Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review 31 August 2006

- The Australian equity market (S&P/ASX200) moved higher during August adding +3.3%. News flow was dominated by company results for last financial year as well as increasing speculation on potential M&A activity.

- In economic news the RBA increased interest rates by 25 bps to 6.00% in early August. This highlighted the strength in domestic demand, the private sector's appetite for credit and the strength in underlying inflation. Consumer sentiment in August fell significantly (-16.2% mom). The Australian dollar traded in a tight range while 10-year bonds rallied on slowing growth expectations in the US.

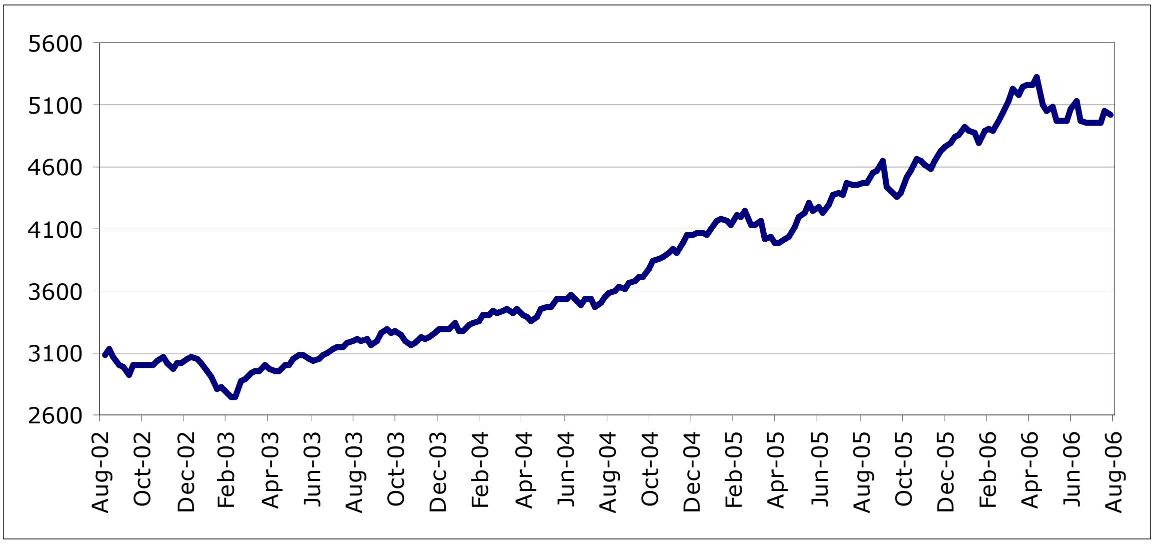
- Energy, Health Care, Information Technology and Telecommunications underperformed relative to the market while Consumer Staples were a stand out and Utilities and Financials had a solid performance.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	3.3%	6.2%	20.3%
S&P/ASX 200 Industrials	4.4%	4.9%	17.2%
S&P/ASX 200 Resources	-0.3%	11.1%	32.8%
S&P/ASX Small Ordinaries	3.7%	7.7%	19.7%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	1.1%	0.0%	-13.5%
Consumer Staples	7.3%	8.7%	-0.7%
Energy	-7.0%	0.2%	-2.6%
Financials	1.5%	0.9%	3.8%
Health Care	-3.7%	-11.9%	-8.9%
Industrials	-0.5%	-3.7%	-13.4%
Information Technology	-3.7%	3.3%	-5.6%
Materials	-2.8%	0.5%	10.3%
REITs	0.4%	4.6%	0.8%
Telecommunications	-3.4%	-11.6%	-34.9%
Utilities	1.8%	-1.1%	7.3%

Source: GSJBW Research, IRESS

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

(August 2002 – August 2006)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Coles Myer Ltd.	23.0	Downer EDI Limited	-24.8
Tattersall's Limited	17.2	Oil Search Ltd	-16.3
Challenger F.S.G.Ltd	16.2	Resmed Inc	-12.1
Macquarie Infra.	15.8	Origin Energy	-11.7
Zinifex Limited	12.8	WorleyParsons Ltd	-9.8
Qantas Airways	12.8	Boral Limited	-9.7
Ansell Limited	12.3	AWB Limited	-9.3
Mayne Pharma Limited	11.7	CSR Limited	-7.1
West Australian News	11.0	Oxiana Limited	-6.6
Foster's Group	10.6	Caltex Australia	-6.2

Source: IRESS

Strategy - Quantitative **Analyst: Research Team**

- **Reporting Season Wrap**

To date 68% of the ASX300 companies have reported which represents 96% of our sample. Overall, around half of the companies in our sample have reported results inline with our forecasts, with companies falling under the 'Industrials ex Property Trusts' and 'Small Industrials ex Financials' having reported results that have surprised by the most on the upside beating expectations by 1.2% and 3.0% respectively. Companies that have disappointed relative to expectations are those falling in the 'Banks' and 'Property Trust' market segments missing expectations by -0.3% and -0.7%.

Utilities and Energy **Analyst: Anthony Bishop**

- **Alinta Limited (ALN): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $11.02; Valuation: $12.00
- **Australian Gas Light Company (AGL): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $20.17; Valuation: $18.50
- **Oil Search (OSH): Short Term Outperform; Long Term Buy**
  Share Price as at 31/08/06: $3.45; Valuation: $3.22

During the month AGL reported its full year 2006 in which commentary was included stating that the PNG Project is unlikely to proceed without an alternative ownership structure. AGL said that they are continuing discussions with the upstream joint venture "to explore all avenues to bring PNG gas to market while remaining a committed foundation customer for PNG Gas". This increased the markets already heightened caution towards the project and saw the share price of OSH (an upstream Joint Venture partner) negatively affected by the news falling -16.3% during the month. Shares in AGL had a solid month gaining +6.0% with the company also releasing its Scheme Booklet relating to the merger of its infrastructure business with Alinita (ALN) and subsequent demerging of the AGL energy business. Shares in ALN finished the month +6.6%.

Materials **Analyst: Andrew Gibson**

- **Bluescope Steel (BSL): Short Term Marketperform; Long Term Hold**
  Share Price as at 31/08/06: $6.79; Valuation: $8.15
- **OneSteel (OST): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $4.26; Valuation: $4.17
- **Smorgon Steel (SSX): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $1.76; Valuation: $1.68

There was active news flow this month on the proposed offer by OST for SSX. The ACCC announced to the market that they had identified potentially significant competition concerns regarding the proposed acquisition. The ACCC will make its final decision on the proposed acquisition by 6 September. A few days following this statement BSL announced it had acquired approximately 19.9% of the outstanding shares in SSX. Their intension of acquiring this strategic stake is to ensure that the SSX/ OST merger proposal does not proceed in its current form. In addition, the company stated it has no intension to acquire further SSX shares but reserves the right to do so in different circumstances. Shares in the companies finished the month mixed, with OST closing +9.2%, SSX also higher +2.3% and BSL marginally lower -0.9%.

Infrastructure **Analyst: Alison Booth**

- **Australian Pipeline Trust (APA): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $4.82; Valuation: $4.29
- **Babcock & Brown Infrastructure (BBI): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $1.59; Valuation: $1.50
- **GasNet Australia Group (GAS): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $3.08; Valuation: $2.69

The Board of GAS unanimously recommended security holders should reject the takeover offer from BBI and APA made in the previous month, on the basis that the Independent Expert had concluded the offer was neither fair nor reasonable. Later in the month, Colonial First State Global Asset Management, announced its intention to make a recommended offer equating to $2.88 cash per GAS stapled security. The Board of GAS unanimously recommended that security holders accept the offer. Towards the end of the month BBI and APA announced that their joint bid agreement had been terminated, this was shortly followed by APA announcing a cash takeover for GAS of $3.10 per stapled security. This offer is at a 7.6% premium to the offer made by Colonial First State Global Asset Management and has been recommended by the GAS Board. Shares in the utility companies finished the month mixed with BBI slightly weaker –0.6%, APA rallied +14.8% and the target GAS finished stronger adding +21.3%.

Consumer Discretionary **Analyst: Ashwini Chandra**

- **Tabcorp Holdings (TAH): Short Term Underperform; Long Term Hold**
  Share Price as at 31/08/06: $15.14; Valuation: $16.20
- **Tattersall's Limited (TTS): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $3.27; Valuation: $2.70
- **UNiTAB Limited (UTB): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 31/08/06: $14.05; Valuation: $13.50

The ACCC announced that they will oppose the proposed acquisition of UNiTAB by Tabcorp as it considers that it is likely to substantially lessen competition in a number of markets relating to wagering in Australia. The following day TAH announced that it would not be continuing with its proposed takeover. Later in the month TTS and UTB announced that they would modify the merger proposal, notably naming Dick McIlwain as the Managing Director and Chief Executive of the merged company. In addition, for those shareholders who elect a cash alternative the price at which UTB shares will be purchased will be $14.25 per UTB share. The UTB Board reaffirmed its unanimous recommendation, that in the absence of a superior proposal, UTB shareholders should vote in favour of the merger. By the end of the month shares in TTS had gained +17.2%, whereas UTB shares have fallen -4.6% and TAH finished the month marginally lower -1.4%.

Consumer Staples **Analyst: Phillip Kimber**

- **Coles Myer (CML): Short Term Marketperform; Long Term Hold**
  Share Price as at 31/08/06: $13.99; Valuation: $11.90

Coles Myer (CML) reported its fourth quarter sales results this month and later that same day the company released a statement to the ASX detailing that CML had been approached on behalf of parties wishing to hold discussions regarding the company's ownership. The statement noted that the Board would consider any bona fide proposals which might be put to it by these parties. At this stage the identity of the parties highlighted in the company's statement have not been identified. CML shares traded to record highs during the month and finished the month +23%.

Energy **Analyst: Anthony Bishop**

- **Origin Energy (ORG): Short Term Underperform; Long term Hold**
  Share Price as at 31/08/06: 6.67; Valuation: $6.65

Origin reported its full year result for 2006 which was below consensus forecasts. The main surprise to the market from the result was that management provided disappointing outlook comments stating it is "possible that there will be little growth in earnings per share in the coming year". This took the market by surprise as consensus earnings per share growth had been ~21% prior to this announcement. The share price did not react favorably to the news and shares in the company finished the month down -11.7%.

Australian Equities: Key Issues for Portfolio Strategy

- While global economic conditions (and company profitability) were buoyant through the first half of the year, growth momentum is now peaking. The uptrend in global interest rates has finally reached a point (more-so in the US) where it is impacting economic performance, the valuation of financial assets and how investors feel. At this stage, we remain confident that the global economy will continue to perform relatively well into 2007 and 2008. The marginal global investor, however, is likely to favour a more risk-averse approach over the next six months.

- We remain very comfortable that the basic fundamentals for global equity markets are sound, but performance is likely to be more subdued and volatility more pronounced as investors confront an environment of slowing economic growth, persistent inflation risks and tighter liquidity conditions. The US economy is now stepping down a gear or two as the correction in residential construction gathers momentum and households respond to softer house prices via a more circumspect approach to cashing-in home equity. This outlook should ensure that the US Federal Funds Rate has peaked at 5.25%. Looking beyond the US, the 'interest rate normalization' phase has further to run. We feel that the general level of global interest rates is still low relative to the current strong nominal economic environment. The uptrend in global rates will continue through 2006 and, potentially, into the medium term. The uptrend will now be led by Japan, China and Europe.

- So far in 2006, household spending in Australia is showing renewed vigor – a reflection of supportive financial conditions. We are increasingly confident that economic growth will exceed consensus expectations in 2006 and FY07. If this occurs, however, it will imply that little has been gained in terms of resolving the structural imbalances/inflationary risks that overhang the economy. Accordingly, Australia remains locked into a scenario where economic strength will be immediately accompanied by higher interest rates. GSJBW Research expect production (GDP) to expand by 3.3% in FY07.

- Despite the recent rate increases, 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 is tracking sideways, income tax cuts are now flowing through, state governments are finally addressing infrastructure shortfalls and asset prices are healthy. Thus, we believe that further monetary tightening will be required (the cash rate is currently 6.00%).

- In our April report, we stated that ASX300 Industrials where "expensive". While the valuation picture has subsequently improved, we believe it remains well-short of being attractive. The strong performance of the industrials over the past year has been driven by PE expansion rather than earnings upgrades. The justification for the re-rating is not immediately evident, particularly in light of the step-up in global and domestic interest rates. Although we find valuations full, material price weakness requires material profit disappointment and while rising interest rates and cost pressures point to potential problems in 2007 and beyond, corporate news flow should be no worse than neutral over the next six months. In this regard, the August Reporting season was notable for a lack of positive surprises but the aggregate EPS estimates for FY07 and FY08 did survive intact – a clear positive.

- Despite the recent correction in some commodities, the earnings revision risk for the major resource stocks remains biased to the upside as current prices continue to track well-above market expectations. This process has now been going for three years, supported of late by further evidence of tangible supply constraints. As noted above, however, the 'global policy normalisation' process is now at a point where it will be a drag on economic activity. The market has begun to digest this fact over recent months. We suspect that share prices will remain volatile as the global slowdown evolves over the coming months (more so if some commodity prices begin to retreat). We remain very comfortable with the medium term prospects for the sector.

- 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, Australian Infrastructure, ConnectEast Group, Ramsay Healthcare** and **Promina** provide the best relative value. The major banks have performed solidly over recent months, valuations still look very full – particularly versus global peers. Globally exposed stocks we recommend accumulating during periods of market weakness – **Brambles, QBE Insurance, BHP Billiton, Aristocrat Leisure**, **AXA Asia Pacific**. Sentiment toward the US housing cycle has deteriorated – a reassessment that is likely to continue over the next 2-3 months. We are comfortable building a position in **Rinker** through this period.

GSJBW Market Forecasts:

As at 31/08/2006	**Price Earnings Ratio (PER)**			**Earnings Per Share Growth (%)**			**Dividend Yield (%)**		
	FY05	**FY06**	**FY07E**	**FY05**	**FY06**	**FY07E**	**FY05**	**FY06**	**FY07E**
S&P/ASX 300	18.3	14.6	13.2	28.3	25.8	11.2	3.5	3.9	4.0
S&P/ASX 300 Industrials	18.2	16.7	15.5	11.8	9.9	7.8	4.2	4.6	4.7
S&P/ASX 300 Resources	18.3	11.6	10.0	79.5	58.5	16.1	2.2	2.2	2.5

Source: GSJBW Research estimates

Portfolio Management: Building Positions

Ramsay Health Care Limited **Analyst: Hamish Tadgell**
- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 31/08/06: $9.93; Valuation: $10.16**

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	$77.2m	$95.2m	$118.6m
EPS Growth (%)	16.9%	21.8%	23.8%
PER (x)	20.3x	16.6x	13.4x
Yield (%)	2.6%	3.0%	3.7%

Source: GSJBW Research estimates

We believe Ramsay Health Care (RHC) offers an attractive investment opportunity given the long term fundamentals of the business are improving. Our increasingly positive long term view is a reflection of our growing comfort on a number of issues following the company reporting its full year 2006 result. The result highlighted (1) the strong growth that exists in the underlying hospital portfolio; (2) improved relative industry position of large private hospital operators in negotiating with health funds and service providers; and (3) that the company should be able to maintain margins in Queensland despite the significant rise in nursing costs over the next 3-years.

Management provided first time fiscal 07 guidance of 15-20% core EPS growth. We have neutralised our short term recommendation to Marketperform as we believe consensus downgrades could weigh on the stock in the near term. However, we believe the stock should hold its rating given the downgrades reflect more a rebasing of the recurring revenue base rather than a deterioration in the underlying hospital drivers. In fact, on balance, we believe the long term fundamentals of the business are improving and consequently we have upgraded our long term recommendation to Buy.

With the stock trading at a discount to our valuation of $10.16 and a PE ratio of 16.6x (on fiscal 07 estimates) the valuation looks reasonable relative to the broader market especially given the strong low 20%'s earnings per share growth forecast over the next few years. Furthermore, there are elements of the fiscal 07 guidance provided by management that appear to be conservative and provide opportunities for potential upside through next year (eg. potential for bolt-on acquisitions, strong trading in first 6 weeks of FY07).

Australian Infrastructure Fund (AIX) **Analyst: Alison Booth**
- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 31/08/06: $2.16; Valuation: $2.41**

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Cons EBITDA ($m)	$107.9m	$115.2m	$124.7m
Distribution Growth (%)	6.9%	7.6%	8.1%
EV/ EBITDA (x)	11.8x	11.5x	10.8x
Yield (%)	3.8%	4.1%	4.6%

Source: GSJBW Research estimates

Australian Infrastructure Fund (AIX) is a diversified infrastructure fund, largely comprised of airport assets with some smaller investments in seaports, toll roads and rail. A challenging environment for airline traffic (primarily due to increasing fuel surcharges and rising interest rates) will likely continue to moderate traffic growth at most of its airport assets in the short term. Hence, we do not anticipate short term share price outperformance. Nonetheless, we remain comfortable for investors to accumulate the stock on a long term view, underpinned by the factors outlined below.

In our view, the risk/return proposition offered by AIX is appealing. On our estimates, AIX will achieve 4.5% compound annual growth in distributions from fiscal 2007 to fiscal 2011. Given AIX is currently trading on a fiscal 2007 forecast distribution yield of ~7.2% (grossed up to 8.6% for franking), this implies an ~11.7% total return over the medium to long term. We remind investors that we are comfortable using forecast yield to support our investment case for AIX, given that distributions are largely covered by the operating cash flows of its underlying assets.

There is also the potential for AIX to increase its current interest in Melbourne and Perth airports or to make further offshore acquisitions through its partnership with Hochtief. The performance of AIX's recent acquisitions (e.g. Athens, Hamburg and Gold Coast airport) has exceeded market expectations, giving us some confidence in management's acquisition strategy. However, attractive deals are becoming more difficult in the short term given the prevailing competitive bidding environment. Although periodic global events will likely impact airport traffic growth, we believe AIX's airport assets are well positioned to absorb any short term shocks and should continue to provide solid returns.

Portfolio Management: Switch Idea

Infrastructure **Analyst: Alison Booth**

- **Macquarie Infrastructure Group (MIG): Short Term Underperform; Long Term Hold**
  Share Price as at 31/08/06: $3.15; Valuation: $3.08
- **Macquarie Comm. Infra. Group (MCG): Short Term Outperform; Long Term Buy**
  Share Price as at 31/08/06: $6.03; Valuation: $6.83

Year End June	2006 Actual		2007 Estimate		2008 Estimate	
	MCG	MIG	MCG	MIG	MCG	MIG
Cons EBITDA ($m)	$272.3m	$397.6m	$305.6m	$773.0m	$325.6m	$852.5m
EV/EBITDA (x)	14.4x	45.4x	13.7x	25.2x	13.5x	22.9x
Yield (%)	6.5%	6.8%	7.2%	6.5%	7.7%	6.5%
Cash flow coverage (%)	84%	-21%	95%	-23%	96%	-21%

Source: GSJBW Research estimates
Metrics based on a price of $3.10 for MIG and $5.97 for MCG

The recent reporting season has reinforced our investment view towards both Macquarie Infrastructure Group (MIG) and Macquarie Communications Infrastructure Group (MCG). We retain our cautious view on MIG given we believe the outlook for the company remains challenging coupled with significant valuation risk and recommend that investors should utilise the recent share price bounce to switch into Macquarie Communications Infrastructure Limited (MCG).

This month MIG reported their full year 2006 result and their findings from the capital management and strategic review. We have had a cautious view on the investment outlook for MIG over the last twelve months or so and upon review we believe the risk/return profile has not materially changed. This is largely due to the following reasons:

- Our concerns over the operating performance of the assets remain – we believe that there is a reasonable possibility that the lagged impact of higher petrol prices will be greater than generally expected due to inertia in changing people's driving habits. Road works are also impacting volumes on a number of MIG's key roads.
- Increasing competition for new assets has resulted in unattractive acquisitions in our view – recent US/French deals have been value dilutive/neutral.
- The low levels of cash flow coverage of distributions still remains an issue. Following the review, MIG, has maintained distribution guidance which is well above free cash flow generated and therefore the reliance on regular refinancings to fund distributions remains.
- The increasing leverage within the portfolio exacerbates the sensitivity of asset equity values to small changes in operating performance and forecast assumptions. Given its distribution guidance and intention to maintain distributions at or above current levels, this signals that MIG still plans to continue to increase leverage through re-gearings of its asset portfolio.

In summary, MIG's assets generate minimal free cash flow today and remain priced on very high forecast earnings and cash flow multiples. Hence investors need strong confidence that forecast growth will be achieved, which is increasingly being questioned given traffic on key assets such as the M6 Toll and other recent acquisitions have generally been below expectations. Couple this with the risk of further unattractive acquisitions (beyond the next 6 to 12 months) due to the increasingly competitive environment for toll roads (particularly in the US) and we remain of the view that on a risk/reward basis investors should look to switch into MCG.

We retain our long term Buy recommendation on MCG given it is trading at a discount to our valuation and has a sustainable yield (6.8% FY07) that is supported by solid cash coverage of ~90% (post fees). The group has defensive earnings which are backed by long term contracts and numerous organic growth options not captured in our base valuation. By way of example, we estimate Mobile TV could be worth ~$1 per MCG security. A key risk to our view is that MCG makes an unattractive acquisition, but the group has been disciplined to date, having acquired Arqiva at an attractive price and withdrawn from or been outbid on a number of acquisition opportunities over the last 18 months. Given the increasing earnings risk in the market we believe MCG will continue to benefit from an increasing focus on defensive stocks.

Portfolio Management: Switch Idea

General Insurance **Analyst: Ryan Fisher**

- **Insurance Australia Group (IAG): Short Term Underperform; Long Term Hold**
  Share Price as at 31/08/06: $5.37; Valuation: $4.95
- **QBE Insurance Group (QBE): Short Term Outperform; Long Term Buy**
  Share Price as at 31/08/06: $23.86; Valuation: $23.80

Year End December	2006 Estimate		2007 Estimate		2008 Estimate	
	QBE	IAG	QBE	IAG	QBE	IAG
Net Profit ($m)	1351.3	759.0	1498.4	588.9	1571.2	621.8
EPS Growth (%)	20.6	-2.9	10.4	-23.1	4.8	3.8
PER (x)	15.2	11.3	13.7	14.7	13.1	14.1
Yield (%)	3.6	7.8	3.9	5.6	4.1	6.0

Source: GSJBW Research estimates
The 2006 numbers for IAG are historical (June year end reporting)

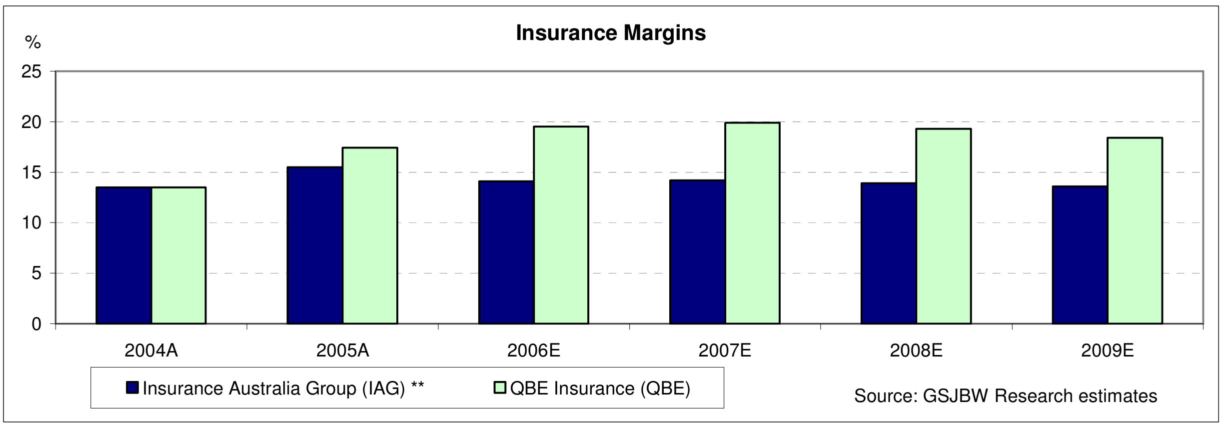
Within the general insurance sector, we continue to believe that QBE Insurance (QBE) is the stand-out pick, given it offers a better valuation equation and a much lower near-to-medium term risk profile. For investors wishing to maintain exposure to the sector, we recommend switching from Insurance Australia Group (IAG) into QBE. The main drivers underpinning this view are outlined below.

In our view, IAG's recent full year result was disappointing, not only because the headline insurance margin came in below market expectations but also because the quality of that margin was poor (due to a significant amount of reserve release). Although the revenue momentum of the Personal Lines business has started to improve, cyclical pressure on the commercial lines business is unlikely to subside for at least another 12 months. As a result, IAG is looking to accelerate the expansion of its overseas operations. In fact, management indicated that around 50% of its new premium growth target of 5-10% in fiscal 2007 is dependent on offshore acquisitions (excluding the proposed deal with China Pacific). While these plans make sense on paper, we believe they increase the risk profile of the stock quite significantly. In light of the weakly-performing domestic business, we question whether the market will be willing to give management the benefit of the doubt on its offshore strategy (at least until there is some tangible evidence of delivery).

One of the main drivers of our switch recommendation is the difference in insurance margins between both stocks (refer Figure One). Indeed, QBE's recent first half result was nothing short of impressive. The insurance margin came in well above expectations – 18.7% versus our forecast of 16.5% and consensus of ~17%. In addition, we believe our 2006 margin estimate is conservative (we allow for a slightly higher level of large claims than 2005 – which featured a record hurricane season) and that 2006 will not be the peak of the margin cycle. We also like QBE's story due to its defensive characteristics (its fundamentals are relatively insensitive to the broader economic outlook and it has a very diverse business mix). Further, management's proven M&A track record and well established acquisition model should provide QBE with ongoing growth opportunities. We therefore believe QBE is attractive in absolute terms and relative to IAG/the broader market.

The primary risk to this switch would be if recent press speculation that IAG is a takeover target (refer AFR, SMH) proves to be correct. However, we believe the share price would need to fall some way in order for this to become as likely as the press articles in question suggest.

Figure One



** IAG's insurance margin is before corporate expenses and the 2006 margin is historical (June year end reporting)

Portfolio Management: Emerging Companies

United Group (UGL) **Analyst: Chris Savage**

- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 31/08/06: $13.78; Valuation: $14.42**

Year End December	2006 Actual	2007 Estimate	2008 Estimate
Net Profit ($m)	$78.7m	$107.2m	$128.5m
EPS Growth (%)	38.5%	24.9%	17.0%
PER (x)	22.4x	18.0x	15.3x
Yield (%)	3.2%	3.9%	4.6%

Source: GSJBW Research estimates

We recently initiated coverage on United Group (UGL) with a Markerperform/Buy recommendation. UGL is a diversified services group operating in Australia and offshore, with businesses in mechanical and electrical engineering, manufacturing, maintenance, construction and business process outsourcing. UGL is the largest rail and rolling stock company in Australia as well as one of the largest independent outsourcing companies.

The key risks we identify for the stock include construction risk (relating to cost overruns in the rail and infrastructure business) and risks associated with the overseas expansion strategy (i.e. entering new markets and larger geographical footprint). Further, as part of a consortium, UGL is one of the two parties short-listed for a major rail contract (the RailCorp PPP). In the event that UGL does not win, this could result a significant fall in revenue in the rail business, particularly after the completion of the OSCAR contract in fiscal 2008. At the recent full year result, management indicated that a decision on the contract is likely towards the end of September/early October.

Our long term positive view on the stock is underpinned by the strong market share UGL has in each of its four businesses (rail, infrastructure, services and resources) which drives the high growth outlook of the stock. Importantly, UGL's construction contracts are mostly alliance-based so that UGL is unlikely to face the issues associated with fixed-price contracts (e.g. rising input costs). Given our estimate that UGL will continue to generate solid double-digit EPS growth over the next few years, we believe a forecast fiscal 2007 PER of 18.0x is justified. Therefore, we are comfortable for investors taking a long term view to accumulate the stock at current levels.

Portfolio Management: Taking Profits

Iluka Resources (ILU) **Analyst: Ian Preston**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 31/08/06: $7.31; Valuation: $6.03**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$115.1m	$169.6m	$113.2m
EPS Growth (%)	12.5%	47.4%	-33.2%
PER (x)	14.2x	9.6x	14.4x
Yield (%)	3.1%	3.1%	3.1%

Source: GSJBW Research estimates

Iluka Resources (ILU) is one of the world's major producers of titanium mineral feedstocks, which are inputs for production of titanium dioxide pigment, used in protective coating applications such as sunscreen and house/car paint and other industrial applications. Iluka dominates global zircon production, which has historically been a by-product of titanium feedstock production used in the ceramics industry.

Iluka has successfully taken advantage of its dominant position in the zircon market. Indeed, it has changed this market from being spot-based into contract-based and has also introduced bi-annual price increases. However, this position of pricing power has failed to translate into earnings growth and margin expansion – instead, the recent first half result highlighted increasing costs and depressed margin due to lower grades. We remind investors that historically, the stock has experienced relative share price underperformance in the months following its results releases.

The zircon price is the key driver of earnings (particularly post the Eucla Basin development). However, management cautioned that we may be nearing the end of the current cycle of price increases. At the current share price, we believe the market is already discounting a significant amount of the upside potential from the Eucla Basin development (due to start up in 2009/2010) and the stock is relatively expensive relative to its diversified resources peers. As a result, we are comfortable for investors to take profits on the stock.

GSJBW Model Portfolios

Income Portfolio

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

Source: GSJBW Research

Our changes to the Income Portfolio during August 2006:
There were no changes

Income Portfolio Summary: Fiscal 2007 (*Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	5.6%
Price to Earnings Ratio	14.6x
Average Yield	5.3%
Franking	92%

Source: GSJBW Research estimates

Defensive Portfolio

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

Source: GSJBW Research

Our changes to the Defensive Portfolio during August 2006:
There were no changes

Defensive Portfolio Summary: Fiscal 2007 (*Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	9.5%
Price to Earnings Ratio	14.2x
Average Yield	4.2%
Franking	86%

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

Source: GSJBW Research

Our changes to the Balanced Portfolio during August 2006:
There were no changes

Balanced Portfolio Summary: Fiscal 2007 (Please note, MCG excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	11.1%
Price to Earnings Ratio	14.6x
Average Yield	3.9%
Franking	81%

Source: GSJBW Research estimates

Growth Portfolio

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

Source: GSJBW Research

Our changes to the Growth Portfolio during August 2006:

There were no changes

Growth Portfolio Summary: Fiscal 2007 (*Please note, ALN excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	11.6%
Price to Earnings Ratio	14.6x
Average Yield	3.5%
Franking	87%

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

GSJBW Recommendation Changes in August

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Origin Energy	ORG	Underperform	Marketperform	-	Hold
Tassal Group	TGR	Outperform	Marketperform	-	Buy
Bank of Queensland	BOQ	Marketperform	Underperform	-	Hold
Hills Industries	HIL	Underperform	Outperform	-	Hold
Macquarie Prologis	MPR	Marketperform	Outperform	-	Hold
Foster's Group	FGL	Outperform	Marketperform	-	Buy
Ramsay Healthcare	RHC	Marketperform	Outperform	Buy	Hold
Macquarie Countrywide	MCW	Underperform	Marketperform	-	Hold
Healthscope	HSP	Outperform	Marketperform	Buy	Hold
Ansell	ANN	Marketperform	Underperform	-	Hold
Macquarie DDR	MDT	Underperform	Marketperform	-	Hold
Aristocrat Leisure	ALL	Marketperform	Outperform	-	Buy
Codan	CDA	Outperform	Underperform	-	Hold
Galileo Shopping America	GSA	Underperform	Marketperform	-	Hold
Skilled Group	SKE	Not Rated	Outperform	Not Rated	Hold
Computershare	CPU	Outperform	Marketperform	Buy	Hold
Cochlear	COH	Marketperform	Outperform	-	Buy
Leighton Holdings	LEI	Marketperform	Underperform	Hold	SELL
Bendigo Mining	BDG	Marketperform	Outperform	Buy	Hold
Australian Agricultural Company	AAC	Underperform	Marketperform	Buy	Hold
GPT Group	GPT	-	Marketperform	Hold	Buy
Bunnings Warehouse Property	BWP	-	Marketperform	Hold	Buy

Source: GSJBW Research

GSJBW Initiation of Coverage in August

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Valad Property Group	VPG	Outperform	-	Buy	-
United Group	UGL	Marketperform	-	Buy	-

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 31 Aug 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Agricultural Company	AAC	$1.84	$1.53	Underperform	HOLD
Australian Foundation Investment Co	AFI	$4.68	$4.72	N/a	BUY
Australian Gas Light Company	AGL	$20.17	$18.50	Not Rated	NR
Australian Infrastructure Fund	AIX	$2.16	$2.41	Marketperform	BUY
Aristocrat Leisure	ALL	$13.10	$13.45	Marketperform	BUY
Alinta	ALN	$11.02	$12.00	Not Rated	NR
Alesco Corporation	ALS	$9.05	$9.69	Marketperform	BUY
Ansell	ANN	$9.42	$8.76	Marketperform	HOLD
Australian Pipeline Trust	APA	$4.82	$4.29	Not Rated	NR
AXA Asia Pacific	AXA	$6.55	$6.45	Marketperform	BUY
Billabong International	BBG	$14.80	$14.90	Outperform	BUY
Babcock & Brown Infrastructure Group	BBI	$1.59	$1.50	Not Rated	NR
Bendigo Mining	BDG	$1.59	$1.46	Marketperform	BUY
BHP Billiton	BHP	$27.70	$25.74	Outperform	BUY
Brambles Industries	BIL	$11.95	$11.70	Outperform	BUY
Bank of Queensland	BOQ	$15.29	$14.50	Marketperform	HOLD
Bluescope	BSL	$6.79	$8.15	Marketperform	HOLD
Bunnings Warehouse Property Trust	BWP	$2.09	$1.92	Marketperform	HOLD
Commonwealth Bank of Australia	CBA	$45.72	$41.90	Underperform	HOLD
Coca-Cola Amatil	CCL	$6.55	$7.00	Underperform	HOLD
Codan	CDA	$1.26	$1.27	Outperform	HOLD
ConnectEast	CEU	$1.16	$1.41	Marketperform	BUY
Coles Myer	CML	$13.99	$11.90	Marketperform	HOLD
Cochlear	COH	$50.30	$53.05	Marketperform	BUY
Computershare	CPU	$7.80	$7.40	Outperform	BUY
Crane Group	CRG	$11.00	$14.00	Outperform	BUY
David Jones	DJS	$3.53	$2.90	Outperform	HOLD
Fosters Group	FGL	$5.95	$6.40	Outperform	BUY
GasNet Australia Group	GAS	$3.08	$2.69	Not Rated	NR
GPT Group	GPT	$4.57	$4.39	Marketperform	HOLD
Galileo Shopping America Trust	GSA	$1.14	$1.14	Underperform	HOLD
Hills Industries	HIL	$5.00	$4.30	Underperform	HOLD
Healthscope	HSP	$4.84	$4.97	Outperform	BUY
Insurance Australia Group	IAG	$5.37	$4.95	Underperform	HOLD
Iluka Resources	ILU	$7.31	$6.03	Underperform	HOLD
Leighton Holdings	LEI	$19.81	$15.27	Marketperform	HOLD
Macquarie Communications Infrastructure Group	MCG	$6.03	$6.83	Outperform	BUY
Macquarie Capital Alliance Group	MCQ	$3.55	$4.23	Marketperform	BUY
Macquarie Countrywide Trust	MCW	$1.94	$2.04	Underperform	HOLD
Macquarie DDR Trust	MDT	$1.17	$1.21	Underperform	HOLD
Macquarie Infrastructure Group	MIG	$3.15	$3.08	Underperform	HOLD
Mirabooka Investments	MIR	$1.90	$1.95	N/a	BUY
Macquarie ProLogis Trust	MPR	$1.19	$1.19	Marketperform	HOLD
National Australia Bank	NAB	$36.32	$37.57	Marketperform	BUY
News Corporation Inc.	NWS	$25.99	$27.80	Outperform	BUY
Origin Energy	ORG	$6.67	$6.65	Underperform	HOLD
Oil Search	OSH	$3.45	$3.22	Outperform	BUY
OneSteel	OST	$4.26	$4.17	Not Rated	NR
Publishing and Broadcasting	PBL	$18.36	$20.10	Outperform	BUY
Promina Group	PMN	$5.88	$5.85	Marketperform	BUY
QBE Insurance Group	QBE	$23.86	$23.80	Outperform	BUY
Ramsay Healthcare	RHC	$9.93	$10.16	Marketperform	BUY
Rinker Group	RIN	$13.80	$19.20	Outperform	BUY
Rio Tinto	RIO	$72.95	$74.15	Outperform	BUY
Rural Press	RUP	$11.06	$10.55	Marketperform	HOLD
St George Bank	SGB	$29.91	$31.50	Outperform	HOLD
Sonic Healthcare	SHL	$12.09	$13.59	Marketperform	HOLD
Skilled Group Limited	SKE	$5.40	$5.20	Not Rated	NR
Smorgon Steel Group	SSX	$1.76	$1.68	Not Rated	NR
Symbion Health	SYB	$3.25	$3.41	Marketperform	BUY
Tabcorp Holdings	TAH	$15.14	$16.20	Underperform	HOLD
Tassal Group	TGR	$1.28	$1.75	Outperform	BUY
Tattersall's	TTS	$3.27	$2.70	Not Rated	NR
United Group	UGL	$13.78	$14.42	Marketperform	BUY
UNiTAB	UTB	$14.05	$13.50	Not Rated	NR
Valad Property Group	VPG	$1.55	$1.52	Outperform	BUY
West Australian Newspapers	WAN	$9.42	$9.00	Outperform	BUY
Westpac Banking Corporation	WBC	$23.37	$22.81	Marketperform	HOLD
Wesfarmers	WES	$33.59	$35.11	Marketperform	HOLD
Woolworths	WOW	$20.70	$20.76	Outperform	BUY

All valuations and Prices in A$ unless otherwise stated — Source: IRESS, GSJBW Research

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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

Other Definitions

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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.

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Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	13%	13%	Sell	6%	5%
Marketperform	63%	63%	Hold	61%	61%
Outperform	24%	24%	Buy	33%	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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