

Private Wealth Management

# Investment Strategy Bulletin

## Australian Equities: Portfolio Strategy Review

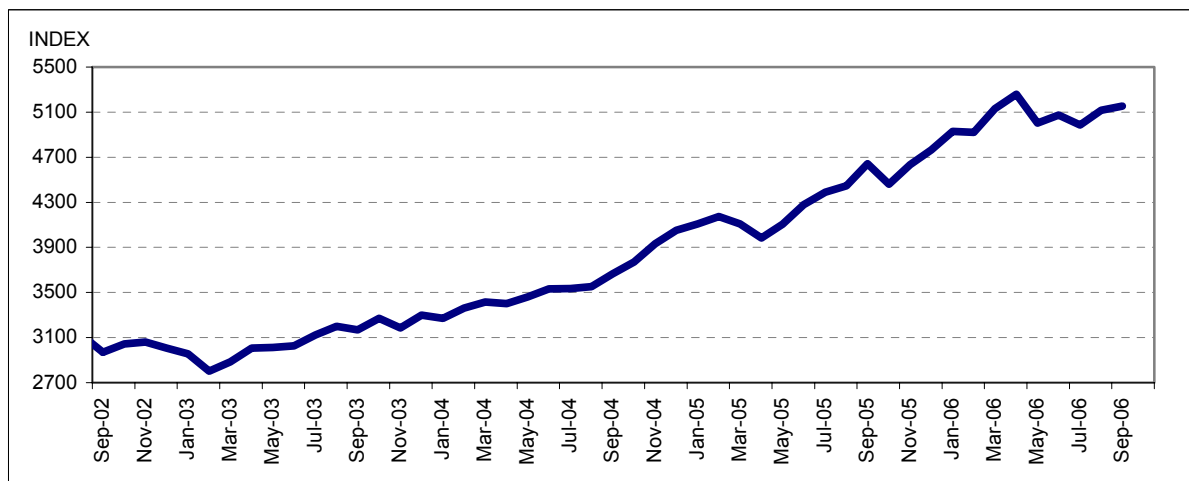
30 Sept 2006

- The Australian equity market (S&P/ASX200) finished the month of September up 1.3%. Investors' fears about a slowdown in the US economy triggered a sell-off in resources stocks but a significant increase in M&A activity sent markets marginally higher. Energy stocks fell substantially as the oil price declined to ~US\$60/barrel.
- On the economic front, the RBA left the cash rate unchanged at 6.0% while GDP growth for the second quarter of 2006 (+0.3% qoq and +1.9% yoy) came in below consensus expectations. The Australian dollar weakened, down 2.3% to A\$/US\$74.6 cents, whilst ten-year government bonds rallied, with yields finishing at 5.51%.
- The Healthcare, Industrials and Utilities sectors were the top three performers of the month while utilities, Materials (i.e. resources and construction), Energy and Banks had a weak performance.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	1.3%	2.7%	16.0%
S&P/ASX 200 Industrials	2.7%	5.1%	16.1%
S&P/ASX 200 Resources	-3.6%	-5.6%	15.6%
S&P/ASX Small Ordinaries	1.7%	3.0%	16.8%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	2.9%	2.6%	-6.3%
Consumer Staples	1.2%	11.5%	3.2%
Energy	-3.5%	-8.5%	-9.2%
Financials	0.0%	3.9%	4.1%
Health Care	8.6%	-2.9%	-0.5%
Industrials	4.2%	2.3%	-5.0%
Information Technology	0.4%	1.7%	0.5%
Materials	-3.8%	-10.3%	-1.7%
REITs	2.5%	13.0%	9.7%
Telecommunications	2.0%	-2.6%	-20.4%
Utilities	3.8%	7.9%	10.9%

Source: GSJBW Research, IRESS

### Australian Equity Market Performance: S&P/ASX 200 Index (September 2002 – September 2006)



Source: IRESS

## Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Mayne Pharma	39.7	BHP Billiton	-7.5
DCA Group	35.6	Woodside Petroleum	-7.1
Newcrest Mining	15.4	WorleyParsons	-7.1
Qantas Airways	13.7	Allco Finance Group	-6.7
Ansell	12.4	AWB	-6.6
PaperlinX	11.9	CSR	-5.4
James Hardie Industries	11.3	Futuris Corporation	-5.1
Amcor	10.7	Bluescope Steel	-4.6
Tattersall's	9.5	Rio Tinto	-3.9
Sonic Healthcare	9.0	West Australian Newspapers	-3.7

Source: IRESS

### Energy

Analyst: Anthony Bishop

- ❑ **Woodside Petroleum (WPL): Short Term Outperform; Long Term Buy**  
Share Price as at 30/9/06: \$39.25; Valuation: \$31.75
- ❑ **Australian Worldwide Exploration (AWE): Short Term Outperform; Long Term Buy**  
Share Price as at 30/9/06: \$2.89; Valuation: \$2.23

The oil price fell significantly in September, with WTI Spot down 10.6%. The market associated the price weakness mostly with 'shoulder period' forces (i.e. the peak gasoline season in the US has ended and the peak heating fuel season is yet to start), a benign hurricane season in the US as well as a liquidation of long positions driven by investor concerns about a slowing US economy. Most energy stocks were sold off, with Woodside Petroleum and Australian Worldwide Exploration down 7.1% and 11.6% respectively for the month.

### Healthcare

Analyst: Hamish Tadgell

- ❑ **Mayne Pharma (MYP): Short Term Marketperform; Long Term Hold**  
Share Price as at 30/9/06: \$4.29; Valuation: \$3.02
- ❑ **Symbion Health (SYB): Short Term Marketperform; Long Term Buy**  
Share Price as at 30/9/06: \$3.42; Valuation: \$3.41

Merger and acquisition (M&A) activity was a key theme within the healthcare sector, globally and domestically. In Europe, the consolidation theme was strongly at play as many companies look to grow in order to stay competitive with the large global pharmaceutical operators – for example, Danish drug maker Nycomed will purchase the pharmaceuticals business of German drug and chemicals maker Altana AG for US\$5.7bn and Belgium's UCB SA made a US\$5.6bn friendly cash and scrip offer for Germany's Schwarz Pharma AG. Domestically, MYP received a ~\$2.6bn cash takeover offer from Hospira (a US-based global specialty pharmaceutical and medication delivery company). In another transaction, DCA Group (not covered by GSJBW) announced a \$3.50/share cash takeover offer, to be implemented by scheme of arrangement, from CVC Asia-Pacific and CVC Capital Partners (collectively CVC).

### Gaming

Analyst: Ashwini Chandra

- ❑ **UNiTAB (UTB): Short Term Not Rated; Long Term Not Rated**  
Share Price as at 30/9/06: \$14.90; Valuation: \$13.50
- ❑ **Tattersall's (TTS): Short Term Not Rated; Long Term Not Rated**  
Share Price as at 30/9/06: \$3.58; Valuation: \$2.70

TTS received the relevant court approval for its scheme to merge with UTB. As a result, UTB ceased trading in its own right at the close of business on September 27. The expanded share base of TTS will commence trading on October 12.

## Macquarie Bank

Analyst: James Freeman

□ **Investment View: Short Term Marketperform; Long Term Hold**

Share Price as at 30/9/06: \$69.15; Valuation: \$72.00

Macquarie Bank Ltd (MBL) announced that net profit for the first half of fiscal 2007 is expected to rise at least 20% excluding the realisation of the bank's holding in Macquarie Goodman Group (MGQ), or at least 40% including the MGQ realisation. The key drivers include favourable market conditions over the period, profits from asset sales such as the oil and gas assets, combined with a fall in the tax rate to sub-20%, which caused some in the market to question the quality of the upgrade. Nonetheless, the stock ended the month higher (+6.7%).

## Building Materials

Analyst: Matthew McNee

□ **Rinker Group (RIN): Short Term Outperform; Long Term Buy**

Share Price as at 30/9/06: \$13.90; Valuation: \$18.89

□ **James Hardie (JHX): Short Term Marketperform; Long Term Hold**

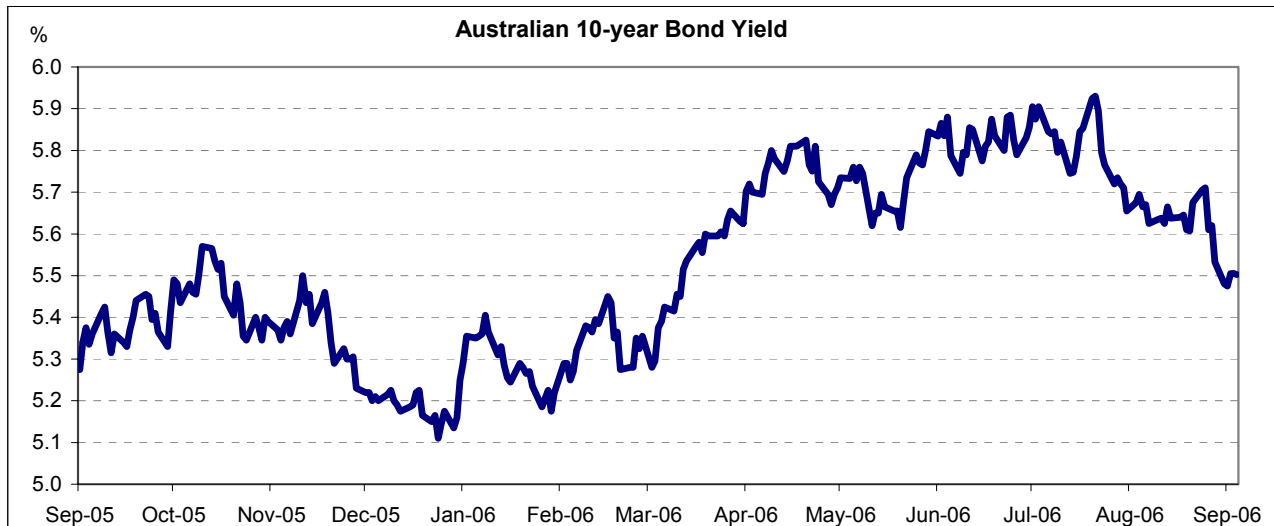
Share Price as at 30/9/06: \$7.46; Valuation: \$9.72

Data from the US Census Bureau showed that in August, US housing starts fell 6.0% from July and were 19.8% down on the previous corresponding period. US housing permits (which lead starts) fell a lesser 2.3% on July and were down a steeper 21.9% on the prior period. US housing starts have now fallen each month this calendar year and permits have recorded only one rise in the same period, occurring in May. Despite this negative news flow, RIN ended the month relatively flat and JHX was up 10%. Providing some support to RIN's share price was a recent presentation in Florida, where CEO, David Clarke reaffirmed previously-issued guidance for fiscal 2007 of EPS US84-90cps (excluding buyback). The company also announced a US\$12/t price rise in cement (>10%) for 1 January 2007, which it thinks can be justified by the rising cost of imported cement (imports ~40% of total market). RIN also expects pricing conditions in aggregates to remain strong.

## Economics

Analyst: Tim Toohey

The Australian 10-year bond yield has dropped significantly over the last six weeks following a rally in US bonds, mainly driven by the market's concerns about US growth and, in turn, global growth expectations.



Source: IRESS

## 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.
- Although we remain very comfortable that the basic fundamentals for global equity markets are sound, 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, we believe the 'policy normalization' has further to run given that the general level of global interest rates is still low relative to the current strong nominal economic environment. The uptrend in global rates should continue through 2006 and, potentially, into the medium term – now led by Japan, China and Europe.
- So far in 2006, household spending in Australia is showing renewed vigour – 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 expects production (GDP) to expand by 3.3% 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 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%).
- The valuation picture for the ASX300 Industrials has improved over the last month. However, we remain of the view that it remains well short of being attractive. The strong performance of the industrials over the past year has been driven by P/E expansion rather than earnings upgrades. The justification for the rerating is not immediately evident, particularly in light of the step-up in global and domestic interest rates. Although we believe the Industrials are fully priced, 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 recent 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 still fully valued, we find it difficult to identify stocks that offer compelling absolute value. Within the large-cap defensive universe, our analysis shows that **Macquarie Communications Group, Australian Infrastructure Fund, ConnectEast Group and Ramsay Healthcare** provide the best long term 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 Industries, QBE Insurance, BHP Billiton, Rio Tinto, Aristocrat Leisure and AXA Asia Pacific**. Sentiment toward the US housing cycle is subdued – a reassessment that is likely to continue over the next 2-3 months. We are comfortable building a position in **Rinker Group** through this period.

### GSJBW Market Forecasts:

As at 30/09/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E
S&P/ASX 300	14.6	13.1	12.7	25.7	12.1	3.4	3.9	4.0	4.3
S&P/ASX 300 Industrials	17.0	15.8	14.5	9.9	7.9	8.6	4.5	4.6	4.9
S&P/ASX 300 Resources	11.0	9.4	9.8	58.4	18.3	-4.0	2.4	2.7	2.7

Source: GSJBW Research estimates

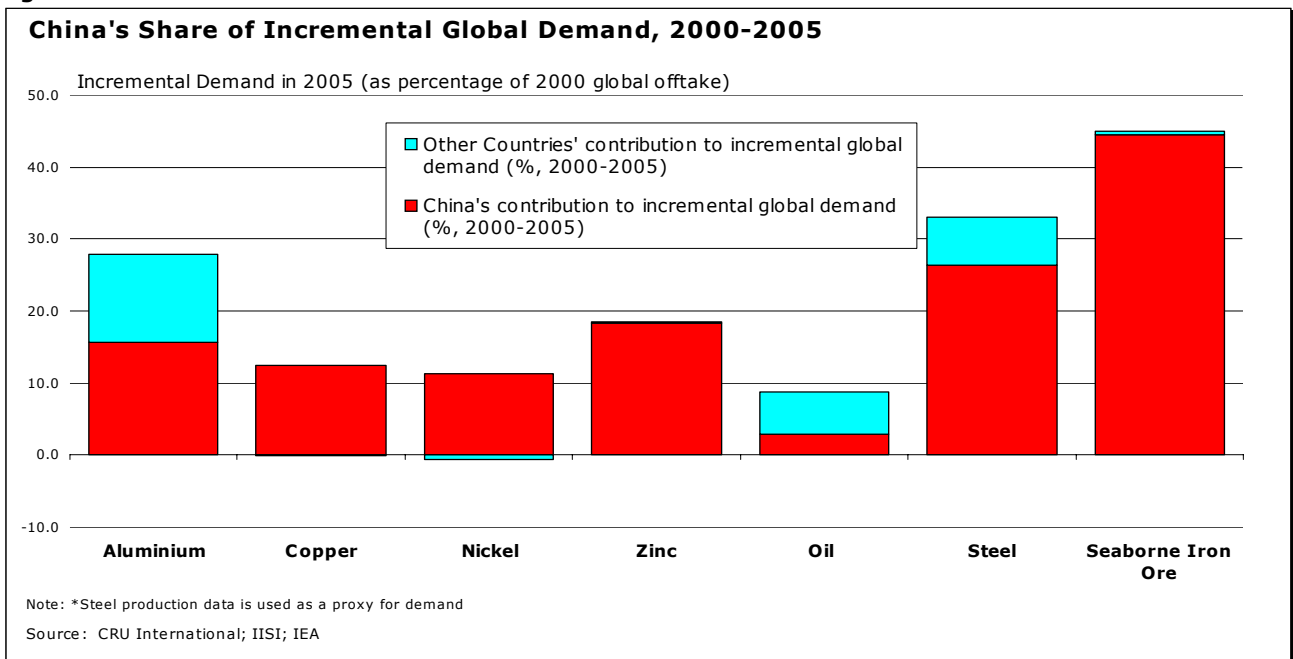
**Commodities and Resources: Will China’s Demand for Raw Materials Slow?**

The resources sector underperformed the market in the September quarter, down ~7% versus the ASX Industrials, which rose 6%. Investor concern about a slowing US economy and China’s ability to ‘decouple’ from the US are impacting sentiment on commodity prices and the performance of resources stocks. Overall, we see nothing in recent economic releases to cause us concern in terms of our current positive outlook for China’s raw materials demand. Nonetheless, we acknowledge that sentiment on commodity prices (and in turn, resources stocks) will likely remain subdued over the next 3 months – or at least until there is some tangible evidence that Chinese demand for raw materials is not impacted by US economic slowdown.

China’s economic growth is slowing. This is reflected by recent data, which showed that industrial production and fixed asset investment growth disappointed market expectations. As a result, we believe severe government measures to contain China’s economic growth rate will prove unnecessary, which in turn, gives us confidence that robust commodity demand will continue.

Despite easing growth rates, we believe that China’s large scale of consumption (or ‘critical mass’) will continue to deliver sufficient additional demand to keep global demand/supply conditions stretched. Interestingly, from 2000 to 2005, China accounted for a high proportion of incremental global demand for the majority of key commodities (refer Figure One). In the case of copper, nickel, zinc, and seaborne iron ore, China has accounted for essentially all of the incremental global demand during that time.

**Figure One**



Therefore, the extent to which a US economic slowdown threatens the resources sector depends on the degree to which Chinese demand can decouple from the US economy. In our view, China will be able to weather a moderate slowdown in the US economy and continue to drive strong global growth in raw materials consumption. However, there may be some cause for concern in the event of a more severe situation (such as an OECD-wide recession).

The fundamentals of the Chinese story – i.e. demand continuing to outweigh supply – remain very much intact. In our view, long term value has emerged within the sector for investors prepared to look through short term cyclicity. On that basis, we remain comfortable increasing our exposure to the diversified conglomerates, **BHP Billiton (BHP)** and **Rio Tinto (RIO)**. For investors with a higher risk appetite, we recommend **Oxiana (OXR)**, **Minara Resources (MRE)** and **Zinifex (ZFX)**.

**Portfolio Management: Building Positions****Symbion Health****Analyst: Hamish Tadgell**

- Investment View: Short Term Marketperform; Long Term Buy**
- Share Price as at 30/9/06: \$3.42; Valuation: \$3.41**

<b>Year End June</b>	<b>2006 Actual</b>	<b>2007 Estimate</b>	<b>2008 Estimate</b>
Net Profit (\$m)	90.1	100.0	122.4
EPS Growth (%)	-14.0	10.6	21.2
PER (x)	24.3	21.9	18.1
Yield (%)	2.3	2.6	3.2

Source: GSJBW Research estimates

We believe Symbion Health (SYB) offers significant long term turnaround potential within the healthcare sector. SYB is coming off a low base in its key pathology and radiology businesses, and this, coupled with the benefit of cost savings, provides a potential offset against the broader industry regulatory and competitive headwinds. In our view the recent fiscal 2006 result presented a solid platform and provided increased confidence in the potential to grow margins and earnings over the next few years.

Although SYB remains a turnaround story, the general improvement in margins at the recent full year result indicated that some progress is being made, particularly in pathology, but also, encouragingly, in Pharmacy. Further staff restructuring has recently taken place and we expect the full benefit of this to flow through in fiscal 2008, given that the majority of these staff will leave at some stage during fiscal 2007. In addition, the company is in the process of renegotiating supplier contracts and will move to a new building in the second half of fiscal 2007, positioning the business to achieve cost savings of between \$30m and \$40m.

Domestically, the opportunity exists for further bolt-on acquisitions (despite the recently unsuccessful negotiations to acquire Primary's pathology assets) to supplement organic growth, and SYB has confirmed that it is actively pursuing opportunities.

**Rinker Group (RIN)****Analyst: Matthew McNee**

- Investment View: Short Term Outperform; Long Term Buy**
- Share Price as at 30/9/06: \$13.90; Valuation: \$18.89**

<b>Year End March</b>	<b>2006 Actual</b>	<b>2007 Estimate</b>	<b>2008 Estimate</b>
Net Profit (\$m)	936.8	1063.9	1058.3
EPS Growth (%)	44.6	18.0	1.6
PER (x)	13.7	11.6	11.4
Yield (%)	5.6	3.2	3.3

Source: GSJBW Research estimates

We reiterate our Outperform/Buy recommendation on Rinker Group (RIN). Our positive investment case is underpinned by the company's quality assets, strong market positions in high growth markets (especially Florida, Arizona and Nevada), healthy balance sheet and experienced management team. We note that Rinker is one of the top 3 players in most of the key US construction materials markets it chooses to operate in.

Despite market concerns about the length and magnitude of a US housing slowdown, we remain confident in our short term earnings estimates for the stock on the back of already-announced price rises and a turnaround in the US non-residential construction sector. Although RIN's share price has followed the sharp falls experienced by US homebuilders in recent months, we highlight that the company also has significant exposure to the non-residential and road and highway sectors – for which the outlook remain positive. We note that management recently announced a price rise in excess of 10% in cement for January 2007.

Bearish sentiment on US home builders, combined with the potential for consensus earnings downgrades, will likely continue to weigh on Rinker's share price over the next 3-6 months. However, we believe those concerns are already more than factored in. Indeed, we estimate a 10% fall in US housing activity in fiscal 2007/2008 (before a turnaround eventuates) to be equivalent to a total fall of 20% over the next two years (i.e. fiscal 2007/2008) – which we note is higher than that expected by most independent forecasters. We therefore remain comfortable buying the stock, which is currently trading at a >25% discount to our DCF valuation.

**Portfolio Management: Switch Idea (from CNP to WDC or CFX)****REITs**

Analysts: Simon Scott &amp; James Cornell

- ❑ **Centro Properties (CNP): Short Term Marketperform; Long Term Hold**  
Share Price as at 30/9/06: \$8.05; Valuation: \$6.94
- ❑ **Westfield Group (WDC): Short Term Outperform; Long Term Buy**  
Share Price as at 30/9/06: \$18.82; Valuation: \$19.36
- ❑ **CFS Retail Property Trust (CFX): Short Term Marketperform; Long Term Buy**  
Share Price as at 30/9/06: \$2.02; Valuation: \$2.01

Year End: CFX – June WDC – December	2006 Actual		2007 Estimate		2008 Estimate	
	WDC	CFX	WDC	CFX	WDC	CFX
Net Profit (\$m)	1829.9	230.2	1908.8	239.6	2017.7	247.9
EPS Growth (%)	8.0	7.8	2.6	2.7	5.3	3.5
PER (x)	18.3	18.5	17.9	18.0	17.0	17.4
Yield (%)	5.6	5.4	5.6	5.6	5.9	5.8

Source: GSJBW Research estimates  
N.B 2006 numbers for WDC are estimates

Centro Properties (CNP) recently reported a full year profit result for fiscal 2006 that was in line with our expectations. However, this was overshadowed by management's forecasts of sustainable funds under management (FUM) growth of \$1.1bn per annum and dividend growth of 7% per annum.

Following the recent spin-out of assets into the Centro Retail Trust (CER) and the planned Centro Wholesale Fund (CWF), the conversion of CNP to a Funds Management group is almost complete. The majority of CNP's forecast earnings will now be generated from co-investments in its funds management products and its retail trust portfolio.

Like an equities fund manager, growth in funds under management (FUM) is dependent upon both inflows and value movement. If real estate values decline, this puts more pressure on securing inflows. In addition, if the FUM becomes more wholesale-based, the fees can compress. We view management's new FUM target as achievable but not without risk. In our view, the key to CNP's ongoing price performance is its Funds Management platform and the level of FUM growth and inflows. However, at the current share price we estimate significant FUM growth and inflows as being already factored in. As such, **we recommend investors switch out of CNP into either Westfield Group or CFS Retail Property Trust.**

**CFS Retail Property Trust (CFX)** is one of the last remaining externally managed property trusts with a pure domestic focus. It provides a REIT exposure for the risk averse, given the defensive nature of the trust's retail portfolio.

CFX provides an attractive, low risk, high quality retail exposure that is likely to continue delivering solid organic growth from both the existing portfolio and development returns (which are at the top end of its peer range and remain a key driver of future growth). With growth through acquisitions and/or third-party funds management unlikely, CFX is likely to perform in line with the market in the short term. However, we believe the stock remains a core longer term holding in an increasingly expensive sector.

**Westfield Group (WDC)** provides investors with a good balance between yield and growth. WDC is one of the world's largest shopping centre owners, developers and managers. The group's investment portfolio predominantly comprises Australian and North American regional malls, with smaller exposures in New Zealand and the UK.

WDC's enormous development pipeline (over \$10bn), experienced management, a strong operating environment, and the premiere portfolio of property assets held by any Australian REIT make WDC an attractive investment, in our view. Underlying earnings growth remains strong, property appreciation should continue (particularly following redevelopments), and WDC is looking at further activities to improve returns, such as expanding its funds management platform. In addition WDC's balance sheet remains strong, with gearing at the low end of its target range, and acquisitions should re-emerge in the medium term.

## Portfolio Management: Emerging Companies

### Transfield Services (TSE)

Analyst: Chris Savage

□ **Investment View: Short Term Outperform; Long Term Buy**

□ Share Price as at 30/9/06: \$8.45 Valuation: \$8.90

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	60.6	89.8	109.2
EPS Growth (%)	31.4	26.5	15.3
PER (x)	22.4	17.7	15.4
Yield (%)	2.8	3.3	3.8

Source: GSJBW Research estimates

We have recently initiated coverage of Transfield Services (TSE) and have included the company as a holding in our Emerging Company Model Portfolio. Transfield is a provider of operations, maintenance and asset management services across diverse industries. Clients of Transfield Services include major national and international companies as well as all levels of government.

The key reasons for our positive view on Transfield are firstly the strong earnings per share growth (refer table above) that we forecast for the coming fiscal year. Secondly, the expected IPO of the Infrastructure business towards the first half of 2007 and the likelihood of bolt-on acquisitions in the USA would provide catalysts and create further value, or at the least help ensure the appropriate value of the company is recognised in the share price.

With the company trading at a discount to our valuation, we believe this offers an attractive investment opportunity. Further drivers of our positive view include the relatively low risk nature of the business (given its high level of recurring revenue) and the fact that it is not exposed to cycles. Additionally, the expectation of corporate developments in the next six to twelve months should help drive the share price.

### Select Harvest (SHV)

Analyst: Greg Ward

□ **Investment View: Short Term Underperform; Long Term Hold**

□ Share Price as at 30/9/06: \$12.20; Valuation: \$11.26

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	26.7	33.2	31.9
EPS Growth (%)	14.8	24.0	-3.8
PER (x)	18.1	14.6	15.2
Yield (%)	5.2	6.1	4.1

Source: GSJBW Research estimates

In recent months, we have discussed the reasoning behind our cautious view towards companies operating in the managed investment scheme (MIS) sector. The government's review of the tax treatment of forestry MIS has now been widened to include non-forestry MIS.

In our view, this could have a materially adverse impact on Select Harvests. The potential to move to a statutory concession to allow deductibility for MIS investors may result in the government having to approve projects on an industry-by-industry (i.e. commodity) and year-by-year basis.

Tax treatment for MIS projects is a critical driver of investor demand, and hence the key to determining the sustainability of MIS operators' revenues. In the absence of regulatory certainty, the MIS sector as well as companies dependent on MIS, will increasingly be difficult to value. As a result, we expect companies in the MIS sector which have not already been heavily discounted to reflect these risks (such as SHV) to underperform the market in the short-to-medium term.

## GSJBW Model Portfolios

### Income Portfolio

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

Source: GSJBW Research

#### **Our changes to the Income Portfolio during September 2006:**

Reduced: Commonwealth Bank of Australia

Increased: St George Bank, Westpac Banking Corporation

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

Earnings per Share Growth	5.9%
Price to Earnings Ratio	15.1x
Average Yield	5.0%
Franking	91%

Source: GSJBW Research estimates

### Defensive Portfolio

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

Source: GSJBW Research

#### **Our changes to the Defensive Portfolio during September 2006:**

Reduced: Commonwealth Bank of Australia, Woolworths, Promina Group

Increased: Australian Infrastructure Fund, National Australia Bank, Rio Tinto

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

Earnings per Share Growth	11.7%
Price to Earnings Ratio	14.2x
Average Yield	4.0%
Franking	85%

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

Source: GSJBW Research

### **Our changes to the Balanced Portfolio during September 2006:**

Reduced: Commonwealth Bank of Australia, Woolworths

Increased: National Australia Bank, BHP Billiton, Rio Tinto

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

Earnings per Share Growth	13.5%
Price to Earnings Ratio	14.5x
Average Yield	3.7%
Franking	80%

Source: GSJBW Research estimates

## **Growth Portfolio**

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

Source: GSJBW Research

### **Our changes to the Growth Portfolio during September 2006:**

Reduced: Woolworths, Sonic Healthcare, Origin Energy, Promina Group

Increased: National Australia Bank, BHP Billiton, Rio Tinto, Symbion Health, Macquarie Capital Alliance Group

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

Earnings per Share Growth	15.7%
Price to Earnings Ratio	14.5x
Average Yield	3.3%
Franking	82%

Source: GSJBW Research estimates

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**GSJBW Recommendation Changes in September**

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Healthscope	HSP	Marketperform	Outperform	-	BUY
David Jones	DJS	Marketperform	Outperform	-	HOLD
Macquarie Infrastructure	MIG	Marketperform	Underperform	-	HOLD
Kingsgate Consolidated	KCN	Underperform	Marketperform	HOLD	BUY
Macquarie DDR	MDT	Outperform	Underperform	-	HOLD
Macquarie Countrywide	MCW	Marketperform	Underperform	-	HOLD
Babcock & Brown Infrastructure	BBI	Marketperform	Not Rated	HOLD	Not Rated
Select Harvests	SHV	Underperform	Outperform	HOLD	BUY
Woodside Petroleum	WPL	Outperform	Marketperform	BUY	HOLD
ING Industrial Fund	IIF	Marketperform	Underperform	HOLD	SELL
Hills Industries	HIL	Marketperform	Underperform	-	HOLD
Sino Gold	SGX	Marketperform	Outperform	BUY	HOLD
Newcrest Mining	NCM	Marketperform	Underperform	-	HOLD
CSR	CSR	Underperform	Marketperform	-	HOLD
Prime Television	PRT	Marketperform	Outperform	-	BUY
Crane Group	CRG	Marketperform	Outperform	-	BUY
Tower	TWR	-	Marketperform	BUY	HOLD
Promina Group	PMN	-	Marketperform	HOLD	BUY

Source: GSJBW Research

**GSJBW Initiation of Coverage in September**

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Transfield Services	TSE	Outperform	n/a	Buy	n/a

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 30 Sep 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Foundation Investment Co.	AFI	\$4.75	\$4.72	N/a	BUY
Australian Gas Light	AGL	\$21.45	\$18.50	Not Rated	NR
Australian Infrastructure Fund	AIX	\$2.19	\$2.41	Marketperform	BUY
Aristocrat Leisure	ALL	\$14.10	\$13.45	Marketperform	BUY
Alinta	ALN	\$11.40	\$12.00	Not Rated	NR
Alesco Corporation	ALS	\$9.40	\$9.80	Marketperform	BUY
Australian Worldwide Exploration	AWE	\$2.89	\$2.23	Outperform	BUY
AXA Asia Pacific Holdings	AXA	\$6.50	\$6.45	Marketperform	BUY
Billabong International	BBG	\$14.65	\$14.90	Outperform	BUY
Babcock & Brown Infrastructure	BBI	\$1.62	\$1.50	Marketperform	HOLD
BHP Billiton	BHP	\$25.63	\$26.78	Outperform	BUY
Brambles Industries	BIL	\$12.75	\$12.00	Outperform	BUY
Commonwealth Bank of Aust.	CBA	\$45.75	\$41.90	Underperform	HOLD
Coca-Cola Amatil	CCL	\$6.69	\$6.80	Underperform	HOLD
ConnectEast Group	CEU	\$1.32	\$1.50	Marketperform	BUY
CFS Retail Property Trust	CFX	\$2.02	\$2.01	Marketperform	Buy
Centro Properties Group	CNP	\$8.05	\$6.94	Marketperform	HOLD
Cochlear	COH	\$53.00	\$53.36	Marketperform	BUY
Computershare	CPU	\$7.71	\$7.40	Outperform	BUY
Crane Group	CRG	\$11.94	\$14.00	Marketperform	BUY
CSR	CSR	\$2.98	\$3.12	Underperform	HOLD
David Jones	DJS	\$3.49	\$3.07	Marketperform	HOLD
Foster's Group	FGL	\$6.44	\$6.40	Outperform	BUY
Hills Industries	HIL	\$4.66	\$4.25	Marketperform	HOLD
Healthscope	HSP	\$4.73	\$5.03	Marketperform	BUY
ING Industrial Fund	IIF	\$2.36	\$2.38	Marketperform	HOLD
James Hardie Industries	JHX	\$7.46	\$9.72	Marketperform	HOLD
Kingsgate Consolidated	KCN	\$4.59	\$3.94	Underperform	HOLD
Macquarie Bank	MBL	\$69.15	\$72.00	Marketperform	HOLD
Macquarie Communications	MCG	\$6.20	\$6.83	Outperform	BUY
Macquarie Capital Alliance	MCQ	\$3.58	\$5.13	Marketperform	BUY
Macquarie DDR Trust	MDT	\$1.22	\$1.21	Outperform	HOLD
Macquarie Goodman Group	MGQ	\$6.52	\$5.06	Marketperform	SELL
Mirrabooka Investments	MIR	\$1.86	\$1.91	N/a	BUY
Minara Resources	MRE	\$4.08	\$4.63	Outperform	BUY
Mayne Pharma	MYP	\$4.29	\$3.02	Marketperform	HOLD
National Australia Bank	NAB	\$36.70	\$37.57	Marketperform	BUY
Newcrest Mining	NCM	\$22.50	\$12.46	Marketperform	HOLD
News Corporation, Inc	NWS	\$27.15	\$27.80	Outperform	BUY
Origin Energy	ORG	\$6.67	\$6.65	Underperform	HOLD
Oxiana	OXR	\$2.90	\$2.36	Outperform	BUY
Publishing & Broadcasting	PBL	\$18.64	\$19.70	Outperform	BUY
Promina Group	PMN	\$5.93	\$5.85	Marketperform	HOLD
Prime Television	PRT	\$3.42	\$3.90	Marketperform	BUY
QBE Insurance	QBE	\$24.50	\$23.80	Outperform	BUY
Ramsay Healthcare	RHC	\$10.05	\$10.16	Marketperform	BUY
Rinker Group	RIN	\$13.90	\$18.89	Outperform	BUY
Rio Tinto	RIO	\$70.10	\$77.36	Outperform	BUY
Rural Press	RUP	\$11.10	\$10.40	Marketperform	HOLD
St George Bank	SGB	\$30.24	\$31.50	Outperform	HOLD
Sino Gold	SGX	\$4.20	\$2.27	Marketperform	BUY
Sonic Healthcare	SHL	\$13.18	\$13.65	Marketperform	HOLD
Select Harvests	SHV	\$12.20	\$11.26	Underperform	HOLD
Symbion Health	SYB	\$3.42	\$3.41	Marketperform	BUY
Tabcorp Holdings	TAH	\$15.63	\$16.20	Underperform	HOLD
Transfield Services	TSE	\$8.45	\$8.90	Outperform	BUY
Tattersall's	TTS	\$3.58	\$2.70	Not Rated	NR
Tower	TWR	\$2.80	\$2.04	Marketperform	BUY
UNiTAB	UTB	\$14.90	\$13.50	Not Rated	NR
West Australian Newspapers	WAN	\$9.07	\$8.75	Outperform	BUY
Westpac Banking Corporation	WBC	\$22.71	\$22.63	Marketperform	HOLD
Westfield Group	WDC	\$18.82	\$19.36	Outperform	BUY
Wesfarmers	WES	\$34.93	\$34.60	Marketperform	HOLD
Woolworths	WOW	\$20.26	\$20.76	Outperform	BUY
Woodside Petroleum	WPL	\$39.25	\$31.75	Outperform	BUY
Zinifex	ZFX	\$11.75	\$10.96	Outperform	BUY

All valuations and Prices in A\$ unless otherwise stated

Source: IRESS, GSJBW Research

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## Short Term

Underperform (UP)  
Marketperform (MP)  
Outperform (OP)

Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe  
Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe  
Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe

## Long Term

Sell (S)  
Hold (H)  
Buy (B)

Stock is expected to underperform the S&P/ASX 200 for beyond 6 months  
Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months  
Stock is expected to outperform the S&P/ASX 200 for beyond 6 months

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NR

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### SHORT TERM (0-6 MONTHS)

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

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

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

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

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

### LONG TERM (> 6 MONTHS)

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

EVA™ Trend: <sup>1</sup> 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.

<sup>1</sup> EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

#### For Insurers

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

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

#### For REITs

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

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

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

#### For NZ Companies

Relevant Index: If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 index.

#### Distribution of Recommendations – As at 30 June 2006

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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