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Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review 31 March 2006

- The S&P/ASX200 ended the month of March stronger, up 4.7%, and returned 30.4% for the year. The solid rally was driven mainly by stocks leveraged to stronger commodity prices. Other features included a significant pick-up in M&A activity and an increasing confidence in the domestic earnings cycle.

- Economic data flow during the month was mainly positive. The National Accounts data for the December quarter reported a strong increase in household income while housing finance and mortgage credit growth were stronger than market expectations. The Australian dollar continued to weaken against the US dollar and major cross-rates, ending the month at 71.6¢ (-2.7¢). The 10-year bond yield increased 14bps to 5.43%.

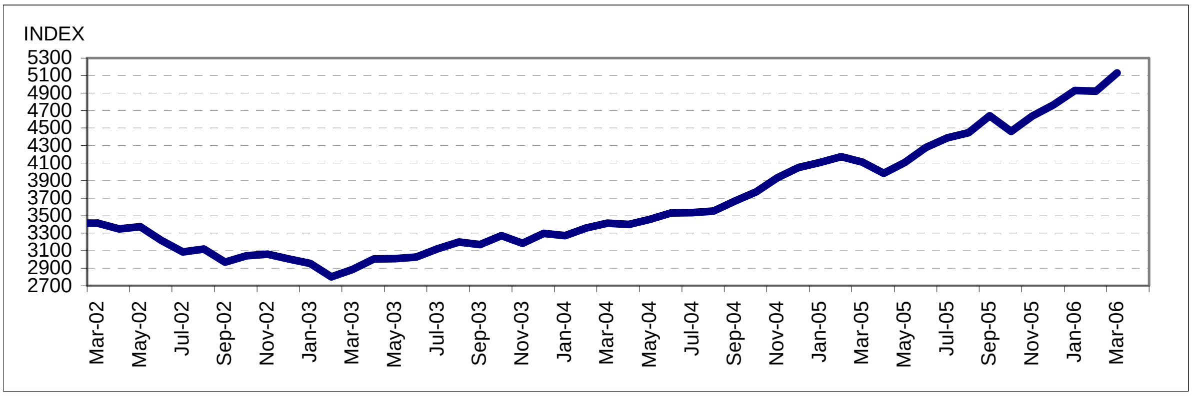
- The Materials, Energy and Tech sectors outperformed while the more defensive Telcos, Utilities and REITs lagged. The Small and Mid Cap sectors also performed strongly as investors increased exposure to domestic cyclicals and companies involved in non-hostile M&A transactions.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	4.7%	12.9%	30.4%
S&P/ASX 200 Industrials	2.5%	10.4%	24.3%
S&P/ASX 200 Resources	13.5%	22.5%	56.7%
S&P/ASX Small Ordinaries	6.3%	13.4%	31.3%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	0.4%	-8.7%	-22.5%
Consumer Staples	-1.6%	-8.6%	-16.7%
Energy	5.7%	0.5%	25.5%
Financials	-3.0%	-0.3%	0.2%
Health Care	-0.9%	2.7%	14.5%
Industrials	-1.9%	-7.2%	-14.9%
Information Technology	2.0%	-1.4%	-1.8%
Materials	7.8%	10.7%	24.7%
REITs	-5.3%	-4.3%	-12.1%
Telecommunications	-7.2%	-17.4%	-47.5%
Utilities	-5.0%	1.8%	2.9%

Source: GSJBW Research, IRESS

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

(March 2002 – March 2006)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Oxiana Limited	40.7%	Qantas Airways	-13.6%
Lihir Gold	25.4%	Challenger F.S.G	-10.0%
Zinifex	23.3%	Goodman Fielder	-5.7%
Patrick Corporation	17.7%	Transurban Group	-5.6%
CSR Limited	16.8%	Suncorp-Metway	-5.0%
BHP Billiton	15.5%	Centro Properties	-4.9%
Aristocrat Leisure	14.4%	Wesfarmers	-4.7%
Sims Group	13.8%	Futuris Corporation	-4.2%
Downer EDI	13.0%	Westfield Group	-3.9%
Woodside Petroleum	12.3%	West Australian News	-3.6%

Source: IRESS

Significant Company/Economic News

Utilities **Analyst: Anthony Bishop**

- **The Australian Gas Light Company (AGL): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/03/06: $18.53; Valuation: $17.50
- **Alinta (ALN): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/03/06: $10.98; Valuation: $10.90

Although agreeing that there is merit in combining the two companies, AGL's board rejected Alinta's merger/demerger proposal and issued its own takeover/demerger offer in response. The key differences between the two proposals are: (1) under AGL's proposal, AGL's management retains control of the combined entity; (2) AGL proposes internal management for Infrastructure with no cross ownership (versus Alinta's external management model, with the Energy business owning 20% of Infrastructure); and (3) AGL's proposal does not include structural benefits (compared with Alinta's proposal for a benefit of ~$0.80 per AGL share). Alinta rejected the latter proposal and lodged its Bidder's Statement for its proposed takeover of AGL. A final outcome is yet to be determined.

Macquarie Infrastructure (MIG) **Analyst: Alison Booth**

- **Short Term Underperform; Long Term Hold**
- **Share Price as at 31/03/06: $3.81; Valuation: $3.81**

As part of a portfolio and capital management review, MIG announced the divestment of its mature Australian assets, which comprise ~13% of MIG's total portfolio and include the Eastern Distributor, M4 and M5. Management indicated that its preferred divestment structure would be a listed stand-alone vehicle, including an in-specie distribution (i.e. share split) to existing MIG security holders. The potential spin-out of the mature Australian assets into a separately listed self-managed entity would reduce the capital base on which fees are charged and hence, reduce the fees paid to Macquarie Bank. This announcement was taken positively by the market and the stock ended the month ~9% higher.

Diversified Financials **Analyst: Ryan Fisher**

- **SFE Corporation (SFE): Short Term Marketperform; Long Term Hold**
  Share Price as at 31/03/06: $16.31; Valuation: $11.45
- **Australian Stock Exchange (ASX): Short Term Marketperform; Long Term Hold**
  Share Price as at 31/03/06: $32.70; Valuation: $27.50

Consistent with the theme exhibited in offshore markets of consolidation between financial exchanges, ASX and SFE announced a proposal to merge their businesses. The Board of SFE has unanimously recommended the proposal to their shareholders "in the absence of a superior proposal." Both companies are of the belief that the merger provides a good strategic fit, with the combined group having a broader product mix and greater financial and operational scale than either entity could expect to possess alone.

Gaming **Analyst: Ashwini Chandra**

- **UNiTAB (UTB): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/03/06: $15.20; Valuation: $13.60
- **Tattersall's (TTS): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/03/06: $3.31; Valuation: $2.70

The M&A theme extended to the gaming sector during the month, when TTS and UTB announced a proposed "merger-of-equals" to create a wagering, gaming and lotteries company that would have exposure to every state and territory in Australia. The merger has been unanimously recommended by both Boards of Directors, on their expectation that the proposal will "generate significant benefits for the shareholders and stakeholders of both companies." Benefits that were mentioned include the combined company's ability to deliver value through greater earnings diversification, a broader product offering and operational synergies, in addition to being well positioned strategically and financially for future licence opportunities. Following the announcement both stocks reacted favourably, with UTB and TTS trading up 10% and 9% respectively for the month.

Base Metals **Analyst: Ian Preston**

- **Oxiana (OXR): Short Term Outperform; Long Term Buy**
  Share Price as at 31/03/06: $2.68; Valuation: $1.70

The Australian equity market reached all time highs during the month, driven mainly by cyclical buying, with resources and base metals companies leading the way. Gold rose to its highest level in almost two months, as part of a broader rally in metal prices led by copper and silver but supported, in particular, by fears of emerging inflation in the US on the back of hawkish comments from the US Fed Reserve. Subject to insufficient smelting capacity and hence remaining in short supply, zinc also reached a record high this month. Given its leverage to gold, copper and zinc, Oxiana (+41%) was the best performing large cap base metal stock in the ASX100 in March.

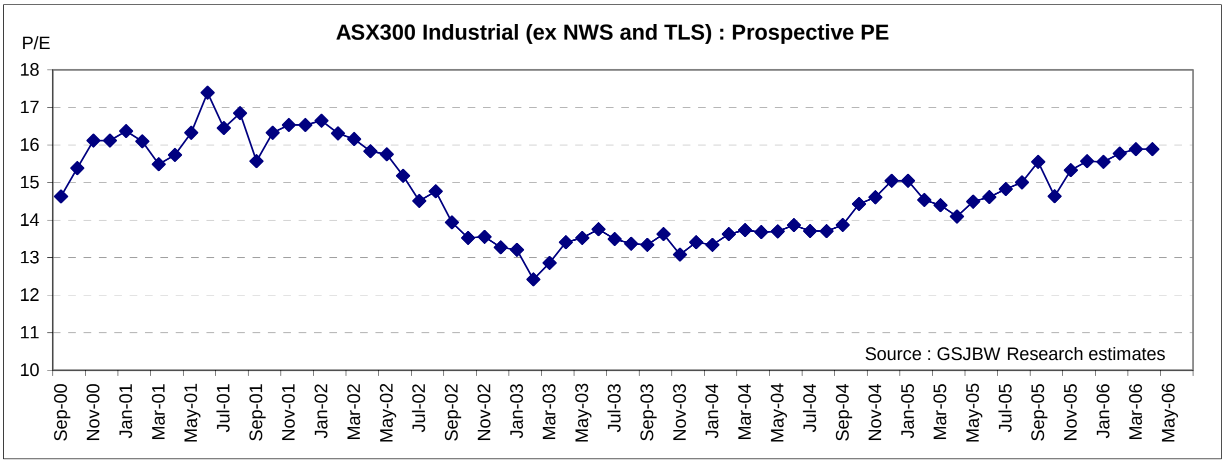
Transport **Analyst: Paul Ryan**

- **Patrick Corporation (PRK): Short Term Marketperform; Long Term Buy**
  Share Price as at 31/03/06: $8.06; Valuation: $6.30
- **Toll Holdings (TOL): Short Term Underperform; Long Term Hold**
  Share Price as at 31/03/06: $13.10; Valuation: $11.90

The proposed takeover of PRK by TOL was a topical issue during the month. The ACCC announced that it had accepted the revised undertakings made by TOL to the Federal Court; this was followed by the announcement of an increased bid on 22 March 2006. The Directors of PRK have subsequently advised shareholders to reject the "flawed and unacceptable bid." In addition to the activity surrounding the proposed takeover, TOL also acquired a 60% majority stake in pan-Asian logistics operator SembCorp Logistics. The flood of news flow was a positive for both companies, with TOL up 12% and PRK up 18% for the month.

Absolute Value: ASX300 Industrials (as at 31/03/2006)

The Industrials market has enjoyed a period of price/earnings ratio (PER) expansion since 2003 and is currently trading on its highest prospective PER multiple in three years.



Australian Equities: Key Issues for Portfolio Strategy

- Cyclical economic conditions in the global economy are the best since the late 1980's. The consensus has now shifted firmly to the view that the global economy will do well in 2006. If anything, we continue to feel that the risks are tilted in favour of activity exceeding expectations over the 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 in which we now find ourselves. We therefore believe that the uptrend in global rates will continue through 2006. For the past two years, the US has led this process. Leadership is now in the process of shifting to Japan, China and Europe. Goldman Sachs Research believes that the US Federal Funds Rate will peak around the 5.00% level (currently 4.75%).
- 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 P/E multiples to expand), accelerating global industrial activity; accelerating merger and acquisition activity and firmly established market trends (eg. 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 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 – and recent economic news suggests it is – 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 reemerge. 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 in now 8% off its early 2004 high, 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 are of the view that rates are more likely to rise than fall. We still expect that interest rates will move higher at some point in the next six months (5.50% currently).
- We continue to believe that the risk of a prolonged equity market 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 the past six 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 has the confidence to price stocks off expected FY07/FY08 earnings – a process which accounts for the February/March strength.
- The resource stocks continue to enjoy positive earnings revision as commodity prices continue to escalate beyond market expectations. This process has now been going for three years, supported of late by further evidence of tangible supply constraints. The global policy normalisation phase described above, however, is probably now at a point where it will become a drag on economic activity from late this year. As such, investors with a large resources exposure need to appreciate that a typical cycle is brewing and that periods of fervor – such as we saw in March – represent an opportunity to take some profit.
- 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 Group, Coca Cola Amatil** 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**.

GSJBW Market Forecasts:

As at 31/03/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY05	FY06E	FY07E	FY05	FY06E	FY07E	FY05	FY06E	FY07E
S&P/ASX 300	18.3x	15.5x	15.1x	28.5	18.8	2.5	3.3	3.8	4.0
S&P/ASX 300 Industrials	18.1x	16.7x	15.3x	12.2	8.5	8.8	4.2	4.4	4.7
S&P/ASX 300 Resources	18.9x	13.5x	14.7x	79.3	40.1	-7.9	1.6	2.5	2.5

Source: GSJBW Research estimates

Portfolio Management: Assessing Relative Value among the major Industrials

Following the continued strength in the domestic equity market, we believe it is timely to revisit our analysis on price/earnings growth ratio (PEG) and DCF valuation with the aim of identifying which stocks are looking relatively expensive and those that are looking relatively cheap.

As a reminder, the PEG ratio is a short term valuation tool, which provides an indication of how reasonable the market's current pricing of the stock is relative to its earnings outlook. It divides a company's historical price/earnings ratio (i.e. the current share price's capitalisation of last year's earnings – fiscal 2005) by our analysts' forecast for average earnings growth for that company over the next two years. **We prefer to invest in stocks that have a relatively low PEG ratio**. The DCF valuation attempts to capture the fundamental long term potential of a company (as reflected by its free cash flow generation). **We prefer to invest in stocks that are trading at or below their DCF valuation on our estimates**.

To this end, the table below maps our large cap stocks in terms of PEG ratio versus DCF valuation, grouped into four 'quadrants'. For instance, stocks in quadrant 1 are trading at a discount to their DCF and on a PEG multiple lower than the average – hence, relatively inexpensive on both valuation metrics. Stocks in quadrant 4 are relatively expensive on both metrics. For the purpose of this exercise, we have limited our universe to the ASX 100 (ex REITs, Infrastructure and Resources).

3)	Discount to DCF	PEG > Average*	Long Term Recommendation	4)	Premium to DCF	PEG > Average*	Long Term Recommendation
Amcor	-5%	6.85	HOLD	Aristocrat Leisure	4%	2.56	BUY
APN News & Media	-8%	3.86	HOLD	AMP Limited	19%	7.31	HOLD
Coca-cola Amatil	-11%	2.37	HOLD	Ansell	20%	2.38	HOLD
Pacific Brands	-18%	2.52	HOLD	ANZ Banking Group	19%	2.07	HOLD
Promina	-2%	N/a^	BUY	AXA Asia Pacific	6%	7.49	BUY
Tabcorp Holdings	-7%	3.15	HOLD	Brambles	1%	2.35	BUY
Telstra Corporation	-13%	N/a^	HOLD	Boral	7%	27.86	HOLD
West Australian News	-8%	9.45	HOLD	Fairfax (John) Holdings	0%	11.27	HOLD
				Insurance Australia	1%	N/a^	HOLD
				Leighton Holdings	35%	1.96	SELL
				Lion Nathan	3%	3.40	HOLD
				Macquarie Bank	7%	9.52	HOLD
				Perpetual Trustees	6%	2.25	HOLD
				PaperlinX	11%	2.62	SELL
				Resmed	11%	1.96	HOLD
				Suncorp-Metway	5%	N/a^	SELL
				Toll Holdings	10%	2.04	HOLD
				Westpac Banking	12%	2.09	HOLD
1)	**Discount to DCF**	**PEG < Average***	**Long Term Recommendation**	**2)**	**Premium to DCF**	**PEG < Average***	**Long Term Recommendation**
Billabong International	0%	1.22	BUY	Australian Stock Exchange	19%	1.43	HOLD
Coles Myer	-6%	1.21	NR	Commonwealth Bank of Aust.	13%	1.38	HOLD
Foster's Group	-12%	1.27	BUY	Cochlear	7%	1.60	BUY
James Hardie	-3%	0.82	HOLD	Computershare	12%	1.07	HOLD
Metcash	-8%	1.31	BUY	CSL Limited	42%	1.02	HOLD
Publishing & Broadcasting	-3%	1.68	BUY	CSR Limited	51%	1.59	SELL
Qantas	-15%	1.72	HOLD	Futuris Corporation	14%	1.50	HOLD
St George Bank	-1%	1.64	HOLD	Harvey Norman	17%	1.65	HOLD
Wesfarmers	-5%	1.35	HOLD	Mayne Pharma	8%	1.55	HOLD
Woolworths	0%	1.51	BUY	National Aust. Bank	0%	1.51	BUY
				Orica	21%	1.75	HOLD
				Patrick Corporation	28%	1.89	BUY
				QBE Insurance	0%	1.48	BUY
				Rinker Group	10%	0.82	BUY
				Sonic Healthcare	11%	1.83	BUY
				Symbion Health	7%	1.59	BUY
				UNiTAB	12%	1.68	NR

Source: GSJBE Research estimates (at 31 March 2006)
* The average PEG is equivalent to that of the ASX 300 Industrials.
^ N/a applies given those stocks are trading on negative PEG multiples

In a fully valued industrial market, we recommend investors review their overall exposure to stocks in quadrant 4. In the event that profit taking is appropriate, there may be opportunities to reinvest in stocks present in quandrant 1. Please speak with your adviser to assist you in this regard.

Portfolio Management: Macquarie Infrastructure Group (MIG)

Macquarie Infrastructure Group (MIG) **Analyst: Alison Booth**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 31/03/06: $3.81; Valuation: $3.81**

As part of a portfolio and capital management review, MIG recently announced the divestment of its mature Australian assets (refer page 2). Whilst the potential spin-out of the Australian assets into a separately listed internally-managed vehicle addresses some investor concerns regarding fees, it is important to keep this in perspective – on our estimates, this transaction would only reduce fees by ~$11m pa and in turn, increase our DCF valuation by only 5 cents per security.

In our view, **the risk profile of MIG's remaining business will increase given the most stable and secure cash flows will be removed from the overall business following the divestment**. Our concerns on the remaining business are essentially unchanged, and consequently somewhat enhanced due to increased investor exposure to these assets. Firstly, there remains downside risk to our earnings forecasts for M6 Toll given traffic on the road continues to disappoint and there is potential that our forecast toll increase in June this year doesn't materialise. Secondly, acquisition risk remains an issue given our view that recent transactions have not been significantly value-adding (in fact, arguably dilutive!). More importantly, we believe **there is potential for a de-rating of the remaining business as the market realises that up-front operating cash flow generation will decline** and likely result in a decrease in distributions (potentially to be in line with operating cash flows) unless further refinancings and/or restructurings are conducted (refer Table 1). Whilst proceeds from M6 Toll/H407 refinancings could potentially continue to support distributions at current levels, we believe this strategy is unsustainable in the longer term.

TABLE 1 - MIG International - Forecast Cash Flows

Year to 30 June	2005	2006	2007	2008	2009	2010	2011	2012
	Hist.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
Net Operating Cash Flows ($m)	**106**	**108**	**154**	**209**	**270**	**333**	**401**	**459**
Average Number of Shares on Issue (million)	2049	2421	2479	2560	2637	2637	2637	2637
Operating CF Available for Distribution	**5.2¢**	**4.5¢**	**6.2¢**	**8.2¢**	**10.2¢**	**12.6¢**	**15.2¢**	**17.4¢**
Forecast Distributions (no refinancings) (¢/s)	**77.5¢**	**20.0¢**	**6.5¢**	**8.0¢**	**10.2¢**	**12.6¢**	**15.2¢**	**17.4¢**
% Growth		167%	-68%	23%	28%	23%	21%	14%
Assuming a share price of $3.43, **the yield is at**		5.80%	1.90%	2.30%	3.00%	3.70%	4.40%	5.10%
Distributions Assuming Refinancings (¢/s)	**77.5¢**	**20.0¢**	**18.5¢**	**20.0¢**	**22.0¢**	**23.5¢**	**24.5¢**	**25.5¢**
% Growth		167%	-8%	8%	10%	7%	4%	4%
Assuming a share price of $3.43, **the yield is at**		5.80%	5.40%	5.80%	6.40%	6.90%	7.10%	7.40%

Source: GSJBW Research estimates

Given our anticipation of reduced forecast distributions by the company, we have estimated the implied share price based on various yield scenarios that the market may deem appropriate for MIG's portfolio following the divestment. In our view, there is a risk that the market will not confidently price MIG off a DCF valuation (which is highly sensitive to movements in long term assumptions such as traffic growth) when the yield is no longer there to support the stock at any level close to the share price. Table 2 shows the potential impact on MIG's share price if the market determined a yield higher than that implied by the current share price was required, in order to compensate for the risk surrounding the DCF valuation.

TABLE 2 -Yield Rating Scenarios

	Current	Downside I	Downside II
FY07E Distribution (cents)	6.5	6.5	6.5
Yield	1.9%	2.3%	2.8%
Share Price	$3.43	$2.83	$2.33

Source: GSJBW Research estimates

Following our analysis, we re-iterate our cautious view on MIG and recommend investors use the recent strength in MIG's share price to reduce their exposure. For those investors wanting to maintain exposure to the sector, **our preferences remain Macquarie Communications Infrastructure Group (MCG) and ConnectEast Group (CEU)**.

Portfolio Management: Building Positions

Brambles Industries (BIL) **Analyst: Paul Ryan**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/03/06: $10.75; Valuation: $10.60**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$830.5m	$625.9m	$695.5m
EPS Growth (%)	36.4%	-10.6%	24.8%
PER (x)	22.3x	24.9x	20.0x
Yield (%)	2.3%	2.6%	3.0%

Source: GSJBW Research estimates

BIL is on track to finalise the sale of its Cleanaway, Industrial Services and Regional Services businesses by mid-year. Based on recent M&A activity in the sector and peer company trading multiples, we forecast total proceeds of $4.2bn. This is 10% above our initial assumption of $3.8bn, with $1.4bn having been realised to date.

In addition to the on-market buyback now underway in the UK, we expect BIL to return $4.5bn in surplus capital to shareholders in November 2006 as part of the process behind its change in listing structure. This will still leave the company with capacity to undertake further capital management or reinvest over US$100m per annum to accelerate development of the CHEP pallet business in existing markets or expand into new products/geographies – upside that is not captured in our valuation. CHEP Americas is delivering low double-digit top line growth driven by volumes as market penetration increases from ~35% currently (versus both Australia and the UK at ~80%). The turnaround in CHEP Europe is now underway, creating further upside risk to earnings estimates as margins expand.

While recent share price performance has been strong, we maintain our positive view on BIL. The potential for sustained long-term value creation from the CHEP organic reinvestment option is unique in the Australian market.

Ramsay Healthcare (RHC) **Analyst: Hamish Tadgell**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 31/03/06: $10.00; Valuation: $9.61**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$76.9m	$103.9m	$130.5m
EPS Growth (%)	16.7%	33.3%	24.8%
PER (x)	22.3x	16.8x	13.4x
Yield (%)	2.3%	3.0%	3.9%

Source: GSJBW Research estimates

The acquisition of 51 hospitals from Affinity (and subsequent on-sale of 19 to satisfy ACCC directives) was a company changing event that has strengthened RHC position in the market to take advantage of growth in demand for hospital services from Australia's ageing population. At its first half profit result for fiscal 2006, the company reiterated that the integration of the Affinity hospitals and restructuring of the portfolio was progressing well and they were on track to achieve the pre-tax cost synergies that the company had previously estimated.

The result confirmed that RHC is executing well on the integration whilst still managing to deliver good underlying growth in its existing hospital portfolio. Importantly, it highlighted that RHC is deleveraging its balance sheet, which was somewhat stretched post the Affinity acquisition. The faster-than-expected reduction in debt will enable further 'bolt-on' acquisitions and brownfield expansions to be funded (RHC has highlighted it has up to ~$300m in available capacity). In addition, following a review of its assets, three hospitals in South Australia which were identified as not being strategic to the portfolio have been sold for $34.5 million.

Although we recognise the company's recent strong result and their solid track record, we retain out neutral outlook for the stock pending a more detailed review of our forecasts and valuation, in particular stress testing our hospital margins assumptions. On a medium term view, we feel that the company is well placed to deliver strong earnings leverage from its increased asset base by improving margins at the acquired hospitals and remain comfortable with RHC delivering on stated synergy targets.

Portfolio Management: Emerging Companies

Just Group (JST) **Analyst: George Batsakis**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/03/06: $3.15; Valuation: $3.40**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$56.9m	$62.2m	$67.7m
EPS Growth (%)	24.3%	9.2%	9.1%
PER (x)	12.1x	11.1x	10.1x
Yield (%)	4.9%	5.4%	5.9%

Source: GSJBW Research estimates

Sentiment towards the speciality retailers during 2005 was particularly negative, in the face of a material slowdown in consumer spending. However, companies with strong business models have the flexibility to trade through such periods – and Just Group has clearly demonstrated its ability to do so. In mid-February, the company announced a profit upgrade and, following a solid first half result in early March, we expect that the group's operational momentum will continue to improve into a more solid retail spending environment in 2006.

Our long term Buy recommendation on Just Group reflects the company's supportive valuation, with the stock trading at a discount both to our DCF valuation, as well as to the broader small cap Industrials on a price/earnings basis (fiscal 2007 forecasts), but with expected average earnings growth of 14% per annum for the next three years. Further, we believe that our profit margin forecasts may be somewhat conservative given Just Group has demonstrated strong cost control in a soft operating environment.

We are also encouraged by the growth options available to Just Group, not only through its business repositioning process (supply chain initiatives, merchandising enhancements, tight cost control), but also through prudent allocation of its strong cash flows to pay down its remaining debt (we forecast net debt/equity will fall below 30% by fiscal 2007) and to expand its store network (we expect JST has the infrastructure to expand from 770 stores in January 2006 to 1,000 stores in the long term).

Nufarm (NUF) **Analyst: Nga Luu**

- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 31/03/06: $10.80; Valuation: $10.00**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$132.7m	$144.4m	$159.1M
EPS Growth (%)	8.9%	8.8%	10.1%
PER (x)	13.8x	12.7x	11.5x
Yield (%)	2.6%	2.9%	3.2%

Source: GSJBW Research estimates

Nufarm had well flagged the potential for a disappointing result in the first half, given a weaker contribution from its recently-acquired Brazilian business, Agripec. This has seen the Nufarm share price go nowhere, while the broader small caps market has risen to arguably heady heights. Further, we believe that the stock lacks any material catalysts in the short term – the company's fiscal 2006 guidance of 10% profit growth sounds more like a 'stretch target', despite the first half result for the core business being somewhat better than we had expected. However, from a long term perspective, we believe that the stock looks cheap and remain comfortable with our Buy recommendation.

Nufarm is an international chemical company involved in the registration, manufacture, marketing and sale of branded, off-patent crop protection products and, to a lesser degree, industrial chemicals. The company operates in most major global markets. We believe the potential for earnings upside beyond the 10% NPAT growth is very real over the fiscal 2007-2008 period, driven by a deep new product pipeline and acquisitions.

Over this period, debt reduction should also see Nufarm be able to take advantage of its option to acquire the remaining 50% in Agripec that it doesn't already own and to make further acquisitions offshore, including emerging agricultural economies such as Eastern Europe. Beyond that the company is likely to start paving its future growth strategy in the seeds market.

Stock Selection Using Quantitative Techniques

We consider quantitative financial analysis to be a key input to our research process. However, given the plethora of quantitative information that we incorporate in our reports, bulletins and *Daily Cable* articles, it is important for investors to understand in what context particular quantitative methods can be used to facilitate the achievement of their investment goals. In this month's update, we highlight several of these contexts.

- **Individual stocks**: The underlying thrust of our quantitative research is to determine which factors drive share prices and to incorporate this knowledge into portfolio construction (refer GSJBW Quantitative Research, *"Encyclopaedia of Stock Screening, 4th ed."*, October 2005). This process is achieved by screening stock performance based upon a wide range of factors, ranging from fundamentals such as price/earnings ratios, dividend yields or EVA™ spreads; to market factors including share price momentum or changes in consensus analyst earnings estimates. In fact, we incorporate some of these factors as criteria for our headline recommendations on particular stocks – we assess historical earnings revisions and share price momentum in generating our short term recommendations and we incorporate EVA™ spreads in our long term recommendations (for more detail, refer GSJBW Investment Fundamentals, *"Goldman Sachs JBWere's Australian Equity Recommendations"*, 30 March 2006).
- **Quantitative models**: We also construct composite screens to see if combining various factors can indicate superior future share price performance. Our broader quantitative stock selection model (Table below) 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 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 could be expected to perform well). We outline this model's recent performance below the table.
- **Portfolio construction**: We are strong advocates of diversification as a cheap and easy method for investors to improve their risk-adjusted returns, both at an asset allocation level, as well as within individual asset classes. Quantitative methods allow investors to achieve this process in an objective manner. Our basic goal in Australian equity portfolio construction – reflected in our approach to our model portfolios – is to achieve a portfolio with earnings growth, dividend yield and return on equity in excess of the broader market, while paying a lower overall price/earnings ratio (refer GSJBW Investment Strategy Bulletin, *"Domestic equity portfolio construction in 2006: the more things change…"*, 09 March 2006). We encourage investors to speak with their Adviser regarding their own personal circumstances.

Rank	Company	EVA Spread: Level	EVA Spread: Trend	Earnings Revision: Actual 3 Month	Earnings Revision: Predicted	Positive RSI	ROFE / PEG	TOTAL	Previous Rank (28-Feb-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	RIN	13	14	13	15	4	29	**88**	2	1
2	JHX	13	14	12	8	8	29	**84**	1	-1
3	ASX	15	14	10	8	2	30	**79**	3	0
4	BBG	12	12	14	15	1	25	**79**	5	1
5	PPT	14	15	2	8	9	28	**77**	4	-1
6	CSL	8	13	15	15	9	16	**76**	11	5
7	UTB	14	14	11	8	4	25	**75**	15	8
8	WOW	12	0	11	15	9	28	**74**	7	-1
9	CML	11	11	7	8	9	26	**71**	20	11
10	COH	10	9	10	15	4	23	**71**	6	-4
11	CPU	9	12	3	15	5	26	**70**	24	13
12	RMD	11	11	14	8	3	21	**68**	8	-4

Source: GSJBW Research estimates

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 March was strong and, since 28 February 2005 the portfolio has recorded an absolute return of 23.06% (after transaction costs and including dividends which are assumed to be invested in a 5% per annum cash management account). Removals for this month include: Symbion Health, Leighton Holdings and St. George Bank; Additions: UNiTAB, Coles Myer and Computershare.

GSJBW Model Portfolios

Income Portfolio

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

Source: GSJBW Research

Our changes to the Income Portfolio during March 2006:
Reduced: Rural Press
Increased: West Australian Newspapers

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	15.8x
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
Tabcorp Holdings	Rio Tinto
Promina Group	Sonic Healthcare
Publishing & Broadcasting	Mirrabooka Investments
Macquarie Communications Infrastructure Group	Coca-Cola Amatil
Australian Foundation Investment Company	Australian Gas Light Company
St. George Bank	Rinker Group
Origin Energy	Wesfarmers
National Australia Bank	

Source: GSJBW Research

Our changes to the Defensive Portfolio during March 2006:
Nil

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

Earnings per Share Growth	16.8%
Price to Earnings Ratio	15.9x
Average Yield	3.8%
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	Rio Tinto
Commonwealth Bank of Australia	Coca-Cola Amatil
Woolworths	News Corporation, Inc.
Macquarie Communications Infrastructure Group	Sonic Healthcare
Origin Energy	Australian Gas Light Company
Promina Group	Alesco Corporation
National Australia Bank	Rinker Group
Publishing & Broadcasting	Australian Foundation Investment Company
St. George Bank	Billabong International
Brambles Industries	Wesfarmers
Computershare	Healthscope
AXA Asia-Pacific Holdings	

Source: GSJBW Research

Our changes to the Balanced Portfolio during March 2006:
Reduced: BHP Billiton, Rio Tinto
Increased: Publishing & Broadcasting, Australian Foundation Investment Company

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

Earnings per Share Growth	18.9%
Price to Earnings Ratio	16.3x
Average Yield	3.6%
Franking	82%

Source: GSJBW Research estimates

Growth Portfolio

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

Source: GSJBW Research

Our changes to the Growth Portfolio during March 2006:
Removed: Toll Holdings
Reduced: Australian Foundation Investment Company, BHP Billiton, Rio Tinto, Aristocrat Leisure, Rinker Group
Added: Publishing & Broadcasting
Increased: Australian Foundation Investment Company, Brambles Industries

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

Earnings per Share Growth	20.3%
Price to Earnings Ratio	17.0 x
Average Yield	3.1%
Franking	91%

Source: GSJBW Research estimates

All figures or amounts stated in the table above are an estimate only and provided by way of illustration.
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GSJBW Recommendation Changes in March

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Australian Pipeline Trust	APA	Underperform	Marketperform	Sell	Hold
Colorado Group	CDO	Marketperform	Underperform	-	Hold
Spotless Group	SPT	Underperform	Marketperform	-	Hold
St George Bank	SGB	Outperform	Marketperform	-	Hold
UNiTAB	UTB	Not Rated	Marketperform	Not Rated	Hold
Tattersall's	TTS	Not Rated	Marketperform	Not Rated	Hold
Transpacific Industries	TPI	Not Rated	Marketperform	Not Rated	Hold
David Jones	DJS	Outperform	Marketperform	-	Hold
Symbion Health	SYB	Marketperform	Outperform	-	Buy
Coles Myer	CML	Not Rated	Marketperform	Not Rated	Hold
Harvey Norman	HVN	Marketperform	Underperform	-	Hold
Prime Television	PRT	Outperform	Marketperform	Buy	Hold
Fairfax (John) Holdings	FXJ	Marketperform	Underperform	-	Hold
Village Life	VLL	Ceased Coverage	Underperform	Ceased Coverage	Sell
Alumina	AWC	Marketperform	Outperform	-	Hold
National Australia Bank	NAB	-	Marketperform	Buy	Hold
CSR	CSR	-	Underperform	Sell	Hold
Oxiana	OXR	-	Outperform	Buy	Hold

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 31 Mar 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Foundation Investment Co.	AFI	$4.55	$4.66	n/a	BUY
The Australian Gas Light Company	AGL	$18.53	$17.50	Not Rated	NR
Aristocrat Leisure	ALL	$13.78	$13.30	Outperform	BUY
Alinta	ALN	$10.98	$10.90	Not Rated	NR
Alesco	ALS	$9.68	$8.90	Marketperform	BUY
Australand Holdings	ALZ	$2.06	$1.83	Marketperform	BUY
Amcor	AMC	$7.40	$7.75	Marketperform	HOLD
AMP	AMP	$8.68	$7.30	Marketperform	HOLD
Ansell	ANN	$11.60	$9.69	Marketperform	HOLD
ANZ Banking Group	ANZ	$26.50	$22.19	Marketperform	HOLD
Australian Pipeline Trust	APA	$4.33	$4.15	Underperform	SELL
APN News & Media	APN	$4.73	$5.15	Marketperform	HOLD
Australian Stock Exchange	ASX	$32.70	$27.50	Marketperform	HOLD
Alumina	AWC	$7.41	$6.66	Marketperform	HOLD
AXA Asia-Pacific Holdings	AXA	$5.80	$5.45	Marketperform	BUY
Billabong International	BBG	$15.20	$15.25	Outperform	BUY
BHP Billiton	BHP	$28.00	$18.00	Outperform	BUY
Brambles Industries	BIL	$10.75	$10.60	Outperform	BUY
Boral	BLD	$8.92	$8.33	Marketperform	HOLD
Commonwealth Bank of Australia	CBA	$45.30	$40.10	Marketperform	HOLD
Coca-Cola Amatil	CCL	$7.23	$8.10	Underperform	HOLD
Colorado Group	CDO	$4.21	$4.65	Marketperform	HOLD
ConnectEast Group	CEU	$1.24	$1.41	Marketperform	Buy
Coles Myer	CML	$10.70	$11.35	Not Rated	NR
Cochlear	COH	$53.14	$49.58	Outperform	BUY
Computershare	CPU	$7.36	$6.60	Marketperform	HOLD
Crane Group	CRG	$12.30	$10.90	Outperform	BUY
CSL	CSL	$54.70	$38.40	Marketperform	HOLD
CSR	CSR	$4.46	$2.95	Underperform	SELL
David Jones	DJS	$2.80	$2.78	Outperform	HOLD
Futuris Corporation	FCL	$2.26	$1.98	Marketperform	HOLD
Foster's Group	FGL	$5.31	$6.05	Marketperform	BUY
John Fairfax Holdings	FXJ	$4.01	$4.00	Marketperform	HOLD
Hills Industries	HIL	$4.78	$4.45	Outperform	HOLD
Healthscope	HSP	$3.90	$4.21	Marketperform	HOLD
Harvey Norman Holdings	HVN	$3.78	$3.24	Marketperform	HOLD
Insurance Australia Group	IAG	$5.47	$5.40	Underperform	HOLD
James Hardie Industries	JHX	$9.48	$9.79	Marketperform	HOLD
Just Group	JST	$3.15	$3.40	Outperform	BUY
Leighton Holdings	LEI	$17.75	$13.15	Underperform	SELL
Lion Nathan	LNN	$8.11	$7.90	Underperform	HOLD
Macquarie Bank	MBL	$64.68	$60.40	Underperform	HOLD
Macquarie Communications Infrastructure Group	MCG	$5.85	$6.75	Outperform	BUY
Macquarie Infrastructure Group	MIG	$3.81	$3.81	Underperform	HOLD
Mirrabooka	MIR	$1.80	$1.88	n/a	BUY
Metcash	MTS	$4.46	$4.86	Outperform	BUY
Mayne Pharma	MYP	$2.96	$2.73	Marketperform	HOLD
National Australia Bank	NAB	$37.70	$37.60	Marketperform	BUY
Nufarm	NUF	$10.80	$10.00	Marketperform	BUY
News Corporation, Inc.	NWS	$24.50	$26.68	Outperform	BUY
Origin Energy	ORG	$7.32	$7.20	Marketperform	HOLD
Orica	ORI	$23.19	$19.15	Marketperform	HOLD
Oxiana	OXR	$2.68	$1.70	Outperform	BUY
Pacific Brands	PBG	$2.39	$2.90	Marketperform	HOLD
Publishing & Broadcasting	PBL	$17.30	$17.75	Outperform	BUY
Promina Group	PMN	$5.47	$5.60	Marketperform	BUY
Perpetual Trustees	PPT	$68.00	$64.20	Marketperform	HOLD
PaperlinX	PPX	$3.77	$3.40	Underperform	SELL
Patrick Corporation	PRK	$8.06	$6.30	Marketperform	BUY
Prime Television	PRT	$3.55	$4.10	Outperform	BUY
Qantas Airways	QAN	$3.54	$4.15	Outperform	HOLD
QBE Insurance Group	QBE	$21.88	$21.80	Outperform	BUY
Ramsay Health Care	RHC	$10.00	$9.61	Marketperform	HOLD
Rinker Group	RIN	$19.85	$17.97	Outperform	BUY
Rio Tinto	RIO	$78.85	$58.44	Outperform	BUY
ResMed	RMD	$6.10	$5.52	Marketperform	HOLD
Rural Press	RUP	$11.57	$10.20	Marketperform	HOLD
SFE Corporation	SFE	$16.31	$11.45	Marketperform	HOLD
St. George Bank	SGB	$30.84	$31.22	Outperform	HOLD
Sonic Healthcare	SHL	$15.70	$14.11	Marketperform	BUY
Salmat	SLM	$4.17	$4.72	Marketperform	BUY
Spotless Group	SPT	$5.06	$4.95	Underperform	HOLD
Suncorp-Metway	SUN	$19.44	$18.60	Marketperform	SELL
Symbion Health	SYB	$3.44	$3.22	Marketperform	BUY
Tabcorp Holdings	TAH	$15.47	$16.70	Underperform	HOLD
Ten Network	TEN	$2.93	$3.05	Marketperform	HOLD
Telstra Corporation	TLS	$3.74	$4.30	Underperform	HOLD
Toll Holdings	TOL	$13.10	$11.90	Underperform	HOLD
Transpacific Industries	TPI	$8.70	$4.05	Not Rated	NR
Tattersall's	TTS	$3.31	$2.70	Not Rated	NR
UNiTAB	UTB	$15.20	$13.60	Not Rated	NR
West Australian Newspapers	WAN	$7.61	$8.30	Marketperform	HOLD
Westpac Banking Corporation	WBC	$23.82	$21.33	Underperform	HOLD
Wesfarmers	WES	$34.88	$36.57	Marketperform	HOLD
Woolworths	WOW	$18.83	$18.85	Outperform	BUY

Source: IRESS, GSJBW Research

Disclosure of Interests:

ALN: Goldman Sachs JBWere Pty Ltd and/or its affiliates (Goldman Sachs JBWere) is acting as financial advisor to the Australian Gas Light Company (AGL) both in AGL's defence of a proposed acquisition by Alinta Limited (ALN) of AGL and in connection with AGL's offer to merge with ALN by way of an off-market takeover offer . It is intended that the merger of AGL and Alinta be followed by a demerger of the combined businesses into two separately listed businesses. Goldman Sachs JBWere will receive a fee(s) for acting in these capacities.

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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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NR — Not rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs JBWere policies in circumstances when Goldman Sachs JBWere is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

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

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Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	16%	17%	Sell	9%	5%
Marketperform	59%	59%	Hold	59%	62%
Outperform	26%	23%	Buy	32%	34%

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

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