

Private Wealth Management

Portfolio Strategy Review - March 2008

Investment Strategy | Australia

Key Points:

- The derating of the Australian equity market (S&P/ASX200) continued during March with the market finishing down (-3.3%), although well off its lows. Banks initially led the market lower on ongoing concerns around liquidity and increasing bad debts, although they staged a strong recovery following the Bear Stearns takeover offer and the US Fed extending its "lender of last resort" facility to US investment banks. Investors also took profits in Resources, particularly gold, despite commodity prices remaining high.
- Investor focus during March remained very much in risk aversion mode while attempting to weight up earnings risk with valuation opportunities. Leverage continued to remain a "dirty" word with investors continuing to reduce their exposure to companies with a high level of debt. Investors also reduced their exposure to discretionary spending given the increasing risks from higher interest rates. **Info Tech, Consumer Staples** and **Banks/Financials** sectors outperformed while the **Materials, Consumer Discretionary** and **Telco** sectors lagged.
- The RBA increased interest rates by 25bp to 7.25% in March (the 4th increase since August 2007) while consumer confidence fell by 9.1% to 88.6 index points (lowest point since September 1993). Employment remained strong with the unemployment rate falling to 4.0% (a 33-year low). Following various speeches by the RBA late in the month, the market is now pricing in a 25bp rate cut by November 2008. The AUD ended the month lower at 91.6¢ (-1.4¢) while 10-year bonds rallied to finish the month at 6.05% (-16bps).
- 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. 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.

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.

Performance Table – March 2008

			<u>Accumulation Index Performance Since</u>		
			<u>29/02/2008</u>	<u>30/09/2007</u>	<u>30/03/2007</u>
S&P/ASX 200			-3.3%	-16.7%	-7.0%
S&P/ASX 200 Industrials			-0.9%	-19.6%	-15.3%
S&P/ASX 200 Resources			-8.5%	-8.8%	23.7%
S&P/ASX Small Ordinaries			-4.8%	-16.2%	-7.6%
			<u>Relative Index Performance to S&P/ASX 200</u>		
	<u>Recommendation</u>	<u>Risk Bias</u>	<u>1 Month</u>	<u>6 Months</u>	<u>12 Months</u>
Consumer Discretionary	Underweight	Down	-4.7%	-6.2%	-17.2%
Consumer Staples	Overweight	Down	4.4%	14.4%	7.7%
Energy	Underweight	Down	1.1%	12.5%	23.4%
Financials	Overweight	Down	4.0%	-9.4%	-14.4%
Healthcare/Biotech	Overweight	Down	3.3%	12.7%	16.1%
Industrials	Neutral	Up	-0.8%	-5.6%	-8.8%
Information Technology	Overweight	Up	6.5%	11.3%	-13.3%
Materials	Underweight	Up	-5.5%	8.6%	30.2%
REITS	Underweight	Down	3.7%	-11.9%	-15.8%
Telecommunication Services	Overweight	Up	-4.4%	18.8%	5.5%
Utilities	Overweight	Down	0.9%	-5.5%	-14.8%

Source: IRESS, GSJBW Research estimates

ASX 200 Leading Contributors in March 2008

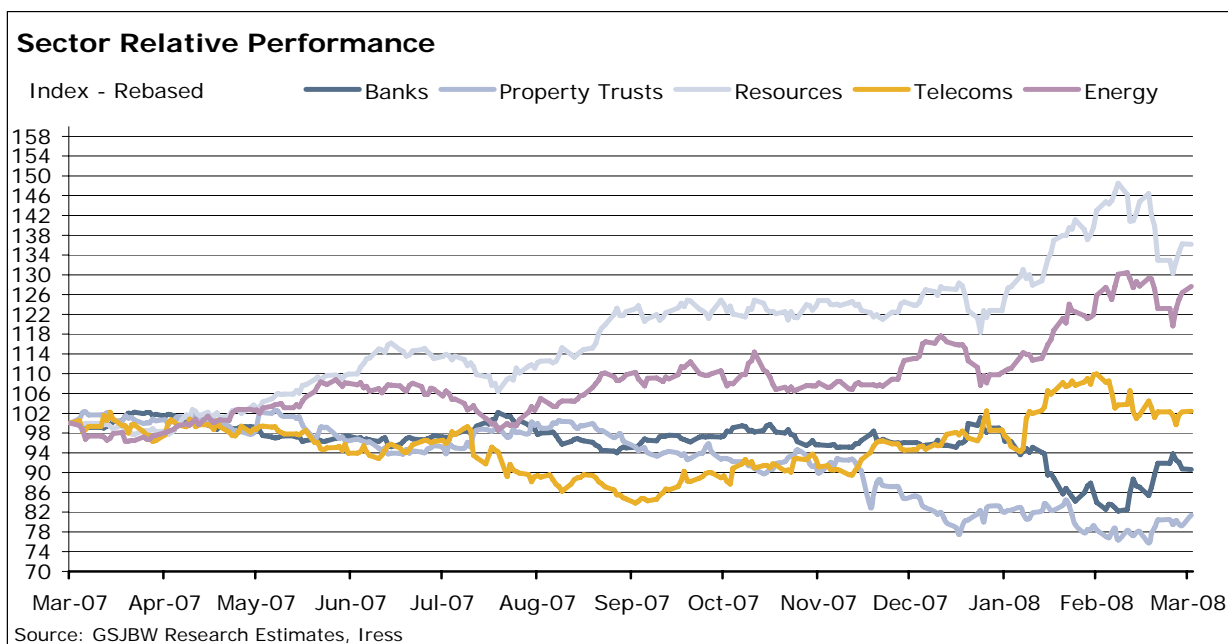
Top & Bottom 10 Pts Contributors over March - ASX 200

1. NAB	10.8	BHP	-64.8
2. WES	8.0	RIO	-21.0
3. ANZ	5.4	TLS	-14.9
4. SGB	5.4	NCM	-10.8
5. STO	4.7	TLSCA	-9.9
6. WBC	4.1	FMG	-9.0
7. WDC	2.7	LGL	-7.4
8. OSH	2.6	OXR	-6.2
9. ILU	2.6	WPL	-5.9
10. BEN	2.3	SUN	-5.0

The ASX 200 Index decreased by 216 pts in the month of March

Source: IRESS

Relative Sector Performance for the 12 Months ended March 2008



CONSUMER DISCRETIONARY – Underweight (prefer News Corporation)

Media

News Corporation (-0.3%) was flat this month as US economic data continued to weaken despite continued strong performances by the News Corps businesses. The Fox Network remains clearly in the lead in A18-49 and it is the only network to report yoy increases in ratings despite a depleted schedule due to the writers strike. **Consolidated Media Holdings' (-15.2 %)** share price was impacted by the announcement from Illyria (Mr Lachlan Murdoch's private company) that SPO Partners had withdrawn its equity finance commitment for the proposed ConsPress/Illyria bid for CMJ. **Seven Network (-14.8%)** declined this month, reflecting: 1) Analyst downgrades post its 1H08 result in late February; 2) Weaker ytd ratings at the Seven Network; and 3) Implied impact of stock market weakness on its listed investments portfolio. **Fairfax Media (-10.6%)** continued to decline during the month on concerns that, despite its newly diversified revenue base, it remains exposed should the broader ad market suffer a downturn later in 2008.

Retail

Macro concerns were left to one side this month and saw **Billabong (+5.3%)** bounce off its lows to end the month higher. **David Jones (-10.1%)** declined to 12 month lows despite reporting strong profit growth of 25% in March. **Harvey Norman (-14.1%)** continued to decline over March as concerns regarding consumer spending hung over the share price. There was no company-specific news flow.

Gaming

Aristocrat (-5.3%) will continue to face uncertainties around its US business as a key driver of 2008 EPS growth, while the Victorian Premier, John Brumby, announced Victoria will remove ATMs from gaming venues by the end of 2012. While this is likely to have a negative impact on gaming machine revenue for **Tabcorp (-7.3%)** and **Tatts Group (-8.6%)**, it is difficult to estimate. **Crown (-9.5%)** continued to fall as the market increased the risk premium placed on its development assets.

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

Woolworths (+1.6%) recovered from its lows intra month to finish the month in positive territory. **Goodman Fielder (-0.8%)** announced the acquisition of Paradise Foods for \$79m during the month. After a volatile trading period last month leading into its interim result (stock moving in a \$4.00 daily trading range) **Wesfarmers (+6.0%)** finished the month higher. During the month, WES announced that it will retain the Kmart business. **Coca-Cola Amatil (-11.6%)** gave back last month's gains on investor concerns over the impact of rising petrol prices on consumer demand while **Foster's Group (-3.9%)** and **Lion Nathan (-8.4%)** both eased on little company-specific news flow.

ENERGY - Neutral (Prefer Woodside Petroleum)

Global oil prices remained strong during March. **Woodside Petroleum (-4.4%)** announced the approval of its \$5 billion North Rankin 2 project, enabling recovery of remaining low pressure gas from the North Rankin and Perseus gas fields. **Santos (+12.4%)** finished the month higher while **Oil Search's (+14.1%)** strategic review outcomes saw OSH's share price stronger over the month. **Caltex's (-9.9%)** share price declined during the month despite refining margins remaining reasonably strong for this time of year. **Australian Worldwide Exploration (-0.6%)** highlighted a further reserves review of the Tui oil field is now underway, following strong production performance. **Roc Oil's (+21.5%)** active drilling campaign continued, while **Tap Oil (-11.4%)** advised that the Woollybutt oil field remained shut-in on 10 March and would take a couple of weeks to recommence production.

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

Banks

During the month, **St George Bank (+8.0%)** provided an institutional briefing to the market. SGB drew attention to strong growth in the institutional book and noted that credit quality remains very strong in retail and business banking. **National Australian Bank (+4.5%)** announced it had exercised its right under a \$110m margin loan agreement with Allco Principals to take possession of 34.5m of Allco Finance Group Ltd shares and 4.1m of Allco HIT Ltd shares. Whilst NAB had hoped to establish additional security with Allco Principals, an agreement could not be reached. NAB therefore excised its right under the agreement and took possession of the shares. NAB now holds ~9% of Allco and as yet, has not sold down any of the holding. **Australian and New Zealand Banking (+2.5%)** announced an exposure to Opes Prime Group, a prime broking provider based in Melbourne placed into voluntary receivership. ANZ has stated that its exposure is well-secured with strong LVRs, and as such is not expecting a loss to emerge.

Following the RBA decision to increase cash rates, the majors all chose to increase their standard variable rate mortgages above this rate. Key rate moves included:

Lending rates:

- ANZ, CBA increased their standard variable rates by an additional 10bps.
- SGB increased standard variable rates by an additional 10bps with the cash rate change, plus an additional 10bps at the end of the month.
- NAB increased standard variable home loan interest rates by an additional 4bps with the cash rate change + an additional 9bps near the end of the month.
- WBC increased standard variable home loan interest rates by an additional 5bps with the cash rate + an additional 10bps near the end of the month.

Insurance

Despite the volatility in the broader market, news flow in the sector was fairly light as the companies focused on their post-results roadshows. **QBE (-1.6%)** and **Insurance Australia (+0.7%)** outperformed the market as investors took shelter in these low-P/E, high-dividend-yield stocks. **AMP (+0.5%)** and **AXA (-2.9%)** received some support as investors took the opportunity to buy these "blue chips" at P/Es not seen for some time. AXA also completed its \$400m buyback in early March.

Diversified Financials

Despite **ASX (-11.0%)** benefiting from solid trading due to high market volatility, the stock continued to decline as investors worried about the medium-term impact of weaker market conditions. **Challenger (-15.0%)** had a very volatile month and hit its lowest point in many years before recovering slightly towards the end of the month. **Henderson (+6.5%)**, **Perpetual (-2.1%)** and **IOOF (+1.7%)** had mixed performances, though these movements were largely a reversal of their trends in February.

REAL ESTATE INVESTMENT TRUSTS - Underweight (Prefer Westfield Group)

The REIT 200 Index finished a volatile month relatively flat, as investors digested the reporting season and the fallout from the credit market continued. **Centro Properties Group (-33.3%)** was again the worst performer, followed by **Macquarie DDR Trust (-26.8%)**, **APN/UKA Europe Retail Trust (-15.9%)** and **Centro Retail Group (-9.3%)**. Outperformers included **Mirvac Group (+6.3%)**, **Valad Property Group (+4.9%)** and **CFS Retail Property Trust (+2.4%)**.

Points of interest during January included:

- Goodman Group - Announced the sale of its 40% share of the joint venture management company in Singapore and its 6.8% stake in the Singapore listed A-REIT. The transaction clears the way for Goodman and Ascendas to pursue their own interests in the region.

HEALTHCARE - Overweight (Prefer Cochlear and Healthscope)

Sigma Pharmaceuticals (-9.8%) weakened after reporting its full year result for FY08, which was softer than anticipated by the market, while **ResMed (+3.9%)** rallied during the month. One week following the announcement of its 1H08 result, **Ramsay Healthcare (-3.5%)** announced the acquisition of BMI Nottingham Hospital from General Healthcare Group including freehold of the property. No financial details have been disclosed but the acquisition was to be funded through RHC's existing debt facilities. **CSL's (+1.8%)** strengthened after its cervical cancer vaccine, Gardasil, has been designated for priority review by the US FDA. It has been a quiet month for **Cochlear (+1.5%)**, **Healthscope (+1.0%)** and **Sonic Healthcare (-2.8%)**. In other news, **Ansell's (-9.0%)** share buyback has almost been completed, with 3.25% of shares remaining.

INFORMATION TECHNOLOGY - Overweight (Prefer Computershare)

Computershare (+2.8%) held an upbeat annual investor briefing, with the company giving details on a number of incremental positives and no new negatives. Improvements in pricing, cross-sell and efficiency were just some of the topics discussed.

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

Chemicals

Dyno Nobel (+11.3%) rose sharply after the company announced that it had entered into a definitive Scheme Implementation Agreement with **Incitec Pivot (-4.6%)**. **Orica (+1.2%)** continued to rally from its recent lows given its strong exposure to resource volumes (not prices) and improving pricing outlook, offering some defensive qualities.

Commercial Services

Brambles (-2.8%) resumed its on-market buyback program following the release of its 1H08 result last month. In other news, Brambles acquired Lean Logistics, a provider of technology-based transport & supply chain solutions for US\$45m cash during the month.

Transportation

Toll Holdings (-0.9%) eased as investors await an announcement relating to its stake in Virgin Blue, while **Asciano (-19.5%)** continued to struggle this month after failing to impress the market with its maiden 1H08 result. **Qantas Airways' (-6.9%)** traffic statistics for the month of January revealed that domestic yields continue to soften following Tiger Airways' entry into the domestic aviation market. However, passenger load factors remained strong across all businesses and international yields continued to strengthen.

Infrastructure

Australian Infrastructure Fund (+3.0%) was the best performer in the sector for March following the announcement it had successfully refinanced its \$450m debt facility at Melbourne Airport and increased it to \$700m (we understand at a new rate of ~8.0%). **Macquarie Communications Group (-9.9%)** was again sold down. It appears that the market remains concerned and focused on MCG's leverage. **ConnectEast (+0.9%)** continued to be sold down however the share price recovered late in the month to finish the month broadly flat. **Macquarie Airports (-8.0%)** continued its recent weakness on concerns of slower global economic growth while **Macquarie Infrastructure Group (-4.8%)** weakened and **Transurban (+0.8%)** held up reasonably well, perhaps due to the perception that TCL is a defensive play (despite the low cash flow coverage of its distribution).

MATERIALS - Underweight (Prefer Boral and Newcrest Mining)

Building Materials

James Hardie (+4.2%) moved higher as further cuts to US interest rates led investors to take a more positive view on the timing of an eventual recovery in US housing activity. **Boral (+3.6%)** also finished the month higher supported by a proposed ~\$100m off-market buy-back. **CSR (-5.3%)** declined giving back some of last month's gains as sugar experienced a sharp drop in price. **Adelaide Brighton (-0.4%)** finished the month flat with last month's result highlighting the more defensive exposure that ABC has across the broader construction market than its more-housing-dependent peers.

Steel

The steel sector eased during March. **Sims Group (-7.1%)** ended the month down. **BlueScope (-9.5%)** also had a weaker month, with stronger HRC prices in all regions not enough to offset concerns regarding higher iron ore/coking coal input costs. **OneSteel (-8.4%)** also ended the month lower.

Diversified Resources

Stock performance was driven by lower commodity price performance across the month in base metals, although continued strength in oil and the bulk commodities was evident.

Base Metals

Base metal prices took a breather in March giving up some of the gains of the previous two months. With the exception of copper (0.0%) which finished the month flat, all the base metals lost significant ground, zinc (-14.5%), aluminium (-4.7%), nickel (-1.1%) and as a direct result the majority of equities fell strongly.

The consolidation theme was very evident in the sector in March with numerous mergers/takeovers announced during the month however this was not reflected in the share prices with the majority of stocks falling on the news. The biggest transaction announced was the merger of equals between **Oxiana (-18.9%)** and **Zinifex (-10.3%)**. **Perilya (-35.8%)** announced its much-anticipated merger with CBH (ASX: CBH).

Precious Metals

A mixed month for gold, trading through the US\$1,000/oz barrier (closed at US\$1,004.3/oz on 18 March). In line with the gold price **Newcrest (-12.3%)** hit intra-month highs of \$40.25 before significantly retreating to \$33.37 by month-end. **Lihir Gold (-17.5%)** announced an agreed merger with Equigold (ASX: EQI) during March.

TELECOMMUNICATION SERVICES - Overweight (Prefer Singapore Telecommunications and Telstra)

Telstra (-6.8%) declined as the stock traded ex-dividend and investors sold the instalment receipts leading into May when the payment of the final instalment is due. During the month, Telstra announced it had signed a \$9m deal with the Seven Media Group to show exclusive live Beijing Olympics content on its BigPond mobile service. **SingTel (+6.2%)** rose as the stock benefited from its defensive qualities and a slight rise in the value of its associate investments.

UTILITIES - Overweight (Prefer Origin Energy)

Origin Energy (+4.9%) continued to strengthen in a falling market, posting modest gains. **AGL Energy (+0.9%)** was little changed during March. It announced the sale of its GasValpo gas distribution business in Chile for \$90m. **SP AusNet (-2.8%)** and **Envestra (-7.0%)** were weaker despite the release of an improved final regulatory determination for their Victorian gas networks, while **APA Group (-6.4%)** and **Babcock & Brown Power (-23.7%)**, were sold off on persisting credit concerns whilst **Spark Infrastructure (-4.0%)** fared only slightly better.

EMERGING COMPANIES - Prefer (Austbrokers, Domino's Pizza and Imdex)

Small Ordinaries Leading Contributors in March 2008

Top & Bottom 5 Points Contributors over March - Small Ordinaries				
1.	ILU	13.9	MGX	-13.2
2.	AQP	8.1	AOE	-10.9
3.	PPX	7.7	QGC	-9.0
4.	MIS	6.0	BBP	-8.4
5.	RIV	6.0	FLT	-8.1

The Small Ordinaries Index decreased by 181 pts in the month of March

Source: IRESS

Following a successful rights issue, **Iluka (+45.2%)**, was the stand-out performer during March as it looks to have solved its funding issues for the highly-prospective Eucla Basin. **PaperlinX (+29.7%)** rose on the back of renewed buying following the intra-month currency pull-back. **Riversdale Mining (+17.9%)** and **Midwest Corporation (+26.8%)** were both bought on the strength of the iron ore price. **Aquarius Platinum (+4.5%)** rallied in line with the platinum price.

Mt Gibson Iron (-18.0%) gave up its gains from February, after it rose strongly on the back of the company applying to the Takeovers Panel (18 February) as a result of the Shougang Group acquiring approximately 19.73% of Mount Gibson's issued capital. **Queensland Gas Company (-15.0%)** and **Arrow Energy (-28.8%)** traded lower giving up the February gains delivered by the market seeking exposure to the coal seam methane gas plays. **Flight Centre (-20.3%)** was sold down as high PE stocks were derated by the market. **Babcock & Brown Power (-23.7%)** was again sold off this month on credit concerns as no further details were provided with regard to its required \$3.1 billion refinancing.

Portfolio Analysis

High Yielding Stock Analysis

For investors seeking an income stream that incorporates a high level of franking, we have compiled a list of high yielding stocks. This list consists of companies with large market capitalisation to reflect our preference (in volatile markets) for large cap over small cap stocks.

The purpose of this list is to provide stocks that generate a high yield and consistent income stream. As such, these securities would not be expected to outperform the market in terms of capital appreciation. The focus is primarily on yield:

Figure 1: Top 20 High Yielding Stocks

DATE OF UPDATE: 31 March 2008	Price 31-Mar	Price/ NTA	For		Nominal (1)	Est. %			Div. Cover	- AFTER TAX YIELD - (2)		
			Est. PER	period ended		Next	Next+1	Franked		Super Investor	46.5% Tax Payer	0% Tax
PACIFIC BRANDS	196¢		8.2	6/08	9.4%	9.0¢	9.5¢	100	1.3	11.5%	7.2%	13.5%
QANTAS	396¢	1.35	7.4	6/08	9.1%	18.0¢	18.0¢	100	1.5	11.0%	6.9%	13.0%
SUNCORP-METWAY	1270¢	2.34	9.9	6/08	8.7%	57.0¢	53.0¢	100	1.2	10.5%	6.6%	12.4%
INSURANCE AUST. GROUF	365¢	4.02	15.0	6/08	7.7%	14.5¢	13.5¢	100	0.9	9.3%	5.9%	11.0%
ST. GEORGE	2582¢	3.38	10.7	9/08	7.2%	89.0¢	96.0¢	100	1.3	8.7%	5.5%	10.2%
PERPETUAL	5362¢	5.99	14.8	6/08	6.9%	181.0¢	187.0¢	100	1.0	8.3%	5.2%	9.8%
TEN NETWORK	213¢		15.8	8/08	6.8%	4.0¢	10.5¢	100	0.9	8.3%	5.2%	9.7%
CHALLENGER	200¢	1.20	6.4	6/08	6.8%	7.5¢	6.0¢	100	2.3	8.2%	5.2%	9.6%
TABCORP	1423¢		14.7	6/08	6.7%	48.0¢	48.0¢	100	1.0	8.2%	5.2%	9.6%
COMMONWEALTH BANK	4271¢	3.66	11.8	6/08	6.6%	162.0¢	121.0¢	100	1.3	8.0%	5.1%	9.5%
NAT AUST BANK	2996¢	2.37	9.9	9/08	6.7%	97.6¢	102.6¢	95	1.5	8.0%	5.0%	9.4%
TELSTRA	438¢	9.56	15.1	6/08	6.4%	14.0¢	14.0¢	100	1.0	7.8%	4.9%	9.1%
MACQUARIE BANK	5278¢	2.14	8.1	3/08	6.1%	215.0¢	108.0¢	100	2.0	7.4%	4.7%	8.7%
WESTPAC	2390¢	3.45	11.5	9/08	6.1%	71.0¢	74.0¢	100	1.4	7.4%	4.6%	8.7%
SIGMA PHARMACEUTICAL	125¢	207.50	12.7	1/09	6.0%	3.3¢	4.3¢	100	1.3	7.3%	4.6%	8.6%
ANZ BANK	2318¢	2.60	11.2	9/08	6.0%	59.0¢	80.0¢	100	1.5	7.3%	4.6%	8.6%
WEST AUST. NEWS.	1105¢		17.5	6/08	6.0%	33.0¢	33.0¢	100	1.0	7.3%	4.6%	8.5%
JOHN FAIRFAX	350¢		13.0	6/08	6.4%	11.5¢	10.8¢	75	1.2	7.2%	4.5%	8.4%
CONSOLIDATED MEDIA	370¢	44.58	21.5	6/08	5.8%	6.6¢	15.0¢	100	0.8	7.1%	4.5%	8.3%
TATTERSALL'S	346¢	15.45	16.9	6/08	5.8%	10.5¢	9.5¢	100	1.0	7.0%	4.4%	8.2%

(1) Nominal yield is calculated as the next two dividends to be paid divided by the current share price.

(2) After tax yields are grossed up assuming a 30% tax rate for the next two dividends as applicable.

Source: GSJBW Research Estimates

Value Analysis

In volatile markets, generally there are more opportunities to buy quality companies trading at attractive prices. The table below lists companies that are currently trading at a discount to our Discounted Cash Flow valuation. The stocks are listed in order of their current discount to our DCF valuation (starting with those providing the largest discount). We highlight that these stocks should be considered in the context of each company's overall growth profile, rather than on the value measures alone. By way of example, QBE insurance group has a solid earnings outlook, while currently trading at attractive levels. Conversely, risks to Asciano's growth profile including its high gearing levels have seen the stock price fall back dramatically since November.

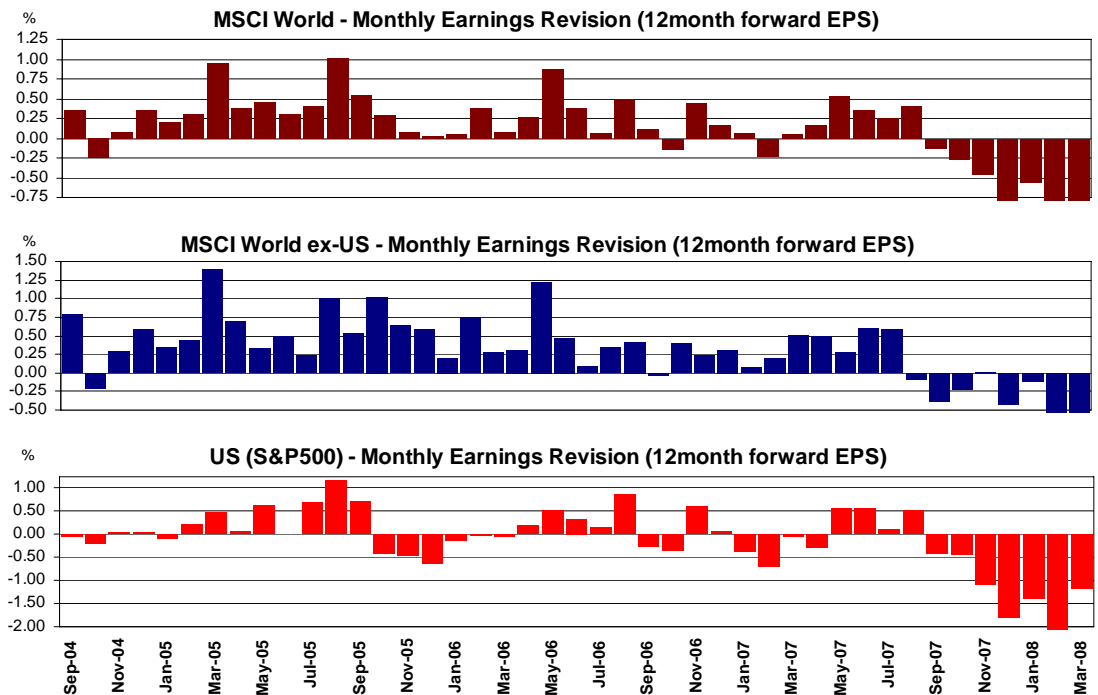
Figure 2: Top 20 Value Stocks

Stock	Name	Price as at 31-Mar-07	Price as at 1-Nov-07	% change since 01-Nov-07	GSJBW DCF	Prem./ Disc. to DCF	Rec.	PER (x)	
								FY08E	FY09E
MCG	Macquarie Communications Infrastructure Group	\$4.20	\$5.72	-26.6%	\$7.35	-42.9%	BUY	-4.2	120.0
AIO	Asciano Group	\$4.00	\$8.58	-53.4%	\$6.44	-37.9%	HOLD	33.6	21.4
MOG	Macquarie Group Limited	\$52.82	\$85.05	-37.9%	\$83.40	-36.7%	BUY	8.1	9.8
JHX	James Hardie Industries N.V.	\$6.25	\$6.59	-5.2%	\$9.78	-36.1%	HOLD	16.5	23.4
QBE	QBE Insurance Group Limited	\$22.21	\$32.72	-32.1%	\$33.50	-33.7%	BUY	9.6	9.3
BLY	Boart Longyear Limited	\$1.83	\$2.61	-29.9%	\$2.76	-33.7%	BUY	11.7	9.4
UGL	United Group Limited	\$12.07	\$21.86	-44.8%	\$17.69	-31.8%	BUY	14.1	11.5
QAN	Qantas Airways Limited	\$3.93	\$6.05	-35.0%	\$5.75	-31.7%	BUY	7.3	8.5
AWC	Alumina Limited	\$5.70	\$6.74	-15.4%	\$8.33	-31.6%	BUY	24.6	17.4
MCW	Macquarie Countrywide Trust	\$1.17	\$2.03	-42.4%	\$1.68	-30.4%	BUY	7.8	7.6
AXA	AXA Asia Pacific Holdings Limited	\$5.50	\$8.23	-33.2%	\$7.80	-29.5%	BUY	19.2	13.2
NWS	News Corporation	\$20.50	\$24.95	-17.8%	\$29.01	-29.3%	BUY	15.1	12.3
BBJ	Babcock & Brown Infrastructure Group	\$1.18	\$1.65	-28.6%	\$1.65	-28.8%	HOLD	-56.0	31.8
MAP	Macquarie Airports	\$3.23	\$4.34	-25.7%	\$4.53	-28.7%	HOLD	16.2	16.4
DJS	David Jones Limited	\$3.64	\$4.93	-26.2%	\$5.10	-28.6%	HOLD	13.1	12.3
GFF	Goodman Fielder Limited	\$1.80	\$2.10	-14.3%	\$2.52	-28.6%	HOLD	12.0	10.9
SUN	Suncorp-Metway Limited	\$12.87	\$20.00	-35.7%	\$17.80	-27.7%	HOLD	10.0	8.0
CEU	ConnectEast Group	\$1.31	\$1.77	-25.8%	\$1.80	-27.2%	BUY	-131.0	-29.8
CWN	Crown Limited	\$10.50	\$4.81	118.3%	\$14.15	-25.8%	HOLD	19.6	16.9
CTX	Caltex Limited	\$13.01	\$21.21	-38.7%	\$17.46	-25.5%	BUY	9.1	8.1

Source: IRESS, GSJBW Research Estimates

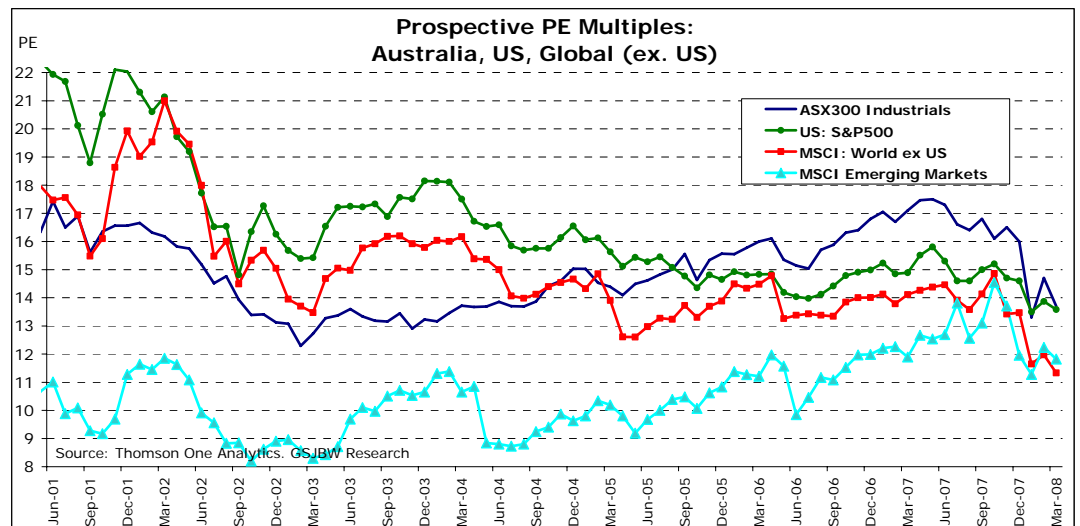
Market Analysis: Earnings Revisions, Prospective PER and Value Update

Earnings revisions continued to be negative over the month, as credit supply conditions remained tight across global markets. The US earnings revision measure came back slightly over March (as demonstrated in the chart below), while the MSCI World earnings revisions mirrored the previous month.



Source: Thomson One Analytics, GSJBW Research

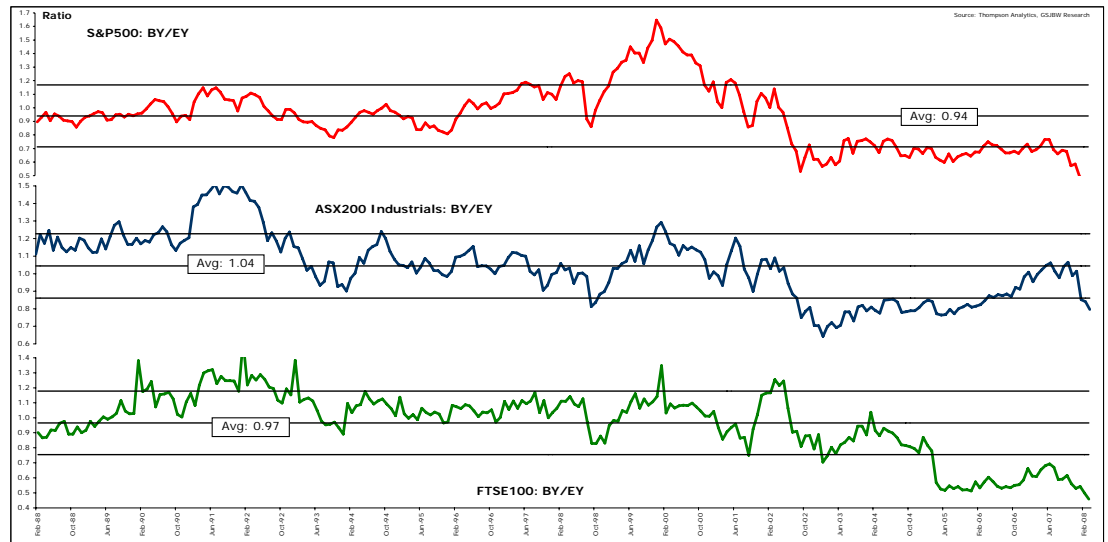
Having not yet seen the end of negative news-flow post the US sub-prime fallout, markets continued to display volatility over the March period, with P/E ratios contracting further over this time. Emerging market P/E ratios also contracted over the month. We anticipate that the market continues to 'price in' an expectation of negative news flow.



Source: Thomson One Analytics, GSJBW Research

The Bond Yield to Earnings Yield charts below show that equity markets in major financial centres continue to be undervalued in comparison to bonds. This pattern has continued through the month in light of the negative sentiment surrounding global markets and the likelihood that the US economy has fallen into recession.

Whilst we recognise (as mentioned previously in the value stock list) that during volatile periods several stocks may look attractively priced, we emphasise the each stock must be considered in the context of its earnings potential and overall growth profile than purely on value metrics.



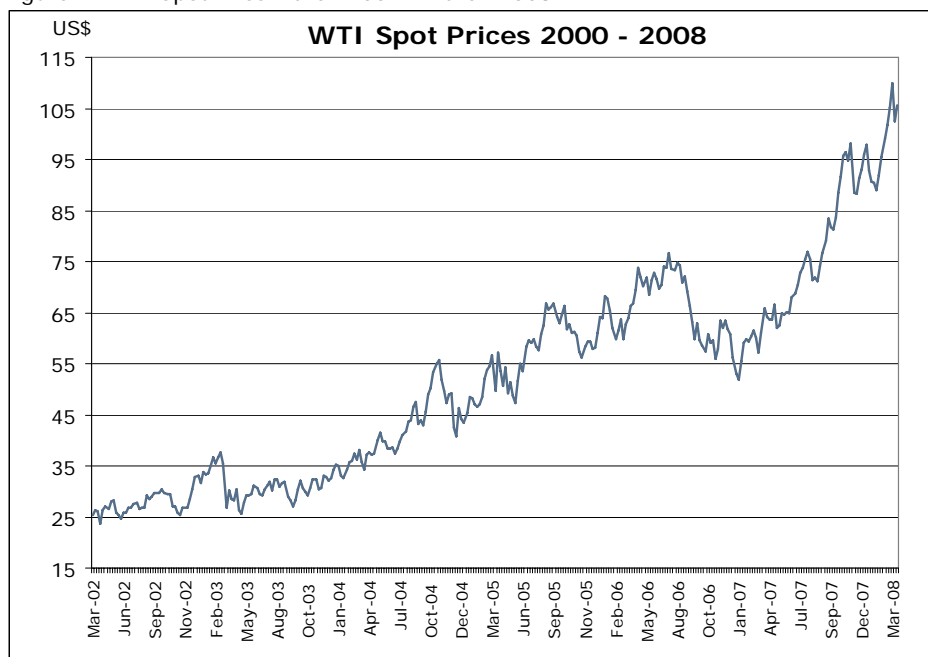
Source: Thomson One Analytics, GSJBW Research

Portfolio Analysis: Oil Update

A new supply/demand paradigm has driven oil prices to new highs...

For the first time in history, crude oil futures to 2016 have risen to over US\$100 a barrel, indicating that the market expects higher prices are here to stay. From mid February this year, the oil price has traced around the US\$100 a barrel mark, though the near term price is partly a reflection of weakness in the US\$. Looking back to the beginning of 2002, oil prices have increased five fold in US\$ terms (see figure 1 below). Such an appreciation since the start of the decade may lead to the conclusion that this finite resource is becoming scarcer, and indeed this argument has some validity.

Figure 1: WTI Spot Price March 2002 - March 2008



Source: IRESS

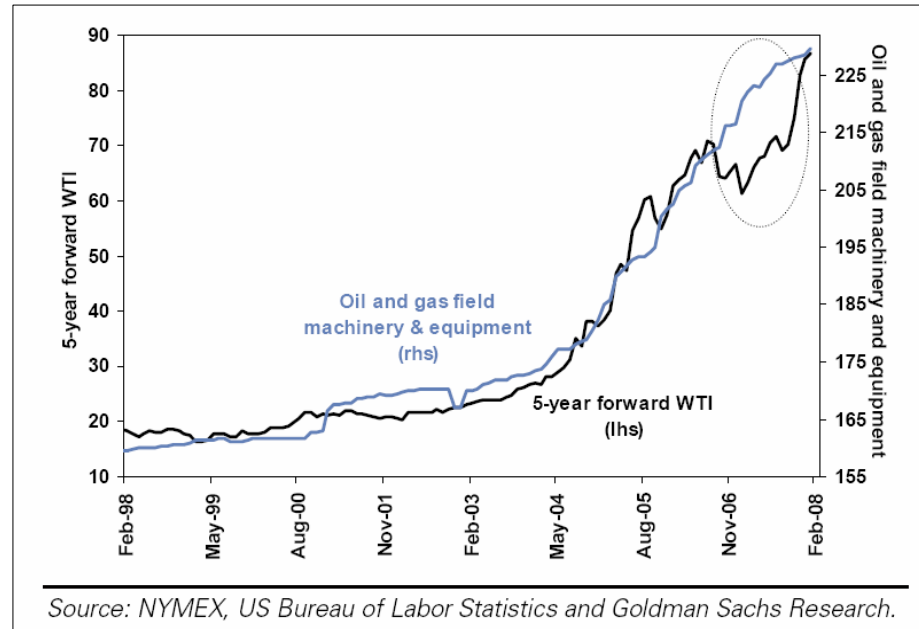
We do not take a view that there is less oil available, but rather that the pace of oil production has not kept up with the amount of oil demanded on a global scale. Demand from emerging economies, in particular China, India and the Middle East, has notably increased since the year 2000. In addition to 'new' demand from emerging markets, demand from the rest of the world continues. With production unable to keep pace with this new level of oil uptake, one can start to appreciate why oil prices have surged.

Why has production not increased to meet a recalibration of global demand fundamentals? There are several reasons. One is that while the Organisation of Petroleum Exporting Countries (OPEC) says it is keeping pace with demand, Goldman Sachs argue that its members do not have the incentive to meet global demand pressures ahead of responsibilities to their own countries. In addition, geopolitical tensions in the Middle East, West Africa, and South America continue to simmer, adding another layer of complexity to OPEC production.

Meanwhile, non-OPEC oil producers have largely failed to increase their supply, with Goldman Sachs predicting a flattening of already narrow oil production from suppliers such as Russia. Non-OPEC growth has been driven predominantly by Russian production, however with many legacy fields maturing, and with a lack of funding to encourage further exploration and/or maintenance/upgrading of existing facilities; a flattening of Russian supply could begin as early as the second half of this year. Ultimately this would result in an overall slowing in supply from non-OPEC producers.

Finally, oil extraction is a costly exercise, and while undisputed reserves exist, they are increasingly expensive to exploit given their accessibility may require more advanced technologies to those that have already been developed. Figure 2 below highlights the correlation between machinery and equipment (an indicative measure of extraction costs) and the run up in oil prices.

Figure 2: Oil Prices as related to a run up in extraction costs



All these factors provide some insight into the scenario of escalating oil prices and insatiable demand. Goldman Sachs note that the demand growth of today has been relatively price-inelastic, in contrast to the 1990's, when spare capacity was relatively abundant, and the market believed supply growth was easy to achieve and that demand was price sensitive.

Are higher prices here to stay?

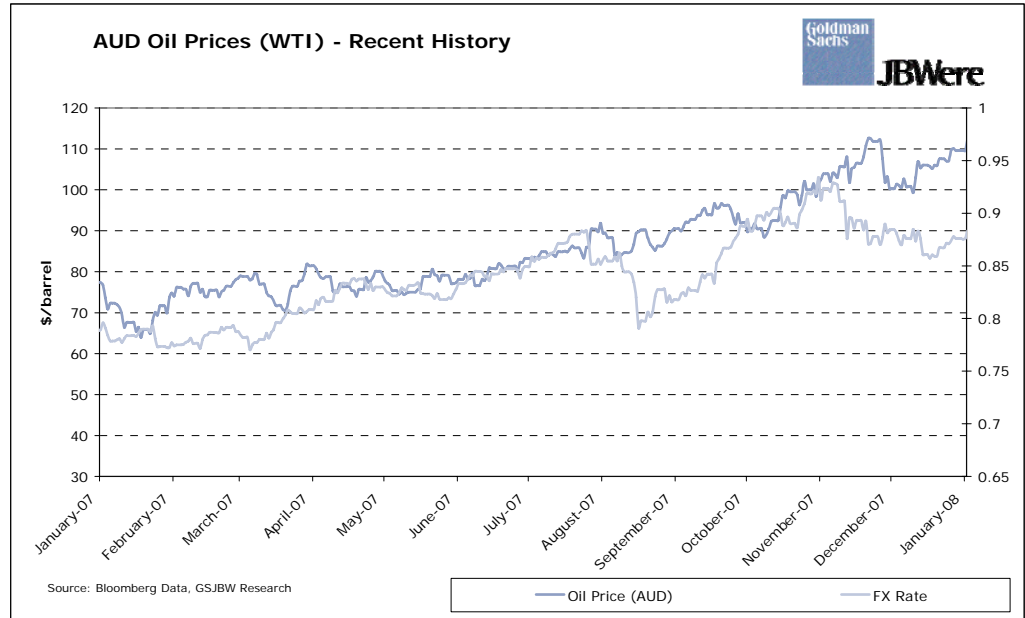
Our current WTI oil price forecast, which is used in our company valuation and earnings forecasts, is US\$92.80/barrel for calendar year 2008 and US\$82.50/barrel for calendar year 2009. While we maintain an awareness of where spot oil prices are today, we retain a "moderation scenario" for our medium-term oil price outlook, with a gradual reversion to our long-term price assumption of ~US\$62.00/barrel over the next 5 years. We believe the recent lift in oil prices in excess of US\$100/bbl is being driven in part due to an increase in speculative positions in the market. Were this position to unwind, oil prices could retreat materially in the short term. Over the longer term, higher oil prices would represent upside earnings for many of the oil stocks we currently research (specific stocks are mentioned later in the article).

It is worth noting that the US based Goldman Sachs commodities team have taken a more aggressive approach in their oil price forecasts. Their "super-spike" scenario highlights the oil price spiking at some level, which is then followed by a rapid decline in global demand for oil that lasts several years. The premise is not so much that a particular price level will stimulate a sustained decline in demand, but rather points to a future disruption to the oil supply from a major exporting country leading to a destruction of global demand. While we do not dispute such a scenario is plausible, it would inevitably lead to a suite of other flow on effects to the broader global economy. For the purposes of our company earnings forecasts, we have adopted our "moderation scenario" forecasts, while recognising the super-spike thematic as an alternative framework.

How do the trends in the oil price bode for energy stocks?

We believe much of the oil price appreciation is built into existing share prices. As a result, any further upside is dependent on company specific news flow such as exploration success as well as further upgrades to the forecasts we have factored into our profit models. We would also highlight the impact a rising A\$ has had on the significant rise in US\$ oil prices over the 2007 calendar period. Essentially the strength of the A\$ is eroding a large portion of the increase in US\$ denominated revenues back to A\$.

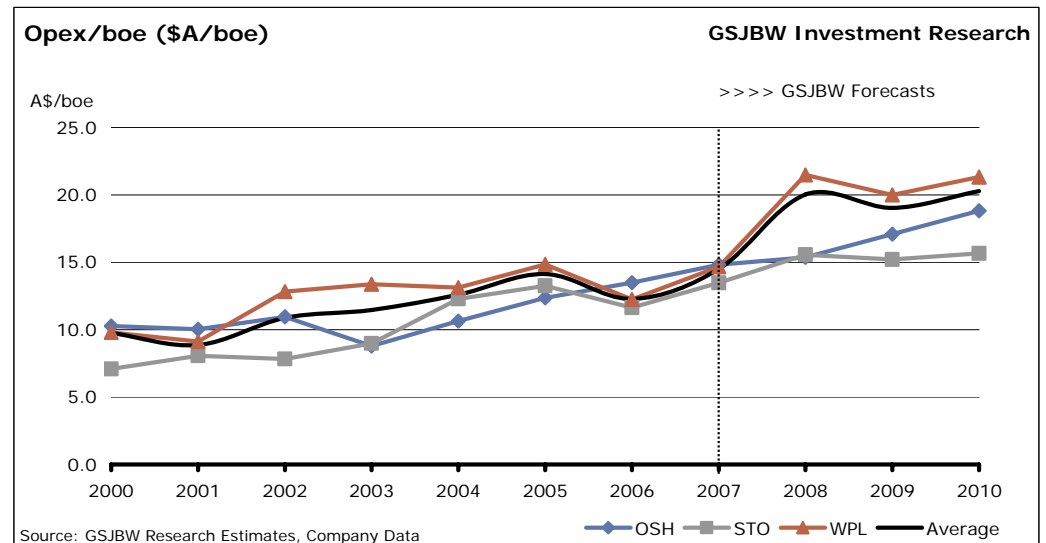
Figure 3: USD and AUD Oil Prices (WTI) – Recent History



Higher prices a reality, but so are higher costs.....

Increasing production and exploration costs continue to impact the profitability of the oil stocks we research. Opex, a per barrel measure which captures a broad basket of costs including production costs, royalties, FX gains/losses, share based payments and corporate overheads, continues to rise materially (see figure 4).

Figure 4: Cost Chart Measured by 'Opex' for the Main Oil Stocks



While the oil price has risen significantly, we see much of the potential growth for the large cap oil stocks already factored into their respective share prices. This, combined with execution and cost risks that are set to persist over the foreseeable future, may limit the near term performance of stocks in the energy sector. However for those investors taking a longer term view of the market, we recommend companies with solid production profiles that are strategically positioned to take advantage of rising energy prices.

Of our preferred stocks, we have recently upgraded our recommendation on Caltex (CTX) to a BUY following a review of our refining margin assumptions. Despite the risks of deterioration to the global economy, we believe refining margins are likely to stay robust. We also consider the A\$ to be nearing an inflection point, with a retreat from current highs likely over a twelve month period. The coming months represent a seasonally strong period for refining margins with the US driving season approaching. Finally, the stock looks attractive post the recent market pull-back and is currently trading at ~25% discount to our current valuation for Caltex. Identified risks include US recessionary pressures spilling over to the global economy and ultimately leading to lower refining margins, continued strength in the A\$ and the domestic industry structure in terms of ongoing competition in the refining sector.

We would also highlight the underlying quality of other companies in the energy sector, in particular the clear growth profile and long life assets of Woodside Petroleum (WPL). Woodside is well leveraged to the oil price, and thus would be well positioned to take advantage of continued strength in oil prices. We also see potential in Oil Search (OSH), however we note that it is becoming increasingly reliant upon a single asset play, namely the PNG LNG project. Whilst we believe PNG LNG is likely to proceed, and that the benefit to earnings is already largely factored into the share price, further upside is possible from an ongoing escalation in the oil price. Of the smaller cap stocks, we retain a preference for AWE, though we remain concerned with the anticipated sharp decline in production from FY09, driven by the expected natural decline of Tui production, and would like to see an identifiable source of material production growth over the longer term. At this point in time, we prefer exposure to the sector via Caltex, but recognise the longer term potential of Woodside given its suite of quality projects.

Stock Summary

Stock	Recommendation	Dividend Yield		EPS Growth		PE Ratio	
		(FY08E)	(FY09E)	(FY08E)	(FY09E)	(FY08E)	(FY09E)
CTX	BUY	5.5%	6.5%	-16.4%	18.9%	9.0x	8.1x
OSH	BUY	2.1%	2.5%	38.0%	7.3%	23.3x	21.75x
WPL	HOLD	2.9%	2.5%	49.3%	-14.4%	21.2x	24.8x
AWE	HOLD	-	-	794.1%	-30.9%	5.6x	8.1x
ROC	HOLD	-	-	0.0%	13.5%	13.9x	12.3x
STO	SELL	2.6%	2.4%	12.2%	-6.7%	18.7x	20.1x

Source: GSJBW Research Estimates

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

Westpac Banking Corporation	Woolworths
National Australia Bank	Metcash
Macquarie Communications Infrastructure Group	Qantas
BHP Billiton	QBE
Wesfarmers	Spark Infrastructure
ANZ Bank	Ramsay Healthcare
Coca-Cola Amatil	Fairfax Media
Tattersalls	Telstra
Suncorp-Metway	Crane Group
Australian Infrastructure Fund	Hills Industries
Foster's Group	Boral

No changes during March

Income Portfolio Summary: Fiscal 2008 (*Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	4.4%
Price to Earnings Ratio	13.3x
Average Yield	5.3%
Franking	96%

Source: GSJBW Research estimates

Balanced Portfolio – (Inception Date: October 2002)

BHP Billiton	Suncorp-Metway
Macquarie Communications Infrastructure Group	Toll Holdings
National Australia Bank	Telstra
Woolworths	Lion Nathan
Westpac Banking	Woodside Petroleum
Rio Tinto	ANZ Bank
Brambles	Origin Energy
Ramsay Healthcare	AXA Asia-Pacific Holdings
Wesfarmers	Fairfax
News Corporation, Inc.	United Group
QBE Insurance Group	Singapore Telecom
Crown Limited	

No Changes during March

Balanced Portfolio Summary: Fiscal 2008 (Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	5.1%
Price to Earnings Ratio	14.5x
Average Yield	4.0%
Franking	84%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

BHP Billiton	AXA Asia-Pacific Holdings
ANZ Bank	Lion Nathan
Brambles	Healthscope
Woolworths	QBE Insurance Group
Rio Tinto	Suncorp-Metway
Westpac Banking	Newcrest Mining
News Corporation, Inc.	Origin Energy
Ramsay Healthcare	Singapore Telecom
Resmed	Sonic Healthcare
Woodside Petroleum	United Group
Crown Limited	

No changes during March**Growth Portfolio Summary: Fiscal 2008**

Earnings per Share Growth	5.0%
Price to Earnings Ratio	15.4x
Average Yield	3.4%
Franking	81%

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*

STOCK RECOMMENDATION SUMMARY				
		Price (\$A)	12 Month Price Target (A\$)	Recommendation
Code	Name	31-Mar-08		
AEO	Austereo Group Limited	\$1.70	\$2.30	HOLD
AGK	AGL Energy Limited	\$11.04	\$12.33	HOLD
AIO	Asciano Group	\$4.00	\$5.11	HOLD
AIX	Australian Infrastructure Fund	\$2.72	\$3.09	BUY
ANN	Ansell Limited	\$11.63	\$12.51	HOLD
AMP	AMP Limited	\$7.85	\$8.65	HOLD
ANZ	Australia and New Zealand Banking Group Limited	\$22.55	\$25.72	HOLD
AUN	Austar United Communications Limited	\$1.33	\$2.05	BUY
AWC	Alumina Limited	\$5.70	\$7.80	BUY
AWE	Australian Worldwide Exploration Limited	\$3.53	\$3.90	HOLD
AXA	AXA Asia Pacific Holdings Limited	\$5.50	\$7.40	BUY
BBG	Billabong International Limited	\$13.00	\$14.98	HOLD
BBI	Babcock & Brown Infrastructure Group	\$1.18	\$1.29	HOLD
BBP	Babcock & Brown Power	\$1.58	\$2.44	HOLD
BHP	BHP Billiton Limited	\$35.81	-	NR
BJT	Babcock & Brown Japan Property Trust	\$1.08	\$1.76	HOLD
BKN	Bradken Limited	\$6.71	\$9.29	BUY
BLD	Boral Limited	\$6.26	\$7.36	HOLD
BLY	Boart Longyear Limited	\$1.83	\$2.55	BUY
BSL	Bluescope Steel Limited	\$9.87	\$8.00	SELL
BXB	Brambles Limited	\$9.98	\$11.98	HOLD
CBA	Commonwealth Bank of Australia	\$41.81	\$42.85	SELL
CCL	Coca-Cola Amatil Limited	\$8.50	\$10.30	BUY
CEU	ConnectEast Group	\$1.31	\$1.70	BUY
CGF	Challenger Financial Services Group Limited	\$1.82	\$3.40	HOLD
CMJ	Consolidated Media Holdings Limited	\$3.73	\$4.72	HOLD
CNP	Centro Properties Group	\$0.30	\$0.61	HOLD
COH	Cochlear Limited	\$54.70	\$67.16	HOLD
CRG	Crane Group Limited	\$15.30	\$19.00	BUY
CSL	CSL Limited	\$36.91	\$36.83	HOLD
CTX	Caltex Australia Limited	\$13.01	\$17.50	BUY
CWN	Crown Limited	\$10.50	\$13.90	HOLD
DJS	David Jones Limited	\$3.64	\$4.29	HOLD
DXL	Dyno Nobel Limited	\$2.56	\$2.20	HOLD
ENV	Envestra Limited	\$0.73	\$0.75	SELL
FGL	Foster's Group Limited	\$5.12	\$6.38	HOLD
FXJ	Fairfax Media Limited	\$3.47	\$4.90	HOLD
GFF	Goodman Fielder Limited	\$1.80	\$2.04	HOLD
GMG	Goodman Group	\$4.31	\$5.92	BUY
GPT	GPT Group	\$3.25	\$4.98	BUY
HIL	Hills Industries Limited	\$4.69	\$5.50	HOLD
HSP	Healthscope Limited	\$5.20	\$6.32	BUY
HVN	Harvey Norman Holdings Limited	\$3.91	\$5.04	HOLD
IAG	Insurance Australia Group Limited	\$3.66	\$4.05	HOLD
IFL	IOOF Holdings Limited	\$5.94	\$5.40	HOLD
IPL	Incitec Pivot Limited	\$141.15	\$153.70	HOLD
JBH	JB Hi-Fi Limited	\$9.00	\$12.80	BUY
JHX	James Hardie Industries N.V.	\$6.25	\$6.73	HOLD
JST	Just Group Limited	\$3.96	\$4.70	HOLD
LEI	Leighton Holdings Limited	\$42.80	\$42.80	SELL
LGL	Lihir Gold Limited	\$3.59	\$4.50	BUY
LNN	Lion Nathan Limited	\$8.75	\$10.74	BUY
MAP	Macquarie Airports	\$3.23	\$3.60	HOLD
MCG	Macquarie Communications Infrastructure Group	\$4.20	\$6.00	BUY
MCW	Macquarie Countrywide Trust	\$1.17	\$1.73	BUY
MGR	Mirvac Group	\$4.02	\$4.71	HOLD
MIG	Macquarie Infrastructure Group	\$2.78	\$2.86	HOLD
MOF	Macquarie Office Trust	\$0.91	\$1.31	HOLD
MQG	Macquarie Group Limited	\$52.82	\$65.68	BUY
MTS	Metcash Limited	\$4.08	\$4.97	BUY
NAB	National Australia Bank Limited	\$30.15	\$35.85	BUY
NCM	Newcrest Mining Limited	\$33.37	\$39.00	BUY
NUF	Nufarm Limited	\$17.13	\$15.55	HOLD
NWS	News Corporation	\$20.50	\$31.25	BUY
ORG	Origin Energy Limited	\$9.16	\$9.50	HOLD
ORI	Orica Limited	\$29.13	\$32.84	BUY
OSH	Oil Search Limited	\$4.83	\$4.90	HOLD
OST	OneSteel Limited	\$6.39	\$7.67	HOLD
PBG	Pacific Brands Limited	\$2.02	\$2.86	HOLD
PPT	Perpetual Limited	\$53.85	\$53.00	HOLD
QAN	Qantas Airways Limited	\$3.93	\$5.75	BUY
QBE	QBE Insurance Group Limited	\$22.21	\$32.00	BUY
QBE	QBE Insurance Group Limited	\$22.21	\$32.00	BUY
RHC	Ramsay Health Care Limited	\$10.75	\$11.90	HOLD
RIO	RIO Tinto Limited	\$122.50	-	NR
RMD	ResMed Inc.	\$4.52	\$6.12	BUY
ROC	ROC Oil Company Limited	\$2.32	\$2.95	HOLD
SEV	Seven Network Limited	\$9.50	\$11.80	SELL
SGB	St George Bank Limited	\$25.71	\$29.23	HOLD
SGM	Sims Group Limited	\$29.70	\$29.93	HOLD
SGT	Singapore Telecommunications Limited	\$3.10	\$3.39	BUY
SHL	Sonic Healthcare Limited	\$13.75	\$16.19	HOLD
SIP	Sigma Pharmaceuticals Limited	\$1.25	\$1.41	SELL
SKI	Spark Infrastructure Group	\$1.68	\$2.06	BUY
STO	Santos Limited	\$14.50	\$12.50	SELL
SUN	Suncorp-Metway Limited	\$12.87	\$16.50	HOLD
SYB	Symbion Health Limited	\$4.07	\$16.50	HOLD
TAH	TABCORP Holdings Limited	\$14.15	\$16.50	HOLD
TCL	Transurban Group	\$6.50	\$6.44	HOLD
TEN	Ten Network Holdings Limited	\$2.15	\$2.80	SELL
TLS	Telstra Corporation Limited	\$4.40	\$5.27	BUY
TOL	Toll Holdings Limited	\$10.02	-	NR
TSE	Transfield Services Limited	\$10.99	\$13.83	HOLD
TSO	Tishman Speyer Office Fund	\$1.38	\$2.57	BUY
TTS	Tatts Group Limited	\$3.48	\$4.55	BUY
UGL	United Group Limited	\$12.07	\$19.21	BUY
WAN	West Australian Newspapers Holdings Limited	\$10.98	\$12.20	HOLD
WBC	Westpac Banking Corporation	\$23.75	\$28.82	BUY
WES	Wesfarmers Limited	\$39.99	\$47.65	BUY
WOW	Woolworths Limited	\$29.00	\$32.01	HOLD
WPL	Woodside Petroleum Limited	\$54.50	\$58.50	HOLD

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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

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CS	Coverage Suspended. GSJBW has suspended coverage of this company.
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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.

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

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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.

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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.

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