

Private Wealth Management

Investment Strategy Bulletin

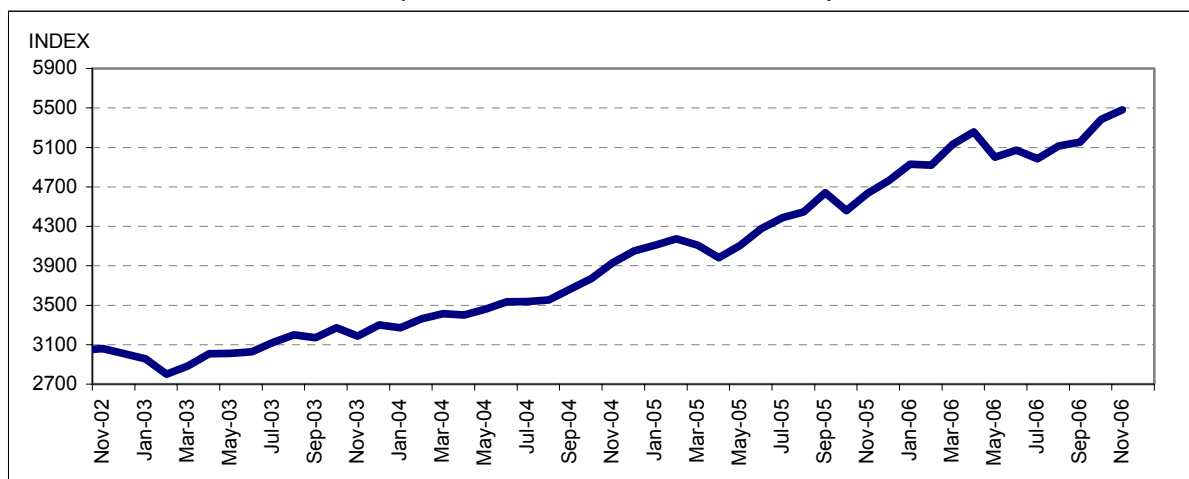
Australian Equities: Portfolio Strategy Review at 30 Nov 2006

- The ASX200 delivered a total return of 2.3% in November, its fourth consecutive monthly rise. Over the past year, the market has delivered a return of 23.5%. M&A activity/speculation continued to result in the repricing of several stocks on the basis of potential corporate appeal.
- On the economic front, the RBA increased the cash rate to 6.25%. Data on credit housing growth, retail sales and employment failed to exceed consensus forecasts, indicating a slowing economic momentum. However, the Australian dollar strengthened, up 1.22 cents to A\$/US\$78.6 cents, as investor concerns on a slowing US economy continued to drive US\$ weakness. Ten-year government bonds weakened, with yields finishing at 5.59%.
- The Information Technology, REITs and Consumer Discretionary sectors were the top three performers of the month while Materials (i.e. resources and construction), Utilities and Telecommunications had a relatively weak performance.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	2.3%	12.4%	23.5%
S&P/ASX 200 Industrials	3.1%	16.1%	23.0%
S&P/ASX 200 Resources	-0.8%	0.2%	25.4%
S&P/ASX Small Ordinaries	3.9%	18.0%	30.8%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	2.6%	6.9%	3.2%
Consumer Staples	1.2%	4.3%	-1.4%
Energy	-1.1%	-15.8%	-8.5%
Financials	0.5%	4.5%	1.6%
Health Care	2.0%	3.8%	-4.6%
Industrials	2.5%	4.7%	-2.2%
Information Technology	10.6%	3.8%	2.7%
Materials	-2.6%	-10.4%	2.5%
REITs	3.0%	12.5%	8.1%
Telecommunications	-5.7%	-5.1%	-20.9%
Utilities	-1.2%	7.8%	0.6%

Source: GSJBW Research, IRESS

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



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Computershare	17.5	Sims Group	-9.9
Qantas Airways	16.7	Alumina	-8.1
Challenger Financial Services Group	15.5	Mayne Pharma	-5.9
Babcock & Brown	13.7	Iluka Resources	-5.5
AWB	13.1	RIO Tinto	-7.0
Zinifex	12.3	Telstra Corporation	-3.6
Resmed	11.7	Leighton Holdings	-7.7
Aristocrat Leisure	11.6	PaperlinX	-2.2
Centro Properties	11.5	BHP Billiton	-6.1
Harvey Norman	11.3	ING Office Fund	-5.0

Source: IRESS

Significant Company/Economic News

Resources

Analyst: Malcolm Southwood

The resources sector delivered a mixed performance in November. Pure play exposures to zinc, nickel and uranium generally did well, but the oil stocks were basically flat. Soft economic news out of the US, Japan and China served to keep the marginal investor wary about the strength of the world economy. In addition, the oil and copper price have been drifting lower over recent months and currently sit below market forecasts for calendar 2007.

Computershare

Analyst: Ryan Fisher

Investment View: Short Term Outperform; Long Term Buy

Share Price as at 30/11/06: \$9.05; Valuation: \$8.20

At its AGM, CPU upgraded its full year 2007 profit guidance from 20% EPS growth to "greater than 35%". The company indicated this was driven by strong global corporate activity and high interest rates in the northern hemisphere, but in general all businesses are performing well. CPU also intends to buy back up to 25 million shares on-market, representing approximately 4% of its shares on issue. CPU was the best performing stock in the ASX100 for the month of November.

Qantas Airways (QAN)

Analyst: Paul Ryan

Investment View: Short Term Marketperform; Long Term Hold

Share Price as at 30/11/06: \$4.95; Valuation: \$4.30

Qantas' share price rose sharply after the company received a "confidential & incomplete" approach from a consortium led by Macquarie Bank & Texas Pacific Group. Should any takeover proposal eventuate it would be "conditional on QAN Board support". Apart from board support, the potential bid faces a series of other potential hurdles based on the attitude of other key stakeholders including government, unions & shareholders.

GPT Group (GPT)

Analyst: Simon Scott

Investment View: Short Term Marketperform; Long Term Hold

Share Price as at 30/11/06: \$5.16; Valuation: \$4.39

GPT and Babcock & Brown announced they have agreed to proceed to the next stage of the JV, given initial investments have been achieved. The partners are targeting AUM of A\$30bn within five years. The JV is creating a new European retail fund to be listed on Euronext. Seed assets are being sourced ~€1.1bn from B&B and ~€400m from the JV. To account for the disproportionate contributions, GPT is paying €16m to B&B, representing 2.9% of assets under management. GPT's share price responded positively to the announcement.

Domestic Media

Analyst: Christian Guerra

- ❑ **Publishing & Broadcasting (PBL): Short Term Outperform; Long Term Buy**
Share Price as at 30/11/06: \$20.82; Valuation: \$19.55
- ❑ **West Australian News (WAN): Short Term Outperform; Long Term Hold**
Share Price as at 30/11/06: \$11.42; Valuation: \$9.00
- ❑ **Seven Network (SEV): Short Term Outperform; Long Term Hold**
Share Price as at 30/11/06: \$10.57; Valuation: \$9.86

In a deal similar to that announced by Publishing & Broadcasting (PBL) in October, the Seven Network (SEV) announced that it will transfer its TV, magazine and online businesses into a new company, Seven Media Group (SMG), owned 50/50 by SEV and the large US private equity player KKR. Seven's other assets (e.g. stakes in WAN, ENG) will not be transferred to SMG. We estimate the \$4.0bn Enterprise value comprises equity of \$1.5bn (i.e. \$735m contributed by each of SEV and KKR), and debt (non-recourse to SEV) of \$2.5bn, offset by transaction costs.

Infrastructure

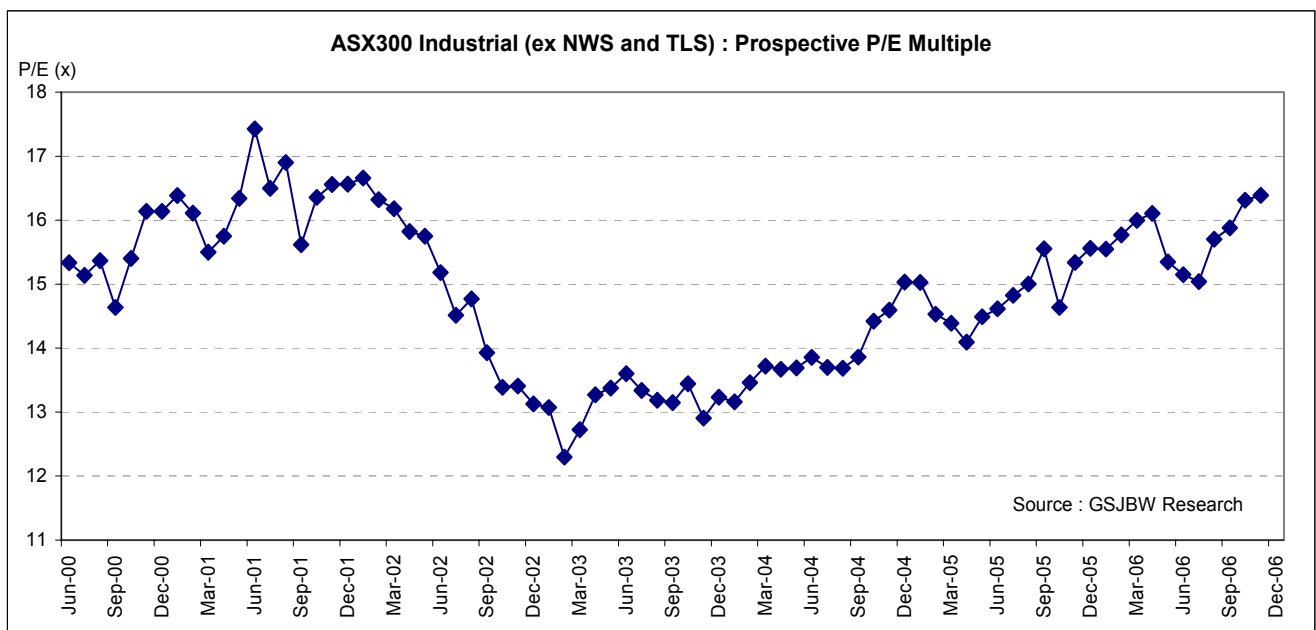
Analyst: Alison Booth

- ❑ **Australian Infrastructure Fund (AIX): Short Term Marketperform; Long Term Buy**
Share Price as at 30/11/06: \$2.59; Valuation: \$2.41
- ❑ **ConnectEast (CEU): Short Term Marketperform; Long Term Buy**
Share Price as at 30/11/06: \$1.47; Valuation: \$1.54
- ❑ **Macquarie Airports (MAP): Short Term Marketperform; Long Term Hold**
Share Price as at 30/11/06: \$3.55; Valuation: \$3.36

After lagging the other high yield sectors (banks and REIT's) in the market over the past quarter, most infrastructure stocks enjoyed a strong November. While there was a degree of 'catch-up' in the performance, most operational news was positive. Macquarie Airports (MAP) and Australian Infrastructure (AIX) benefited from signs airport traffic growth was picking up and hopes that the lower oil price will flow through into lower fares (and more travellers). Connect East (CEU) continued to perform strongly, in part on the back of takeover speculation in the market (source: AFR, IRESS).

Australian Industrial Stocks Are Getting Expensive (as at 30/11/2006)

The following chart plots the forward Price/Earnings multiple for the ASX300 Industrials (excluding News Corporation & Telstra). In light of the fact that profit margins are already at an all-time high, interest rates are up and cost pressures persistent, we believe this is a very full valuation.



Australian Equities: Key Issues for Portfolio Strategy

- The prospects for the world economy in 2007 will be determined over the next 3-6 months. The impact of the sharp contraction in housing activity is now hitting the US economy (housing starts have fallen 24% since February). This drag will be at its most material through the December and March quarters. To date, the balance of the US economy (i.e. consumer & business spending) and the balance of the world economy have not shown any material signs of being hurt by this slump. While we still believe the global economy will continue to perform relatively well into 2007 and 2008, there are likely to be times over the next six months where the credibility of this view will be tested. Accordingly, we expect global financial markets will remain exposed to bouts of heightened volatility.
- US long term interest rates peaked in June. Since then global markets have performed strongly on the back of expanding PE multiples. The lower oil price has also assisted the uplift in investor confidence. 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 work through the macro environment described above and tighter liquidity conditions. It is now clear that US interest rates have peaked for this cycle (at 5.25%), but the unfolding slowdown in the global economy will need to clearly quell inflationary pressures for US rates to fall through 2007 – the markets current expectation. Outside the US, Goldman Sachs Research is looking for further rate increases in Europe and the UK before year-end and further increases in Japan and China through 2007.
- While Australia's recent economic performance can best be described as mixed, there has been sufficient strength – largely via private sector spending – to sustain the structural imbalances/inflationary risks that have been building over recent years. In particular, capacity constraints appear to be deepening – an issue that will ensure the RBA remains concerned about inflation well into 2007. While the drought will be a material drag on production growth, it will do little to ease the capacity pressures or change households' incentive to spend or borrow. The social costs of the drought are best addressed via fiscal initiatives (which is occurring), thus it should not be a major factor in the considerations of the RBA. After growth of 2.7% in FY06, GSJBW Research expects production (GDP) to expand by 2.7% in FY07.
- For an economy facing tangible inflationary pressures, the policy stance still looks reasonably generous. The terms of trade are at a 50 year high and poised to at least sustain this level in 2007, income tax cuts are flowing through, state governments are finally addressing infrastructure shortfalls and asset prices are healthy. The RBA, along with other central banks, has also drawn attention to signs of speculative behavior, notably the rise of leveraged buy-outs and heightened M&A activity, both evidence that interest rates are not an impediment to asset valuations or activity. Partially offsetting this stimulus is the level of short term interest rates (3 increases in six months) and the recent strength of the Australian Dollar. Thus, while our base case view is that the next movement in Australian rates will be down (the cash rate is currently 6.25%), it is not a given that the policy stance is in place to achieve the RBA's objectives. Notably, cash is now the highest yielding asset class available to local investors.
- We had feared that cost stress would materialise more broadly during the recent reporting season, but this did not occur in any meaningful way. While this result was positive, we are still not convinced that the majority of industrial stocks will continue to deliver profit margin expansion in the face of a macro environment that suggests it should be difficult. This question is critical because the consensus view (including that of GSJBW Research) is that they will, not only in FY07, but also in FY08 and FY09! Thus, while industrial PE multiples may not look all that demanding (refer Table below), the corporate performance underpinning the "E" (as reflected by margins/ROE) is already at an all time high. Can the majority of stocks improve on this stellar performance over coming years? The market is priced on the expectation that they will. We believe the ASX200 Industrials is expensive and would be very wary if valuation multiples continue to expand in disregard of rising interest rates & cost pressures.
- Despite the recent price declines in some commodities, the earnings revision risk for the major resource stocks has remained biased to the upside as Chinese demand continues to surge and supply remains tight and subject to disruption. Similar to the September quarter experience, however, macro risks emanating from the softer US economy are likely to periodically unsettle investors over the next six months. Lower US interest rates in 2007, however, would likely prove a major positive for sentiment. We remain comfortable with the medium term prospects for the sector and would look to build positions in the major stocks when they are trading at a discount to our valuations.
- We are finding it very difficult to identify industrial stocks that offer compelling absolute value. Within the large-cap universe, **News Corporation** is worth monitoring in the event that the share price comes under pressure from a strong Australian Dollar. The major banks and the property trusts (REITs) have performed solidly over recent months; valuations now look very full – particularly for the REITs - and at risk if the benign expectations for global interest rates (and credit quality) do not eventuate. Takeover activity & speculation is at unprecedented levels. The domestic media sector has been at the centre of this action. Valuations, particularly across newspaper stocks, are now expensive. Given that corporate activity and value accretion for shareholders do not always go together, investors with large positions in **West Australian News, Fairfax & Rural Press** may want to lock-in some profit while the speculation is most fervent (source: AFR, IRESS).

GSJBW Market Forecasts:

As at 30/11/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E
S&P/ASX 300	15.4x	13.5x	13.1x	24.8	15.0	3.9	3.7	3.9	4.1
S&P/ASX 300 Industrials	17.9x	16.5x	15.0x	10.0	8.6	9.6	4.3	4.4	4.7
S&P/ASX 300 Resources	11.9x	9.6x	10.0x	54.3	24.4	-3.9	2.3	2.6	2.7

Source: GSJBW Research estimates

Portfolio Management: Commodity Price Outlook

Since the correction in global equity markets in the first half of this year, resources companies have had mixed performances – a reflection of investor concerns around the slowing US economy and the more subdued trend in most commodity prices. Although we do not expect commodity prices will fall below our long-term price forecasts in 2007 (except for aluminium), spot price volatility will likely continue in the short term – or at least until there is some clarity on the extent of the US economic slowdown and the potential flow-on impact onto the world. It is therefore timely to review our price forecasts, particularly from the perspective of whether resources stocks can enjoy another year of strong profit upgrades.

Table One: Price Forecasts for the Major Commodities

	Aluminium	Copper	Nickel	Zinc	Hard Coking Coal	Thermal Coal	Iron Ore ¹
	US¢/lb	US¢/lb	US¢/lb	US¢/lb	US\$/t	US\$/t	US¢/dmu
2005	89	183	617	67	125	52	62
2006F	107	345	1112	154	115	53	73
2007F	86	332	975	121	90	50	81
2008F	85	240	980	100	80	46	73
LME Spot Price	123	320	1573	201	n/a	n/a	n/a
Long Term	94	148	555	77	77	44	51

1. Iron Ore Fines - dmtu – Dry Metric Tonne Units

Source: GSJBW Research estimates

Note: All forecasts are presented on a calendar year-end basis except for coking coal, thermal coal and iron ore which are quoted on a JPY forecast.

- **Copper:** There has been substantial 'de-stocking' in the Chinese copper market this year, resulting in a slowdown in consumption growth – real consumption growth averaged ~8% this year relative to last year at ~14%. However, we are of the view de-stocking has run its course, so that China's imports of copper (refined and raw materials) will rise through 2007. Further, supply shortfalls and disruptions will likely continue next year. We believe market fundamentals will continue to tighten in 2007.
- **Aluminium:** This is the one major base metal where we see a sufficient supply response emerging, to push the market into surplus. Fundamentally, this should result in price erosion. The massive growth in Chinese alumina production in 2006, combined with stronger metal prices, has resulted in idle smelting capacity in China coming back on. We forecast a significant surplus in the global aluminium market for 2007 and 2008.
- **Thermal Coal:** We remain comfortable with our JFY 2007/08 price forecast of \$50/t (Australia/Japan benchmark contract). Despite recent spot price weakness, we understand that good quality Australian coal for 2007 delivery is difficult to secure below \$48/t.
- **Hard Coking Coal:** We believe the downward price trend for hard (and semi-hard) coking coal will persist for the following two years as new export supply (mostly from Australia) is commissioned at a faster pace than demand growth from the major importers.
- **Iron Ore:** Anecdotal evidence is pointing towards a modest price increase for the JFY 2007/2008 negotiations. We remain very comfortable with our forecast of +10% for the JFY 2007/08 negotiations although we note that some of our contacts believe that the increase could be contained in the 3-5% range.

Regarding the bulk commodities, we note that the annual negotiations for the Japanese fiscal year (JFY) 2007/2008 delivery are due to commence at the end of November 2006. From an investment perspective, we remain positive on nickel and zinc. We anticipate the global nickel market will record significant deficits in both 2007 and 2008 while we believe the zinc market will be in deficit in 2007 before returning into surplus in 2008.

Table Two highlights stocks within our resources universe (base metals ex gold, steel) which we are comfortable accumulating at or below DCF:

Table Two

STOCK	ASX CODE	PRICE (30.11.06)	DCF VALUATION	SHORT-TERM Recommendation	LONG-TERM Recommendation
Alumina	AWC	\$6.34	\$8.56	Underperform	HOLD
BHP Billiton	BHP	\$26.23	\$27.41	Outperform	BUY
Jubilee Mines	JBM	\$13.70	\$7.91	Outperform	HOLD
Macarthur Coal	MCC	\$4.44	\$5.58	Marketperform	HOLD
Minara Resources	MRE	\$5.90	\$5.31	Outperform	BUY
Oxiana	OXR	\$3.32	\$2.37	Outperform	BUY
Rio Tinto	RIO	\$74.20	\$77.75	Outperform	BUY
Zinifex	ZFX	\$17.03	\$11.79	Outperform	BUY

Source: GSJBW Research

Portfolio Management: Switch Idea

Year End June	2006 Actual		2007 Estimate		2008 Estimate	
	AWE	BHP	AWE	BHP	AWE	BHP
Net Profit (\$m)	-19.5	13584.8	105.2	16848.4	236.4	16127.4
EPS Growth (%)	n/a	58.6	n/a	28.8	124.2	-0.4
PER (x)	0.0	11.7	13.0	9.1	5.8	9.1
Yield (%)	0.0	1.8	0.0	2.0	0.0	2.2

Source: GSJBW Research estimates

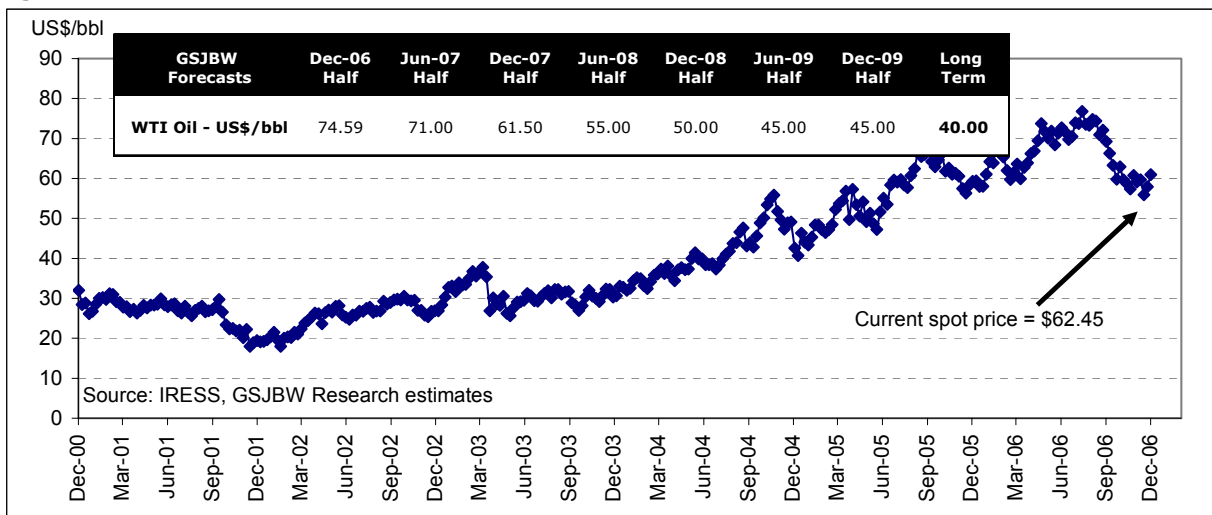
Following an incident in June at the Banjar Panji well in Indonesia in which Santos (STO) has an 18% interest, mud has been flowing into the surrounding region. The operator of Banjar Panji currently estimates the total costs for drilling relief wells and mud management to be US\$180m although this figure may increase. While STO has insurance coverage for these types of incidents, it is not clear how much it will be able to recover. Further compounding STO's problem is the rupture gas pipeline which resulted in it having to suspend production at the Maleo gas field (STO 67.5%). As the pipeline rupture has occurred in the vicinity of the Banjar Panji mud flow incident, if it is subsequently shown that the mud flow was responsible for the pipeline rupture, Santos could be exposed to further liability for the repair costs of the pipeline and potential claims from other parties affected by the incident. In the longer term, we are concerned about the company's growth options. Indeed, a key issue is the replacement of the Cooper Basin, which accounts for ~40% of total production, with reserves declining at a rate of 10-15% per annum. This, combined with the short term uncertainty associated with the Banjar Panji liability, has resulted in us downgrading our recommendation on the stock (to UP/H on 24/11/06, \$10.43). We therefore recommend investors **reduce portfolio exposure to STO and switch into Australian Worldwide Exploration (AWE), or for those with a more conservative risk appetite, we recommend switching into BHP Billiton (BHP).**

Our positive investment view on AWE is driven by the company's strong project pipeline. With three developments now on line, AWE is transitioning from a company with limited production to one with significant earnings growth. The positive outlook for AWE is further enhanced by its ongoing exploration program, management's proven track record of trading assets, adding value through step-out exploration and the stock's corporate appeal.

In the context of maintaining your portfolio exposure to the energy sector, we highlight that BHP offers significant leverage to the oil price through its petroleum operations. The oil-producing assets within BHP are substantial in scale. Petroleum accounts for ~23% of BHP valuation and we estimate the petroleum business will contribute 18% towards group EBIT in fiscal 2007. The core petroleum assets of Bass Strait and the North West Shelf continue to provide outstanding returns on invested capital. Further, we see significant appeal in the company's assets within the Gulf of Mexico, which we forecast will drive sustainable growth in the company's oil production profile over the medium to long term.

Although we believe oil price volatility will continue in the short term amid uncertainty over production cuts by OPEC, we remain comfortable with our oil price forecasts (refer Figure One). In our view, the oil price will continue to be supported by strong global demand (which will likely increase during the winter season in the US) as well as constrained supply growth due to geo-political risks and production disruptions.

Figure One: WTI Oil versus GSJBW Oil Forecasts



Portfolio Management: Decreasing REITs Exposure

The property trust sector has experienced strong performance over the past 12 months. Consequently many of the REIT stocks are trading at premiums to their valuations (average currently 8.8%) and we view the sector as expensive. In addition, the distribution yield of the sector has fallen sharply over the past six months and now stands at 5.7% for FY07, lower than that of the cash rate (6.25%).

A major driver of this strong performance has been a large inflow of funds from overseas investors with mandates that require them to invest in listed property. Although the Australian equity market only makes up 2% of the global MSCI Index, Australian REITs carry over a 10% weighting in the Global Listed Property Index. This is a result of the lack of listed property available on other equity markets, a trend that is expected to change over time, particularly in Europe.

We remain concerned over the rapid increase in funds management business model within the REIT sector. A number of these trusts, such as CNP have rallied in recent months, despite the fact that their businesses are not related to the value of real estate, but rather the size of FUM and resulting management fees.

For clients that do wish to maintain an exposure to the sector, we recommend the more 'pure' traditional property trust managers who are generating strong organic growth, rather than those looking to continue building their funds management businesses. Our two preferred REITs are Westfield Group (WDC) and CFS Retail Property Trust (CFX).

Westfield Group (WDC)

Westfield Group provides investors with a good balance between yield and growth. Westfield Group'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 Westfield Group an attractive investment. Underlying earnings growth remains strong, property appreciation should continue (particularly following redevelopments), and Westfield Group is looking at further activities to improve returns, such as expanding its funds management platform. In addition Westfield Group's balance sheet remains strong, with gearing at the low end of its target range, and acquisitions should re-emerge in the medium term.

CFS Retail Property Trust (CFX)

CFS Retail Property Trust 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.

CFS Retail Property Trust is showing valuation support and should provide strong, low-risk earnings growth over time. Development returns are at the top end of CFS Retail Property Trust's peer range, and remain a key driver of future growth, whilst the portfolio contains an attractive, well diversified mix of assets with room for further cap rate compression.

	Company Name	Sub Sector	Long Term Recommendation	Price / Valuation	FY07 Yield	FY08 Yield	Debt/Equity FY06
CFX	CFS Retail Property Trust	Retail	BUY	0.5%	5.4%	5.6%	41.8%
CNP	Centro Properties Group	Retail	HOLD	24.1%	4.6%	4.8%	39.2%
CPA	Commonwealth Property Office Fund	Office	HOLD	12.4%	6.9%	6.9%	36.7%
GPT	GPT Group	Diversified	HOLD	19.6%	5.5%	5.8%	47.7%
GSA	Galileo Shopping America	Retail	HOLD	6.8%	8.1%	8.3%	152.3%
MOF	Macquarie Office Trust	Office	HOLD	12.4%	7.2%	7.3%	43.5%
SGP	Stockland Group	Diversified	HOLD	14.1%	5.5%	5.8%	35.5%
WDC	Westfield Group	Retail	BUY	1.1%	5.5%	5.8%	81.3%

Portfolio Management: Emerging Companies (Engineering Services Sector)**United Group (UGL)****Analyst: Chris Savage****Investment View: Short Term Marketperform; Long Term Buy**

Share Price as at 30/11/06: \$13.97; Valuation: \$14.44

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	78.7	93.8	128.5
EPS Growth (%)	38.5	9.3	33.7
PER (x)	22.3	20.4	15.3
Yield (%)	3.2	3.5	4.6

Source: GSJBW Research estimates

United Group Limited (UGL) is a diversified service group operating in mechanical & electrical engineering, fabrication, manufacturing, maintenance, construction and business process outsourcing, with operations in Australia, New Zealand, South-east Asia, America & Europe.

Our positive view is driven by the fact that UGL is well diversified across four business units and each division has a positive growth outlook. The company has a high proportion of services, maintenance and facilities maintenance (FM) work which makes it less susceptible to economic and construction cycles. UGL has strong market share in each of its four businesses and is notably the largest rail and rolling stock company in Australia as well as one of the largest independent outsourcing companies.

WorleyParsons (WOR)**Analyst: Chris Savage****Investment View: Short Term Marketperform; Long Term Buy**

Share Price as at 30/11/06: \$19.13; Valuation: \$19.96

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	140.9	180.6	214.1
EPS Growth (%)	86.2	28.2	18.5
PER (x)	27.7	21.6	18.2
Yield (%)	2.2	2.9	3.4

Source: GSJBW Research estimates

WorleyParsons Limited (WOR) is a provider of professional services to the energy, resource and infrastructure industries, including feasibility studies, design, project services, upgrade services and maintenance services.

The largest division of WOR is its Hydrocarbons business and after a long period of underinvestment, we believe they are likely to benefit from heavy investment, especially if oil prices and refiner margins remain above historical averages. WOR has 94 offices in 30 countries around the world, giving the company an extensive global presence and means it can bid on a wide range of projects. Almost all of the contracts of WOR are alliance-based, meaning that all costs are reimbursable and the only risk that the company bears is its profit margin. The main risk for WOR is its lack of diversification. While the large exposure to hydrocarbons (around 60% of pre-tax earnings) has been a positive given the buoyant conditions in this market, the risk is that oil and gas prices turn down sharply and subsequently turn this large exposure into a negative.

Transfield Services (TSE)**Analyst: Chris Savage****Investment View: Short Term Outperform; Long Term Buy**

Share Price as at 30/11/06: \$9.06; 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)	24.0	19.0	16.4
Yield (%)	2.7	3.1	3.5

Source: GSJBW Research estimates

Transfield Services (TSE) is a provider of operations, maintenance and asset management services across diverse industries.

The key reasons for our positive view on TSE are firstly the strong earnings per share growth (refer table above) that we forecast for the coming fiscal year. Secondly, the expected IPO (indicated by the company) of the Infrastructure business which we expect towards the end 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. 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.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

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

Our changes to the Income Portfolio during November 2006:

Reduced: West Australian Newspapers
 Increased: Australian Infrastructure Fund

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

Earnings per Share Growth	7.8%
Price to Earnings Ratio	15.8x
Average Yield	4.7%
Franking	91%

Source: GSJBW Research estimates

Defensive Portfolio – (Inception Date: October 2002)

BHP Billiton	Tabcorp Holdings
Woolworths	Brambles Industries
Westpac Banking Corporation	Foster’s Group
Macquarie Communications Infrastructure Group	Origin Energy
National Australia Bank	Publishing & Broadcasting
AGL Energy	Rinker Group
Australian Infrastructure Fund	Mirrabooka Investments
St. George Bank	Sonic Healthcare
Promina Group	Wesfarmers
Ramsay Health Care	Coca-Cola Amatil
Rio Tinto	

Our changes to the Defensive Portfolio during November 2006:

Removed: Commonwealth Bank of Australia
 Added: Westpac Banking Corporation
 Reduced: Rinker Group, Origin Energy
 Increased: AGL Energy, Australian Infrastructure Fund

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

Earnings per Share Growth	13.7%
Price to Earnings Ratio	14.9x
Average Yield	3.7%
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 – (Inception Date: October 2002)

BHP Billiton	Publishing & Broadcasting
Macquarie Communications Infrastructure Group	Rinker Group
Woolworths	Aristocrat Leisure
National Australia Bank	Computershare
Promina Group	Healthscope
Westpac Banking Corporation	News Corporation, Inc.
AGL Energy	Origin Energy
Rio Tinto	Sonic Healthcare
St. George Bank	Billabong International
Alesco Corporation	Wesfarmers
AXA Asia-Pacific Holdings	
Brambles Industries	

Our changes to the Balanced Portfolio during November 2006:

Removed: Commonwealth Bank of Australia

Added: Westpac Banking Corporation

Reduced: Rinker Group, Aristocrat Leisure, Origin Energy

Increased: Healthscope, AGL Energy, Macquarie Communications Infrastructure Group

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

Earnings per Share Growth	15.6%
Price to Earnings Ratio	15.1x
Average Yield	3.5%
Franking	79%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

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

Our changes to the Growth Portfolio during November 2006:

Reduced: Rinker Group, Aristocrat Leisure

Increased: Healthscope, Australian Foundation Investment Company, ConnectEast

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

Earnings per Share Growth	18.0%
Price to Earnings Ratio	15.2x
Average Yield	3.1%
Franking	85%

Source: GSJBW Research estimates

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

Core Plus Portfolio – (Inception Date: November 2006)

BHP Billiton	Wesfarmers
Woolworths	Austbrokers
St George Bank	Australian Worldwide Exploration
AGL Energy	Codan
Aristocrat Leisure	JB Hi-Fi
Brambles Industries	Minara Resources
Promina	Reckon
Rio Tinto	Pan Australian Resources
Sonic Healthcare	Seven Network
Rinker Group	Tassal Group
Westpac Banking Corporation	Transfield Services

Our changes to the Core Plus Portfolio during November 2006:

Not Applicable

Income Portfolio Summary: Fiscal 2007

Earnings per Share Growth	23.0%
Price to Earnings Ratio	15.2x
Average Yield	3.3%
Franking	89%

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 November

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Metcash	MTS	Outperform	Marketperform	-	BUY
Kimberley Diamond	KIM	Underperform	Marketperform	-	HOLD
Santos	STO	Underperform	Marketperform	-	HOLD
CFS Retail Property	CFX	Outperform	Marketperform	-	BUY
Galileo Shopping America	GSA	Underperform	Marketperform	-	HOLD
Macquarie Countrywide	MCW	Outperform	Marketperform	-	HOLD
Seven Network	SEV	Outperform	Marketperform	-	HOLD
Centennial Coal	CEY	Underperform	Marketperform	-	SELL
Lion Nathan	LNN	Underperform	Marketperform	-	HOLD
Resmed	RMD	Outperform	Marketperform	BUY	HOLD
Insurance Australia Group	IAG	Marketperform	Underperform	-	HOLD
Rinker Group	RIN	Marketperform	Outperform	HOLD	BUY
Westpac Banking Corporation	WBC	Outperform	Marketperform	-	HOLD
Corporate Express	CXP	Outperform	Marketperform	-	HOLD
St George Bank	SGB	Marketperform	Outperform	-	HOLD
Alumina	AWC	Underperform	Marketperform	-	HOLD
PaperlinX	PPX	Marketperform	Underperform	HOLD	SELL
James Hardie Industries	JHX	-	Marketperform	BUY	HOLD
Newcrest Mining	NCM	-	Marketperform	BUY	HOLD

Source: GSJBW Research

GSJBW Initiation of Coverage in November

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Perilya	PEM	Outperform	n/a	BUY	n/a
Tower Australia Group	TAL	Marketperform	n/a	HOLD	n/a
WorleyParsons	WOR	Marketperform	n/a	BUY	n/a

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 30 Nov 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Alinta	AAN	\$10.30	\$11.63	Underperform	HOLD
Australian Foundation Invest.	AFI	\$5.05	\$4.72	n/a	BUY
AGL Energy	AGK	\$15.30	\$16.70	Marketperform	HOLD
Australian Infrastructure Fund	AIX	\$2.59	\$2.41	Marketperform	BUY
Aristocrat Leisure	ALL	\$15.54	\$14.05	Marketperform	BUY
Alesco Corporation	ALS	\$10.50	\$9.80	Marketperform	BUY
APN News & Media	APN	\$5.80	\$5.85	Not Rated	NR
Austbrokers	AUB	\$4.06	\$4.60	Outperform	BUY
Alumina	AWC	\$6.34	\$8.56	Underperform	HOLD
Australian Worldwide Exploration	AWE	\$3.08	\$2.34	Outperform	BUY
AXA Asia Pacific Holdings	AXA	\$6.56	\$6.55	Marketperform	BUY
Billabong International	BBG	\$16.00	\$15.30	Outperform	BUY
BHP Billiton	BHP	\$26.23	\$27.41	Outperform	BUY
Brambles Industries	BXP	\$12.87	\$12.25	Outperform	BUY
Commonwealth Bank of Aust.	CBA	\$47.43	\$42.70	Underperform	HOLD
Coca-Cola Amatil	CCL	\$7.48	\$7.20	Underperform	HOLD
Codan	CDA	\$1.35	\$1.50	Outperform	HOLD
ConnectEast Group	CEU	\$1.47	\$1.54	Marketperform	BUY
Centennial Coal	CEY	\$2.94	\$2.29	Underperform	SELL
CFS Retail Property	CFX	\$2.12	\$2.11	Outperform	BUY
Centro Properties	CNP	\$8.60	\$6.93	Marketperform	HOLD
Cochlear	COH	\$56.31	\$54.25	Marketperform	BUY
Commonwealth Property Office	CPA	1.44	1.29	Marketperform	HOLD
Computershare	CPU	\$9.05	\$8.20	Outperform	BUY
Crane Group	CRG	\$13.70	\$14.40	Marketperform	BUY
Caltex Australia	CXP	\$5.68	\$6.12	Outperform	HOLD
David Jones	DJS	\$3.81	\$3.07	Marketperform	HOLD
Foster's Group	FGL	\$6.69	\$6.50	Outperform	BUY
John Fairfax Holdings	FXJ	\$5.20	\$4.00	Marketperform	HOLD
GPT Group	GPT	\$5.16	\$4.39	Marketperform	HOLD
Galileo Shopping America	GSA	\$1.23	\$1.18	Underperform	HOLD
Hills Industries	HIL	\$4.80	\$4.25	Marketperform	HOLD
Healthscope	HSP	\$5.43	\$5.14	Marketperform	BUY
Insurance Australia Group	IAG	\$5.78	\$5.00	Marketperform	HOLD
JB Hi-Fi	JBH	\$6.00	\$5.50	Outperform	BUY
Jubilee Mines	JBM	\$13.70	\$7.91	Outperform	HOLD
James Hardie	JHX	\$8.42	\$9.81	Marketperform	BUY
Kimberley Diamond	KIM	\$0.82	\$0.92	Underperform	HOLD
Lion Nathan	LNN	\$8.09	\$8.15	Underperform	HOLD
Macquarie Airports	MAP	\$3.55	\$3.36	Marketperform	HOLD
Macarthur Coal	MCC	\$4.44	\$5.58	Marketperform	HOLD
Macquarie Communications	MCG	\$6.41	\$6.83	Marketperform	BUY
Macquarie Capital Alliance	MCQ	\$3.88	\$5.13	Marketperform	BUY
Macquarie Countryside	MCW	\$2.11	\$2.07	Outperform	HOLD
Mirrabooka Investments	MIR	\$2.10	\$1.91	n/a	BUY
Macquarie Office	MOF	1.55	1.41	Underperform	HOLD
Minara Resources	MRE	\$5.90	\$5.31	Outperform	BUY
Metcash	MTS	\$4.55	\$4.85	Outperform	BUY
National Australia Bank	NAB	\$39.18	\$37.53	Marketperform	BUY
Newcrest Mining	NCM	\$25.89	\$13.80	Marketperform	BUY
News Corporation, Inc	NWS	\$27.36	\$27.80	Outperform	BUY
Origin Energy	ORG	\$7.53	\$7.25	Underperform	HOLD
Oxiana	OXR	\$3.32	\$2.37	Outperform	BUY
Publishing and Broadcasting	PBL	\$20.82	\$19.55	Outperform	BUY
Perilya	PEM	\$4.69	\$4.11	Outperform	BUY
Promina Group	PMN	\$6.55	\$5.85	Not Rated	NR
Pan Australian resources	PNA	\$0.34	\$0.46	Outperform	BUY
PaperlinX	PPX	\$3.96	\$3.60	Marketperform	HOLD
Qantas Airways	QAN	\$4.95	\$4.30	Marketperform	HOLD
Ramsay Healthcare	RHC	\$11.05	\$10.33	Marketperform	BUY
Rinker Group	RIN	\$18.65	\$18.89	Marketperform	HOLD
Rio Tinto	RIO	\$74.20	\$77.75	Outperform	BUY
Reckon	RKN	\$1.00	\$1.24	Outperform	BUY
Resmed	RMD	\$6.42	\$6.59	Outperform	BUY
Rural Press	RUP	\$11.86	\$10.40	Marketperform	HOLD
Seven Network	SEV	\$10.57	\$9.86	Outperform	HOLD
St George Bank	SGB	\$32.65	\$31.29	Marketperform	HOLD

Stockland	SGP	7.89	6.96	Marketperform	HOLD
Sonic Healthcare	SHL	\$13.31	\$13.84	Marketperform	HOLD
Santos	STO	\$10.30	\$10.78	Underperform	HOLD
Symbion Health	SYB	\$3.53	\$3.41	Marketperform	BUY
Tabcorp Holdings	TAH	\$16.31	\$16.20	Underperform	HOLD
Tower Australia Group	TAL	\$2.35	\$2.25	Marketperform	HOLD
Tattersall's	TGR	\$1.70	\$1.77	Outperform	BUY
Transfield Services	TSE	\$9.06	\$8.90	Outperform	BUY
United Group	UGL	\$13.97	\$14.44	Marketperform	BUY
West Australian Newspapers	WAN	\$11.42	\$9.00	Outperform	HOLD
Westpac Banking Corporation	WBC	\$24.40	\$23.13	Outperform	HOLD
Westfield Group	WDC	\$19.45	\$19.36	Outperform	BUY
Wesfarmers	WES	\$35.00	\$34.39	Marketperform	HOLD
WorleyParsons	WOR	\$19.13	\$19.96	Marketperform	BUY
Woolworths	WOW	\$22.00	\$21.00	Outperform	BUY
Zinifex	ZFX	\$17.03	\$11.79	Outperform	BUY

All valuations and Prices in A\$ unless otherwise stated

Source: IRESS, GSJBW Research

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RECOMMENDATION DEFINITIONS

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

Other Definitions

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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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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Distribution of Recommendations – As at 30 September 2006

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	13%	12%	Sell	5%	5%
Marketperform	65%	63%	Hold	61%	61%
Outperform	22%	25%	Buy	34%	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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