

Equity Strategy

Monthly Market Review - February 2008

Equity Strategy | Australia

Key Points:

- The reporting season and significant volatility in the financial sector dominated the Australian equity market (S&P/ASX200) during February. After initially being led lower by downgrades to the banks on the back of increasing provisions for bad debts, and concerns about the viability of some highly leveraged investment companies; the market staged a recovery to finish the month broadly flat **(-0.7%)**. Industrial NPAT increased by ~14% on pcp while Resources declined by 3%.
- Investor focus during February was split between risk identification (avoiding potential disasters) and analysing the significant data dump which is synonymous with reporting season. Overall, results were in line with our expectations with large cap Industrials (ex Fin) coming in ahead of our forecasts, while small cap Industrials, Banks and REITs disappointed. The Resources were marginally ahead of our forecasts due to the Diversifieds. **Energy, Telecom** and **Materials** sectors outperformed while the Banks, Financial and REIT sectors lagged.
- As expected by the market, the RBA increased interest rates by 25bp to 7.0% in February (the 3rd increase since August 2007) and signalled that an extended period of below-trend growth is required to reduce inflationary pressures. Employment remained strong with the unemployment rate falling to 4.1% (a 33-year low) while wage growth remained at an elevated 4.2% rate (still in the 4.0-4.2% band observed over the past 3 years). The market is now pricing in a >70% chance of a +25bp rate hike by the RBA in March. The AUD strengthened, ending the month at 94.6¢ (+5¢) while 10-year bonds declined to finish the month at 6.21% (+12bp).
- The key issue for investors remains the trade-off between risks to corporate earnings (slowing US economy, strong A\$, increasing costs, availability of credit and its associated cost); versus increasingly attractive valuations for equities, particularly relative to other asset classes. We continue to favour defensive sectors over global leverage, given the increasing uncertainty in the earnings outlook as global growth expectations continue to be adjusted lower and restrictive credit availability increases the uncertainty around financials.
- Our model portfolio is currently **overweight Consumer Staples, Telecom, Healthcare, Insurance** and **Utilities**, and underweight **Materials, Property Trusts, Banks, Diversified Financials** and **Infrastructure**. The top five overweight positions in the GSJBW Institutional Model Portfolio are **Woodside Petroleum, Newcrest, Qantas, Origin** and **Westpac**, while the five largest underweight positions are **Commonwealth Bank, CSL, Macquarie Group, AMP** and **St George**.

Goldman Sachs is currently acting as Financial Advisor to BHP Billiton and as such is an associate of BHP Billiton for the purpose of the Takeover Code.

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Performance Table – February 2008

	Accumulation Index Performance Since		
	31/01/2008	31/08/2007	28/02/2007
S&P/ASX 200	-0.7%	-9.1%	-0.7%
S&P/ASX 200 Industrials	-5.3%	-16.7%	-12.6%
S&P/ASX 200 Resources	11.5%	14.9%	45.5%
S&P/ASX Small Ordinaries	3.8%	-8.0%	0.9%

	Recommendation	Risk Bias	Relative Index Performance to S&P/ASX 200		
			1 Month	6 Months	12 Months
			Consumer Discretionary	Underweight	Down
Consumer Staples	Overweight	Up	3.5%	6.8%	5.1%
Energy	Neutral	Down	13.3%	17.1%	26.9%
Financials	Overweight	Down	-10.4%	-15.6%	-20.7%
Healthcare/Biotech	Overweight	Down	0.2%	11.5%	15.1%
Industrials	Overweight	Up	-1.6%	-7.0%	-8.8%
Information Technology	Overweight	Up	9.1%	-7.6%	-16.6%
Materials	Underweight	Up	11.3%	24.4%	44.2%
REITS	Underweight	Up	-4.2%	-18.2%	-25.6%
Telecommunication Services	Overweight	Up	13.0%	19.6%	17.2%
Utilities	Overweight	Down	-1.2%	-9.9%	-17.8%

Source: IRESS, GSJBW Research estimates

ASX 200 Leading Contributors in February 2008

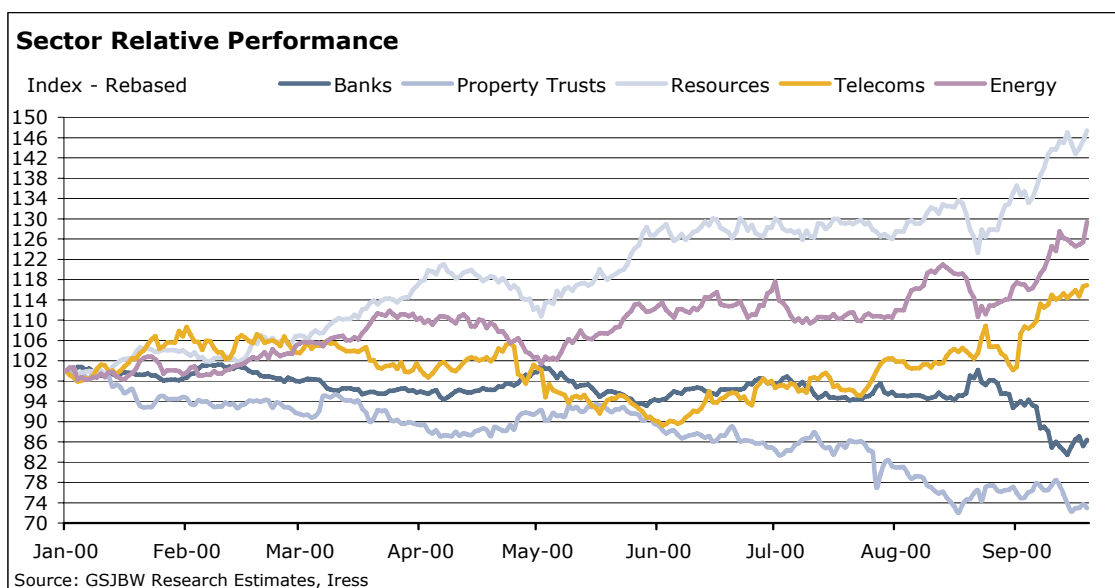
Top & Bottom 10 Pts Contributors over February - ASX 200

1. BHP	43.3	CBA	-48.8
2. WPL	24.7	NAB	-47.8
3. RIO	20.2	ANZ	-39.2
4. TLS	16.7	QBE	-23.6
5. FMG	11.3	WBC	-21.6
6. TLSCA	10.3	MQG	-15.7
7. WES	8.6	SGB	-11.4
8. OXR	7.6	WDC	-8.9
9. IPL	7.2	SUN	-6.8
10. NCM	7.2	GPT	-5.9

The ASX 200 Index decreased by 78 pts in the month of February

Source: IRESS

Relative Sector Performance for the 12 Months ended February 2008



Consumer Discretionary – Underweight (prefer News Corporation)

Media

News Corporation (-3.7%) declined to new lows as the appreciating A\$ continued to hang over the stock. Despite a solid 2Q result it failed to excite investors. Operating income was c.17% above our estimate with all divisions except Film reporting at least mid teens operating income growth. In addition, guidance was upgraded with management raising guidance up from "low teens" to "mid teens" operating income growth.

Consolidated Media Holdings (-1.4%) continued to trade above Ilyria's offer price of \$4.06. CMJ's 1H08 result confirmed the quality of its assets with total cash distributions received from Associates 15% ahead of our forecasts. This was largely due to a better than expected dividend from Premier Media Group, offsetting a zero contribution from PBL Media.

Seven Network (-5.4%) rallied ahead of its result on market expectation that SEV would be a beneficiary of the poor Nine result. However SEV finished the month lower following the release of its result which came in below market expectations and resulted in consensus EPS downgrades.

West Australian Newspapers (+1.7%) recovered its intra-month weakness following the announcement of its interim result. The weak headline result saw the stock sold down, however the underlying result was much better than the weak headline (i.e. down 2.1%) suggested: 1) the operating result was very strong (EBITDA +10.3%, EBIT +9.7%); 2) the EBITDA/EBIT result was even stronger once we adjust for the extra trading week in the pcq; and 3) the majority of the NPAT weakness was driven below the EBIT line, all of which is explainable (i.e. due to Hoyts sale and timing of proceeds). Following the result SEV called for the removal of the WAN board (as WAN's largest shareholder) in a strongly-worded statement from SEV's chairman, Mr Kerry Stokes.

Fairfax Media (-1.2%) traded lower this month as the current macro outlook weighed down on the stock, despite a positive interim result. The result highlighted that the merger with Rural Press had diversified and stabilised the Australian publishing revenue base. The \$9.5m of synergies limited 1H08 costs growth, driving an 'underlying' margin expansion in the period. **APN News & Media (-2.0%)** declined after its FY07 result came in below consensus and the market grappled with the absence of clear guidance (a notable inclusion in prior APN results). APN stated, "Given the current turmoil in world markets, the Board believes it is inappropriate to give specific projections at this time".

Seek (+6.8%) rebounded strongly from its January lows after its 1H08 result was in line with market expectations. January had seen the stock de-rate given its high PE. Strong operating leverage was evident once again (1H08 sales +42.7%, 1H08 EBITDA +51.5%). **Austereo (-8.3%)** continued its downwards trend from last month after its result came in at the lower end of the consensus range. In addition, outlook comments appear subdued, with market growth forecasts suggesting below-trend market growth (2-4%) for the half. **Ten Network Holdings (-2.0%)** had a quiet month, declining on little news flow and relatively low volumes.

Prime Media Group (-1.4%) range-traded, ending the month at a 12-month low. PRT posted a solid result with strong Television earnings offsetting a soft Becker result. However the key disappointment was the underlying Becker performance and associate losses. **Austar's (-9.5%)** solid result did little to assist its declining share price. Key driver of the result was solid operational execution, well-contained costs (operating costs growth restricted to +0.8%) and strong cash flow.

Retail

Billabong (+6.3%) rallied from its recent lows. Sentiment towards the stock turned as management reiterated guidance for FY08 NPAT growth of between 5% and 10% at its result during the month. BBG was confident in its outlook comments and continues to see good trading conditions in all of its key markets. **David Jones (-10.8%)** weakened this month despite posting a strong 2Q08 sales result and upgraded guidance. DJS revised its 1H08 NPAT guidance upwards by ~12% to between \$87.5m and \$89.0m. Also during the month, it announced it had selected to partner with American Express for its general purpose card (David Jones-branded credit card).

Harvey Norman (-18.0%) suffered the same fate as most other high-PE stocks and fears of a consumer slowdown continued to overshadow the stock. HVN's result was in line with expectations, however highlighted a moderation in sales growth. **Pacific Brands' (-18.3%)** share price trended lower due to investor concerns surrounding the current macro environment. It was sold off further following its interim result. PBG's 1H08 result continued to highlight the key challenges for the stock, namely: 1) continued trend of rising CODB; and 2) Low Organic Growth.

Gaming

The announcement of **Aristocrat's (+5.0%)** full year result saw its share price surge. ALL's result was slightly ahead of consensus and in line with the recent downgrade to guidance. The tone of the conference call was positive and outlook comments alluded to strong growth. This, however, is not dissimilar to this time last year before growth was derailed by a number of external factors.

Tabcorp (+13.1%) strengthened following the announcement of its 1H08 result which highlighted it had made inroads into executing its stated strategy. NPAT was ahead of our expectations with a strong performance in Gaming, better than expected performance in Wagering, partially offset by a weaker Casino segment. Cost control was good, with reported costs actually declining by 0.7% and underlying cost growth kept to c.2%.

Tatts Group (+3.7%) finished the month higher given its defensive earnings, though the stock was sold off following TTS' interim result. The result, in line with consensus expectations, was driven by a strong performance in Lotteries, in-line results from Gaming, Wagering and MaxGaming and excellent cost control. **Crown (-0.5%)** sidetracked this month despite a solid interim result. The key drivers of the result were the continued strong performance from Crown and Burswood with 8.8% EBITDA growth and signs that MPEL is improving.

CONSUMER STAPLES - Overweight (Prefer Coca-Cola Amatil, Foster's and Woolworths)

Woolworths (+0.7%) staged a solid recovery after posting a strong 1H08 result which the market took favourably. 1H08 NPAT (pre NRIs) rose 28% to \$891m (GSJBW \$864m). The key driver of the result was WOW's supermarket businesses which recorded continued strong momentum with Australian Food & Liquor EBIT rising 19% and NZ Supermarkets EBIT rising 22% (in NZ\$). **Metcash (+0.5%)** had a quiet month on little company-specific news flow. The share price recovered from its recent lows assisted by WOW's strong performance.

Goodman Fielder (+11.0%) finished the month higher despite ongoing concerns regarding rising commodity costs and the ability to pass through price rises. This was confirmed at its interim result which came in below expectations with NPAT (pre NRIs) falling 8% to \$91.1m (GSJBW \$97.9m). GFF's attempts to 'pass through' commodity costs have seen a negative impact on market share within several of GFF's key categories.

Coca-Cola Amatil (+4.9%) share price recovered from its lows mid month after a solid full year result. Result came in ahead of guidance and consensus. Underlying Continuing Business EBIT slowed from +18% in 1H to +8% in 2H as 6.3% unit COGS inflation offset solid mix/price realisation.

Foster's Group (-3.0%) continued to be sold off on concerns over its exposure to a slowing US/UK consumer environment, strong A\$ and rising wine COGS. These concerns were evident at its interim result which was in line with GSJBW expectations, but below consensus. Revenue growth slumped from +8.6% in 2H07 to +3.2% in 1H08 (constant-FX basis) as FGL again underperformed the wine category. Core business margins disappointed, with Australia Asia-Pacific Beer/Cider/Spirits -0.5%pts on pcp and Americas Wine -2.6%pts.

Lion Nathan (+1.1%) rose after upgrading guidance at its 1Q08 trading update. Management announced a 3% upgrade to underlying NPAT with the sustained benefits of increased brand investment enabling Australia to maintain just over 6% sales growth despite cycling tough comps. **Australian Vintage (-23.3%)** gave back most of its recent gains this month. AVG's interim was a credible result given the tough conditions.

ENERGY - Neutral (Prefer Woodside Petroleum)

Global oil prices climbed during the month with the WTIS oil price breaking through the US\$100/bbl barrier to close the month at ~US\$103/bbl.

Caltex (-6.3%) tumbled following the release of its CY07 result. Although in line with our expectations and consensus, the market was not impressed with the lower than expected dividend. In addition, the outlook comments were decidedly negative.

Santos (+8.1%) rallied early in the month, given its significant gas exposure, on the news that BG and QGC had established a cooperative alliance for the development of a major LNG plant. This excited the market with the prospect of higher gas prices. STO gave up the majority of the gain after its poor interim result which was significantly lower than our expectations (~23%) and consensus (~28%). The result was impacted by lower EBITDAX margins largely due to: 1) strengthening AUD/USD FX rate; 2) increased costs (field costs & overheads); and 3) an inventory build of ~1mmbbl in addition to higher D&A charges. Furthermore, CY08 production guidance was downgraded whilst further cost increases were also highlighted.

Woodside Petroleum (+24.2%) soared in line with the oil price to reach all time highs. WPL's CY07 NPAT (adj.) result of \$1,182.4m was broadly in line with our expectations but ~3% below consensus. However the market was most excited by its LNG development strategy with WPL aggressively pursuing a second train for Pluto LNG.

Oil Search (+0.2%) strengthened on the back of the higher oil prices. OSH's full year CY07 NPAT (adj.) result of US\$140.8m was above our expectations and consensus. This was largely due to a lower effective tax rate and also partly due to lower D&A than we had expected. **AWE (+3.8%)** also finished the month higher. Its interim result was in line with expectations, however the tax and royalty (royalties are reported in the tax line) payments were materially higher than our expectations as AWE transitioned into tax paying status.

Roc Oil (-6.8%) declined as its CY07 result failed to provide a catalyst for its share price after ROC downgraded production guidance. **Tap Oil (+7.9%)**, on the other hand, strengthened despite a weaker-than-expected full year result.

FINANCIALS ex PROPERTY TRUSTS - Overweight (Prefer ANZ, National Australia Bank, Westpac Bank, AXA, QBE and Suncorp)

Banks

Commonwealth Bank (-12.4%) continued its January decline after a disappointing 1H08 result. The market focused on its significant increase in provisioning charge, up 39% to \$333m. This increase was almost entirely (\$120m) driven by business and corporate banking. CBA noted that the increase was due to a handful of single name exposures rather than a systematic concern. As expected, wealth management performed well, with cash NPAT up 27.1% yoy. Without this significant growth from wealth management, Cash NPAT would have been flat.

ANZ Banking Group (-15.4%) provided a trading update announcing an increase in provisions of \$364m due to three specific situations: 1) \$220m exposure to a US monoline insurer; 2) \$91m credit rating change on commercial property; and 3) \$51m failure of a resource client. Despite this significant increase in one-off exposures, ANZ noted that underlying asset quality remained strong, with the institutional business showing good signs of a turnaround including 30% pcp lending growth.

St George Bank (-14.5%) provided a trading update during the month, reaffirming EPS guidance is on track to deliver 10% growth in FY08. SGB also provided specific details around certain of its larger exposures including:

- Centro Properties Group - \$458m exposure, fully securitised
- Allco Finance Group - \$60m exposures, as part of a \$850m unsecured facility
- MFS Group - margin loan for \$25m, secured by MFS shares

However, SGB noted that it does not expect to incur losses or have to raise a provision for these exposures.

Bendigo Bank (-16.9%) also continued to trade lower, despite reiterating FY08 EPS growth guidance of 12% as well as its synergy target of \$60-65m at its 1H08 result. Whilst underlying growth for BEN was 10.2% (reported profit) we estimate that underlying ADB growth was actually negative. BEN also announced a 2.5% DRP and share purchase plan discount.

Macquarie Group (-17.5%) declined in line with the sector. During the month, MQG provided an operational update announcing the retirement of its long standing CEO, Mr Alan Moss, effective on 24 May 2008. Mr Moss will be replaced by Mr Nicholas Moore, the current head of the Investment Banking division, Macquarie Capital. MQG also reaffirmed its guidance of FY08 profit of at least \$1.8bn with 2H08 expected to be at least in line with 2H07 of \$733m. Management noted a "reasonable" pipeline of M&A activity expected in the near term despite short-term impact of equity market volatility.

Insurance

It was a difficult month for the general insurers with all stocks in the sector down. **QBE (-16.5%)** plunged following its FY07 result. The underlying result actually came in roughly in line with what the market was looking for, but the company chose to "hold back" a significant amount of profit for release in the future. This saw NPAT come in 4% below consensus and the Insurance Margin come in at 22.2% vs consensus of 23.0%. The result was also impacted by exchange rates, which made an even bigger dent in the top line than we had expected.

Suncorp's (-9.3%) 1H08 result was not received favourably by market, which saw the stock sold off even further post result. While the headline result came in above expectations, the upside was driven by provisioning write-backs within the bank and a low tax rate. Once adjusted for this, the underlying result was pretty much in line. **Insurance Australia (+1.1%)** suffered a similar outcome to SUN after its weak interim result. 1H margin came in well below market expectations (5.9% consensus 7.6%) and management subtly downgraded its FY margin guidance.

AMP's (-4.2%) share price also declined following a disappointing full year result which came in below consensus. The key driver of the weakness occurred at the operating level. Despite guidance for higher-than previously-expected cost growth in 2008 the stock bounced off its lows late in the month but still finished the month lower.

AXA (-2.2%) recovered from its intra-month lows finishing the month in positive territory after posting a solid full-year result. AXA's result highlighted that the group's fundamentals were in much better shape than its pre-result share price would have suggested. **Tower Australia (-4.0%)** traded sideways, finishing the month lower on little news flow.

Diversified Financials

ASX (-9.0%) continued to fall this month as sentiment towards highly rated PE stocks remained negative. ASX's interim result was just ahead of consensus with no surprises in management's operational update and outlook comments.

Challenger's (-37.1%) share price continued to de-rate during February. CGF's interim result was a weaker outcome than the market expected, not assisting sentiment towards the stock. The main areas of weakness were: 1) Asset Management – a larger mark-to-market loss than we had estimated; and 2) Funds Management – drop in performance fees had an even larger impact than we had expected. **Henderson (-6.5%)** finished the month lower despite jumping post result after its full year result came in ahead of our estimates. The result was not as impressive as the headline number suggested given the composition of the revenue line (management fees were 3% below our estimate, offset by performance/transaction fees coming in 5% above).

Perpetual's (-2.4%) share price trended lower prior to the release of its 1H08 result but shortcovering (which accounted for much of the pop in the share price) saw PPT reclaim part of its share price decline. PPT's 1H08 result was in line with guidance however the headline number was assisted by a lower-than-expected tax rate. **IOOF (-25.8%)** declined to a 12-month low after downgrading its guidance on 6 February, just prior to its result. IFL's interim result did not add to investor confidence, with the in-line result assisted by the reversal of a provision for doubtful debts and a lower-than-expected tax rate.

REAL ESTATE INVESTMENT TRUSTS - Underweight (Prefer Westfield Group)

The REIT 200 Index continued to decline in February, with the index declining 6.0%. Global economic concerns and fears of expanding cap rates in overseas markets remained a concern for investors. Lower-than-expected distributions and downgrades to guidance from a number of REITs during reporting season saw investors remain on the sidelines. The RBA's increase in interest rates and hawkish comments on inflation risks did not help. The Centro vehicles saw renewed selling during February despite achieving some extension on their debt refinancing with **Centro Retail Group (-19.4%)** and **Centro Properties Group (-31.8%)**. Other underperformers included **Mirvac Group (-22.3%)**, **Macquarie Countrywide (-16.4%)** and **GPT (-14.7%)**, all of which reported results below market expectations.

Trusts which outperformed included the following. **Tishman Speyer (+12.2%)** after renewing the Colgate-Palmolive (TSO's largest tenant by area) lease at 300 Park Ave, Manhattan, 2 years ahead of expectations. **Babcock & Brown Japan (+0.8%)** reported a good result with reported Operating Profit up 17.5% on pcp and reconfirmed its buyback and distribution. **Goodman Group (+0.2%)** also recovered after finding some support at current levels. The company reported a strong 1H08 result that was ahead of our forecasts, with EPS up 11% on pcp, and ahead of budget. GMG reiterated FY08 EPS guidance of 34cps, 8% growth on FY07.

HEALTHCARE - Overweight (Prefer Cochlear and Healthscope)

The fate of **Symbion (+4.1%)** was sealed this month after the eighteen-month battle between Primary Health (PRY) and Healthscope for control of SYB came to an end. During the month, with PRY having obtained a 53.81% voting interest in SYB, declared its \$4.10 cash offer for SYB free from all conditions. Consequently SYB's board recommended shareholders accept the offer. As part of the transition of ownership to PRY, three new directors have been appointed to the board of SYB. In addition, SYB announced its 1H08 result in line with our expectation. Considering the extended period of ownership uncertainty, it was a strong result with positive sales growth and margin expansion across all divisions except imaging.

Healthscope (-0.3%) remained flat having achieved a resolution over the ownership tussle for SYB that had previously hung over the stock. This was realised when HSP issued an early termination notice to Goldman Sachs JBWere Capital Markets in relation to its equity swap over 77.1m shares in SYB (originally scheduled to expire end of May 08). HSP noted it had put an offer to PRY on SYB's Victorian pathology and medical centre assets, but could not reach an agreement on terms that were commercial. HSP's first half result was positive for the stock. The result was in line with our expectations at the underlying NPAT level (\$37.1m vs GSJBW \$36.5m) with a strong result in Hospitals (60bp margin expansion on a like-for-like basis) offset by weaker margins (50bp decline) in Pathology.

Sonic Health (-12.0%) traded lower this month. SHL's interim result was ahead of our expectation although the drivers (lower interest and effective tax rate of 22.9%) were non-operational. Revenue growth was a little stronger than we expected, offset by a larger than anticipated decline in EBITDA margins at the group level (19.6% vs 21.6% in pcp) driven by mix shift.

CSL (+6.9%) surged higher following its strong interim result. Prior to its result CSL's share price had suffered as the market de-rated high PE stocks. CSL reported 1H08 NPAT of \$348.7m, 5% above our estimates and 10% ahead of consensus. Key drivers were strong revenue growth in CSL Behring and higher than expected Australian Gardasil sales. Guidance for FY08 NPAT was effectively upgraded to \$670-690m although guidance did not change materially; guidance now includes an FX headwind of \$65-70m. This saw the stock rally c.20% from its intra-month lows.

Resmed (-14.2%) declined after the market did not receive its 2Q08 result favourably. The softer than anticipated result was due to weaker US sales growth (7% vs GSJBW 11%), higher stock option expense (US\$4.0m vs GSJBW \$3.2m) and a slightly lower gross margin (59.9% vs GSJBW 60.3%).
(Goldman Sachs is acting as financial advisor to Respironics, Inc in an announced strategic transaction.)

It was a volatile month for **Ramsay Healthcare (+1.4%)**, which finished the month just above where it started. RHC's 1H08 result was in line with our expectation, with the market reassured following the effective upgrade to FY08 guidance by ~3%. RHC is now forecasting low-double-digit core growth for the group (including Capio which it estimates to be 1.5-2.0 cps dilutive in FY08).

Ansell (+9.2%) rose after a solid first-half result. In addition, FY08 underlying US EPS was upgraded to be in the US\$0.58 – 0.62 range (previously \$0.56 – 0.60) on the back of strong sales momentum into 2H08. **Sigma Pharmaceuticals (-7.7%)** had a quiet month ahead of its result next month.

Cochlear (-21.7%) plummeted following a weaker than expected result. Concerns surrounding the global macro environment saw the stock de-rate given its premium PE rating as softer US sales growth was attributed to its weaker than expected sales growth.

INFORMATION TECHNOLOGY - Overweight (Prefer Computershare)

Computershare (+8.7%) recovered after its interim result exceeded market expectation. Management raised its full year guidance for EPS growth from 30% to 40% due to both cyclical reasons (ahead on Corporate Actions and Margin Income), and structural reasons (ahead on Registry revenues, below on costs). Management also revealed that its interest rate hedges are deeper and longer-dated than the market had previously realised.

INDUSTRIALS - Overweight (Prefer Brambles, Macquarie Communications, Orica, Qantas and Wesfarmers)

Capital Goods

After a volatile trading period leading into its interim result (stock moving in a \$4.00 daily trading range) **Wesfarmers (+8.7%)** finished the month higher. The company's interim result was stronger than the market had expected, driven largely by a much more significant contribution from the recently-acquired Coles businesses (WES reported the 5 most profitable weeks trading of the retail year). Management highlighted that all businesses were more profitable than pcp and the company is well advanced with its preparation to refinance \$4bn of debt due late in CY08 with management confident of refinancing at spreads typically seen in recent months (ie.100bp to 200bp). In recent months the coal market has become extremely tight and we see the risks to prices for FY09 lying firmly on the upside, particularly for metallurgical coal (Hard Coking coal).

Leighton (-7.1%) continued to trade lower with investors remaining nervous on highly-rated companies. The company's 1H08 NPAT increased 31.6% (broadly in line with market expectations) while the interim dividend of 60cps (50% franked) exceed our forecast of 55cps. Work in Hand as at 31 December increased to a record \$26.6bn (+26.4% from 30 June 2007) however LEI's contract mining revenues declined by 12% to \$1.3bn in the period, although WIH in this segment was up \$8.8bn. The acquisition of a 45% stake in Dubai-based Al Habtoor Engineering added some \$1.5bn to LEI's WIH. LEI management indicated that (to date) the business is performing above its expectations.

Chemicals

Dyno Nobel (+13.9%) moved higher following its solid 1H08 result. The better than expected operating result was driven by a strong performance from Asia Pacific while the North American operations performing broadly in line with our forecast. **Orica (-0.3%)** tracked sideways on relatively little news flow (September balance date).

Incitec Pivot (+23.3%) continued its relentless upward trend (the stock is +247% over the last 12 months). The ongoing strength in DAP prices (+11.1% this month alone, to US\$850t; +136.1% over the last 12 months) combined with the breaking of the drought in Qld and NSW enhanced investor sentiment for the stock.

Commercial Services

Brambles' (-2.2%) share price finished lower after its 1H08 result came in at the low end of market expectations. Continuing Business EPS increased 25% on pcp with CHEP Americas sales growth (+9%) defying slower trading conditions (new customer wins); CHEP Europe margins benefiting from scale efficiencies (pallet issue volumes +4%) and CHEP ROW impacted by China and now India start-up costs. Outlook comments from management softened from "strong" to "solid" revenue and profit growth as FMCG volumes prove resilient but also experience some retailer destocking.

Transportation

Toll Holdings (-6.8%) finished the month lower with its 1H08 result coming in below our expectations. The result was complicated by significant acquisitions/divestments with the underlying earnings (ex VBA) slightly ahead of our forecasts. Asian earnings benefited from a low tax rate offsetting higher interest expense. Management remains bullish on the outlook, seeing no signs of a slowdown, and in its ability to withstand one if it comes. TOL management expects the uncertainty surrounding its shareholding in VBA to be resolved "within weeks" as VBA's board assesses several expressions of interest "designed to increase shareholder value". **Asciano Group (-9.6%)** continued to be sold off aggressively as investors await the release of its 1H08 result on 12 March to gain clarity on the company's debt position and stake in Brambles.

Qantas Airways' (-5.8%) was volatile ahead of its result, finishing the month lower. The company's 1H08 result (EPS +103% on pcp) was in line with our forecasts as strong cost control (CASK ex fuel -2%) augmented a supply/demand sweet-spot. The result quality was also reasonable with \$120m turnaround in ineffective hedges offset by \$50m accelerated depreciation and an additional \$64m freight cartel provision. Management tweaked guidance higher from "around" to "at least" 40% PBT growth with no significant slowdown seen yet, particularly domestic/outbound markets.

Virgin Blue (-8.4%) continued to be sold down by investors after its 1H08 result (EPS -9% on pcp) was 37% below GSJBW with 10% underlying unit cost inflation exacerbating \$21m in start-up costs. Unit revenues were also a touch soft given a period of strong demand/minimal supply. The announcement of a strategic review (driven by Toll Holdings' desire to sell down its 62% stake) saw management announce "VBA Board is assessing a number of expressions of interest designed to increase shareholder value... the Board expects to complete its assessment during the next few weeks".

Infrastructure

Macquarie Airports (-9.3%) continued its downward trend as concerns emerged about airport exposure to slower global growth and management's desire to seek acquisitions creating a level of uncertainty in the market. The company's 1H08 result was broadly in line with our expectations while distribution coverage (reported cash flow coverage of CY07 distribution) was 75%. MAP reaffirmed its target to achieve ~100% of distributions covered by operating cash flows by 2010 (subject to acquisitions) and is retaining its surplus cash to pursue "accretive" acquisitions. Credit market exposure - ~90-95% of existing net debt is fully hedged for the next 4 years, with an average maturity of 7-8 years.

Australian Infrastructure Fund (-3.7%) suffered a similar fate, declining after reporting an interim result in line with our expectations. Airport traffic performance in 1H08 was generally very solid, increasing 7.6% on pcp across the portfolio, with Perth Airports (+13.3%) remaining the stand-out performer.

Macquarie Infrastructure Group's (-4.0%) share price continued to consolidate around lower levels during February. The company's interim result (proportional EBITDA) was ahead of our expectations while proportional earnings benefited from lower corporate expenses and net interest below our forecasts. MIG is forecasting FY08 cash flow coverage of 50 - 60% (in line with our estimates) and made no change to distribution guidance (20.0¢ in FY08 & FY09). MIG will review potential opportunities in North America, Europe and Australia.

Transurban (-2.3%) moved lower after reducing its FY09 distribution guidance (58.0¢/security) below consensus estimates (59.0¢). The company's interim result came in ahead of our forecasts (proportional EBITDA) while TCL's cash flow coverage was ~55% (based on our calculations). No further update on DRIVE (ie TCL still owns 75%) while rising interest rates, increasing competition and delays to expected toll road privatisations may impact TCL's ability to secure deals for this vehicle. **ConnectEast (-4.3%)** traded lower as investors continued to derate highly leveraged stocks. The company released its interim result with no meaningful earnings to report given the road is still under construction (due to open in mid-2008). CEU has spent ~\$2.4bn on the construction process to date (of \$2.5bn construction budget), and is tracking ahead of our expectations with respect to timing.

Macquarie Communications Group (-7.2%) finished the month lower after the company announced its interim result and confirmed its FY08 distribution guidance (46¢). Earnings (proportionately consolidated) were broadly in line with our expectations while cash flow coverage (adjusted for deferred revenue) was ~78%. Management still expects regulatory approval of the NGW acquisition on 18 March 2008.

MATERIALS - Underweight (Prefer Boral and Newcrest Mining)

Building Materials

James Hardie (-3.7%) finished the month lower but well off the lows established in mid January suggesting sentiment towards the US building materials sector is finding a floor. Q3 result was solid given the current macro environment. **Boral (+3.5%)** also finished the month lower despite reporting an interim result which broadly exceeded market expectations. Management left its full-year guidance unchanged (-15% on pcp) which includes an expected \$50m contribution from QEU. The company also announced a proposed ~\$100m off-market buy-back which will be undertaken through a tender process. This is in lieu of the on-market buy-back of up to 15m shares announced in August 2007.

CSR (+8.3%) ended the month higher reflecting the strength in the global sugar price and aluminium price following recent power shortages in South Africa and China. Investors appear to believe that the worst is now behind us with respect to CSR's earnings and the current fiscal year (FY08) is likely to represent the trough in CSR's earnings.

Adelaide Brighton (+0.9%) also consolidated around current levels after reporting an increase in its FY07 NPAT (\$113.7m, +11.7% on pcp) which was ahead of our forecasts. The result was achieved despite a weak performance from the Building Products segment and, in our view, highlights the more defensive exposure that ABC has across the broader construction market than its more-housing-dependent peers.

Paper & Packaging

PaperlinX (-0.5%) appeared to find some support after its interim earnings came in slightly ahead of our forecasts. The result was impacted by: 1) higher input costs; 2) the impact currency on paper prices and earnings translation; and 3) weak demand conditions in the UK and US. This was partly offset by margin management and benefits from restructuring initiatives. PPX increased the pulp mill project costs to \$310m (previously ~\$254m) but reconfirmed expected returns of >12% reflecting improved output and cost benefits.

Amcor's (+5.1%) share price continued to experience high volatility, ending the month up. Its interim result was broadly in line with market expectations while management confirmed that the impact of slowing economic conditions, rising raw material costs and inflationary pressures will create challenges for some of AMC's businesses during 2H08.

Steel

The steel stocks performed well during February reflecting the increase in HRC steel prices in global markets. **OneSteel (+6.3%)** lagged the other stocks despite the continued positive outlook for Iron Ore prices. The company's interim result and dividend were both below our forecasts although FY guidance remained unchanged. **BlueScope's (+9.1%)** interim result, also below our forecasts, was impacted by higher raw material costs, reduced HCR/scrap spread and adverse currency movements. Management also increased the expected cost of the blast furnace reline from \$330m to ~\$370m due to higher labour costs. Management expects an improvement in 2H08 earnings. **Sims Group (+15.4%)** remained the stand-out performer in the sector despite its interim result being in line. Management highlighted the rapid escalation of US\$ C&F ferrous prices in mid-December will underpin significant margin expansion as 3Q08 progresses while higher non-ferrous prices will also positively impact earnings.

Diversified Resources

Stock performance in February was driven by M&A activity with BHP Billiton announcing a takeover offer for Rio Tinto (refer below for details) and continued strength in commodity prices (both bulks and base metals). We continued to upgrade our forecasts for iron ore, coal (both thermal and metallurgical) and aluminium, reflecting continued strong demand from China and, in the case of Al, the impact power shortages in South Africa and China will have on supply during 2008. Aluminium prices hit a 21-month peak (cash settlement US\$1.39/lb) partly in anticipation of further smelter curtailments in southern Africa. Vale also announced that it had settled its iron ore contracts with the Japanese and Korean steel mills achieving a 65% price rise for Itabira iron ore fines and a 71% increase for its Carajas fines effective from April 2008. This settlement was above our forecasts and saw renewed strength in **Fortescue Metals (+27.2%)**.

BHP Billiton (+7.7%) announced its 1H08 profit result, reporting underlying EBITDA of US\$11.2bn (+6.4% on pcp) and attributable profit of US\$6.0bn (-2.4% on pcp). The company also announced an offer for RIO of 3.4 BHP shares per RIO Share which represents ~44% of the Enlarged Group compared with ~36% based on the market capitalisations of the companies prior to the approach by BHP to RIO on 1 November 2007 - a 45% premium to the RIO share price prior to the approach.

Rio Tinto (+12.1%) reported a full year underlying result of US\$7.44bn (+1%) which was above our forecast of US\$7.09bn. While the result benefited from a US\$392m tax benefit for Canadian operations (mainly Alcan) mainly explaining the difference; the operational result in iron ore was strong (US\$2.65bn vs GSJBW est. US\$2.47bn) while energy (mainly coal) was disappointing (US\$484m vs GSJBW est. US\$570m).

Other Metals

Base metal prices continued to strengthen during February, despite the deteriorating macro data from the US and Europe. This saw renewed interest by investors in many of the pure-play metal companies and confirmed that China remains the main driver of metal prices. The copper and aluminium stocks all moved higher while zinc stocks lagged. **Oxiana's (+32.3%)** result was in line with market expectations and although down 45% on pcp, this was due to OXR moving to full tax (33%) in Laos (was 16.67%) and the inclusion of the Laos Government minority interest from July 2007. **Pan Australian (+23.6%)** confirmed that the Phu Kham commissioning has commenced and PNA expects to start concentrate production in March, which is some 3 months earlier than the feasibility study, and the development has been completed within the US\$241m budget. **Equinox (+19.8%)** partially reversed last month's decline, finishing the month stronger on the back of copper prices. **Zinifex (+8.3%)**, lagged the other metal companies due to continued softness in the zinc price and **Perilya (+0.6%)** ended the month flat after reporting a poor interim result (in line with market expectations) due to production shortfalls in the period and a 28% lower zinc price. In the nickel sector, **Minara (+31.6%)** recovered strongly on the back of increased steel prices. The company's FY07 result was in line with consensus while the dividend surprised us on the upside. There was a significant swing in earnings with 1H07 earnings at \$263m while 2H07 earnings were \$13m, due to a 15% decline in 2H on 1H volume highlighting the high-fixed-cost nature of the operation.

Coal

Coal stocks performed strongly during February. All the issues which drove spot coal prices higher during January (force majeure declared by a number of Queensland coal mines (mainly metallurgical) due to flooding; a ban on Chinese coal exports for February and March; and power shortages in South Africa, diverting export coal to domestic power stations) were the main reasons for the higher share prices in February and point to record coal price settlements for the JFY commencing April 2008. Earnings results announced by the coal companies during February were broadly in line with our forecasts. **Centennial Coal's (+27.6%)** result was dominated by asset sales and the removal of discontinued operations. Stripping these out, the result was in line with our expectations with both underlying revenue and costs having only minor variations vs expectations. **Macarthur Coal's (+20.8%)** 1H08 profit result was also in line with expectations, while **Felix's (+49.3%)** result, at an adjusted level, was marginally better than our expectations; both stocks finish the month higher.

Gold

The price of gold continued its upward trend into new record highs finishing the month at US\$968, below its intra month high of US\$930/oz. The performance of the equities improved reflecting generally positive earnings reports. **Newcrest (+8.9)** reported a record underlying interim result reflecting its exposure to the spot copper price and gold price (since the close-out of the hedge positions in September), and a 23% increase in gold production. **Lihir Gold (+16.9%)** reported an adjusted profit well above consensus with the overall result impacted by the accounting treatment of the close-out of the gold hedge position and the gold loan.

TELECOMMUNICATION SERVICES - Overweight (Prefer Singapore Telecommunications and Telstra)

Telstra (+12.2%) rallied strongly after reporting an interim result at the top end of market expectations. The result confirmed strong operating momentum; in particular strong, sustained revenue growth bodes well for Telstra's margins and earnings growth given: 1) Telstra's natural operating leverage; and 2) the prospect of transformation program cost savings being delivered in FY09 and FY10. The company also upgraded its FY08 targets (EBITDA growth +4-5%; was +3-4% and EBIT growth +6-8%; was +5-7%). TLS also indicated that its FY10 targets were under review, potentially suggesting an upgrade to these targets. Telstra also announced that it will activate ADSL2+ broadband at more than 900 exchange areas extending its coverage from 55-60% to 85-90% of households.

In contrast, **SingTel (-0.3%)** finished February flat. The company reported a solid 3Q08 result (NPAT +11.4% on pcp) driven by: 1) 30.0% growth in Associate earnings; 2) c.6% growth in Singapore EBITDA; and 3) c.9% growth in Optus EBITDA (+1% in A\$ terms).

Telecom New Zealand (-2.8%) continued its downward trend during February after reporting a 2Q08 NPAT of NZ \$172m, above market expectations but including a Southern Cross dividend of \$19m post tax. Group EBITDA was below consensus and included a disappointing loss of ground in New Zealand, along with a loss of impetus in Australia. The company confirmed FY08 Group NPAT guidance remains NZ \$700-730m which is effectively a downgrade given inclusion of: 1) \$29m of declared or anticipated Southern Cross dividends; and 2) c\$10m reduction in financing costs.

UTILITIES - Overweight (Prefer Origin Energy)

Origin Energy (+1.5%) traded lower during February before releasing its interim result at the end of the month. The company reported a soft 1H08 result with retail weaker offset by lower interest and tax. However, the stock rebounded after ORG increased its FY08 NPAT guidance to "at least 15%" NPAT growth. **AGL Energy (-6.8%)** also finished the month lower after its interim result failed to inspire the market. While the result was ahead of our expectations, it was assisted by lower depreciation. AGK reconfirmed that FY08 NPAT and outlook comments remained unchanged.

The performance of the infrastructure stocks varied with investors still somewhat concerned by stocks with excessive leverage. **APA Group (-3.6%)** reported a strong result with the company increasing FY08 EBITDA and distribution guidance. **Babcock & Brown Power (+10.7%)** rose as certainty was achieved over the company's ability to complete its \$3.1bn worth of refinancing at a reasonable rate. **Spark Infrastructure (+1.4%)**, reported a solid result however distribution guidance was below market expectations.

During February the Australian Energy Regulator (AER) released its final decision for **SP AusNet 's (+2.5%)** Victorian electricity transmission network for the 6-year regulatory period commencing 1 April 2008. The headline figures are a WACC (nominal) of 9.76%, P0 of -12.55% and an X factor of -1.01%. Overall the decision allows for average annual nominal revenue of \$496.5m, which represents a ~5% improvement on the AER's draft decision.

Envesta (-6.6%) traded lower during the month. ENV posted a stronger than expected result due to lower operating costs. However the market did react favourably to the FY08 guidance for a flat distribution.

Babcock & Brown Infrastructure's (-5.5%) reported earnings were below our expectations due to WestNet Rail (poor grain volumes; higher costs) and the recently acquired Alinta assets. The company is forecasting an improvement from these operations during 2H08 and reconfirmed its distribution guidance (not less than 15.0¢/unit).

EMERGING COMPANIES - Prefer (Austbrokers, Imdex and Mitchell Communication Group)

Small Ordinaries Leading Contributors in February 2008

Top & Bottom 5 Points Contributors over February - Small Ordinaries				
1.	MGX	17.4	RIV	-8.7
2.	QGC	13.2	PBG	-8.2
3.	AOE	11.0	JBH	-7.5
4.	AQP	10.5	FKP	-7.1
5.	TPI	10.4	AEZ	-5.8
The Small Ordinaries Index decreased by 114 pts in the month of February				

Source: IRESS

Mt Gibson Iron (+34.1) rose on the back of forecasts for higher iron ore prices. Both **Queensland Gas (+31.6%)** and **Arrow Energy (+42.9%)** surged after QGC announced it had formed an alliance with BG for the development of a major LNG plant, exciting the market with the prospect of higher gas prices. **Aquarius Platinum (+27.2%)** continued its upwards trend as the price of platinum reached new heights. **Transpacific Industries (+32.4%)** relief-rallied after an in-line result.

Riversdale Mining (-20.5%) declined on implications of power shortages in South Africa. **Pacific Brands (-18.3%)** traded lower on concerns that higher interest rates would impact consumer spending. **JB Hi Fi (-19.7%)** suffered a similar fate as high PE stocks were derated by the market. **FKP Property Group (-22.3%)** fell this month after a disappointing interim result given a weaker contribution from the Development Division. **APN/UKA European Retail Property Group (-48.2%)** also suffered following a disappointing result and revised guidance for flat DPU growth.

STOCK RECOMMENDATION SUMMARY

Code	Name	Price (A\$)	
		29-Feb-08	Recommendation
AMP	AMP	8.05	HOLD
ANZ	Australia and New Zealand Banking Group	22.00	HOLD
AUB	Austbrokers Holdings	3.99	BUY
AXA	AXA Asia Pacific Holdings	5.80	BUY
BHP	BHP Billiton	39.58	NR
BLD	Boral	6.04	HOLD
BXB	Brambles	10.44	HOLD
CBA	Commonwealth Bank of Australia	42.13	SELL
CCL	Coca-Cola Amatil	9.62	BUY
COH	Cochlear	53.91	HOLD
CPU	Computershare	8.51	HOLD
CSL	CSL	36.50	HOLD
FGL	Foster's Group	5.33	HOLD
HSP	Healthscope	5.15	BUY
IMD	Imdex	2.03	BUY
MCG	Macquarie Communications Infrastructure	4.66	BUY
MCU	Mitchell Communication Group	0.85	BUY
MQG	Macquarie Group	53.61	HOLD
NAB	National Australia Bank	28.85	HOLD
NCM	Newcrest Mining	38.04	BUY
NWS	News Corporation	20.61	BUY
ORG	Origin Energy	8.85	HOLD
ORI	Orica	28.80	BUY
QAN	Qantas Airways	4.22	BUY
QBE	QBE Insurance Group	22.57	BUY
SGB	St George Bank	23.80	HOLD
SGT	Singapore Telecommunications	2.92	BUY
SUN	Suncorp-Metway	13.91	HOLD
TLS	Telstra Corporation	4.87	BUY
WBC	Westpac Banking Corporation	23.32	BUY
WDC	Westfield Group	17.50	BUY
WES	Wesfarmers	37.72	BUY
WOW	Woolworths	28.99	HOLD
WPL	Woodside Petroleum	57.00	HOLD

Source: IRESS, GSJBW Research

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Australia - Research Recommendation Definitions

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 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
CS	Coverage Suspended. GSJBW has suspended coverage of this company.
NC	Not Covered. GSJBW does not cover this company.

Price Target

Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

Research Criteria Definitions

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.

Prior to 20 July 2007, GSJBW had a dual-horizon recommendation system: Short Term & Long Term. The Short Term factors were Relative Earnings Outlook, Earnings Momentum, News Flow, Relative Performance, and Valuation Support. The Long Term factors were Industry Structure, EVA™ Trend, Growth Option and Price/DCF.

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 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	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
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts 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

EVA™ Trend: ¹	ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 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

Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
Yield:	Yield relative to the REIT sector average. Used instead of Earnings revision.

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.
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Distribution of Recommendations – as at 31 December 2007

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	9%	13%
Hold	61%	54%
Buy	30%	33%

* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 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.