-4.4%	9.1%	8.6%
REITs	2.9%	-4.1%	-6.1%
Telecommunications	0.0%	-22.9%	-38.7%
Utilities	4.9%	8.2%	15.1%

Source: GSJBW Research, IRESS

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

(February 2002 – February 2006)



Source: IRESS

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Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
CSL	21.2%	AWB Holdings	-25.4%
Centro Properties Group	10.2%	Newcrest Mining	-19.1%
Futuris Corporation	9.8%	Bluescope Steel	-15.7%
UNiTAB	9.5%	Santos	-13.6%
Mayne Pharma	8.6%	Lihir Gold	-12.0%
Amcor	8.6%	Caltex Australia	-11.1%
National Australia Bank	8.3%	Woodside Petroleum	-10.5%
AXA Asia-Pacific Holding	7.4%	Leighton Holdings	-10.0%
Harvey Norman Holdings	7.0%	CSR	-9.9%
QBE Insurance Group	7.0%	Lend Lease Corporation	-8.3%

Source: IRESS

Significant Company/Economic News

Telstra Corporation (TLS) **Analyst: Christian Guerra**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 28/02/06: $3.85; Valuation: $4.30**

Whilst first half sales revenue came in line with market expectations, the overall result highlighted that deterioration in the industry structure continues and key trends are worsening (e.g. fixed line revenue declining at an increasing rate and competition in mobile business intensifying). Through a Business Transformation Program (BTP), Telstra will invest $25-26bn from fiscal 2006 to fiscal 2010 in order to generate net profit growth of 3-4%. Following the result, the company's solid dividend yield provided some support to the share price, which was, however, somewhat short-lived. The market appears reluctant to give management the benefit of the doubt until there is some evidence of payoff from the BTP. TLS ended the month 3.3% lower.

Coles Myer (CML) **Analyst: Phillip Kimber**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 28/02/06: $9.82; Valuation: $10.45**

CML's second quarter sales result came in below market expectations, driven mainly by a weak performance from the Food & Liquor business (the main driver of group earnings). CML is currently undertaking supply-chain transformation initiatives to drive cost savings in its Food & Liquor business. However, management flagged that the forecast net benefits from the program have been delayed by 12 months to fiscal 2008. The market expects management to provide further clarification on this issue at the upcoming 1H06 profit result on 20 March 2006. CML ended the month 6% lower.

Healthcare Sector **Analyst: Hamish Tadgell**

- **Cochlear (COH): Share Price as at 28/02/06: $49.00; Valuation: $49.40 (OP/B)**
- **CSL (CSL): Share Price as at 28/02/06: $52.70; Valuation: $38.05 (MP/H)**
- **ResMed (RMD): Short Share Price as at 28/02/06: $5.63; Valuation: $5.48 (MP/H)**
- **Sonic Healthcare (SHL): Share Price as at 28/02/06: $15.53; Valuation: $14.06 (MP/B)**
- **Ramsay Health Care (RHC): Share Price as at 28/02/06: $10.00; Valuation: $9.61 (MP/H)**
- **Healthscope (HSP): Short Share Price as at 28/02/06: $3.85; Valuation: $4.19 (MP/H)**

Results among the major Australian healthcare companies were generally sound for the interim reporting season. Cochlear reported strong sales momentum following the launch of its new implant, the Nucleus Freedom and upgraded its full year guidance. CSL similarly surprised the market, indicating that general conditions in its key plasma markets were improving with integration synergies offsetting the decline in inventory profits from which the company has benefited in recent years. ResMed's results highlighted continued momentum in US sleep apnoea product sales, driven by new product launches, although international revenues lagged. Sonic Healthcare reported a solid, if unspectacular result, with management focused more upon bedding down a slew of recent acquisitions, as did Ramsay Health Care. Healthscope disappointed the market yet again, with another effective downgrade to its already-lowered guidance, as its recently-acquired Gribbles pathology business did not deliver on the company's expectations at the time of the acquisition.

Utilities Sector **Analyst: Anthony Bishop**

- **The Australian Gas Light Company (AGL): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 28/02/06: $19.15; Valuation: $17.35
- **Alinta (ALN): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 28/02/06: $11.12; Valuation: $10.86

Alinta snapped up 19.9% of the Australian Gas Light Company (AGL) during February, just shy of the 20% that would require a mandatory takeover offer to all shareholders. Alinta proceeded to engage with the directors of its much larger peer, aiming to initiate merger discussions. AGL management indicated that shareholders should take no action until it received a formal offer from Alinta, countered by Alinta's claim that "although AGL proposed some confidentiality protocols to Alinta" on Thursday the 23rd of February, "Alinta does not consider that those protocols were designed to be conducive to an efficient or co-operative process. Accordingly, Alinta has responded to AGL today with protocols which it believes will enable discussion to advance as rapidly and constructively as possible." (company announcement, 24 February 2006). Meanwhile, Alinta reported solid interim results in line with our expectations, driven by strength in retail and asset management operations and AGL produced a strong result, with margins improving in the core retail business.

Real Estate Investment Trusts **Analyst: Nick Vrondas**

- **Westfield Group (WDC): Share Price as at 28/02/06: $17.80; Valuation: $16.93 (MP/H)**
- **General Property Trust (GPT): Share Price as at 28/02/06: $4.15; Valuation: $3.97 (MP/B)**
- **CFS Gandel Retail Trust (GAN): Share Price as at 28/02/06: $1.95; Valuation: $1.70 (MP/B)**
- **Centro Properties Group (CNP): Share Price as at 28/02/06: $6.80; Valuation: $6.05 (OP/B)**
- **Stockland Group (SGP): Share Price as at 28/02/06: $6.73; Valuation: $6.42 (MP/B)**

The Real Estate Investment Trusts delivered profit results in February which were largely in line with our estimates and, in a largely flat long term bond yield environment, the major trusts traded higher. Among the major REITs, results for the Westfield Group, General Property Trust, CFS Gandel Retail Trust and Centro Properties Group were in line with our expectations, while Stockland Group marginally exceeded our forecasts. Trusts exposed to the retail sector demonstrated good rental growth, despite softer trading conditions, while the office trusts provided positive outlook commentary. Meanwhile, trusts more exposed to residential development continued to report only a weak recovery in demand.

Origin Energy (ORG) **Analyst: Anthony Bishop**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 28/02/06: $6.90; Valuation: $7.15**

ORG's first half profit result came in below market expectations, driven by high retail competition and lower upstream earnings. Nonetheless, exploration and production developments (BassGas, Otway and Kupe) remain on track. Management reiterated its guidance of 10-15% profit growth, which is effectively ~$10m lower at $310m – $325m due to exploration write-offs. A key take-out from the result was the merger proposal between Contact Energy and ORG to form a new dual-listed company called ContactOrigin for which Grant King would become the Managing Director. Under the proposal, ORG shareholders will own 75.7% of ContactOrigin while the existing minority Contact shareholders will own the residual 24.3%. Whilst many in the market believe the merger proposal has merit, they remain somewhat unsure as to whether minority shareholders of Contact Energy will approve the merger as it may be perceived as depriving them of value.

Resources Sector **Analyst: Neil Goodwill**

- **Rio Tinto (RIO): Short Term Outperform; Long Term Buy**
  Share Price as at 28/02/06: $71.20; Valuation: $57.52
- **BHP Billiton (BHP): Short Term Outperform; Long Term Buy**
  Share Price as at 28/02/06: $24.25; Valuation: $17.50

RIO's recent full year result and BHP's first half result reflected how both diversified resources giants are well positioned to continue capitalising on China's growth story. Spot commodity prices are trading at near record levels and have resulted in ongoing upward commodity price forecasts and consensus earnings revisions. One of the key take-outs from both results is that demand for commodities is showing little sign of abating while supply is running at maximum capacity utilisation. Further, robust cash flow generation led to capital management initiatives. RIO announced a US110cps special dividend and a share buyback program of US$2.5Bn, whilst BHP announced a capital management program of US$2bn (comprising of a US$1.1bn off-market buyback of BHP Limited shares and a US$0.9bn on-market buyback of BHP PLC shares).

Australian Equities: Key Issues for Portfolio Strategy

- After showing some long-awaited strength through the second half of 2005, the outlook for global markets into early 2006 is still relatively bright. The consensus has now shifted firmly to the view that the global economy will do well in 2006. We have little reason to challenge the consensus on this point. If anything, we feel that the risks are tilted in favour of activity exceeding expectations over coming quarters. The more critical medium term issue for global markets will be whether this economic strength can be delivered without any material negative implications for global interest rates – the current consensus view. On this issue we are more circumspect. We continue to believe that global policy normalisation has further to run and that the general level of global interest rates is still low relative to the strong nominal economic environment we are now in. We therefore believe that the uptrend in global rates will continue through 2006, possibly in a more stop/start fashion than was the case in 2005. Goldman Sachs Research believes that the US Federal Funds Rate will peak around the 5.00% level (currently 4.50%).
- The marginal global investor is currently hungry for 'high beta' exposure. This reflects a still very generous liquidity environment for financial assets; equity performance now clearly outpacing bonds; expectations that US interest rates are peaking (and thus providing scope for price/earnings multiples to expand), accelerating global industrial activity; accelerating merger and acquisition activity; and firmly established market trends (e,g. base metals, Asian equities). In the near term, it is difficult to see any macro catalysts that could undermine this optimal environment for the risk tolerant investor. Nonetheless, we need to be wary that under these conditions a pick-up in market volatility is inevitable – as momentum investing becomes more widespread – and absolute/relative valuations are prone to distortion.
- Looking at the Australian economy, discretionary consumer spending has been soft since late 2004, the expected rebound in residential construction remains elusive and the export sector is struggling to generate meaningful volume growth. Business spending remains the one bright spot. While the softer macro environment is not a surprise – given the boom conditions of 2002/04 – we believe that with the help of a still supportive policy stance and the financial strength of the corporate sector, household sector activity will strengthen through 2006. If this occurs, it will imply that little has been gained in terms of resolving the structural imbalances/inflationary risks that overhang the economy. Thus, interest rate pressures would quickly re-emerge. After growth of 3.1% in FY05, GSJBW Research expects production (GDP) to expand by 3.2% in FY06 and 3.6% in FY07.
- The policy stance in Australia remains on the generous side of neutral. Interest rates are relatively low, the terms of trade are at a 50 year high, the Australian Dollar has retreated, further income tax cuts (possibly significant) are likely at the next Budget and asset prices are healthy. This assessment is acknowledged by the Reserve Bank who remain of the view that rates are more likely to rise than fall. We still expect that interest rates will move higher over the next year (5.50% currently), although much will depend on whether household spending rebounds over the next 3-6 months.
- We continue to believe that the risk of a prolonged correction at this point is low. Material price weakness requires material profit disappointment and, while industrial FY06 and FY07 earnings estimates have been tempered over recent months, the risk of major market-wide downgrades remains relatively contained – particularly while the RBA sticks to its more cautious approach. The credibility of this observation was enhanced by the recent profit reporting season for the December half. Not only did the majority of results meet or exceed our expectations, the outlook comments were also generally encouraging. As such, the market will now have the confidence to price stocks off expected FY07/FY08 earnings. If anything, the surprise of the reporting season was the strength (or lack of disappointment) across the smaller-cap stocks where the better business models demonstrated an ability to perform well in what has been a mixed macro environment. Stocks which fall into this category – **Just Group**, **JB Hi-Fi**, **Alesco Corporation**, **Crane Group**, **Cabcharge** and **Salmat**.
- Consistent with our view that the market is fully valued, we are finding it difficult to identify stocks that offer compelling absolute value. Within the large-cap defensive universe **Macquarie Communications Infrastructure Group** and **Publishing & Broadcasting** represent the best relative value. The major banks have performed strongly over recent months and the sector is now fully valued. Into any meaningful share price weakness we prefer **National Australia Bank**. Globally exposed stocks we recommend accumulating during periods of market weakness – **News Corporation**, **Brambles**, **QBE Insurance**, **Computershare** and **Rinker**. We continue to believe the medium term outlook for the resources sector is favourable. Near term, the sector is still enjoying strong positive earning revision. After a weaker performance in February, we expect that the major stocks are still well-placed to make new highs over the next six months. Being, a 'high beta' exposure, we also believe the sector (and base metal markets) are currently benefiting from speculative inflows, thus price volatility is likely to pick-up. We continue to view periods of share price weakness as an opportunity to add to positions in **BHP Billiton**, **Rio Tinto**, **Oil Search** and **Australian Worldwide Exploration**.

GSJBW Market Forecasts:

As at 28/02/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY05	FY06E	FY07E	FY05	FY06E	FY07E	FY05	FY06E	FY07E
S&P/ASX 300	17.4	14.8	14.8	28.3	18.1	0.0	3.5	4.0	4.2
S&P/ASX 300 Industrials	17.7	16.4	15.1	11.9	8.3	8.9	4.3	4.5	4.8
S&P/ASX 300 Resources	16.7	12.2	14.3	79.5	38.2	-14.7	1.8	2.9	2.9

Source: GSJBW Research estimates

Portfolio Management: Building Positions

Publishing & Broadcasting (PBL) **Analyst: Lou Capparelli**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 28/02/06: $17.04; Valuation: $17.85**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$637.1m	$664.1m	$738.7m
EPS Growth (%)	22.4%	4.2%	11.3%
PER (x)	17.9x	17.2x	15.5x
Yield (%)	3.5%	3.8%	4.2%

Source: GSJBW Research estimates

The key reason for owning Publishing & Broadcasting (PBL) is if you think that there is value in the company's investment portfolio – that is, the businesses in which the company holds less than a 50% share – which, on our forecasts, will generate in excess of 60% of the group's earnings per share growth over the next 2 years and represent around 28% of our valuation. PBL's gaming joint venture with Melco is the investment we believe carries the most significant upside potential, with two developments under construction in Macau, scheduled to open later this calendar year.

Meanwhile, the current tough ad market and Channel Nine's poor ratings and revenue share momentum means that PBL's Television business will not, in our view, represent a source of upside earnings surprise over the next year. However, we believe that the Magazines business is well placed to sustain its contribution to earnings growth, given a more robust outlook for this market than for free-to-air television or metro newspapers and we are confident that the Australian casino operations will maintain their strong momentum, with both revenue and cost synergies still to come.

PBL's interim result confirmed our investment thesis for the company and we retain our long term Buy recommendation on the stock. The good bits of the business are on track and the disappointment in relation to the TV business is at least now widely known. Importantly, management is emphasising that TV profitability is the goal, rather than ratings dominance, *per se*. With the investments portfolio now making a meaningful profit contribution (and paying dividends), we believe investor confidence in its value will continue to increase. With the stock trading below our valuation, with dependable 10%+ earnings per share growth, we have upgraded our short term recommendation on PBL to "Outperform".

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

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 28/02/06: $20.70; Valuation: $21.80**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$1,310.6m	$1,413.5m	$1,513.5m
EPS Growth (%)	16.9%	5.8%	5.0%
PER (x)	13.6x	12.8x	12.2x
Yield (%)	3.7%	3.9%	4.1%

Source: GSJBW Research estimates

Sentiment towards the Australian insurance industry has recently waned after several years of stellar performances. But the story for QBE Insurance Group (QBE) remains somewhat different - our long term Buy recommendation on the stock is underpinned by its conservative provisioning, balance sheet strength and an excellent acquisition track record. We continue to believe that QBE's diverse business mix and well established acquisition model provide it with long term growth opportunities.

QBE posted a surprisingly strong full year (ending 31 December 2005) result, which was particularly impressive given that 2005 was a record loss year for the global insurance industry (~70% of QBE's business is offshore) and the company did not use any prudential margins or prior year releases to support its headline profits. Not only do we believe that there may be further upside to our margin estimates (on the back of higher premiums, strong risk management and solid cost controls) but that revenue in the long term could be higher than we forecast (we factor in management's guidance for 2006, but incorporate only 6% revenue growth per annum thereafter).

The bottom line is this: 10% premium growth is all but locked in for calendar 2006 (6% from acquisitions, 4% from rate rises) and the company is targeting 10% plus revenue growth beyond that (with a clear record of delivery), to which our forecasts remain conservative. Management has clearly used the balance sheet to support a 'stronger-for-very-much-longer' margin outlook, regardless of when the organic backdrop begins to show material deterioration. Combine And all this with a forecast fiscal 2007 price/earnings ratio of just 12.8x, an equation we believe is attractive not only relative to its peers and the market, but on an absolute long term basis.

Portfolio Management: Reducing Positions

Newcrest Mining (NCM) **Analyst: Ian Preston**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 28/02/06: $21.20; Valuation: $8.80**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$166.1m	$257.9m	$282.0m
EPS Growth (%)	18.6%	55.3%	9.5%
PER (x)	42.7x	27.5x	25.1x
Yield (%)	0.2%	0.2%	2.0%

Source: GSJBW Research estimates

From a fundamental perspective, we are concerned about the recent first half result and the near term outlook for NCM. Key take-outs were the poor quality of the overall result and the weak cash flow generation. More importantly, management downgraded its production guidance (once again!) for Telfer to 700koz, compared with the previously advised >800koz. Continued disappointing Telfer production levels have led to several profit downgrades. In our view, the market may have lost confidence and patience, given the company continues to under-deliver.

NCM's balance sheet has been negatively impacted by the application of International Accounting Standards (AIFRS). The company is required to bring onto the balance sheet ~$1.6bn of hedge book liabilities (due to a negative mark-to-market impact), which effectively increases the gearing level significantly (to ~89%). In addition, the mid-year retirement of the current Managing Director will likely create another headwind for the stock. This is particularly critical given the operational issues NCM faces and it may take some time to find an appropriate replacement.

Given the above factors, our view on the stock over the next 6-9 months is somewhat negative and we recommend investors reduce their exposure to NCM at this stage. We note that we maintain our long term Hold recommendation on the stock, given NCM is the first Australian gold company that offers 'world class' assets, with long life mines and a history of exploration discovery at low finding costs.

Suncorp-Metway (SUN) **Analyst: James Freeman & Ryan Fisher**

- **Investment View: Short Term Marketperform; Long Term Sell**
- **Share Price as at 28/02/06: $20.46; Valuation: $18.60**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$863.4m	$854.7m	$891.0m
EPS Growth (%)	-1.4%	-2.1%	3.2%
PER (x)	13.0x	13.3x	12.9x
Yield (%)	4.8%	5.1%	5.4%

Source: GSJBW Research estimates

Suncorp Metway is a diversified financial services company – in fiscal 2005, banking contributed 37% of pre-tax profit, general insurance 54% and wealth management 9%. Our Sell recommendation on the stock is based on our view that the stock is fully valued, at a time when both the banking and insurance divisions are facing a tougher operating outlook.

The recent result from the insurance division was disappointing. The general insurance component showed surprisingly weak underlying margins and relied heavily on supernormal provision releases to come close the outcome the market was expecting.

While the performance of the banking division basically met expectations there were a few worrying signs as to the strength of future profit growth. In particular, rising competition in both mortgage and business lending is likely to hit the net interest margin over the next year. All the major banks are attempting to lift market share in the business sector and SUN has a greater than average reliance on the broker channel to distribute mortgages. The other drag on the banking result was a surprising increase in impaired assets – largely flowing from an exposure to the NSW property investment and construction sector. This sector accounts for 51% of SUN's business loan book. The other major banks are yet to reveal any sign of credit deterioration.

Portfolio Management: Emerging Companies

Crane Group (CRG) **Analyst: Nga Luu**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 28/02/06: $10.60; Valuation: $10.90**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$45.3m	$49.4m	$55.1m
EPS Growth (%)	-10.0%	8.7%	11.4%
PER (x)	13.7x	12.6x	11.3x
Yield (%)	5.7%	5.8%	6.3%

Source: GSJBW Research estimates

The key driver of long term profit growth for Crane Group (CRG) remains the turnaround in the Tradelink operations (i.e. distributor of plumbing supplies across Australia). In our view, the long term risk/reward trade-off for CRG to successfully execute its strategy with regard to Tradelink is appealing. Management is aiming to lift Tradelink's profit margins from 2% towards the industry benchmark of ~5-6% over time; whilst on a risk adjusted basis, we believe the current share price is factoring an outcome of ~3%. Given our confidence in the ability of management to successfully execute on the cost-out strategy within the Tradelink operation has increased, we recently upgraded our recommendation on the stock to an Outperform/Buy.

Regarding management, we believe the appointment of Greg Sedgewick as MD is positive, with excess management layers taken out and processes simplified. From a shorter term perspective, our positive view on the stock is underpinned by the potential bottoming of the building cycle in Australia (~75% of CRG's sales) over the next 6 months. To date, CRG has seen good growth in WA and Queensland but significant weakness in NSW. Further, should CRG exercise its call option over its remaining 25% stake in Iplex (i.e. plastic pipeline business), we estimate the acquisition will be earnings accretive by ~5% in fiscal 2007 (first full year contribution). Finally, we highlight that CRG's solid balance sheet (i.e. low debt levels) may be attractive to prospective acquirers due to its re-gearing potential or low risk profile.

Repco Corporation (RCL) **Analyst: George Batsakis**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 28/02/06: $2.27; Valuation: $2.45**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$40.4m	$44.0m	$47.3m
EPS Growth (%)	-5.3%	7.5%	6.1%
PER (x)	10.7x	9.9x	9.3x
Yield (%)	6.2%	6.6%	7.0%

Source: GSJBW Research estimates

Following the recent first half result, we see no catalyst to alter our cautious view on Repco Corporation (RCL). Profit was negatively impacted by soft retail sales in Australia, combined with flat trade sales (excluding acquisitions) and higher than expected expense growth. The main disappointment was the weak performance of the New Zealand operations (~25-30% of revenue), which was impacted by price deflation, weak consumer spending and competitive pressures (e.g. Super Cheap's expansion). Whilst we believe there is valuation support at current levels (with RCL trading on a forecast fiscal 2006 price/earnings ratio of 10.7x and dividend yield in excess of 6%), we anticipate consensus downgrades will negatively impact short term sentiment towards the stock.

Whilst we do not expect further deterioration in the New Zealand trading conditions, we would need to see some recovery in that market before taking on a more positive view on the stock. In the longer term, we continue to believe the company is well positioned in the trade segment of auto parts after market and has the potential to benefit from industry consolidation. Further key long term drivers for the stock include a pick up in consumer spending, evidence that management can deliver on its growth strategy (i.e. retail store roll-out) and cost reduction strategy as well as improve the in-store retailing skills and sales in the trade business. Finally, we believe management stability is crucial for long term share price performance (we note that 7 out of the top 10 Directors left the company in the past 3 years). The company expects the process of looking for a new CEO will be completed by mid-2006.

Stock Selection Using Quantitative Techniques

In last month's edition of *Australian Equities: Portfolio Strategy Review* (31 January 2006), we outlined a framework that we believe provides investors with a practical way to take advantage of earnings surprises through the reporting season. Briefly, it is difficult to capture on-the-day earnings surprises (unless an investor has already taken a position in a stock prior to its results announcement), but the direction of earnings revisions after the release of results has been shown to be a predictor of longer term share price performance, because it is an expression of how the market feels about the earnings outlook following the announcement.

Now is the time to be taking advantage of such revisions – with so much information for the market to digest during the reporting season, it is only in the weeks afterwards that such effects begin to emerge. As at the date of publication, the framework we outlined has provided the following results:

GSJBW EPS REVISION POST RESULT / HEADLINE SURPRISE	-VE ←	HEADLINE SURPRISE	→ +VE
+VE ↑		COA, COA, APN, IRE, QBE, ALL	KCN, CRG, RMD, LEI, OKN, RUP, ABC, AEO, MYP, CSL, ZFX, APA, SKE, CAB, UTB, AXA, PBL, BBG, PMN, RHC
	WES, FCL, ADB, PPT, SHL, OXR, MRE	ANN, CBA, FGL, BHP, AAC, CPX, BEN, AMP, HIL, WAN, RIO, BLD, BKN, IAG, SFE, BSL, SHV, AMC, ASX, TTS, SUN, AGL	SEK, COH, JBH, GWT, RIN, AUN, PBB, DMP, HWI, OST, BIL, PBG, WOW, ENE
↓ -VE	SGX, TLS, WPL, CPU, AGG, SPT, TWO, LHG, GUD, SGM, PMM, SSX, TOL, ILU, BCA, OSH, EXL, ORG, MGW, IFL, STO, PMM, JBM, PPX, CEY, AWE, RCL, PME, CGF	ALS, CCL, AWC, HSP, FLT, CDR	NCM, BPC, ALN, TAH

Source: GSJBW Research

That is, stocks listed in the top, right-hand box have seen positive earnings revisions following their results announcements, as well as having exhibited a positive headline earnings surprise relative to prior forecasts.

We have also updated the results from our broader Quant stock selection model (Table below), which aims to provide diversification across market themes and thus to provide stable, 'through-the-cycle' returns. A diversified approach to quantitative investing is important because the impact of various factors on share price performance (or the dominance of particular market styles, such as value or growth) can change over time. Hence, our model aims to incorporate a number of quantitative screens that have historically shown to be both (a) good indicators of share price performance and (b) less than perfectly correlated with each other (i.e. when one screen is perhaps performing weaker, another screen may perform better).

Rank	Company	EVA Spread: Level	Trend	Earnings Revision: Actual 3 Month	Predicted	Positive RSI	ROFE/ PEG	TOTAL	Previous Rank (31-Jan-06)	Move in Rank
		(out of 15)	*(out of 15)*	*(out of 15)*	*(out of 15)*	*(out of 10)*	*(out of 30)*	*(out of 100)*		
1	JHX	13	14	14	15	7	29	**92**	3	2
2	RIN	13	15	11	15	6	29	**89**	5	3
3	ASX	15	14	11	8	0	30	**77**	1	-2
4	PPT	15	15	3	8	5	28	**74**	2	-2
5	BBG	12	12	13	8	4	25	**73**	7	2
6	COH	10	9	10	15	5	23	**72**	4	-2
7	WOW	12	0	10	15	9	27	**72**	17	10
8	RMD	11	12	14	8	3	20	**68**	23	15
9	SYB	6	12	4	15	6	26	**68**	6	-3
10	LEI	14	1	14	8	8	22	**67**	19	9
11	CSL	4	11	15	8	9	17	**63**	25	14
12	SGB	9	10	7	8	6	23	**63**	14	2

Source: GSJBW Research

We have provided these results in *Australian Equities: Portfolio Strategy Review* since February 2005 (refer *Australian Equities: Portfolio Strategy Review*, 4 January 2006 for methodology). Performance for February was flat on the previous month, given a mixture of stock-specific moves as a result of the reporting season. Performance for the year since 28 February 2005 was a 19.96% absolute return (including dividends which are assumed to be invested in a 5% per annum cash management account). Removals for this month include: Rio Tinto, Aristocrat Leisure, Toll Holdings, Computershare and BHP Billiton; Additions: Woolworths, ResMed, Leighton Holdings, CSL and St. George Bank.

GSJBW Model Portfolios

Income Portfolio

Commonwealth Bank of Australia	Rio Tinto
Westpac Banking Corporation	Hills Industries
St. George Bank	Alesco Corporation
Australian Gas Light Company	West Australian Newspapers
Macquarie Communications Infrastructure Group	Rural Press
Tabcorp Holdings	Foster's Group
Promina Group	Publishing & Broadcasting
Woolworths	Ten Network
Wesfarmers	Australand Holdings
Coca-Cola Amatil	Crane Group

Source: GSJBW Research

Our changes to the Income Portfolio during February 2006:
Removed: Alinta
Added: Crane Group
Increased: Alesco

Income Portfolio Summary: Fiscal 2006 (*Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	6.8%
Price to Earnings Ratio	15.6x
Average Yield	5.0%
Franking	86%

Source: GSJBW Research estimates

Defensive Portfolio

BHP Billiton	Ramsay Health Care
Commonwealth Bank of Australia	Foster's Group
Woolworths	Brambles Industries
St. George Bank	Rio Tinto
Tabcorp Holdings	Sonic Healthcare
Promina Group	Mirrabooka Investments
Publishing & Broadcasting	Coca-Cola Amatil
Macquarie Communications Infrastructure Group	Australian Gas Light Company
Australian Foundation Investment Company	Rinker Group
Origin Energy	Wesfarmers
National Australia Bank	

Source: GSJBW Research

Our changes to the Defensive Portfolio during February 2006:
Reduced: St George Bank; Origin Energy; Woolworths
Increased: Rinker Group; Ramsay Health Care; Australian Foundation Investment Company

Defensive Portfolio Summary: Fiscal 2006 (*Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	15.9%
Price to Earnings Ratio	15.9x
Average Yield	3.9%
Franking	88%

Source: GSJBW Research estimates

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

Balanced Portfolio

BHP Billiton	Australian Foundation Investment Company
Commonwealth Bank of Australia	Rio Tinto
Woolworths	Coca-Cola Amatil
Macquarie Communications Infrastructure Group	News Corporation, Inc.
St. George Bank	Sonic Healthcare
Origin Energy	Australian Gas Light Company
Promina Group	Alesco Corporation
National Australia Bank	Billabong International
Brambles Industries	Rinker Group
Publishing & Broadcasting	Wesfarmers
Computershare	Healthscope
AXA Asia-Pacific Holdings	

Source: GSJBW Research

Our changes to the Balanced Portfolio during February 2006:
Reduced: Origin Energy; St George Bank; Woolworths; Australian Foundation Investment Company
Increased: Rinker Group; Alesco; AXA Asia Pacific; Healthscope

Balanced Portfolio Summary: Fiscal 2006 (Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	18.2%
Price to Earnings Ratio	16.3x
Average Yield	3.6%
Franking	83%

Source: GSJBW Research estimates

Growth Portfolio

BHP Billiton	Brambles Industries
Woolworths	Rinker Group
St. George Bank	Alesco
Australian Foundation Investment Company	Symbion Health
Origin Energy	Billabong International
National Australia Bank	Macquarie Airports
Sonic Healthcare	Alinta
Computershare	Salmat
Rio Tinto	Toll Holdings
Promina Group	Cochlear
News Corporation, Inc.	Healthscope
Aristocrat Leisure	

Source: GSJBW Research

Our changes to the Growth Portfolio during February 2006:
Reduced: Alinta; National Australia Bank; Woolworths
Increased: Sonic Healthcare; Computershare; Alesco; Healthscope; Macquarie Airports

Growth Portfolio Summary: Fiscal 2006 (*Please note, ALN excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	20.0%
Price to Earnings Ratio	16.8x
Average Yield	3.1%
Franking	91%

Source: GSJBW Research estimates

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GSJBW Recommendation Changes in February

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Australian Infrastructure Fund	AIX	No change	Marketperform	Buy	Hold
Alinta	ALN	Not Rated	Outperform	Not Rated	Not Rated
Alumina	AWC	Marketperform	Outperform	No change	Hold
APN News & Media	APN	Marketperform	Underperform	No change	Hold
Australian Stock Exchange	ASX	Marketperform	Underperform	No change	Hold
Austar	AUN	No change	Marketperform	Buy	Hold
Bluescope Steel	BSL	Underperform	Marketperform	No change	Hold
Coca-Cola Amatil	CCL	Underperform	Marketperform	Hold	Buy
Commander Communications	CDR	Marketperform	Underperform	Buy	Hold
Centennial Coal	CEY	Marketperform	Underperform	No change	Sell
Crane Group	CRG	Outperform	Marketperform	Buy	Hold
CSL Limited	CSL	Marketperform	Underperform	No change	Hold
Corporate Express	CXP	Marketperform	Underperform	No change	Hold
Domino's Pizza	DMP	Marketperform	Outperform	No change	Buy
Excel Coal	EXL	Marketperform	Underperform	No change	Hold
Foster's Group	FGL	Marketperform	Outperform	No change	Buy
Felix Resources	FLX	Marketperform	Underperform	Sell	Hold
Insurance Australia	IAG	Underperform	Marketperform	No change	Hold
Just Group	JST	No change	Outperform	Buy	Hold
Leighton Holdings	LEI	Underperform	Marketperform	Sell	Hold
Macquarie Bank	MBL	Underperform	Marketperform	No change	Hold
Macquarie Infrastructure Group	MIG	Underperform	Marketperform	No change	Hold
Newcrest Mining	NCM	Underperform	Marketperform	Hold	Buy
Origin Energy	ORG	Marketperform	Outperform	Hold	Buy
Oxiana	OXR	No change	Outperform	Buy	Hold
Publishing & Broadcasting	PBL	Outperform	Marketperform	No change	Buy
Powertel	PWT	No change	Underperform	Hold	Sell
Qantas	QAN	Outperform	Marketperform	No change	Hold
Seek Limited	SEK	No change	Marketperform	Hold	Buy
Sims Group	SGM	Outperform	Marketperform	No change	Hold
Sonic Healthcare	SHL	Marketperform	Outperform	No change	Buy
Select Harvest	SHV	Outperform	Marketperform	Buy	Hold
Skilled Group	SKE	Outperform	Marketperform	No change	Hold
Smorgon Steel	SSX	Marketperform	Outperform	No change	Hold

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 28 Feb 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Foundation Investment Company	AFI	$4.81	$3.38	n/a	BUY
Australian Gas Light Company	AGL	$19.15	$17.35	Not Rated	NOT RATED
Australian Infrastructure Group	AIX	$2.30	$2.39	Marketperform	BUY
Aristocrat Leisure	ALL	$12.05	$13.20	Outperform	BUY
Alinta	ALN	$11.12	$10.86	Not Rated	NOT RATED
Alesco Corporation	ALS	$9.99	$8.90	Marketperform	BUY
Australand Holdings	ALZ	$2.03	$1.85	Marketperform	BUY
APN News & Media	APN	$4.75	$5.15	Marketperform	HOLD
Australian Stock Exchange	ASX	$32.46	$27.90	Marketperform	HOLD
AUSTAR United Communications	AUN	$1.10	$1.11	Marketperform	BUY
Alumina	AWC	$6.94	$6.01	Outperform	HOLD
Australian Worldwide Exploration	AWE	$2.55	$2.00	Outperform	BUY
AXA Asia-Pacific Holdings	AXA	$5.85	$5.45	Marketperform	BUY
Billabong International	BBG	$15.52	$15.25	Outperform	BUY
BHP Billiton	BHP	$24.25	$17.50	Outperform	BUY
Brambles Industries	BIL	$10.05	$10.60	Outperform	BUY
Bluescope Steel	BSL	$6.60	$7.68	Underperform	HOLD
Cabcharge	CAB	$6.56	$6.88	Outperform	BUY
Commonwealth Bank of Australia	CBA	$44.85	$40.10	Marketperform	HOLD
Coca-Cola Amatil	CCL	$7.05	$8.00	Underperform	HOLD
Coles Myer	CML	$10.45	$9.42	Marketperform	HOLD
Commander Communications	CDR	$1.99	$2.30	Marketperform	BUY
Centennial Coal Company	CEY	$3.58	$3.41	Marketperform	SELL
Centro Properties Group	CNP	$6.80	$6.05	Outperform	BUY
Cochlear	COH	$49.00	$49.40	Outperform	BUY
Computershare	CPU	$6.77	$6.60	Marketperform	HOLD
Crane Group	CRG	$10.60	$10.90	Outperform	BUY
CSL	CSL	$52.70	$38.05	Marketperform	HOLD
Corporate Express	CXP	$6.00	$5.95	Marketperform	HOLD
Domino's Pizza Australia New Zealand	DMP	$3.87	$3.55	Marketperform	BUY
Excel Coal	EXL	$6.80	$5.47	Marketperform	HOLD
Foster's Group	FGL	$5.44	$6.00	Marketperform	BUY
Felix Resources	FLX	$1.88	$2.19	Marketperform	SELL
CFS Gandel Retail Trust	GAN	$1.95	$1.70	Marketperform	BUY
General Property Trust	GPT	$4.15	$3.97	Marketperform	BUY
Hills Industries	HIL	$5.25	$4.45	Outperform	HOLD
Healthscope	HSP	$3.85	$4.19	Marketperform	HOLD
Insurance Australia Group	IAG	$5.39	$5.40	Underperform	HOLD
JB Hi-Fi	JBH	$4.85	$4.35	Outperform	BUY
Just Group	JST	$3.20	$3.15	Outperform	BUY
Leighton Holdings	LEI	$18.22	$13.08	Underperform	SELL
Macquarie Airports	MAP	$3.23	$3.57	Outperform	BUY
Macquarie Bank	MBL	$64.23	$60.40	Underperform	HOLD
Macquarie Communications Infrastructure Group	MCG	$5.67	$6.72	Outperform	BUY
Macquarie Infrastructure Group	MIG	$3.50	$3.81	Underperform	HOLD
Mirrabooka Investments	MIR	$1.66	$1.34	n/a	BUY
National Australia Bank	NAB	$36.68	$31.89	Marketperform	HOLD
Newcrest Mining	NCM	$21.20	$8.80	Underperform	HOLD
News Corporation, Inc.	NWS	$23.17	$26.50	Outperform	BUY
Origin Energy	ORG	$6.90	$7.15	Marketperform	HOLD
Oil Search	OSH	$3.64	$2.85	Outperform	BUY
Oxiana	OXR	$1.91	$1.31	Outperform	HOLD
Publishing & Broadcasting	PBL	$17.04	$17.85	Outperform	BUY
Promina Group	PMN	$5.45	$5.30	Marketperform	BUY
Powertel	PWT	$1.05	$1.23	Underperform	HOLD
Qantas Airways	QAN	$4.10	$4.15	Outperform	HOLD
QBE Insurance Group	QBE	$20.70	$21.80	Outperform	BUY
Repco Corporation	RCL	$2.27	$2.45	Underperform	HOLD
Ramsay Health Care	RHC	$10.00	$9.61	Marketperform	HOLD
Rinker Group	RIN	$17.89	$17.55	Outperform	BUY
Rio Tinto	RIO	$71.20	$57.52	Outperform	BUY
ResMed	RMD	$5.63	$5.48	Marketperform	HOLD
Rural Press	RUP	$11.43	$10.20	Marketperform	HOLD
Seek	SEK	$4.13	$2.40	Marketperform	HOLD
St. George Bank	SGB	$30.06	$28.94	Marketperform	HOLD
Sims Group	SGM	$15.40	$14.43	Outperform	HOLD
Stockland Group	SGP	$6.73	$6.42	Marketperform	BUY
Sonic Healthcare	SHL	$15.53	$14.06	Marketperform	BUY
Select Harvests	SHV	$14.50	$16.15	Outperform	BUY
Skilled Engineering	SKE	$4.71	$4.30	Outperform	HOLD
Salmat	SLM	$4.24	$4.72	Marketperform	BUY
Smorgon Steel Group	SSX	$1.27	$1.58	Marketperform	HOLD
Suncorp-Metway	SUN	$20.46	$18.60	Marketperform	SELL
Symbion Health	SYB	$3.35	$3.25	Outperform	BUY
Tabcorp Holdings	TAH	$15.19	$16.70	Underperform	HOLD
Ten Network Holdings	TEN	$2.99	$3.30	Marketperform	HOLD
Telstra Corporation	TLS	$3.85	$4.30	Underperform	HOLD
Toll Holdings	TOL	$11.68	$11.80	Underperform	HOLD
West Australian Newspapers	WAN	$7.89	$8.20	Marketperform	HOLD
Westpac Banking Corporation	WBC	$23.61	$21.33	Underperform	HOLD
Westfield Group	WDC	$17.80	$16.93	Marketperform	HOLD
Wesfarmers	WES	$36.60	$36.12	Marketperform	HOLD
Woolworths	WOW	$18.40	$18.85	Outperform	BUY

Source: IRESS, GSJBW Research

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Recommendation Definitions

Short Term

Underperform (UP)	Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe
Marketperform (MP)	Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe
Outperform (OP)	Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe

Long Term

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for beyond 6 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for beyond 6 months

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SHORT TERM (0-6 MONTHS)

Relative Earnings Outlook: Forward looking assessment of risk to consensus EPS estimates relative to estimated EPS risk across the market.

Earnings Revision: The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure.

News Flow: The consideration of stock specific news flow, market and/or cyclical thematics and other issues such as index changes. Addresses two issues: (1) What is the potential news flow; and (2) What is the share price reflecting?

Relative Performance: Historic rolling 3 month performance versus the broader market. Stocks are rated according to their relative ranking.

Valuation Support: Considers a range of valuation methodologies, including discounted cash flow (DCF) valuation, PER, dividend yield and any other relevant measure.

LONG TERM (> 6 MONTHS)

Industry Structure: Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.

EVA™ Trend: [1] EVA™ trend forecast for coming two years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. (An ROE measure is used for insurance stocks in conjunction with an assessment of the strength of an insurer's balance sheet).

Growth Option: A qualitative and quantitative assessment of a company's long term growth options that the analyst believes should be considered and possibly recognised by the market.

Price:Base Case DCF: The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

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

For Insurers

Return On Equity: Rating taking into account the expected level and trend of ROE over the next two to three years.

Balance Sheet: Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

For REITs

EPU Growth: Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.

Strategy: Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.

Yield: Yield relative to the REIT sector average. Used instead of Valuation Support.

For NZ Companies

Relevant Index: If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 40 Index (Gross) and not the S&P/ASX 200 index.

Distribution of Recommendations - As at 31 December 2005

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	16%	10%	Sell	8%	5%
Marketperform	61%	62%	Hold	63%	60%
Outperform	22%	28%	Buy	29%	36%

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

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