

Private Wealth Management

Portfolio Strategy Review - November 2008

Equity Strategy | Australia

Key Points:

- Equity markets showed continued volatility in November as investors fled from stocks on concerns of a widespread global economic slowdown. The Australian equity market (S&P/ASX200) made new year-to-date lows (levels last seen in mid 2004) before rallying to end the month down 6.9% and 45.2% off its highs in November 2007. Globally, Governments announced significant fiscal stimulus packages, while central banks continued to aggressively reduce interest rates in an attempt to mitigate the risks of a debt deflation cycle taking hold.
- Investors continued to switch out of equities into bonds, while within portfolios the focus was on increasing defensive positions. Commodity prices remained under pressure. BHP announced that it no longer believes the completion of the offers for Rio Tinto would be in the best interests of BHP shareholders. Companies continued to tap the market for equity raisings in order to repair balance sheets and fund acquisitions forcing investors to remain very focused on balance sheet/refinancing risk. **Telecom, REIT and Utility sectors outperformed** while the Tech, Bank and Industrial sectors lagged.
- The RBA surprised the market again by cutting interest rates 75bp in early November (consensus -50bp). Domestic interest rate expectations continued to move lower during the month, with the market pricing in further rate reductions for the remainder of this year and the first half of next. Macro data deteriorated with house prices declining during the Sept quarter while employment growth remained steady. The AUD started to find some support, finishing the month at 65.6¢ (-1.2¢ in the month), off its intra-month low of 61.0¢.
- The key issues facing investors remain the trade-off between increasing earnings risk from the slowing macro environment (domestic and offshore), the weakness in commodity prices and the broader implications from the global financial crisis; versus increasingly attractive valuations for equities. While identifying market bottoms remains difficult, we believe valuations are attractive and sentiment sufficiently negative to warrant an increasing allocation into domestic cyclicals, including financials and materials. A subdued recovery or prolonged slowdown remain the key risks. We continue to monitor opportunities in the Resources ahead of an expected improvement in news flow from China in 2009.

Private Wealth Management Investment Strategy

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Performance Table – November 2008

	<u>Accumulation Index Performance Since</u>		
	<u>31/10/2008</u>	<u>31/05/2008</u>	<u>30/11/2007</u>
S&P/ASX 200	-6.2%	-32.1%	-40.0%
S&P/ASX 200 Industrials	-11.2%	-29.4%	-42.5%
S&P/ASX 200 Resources	-6.9%	-45.8%	-42.0%
S&P/ASX Small Ordinaries	-9.6%	-50.6%	-56.1%

	<u>Relative Index Performance to S&P/ASX 200</u>		
	<u>1 Month</u>	<u>6 Months</u>	<u>12 Months</u>
Consumer Discretionary	-8.4%	-8.7%	-17.6%
Consumer Staples	0.4%	13.7%	12.2%
Energy	1.9%	-3.7%	22.7%
Financials	-1.8%	5.0%	-4.0%
Healthcare/Biotech	2.7%	24.4%	33.3%
Industrials	-5.2%	-3.9%	-11.9%
Information Technology	-14.2%	1.3%	4.1%
Materials	3.3%	-13.2%	-3.8%
REITS	6.5%	-1.9%	-12.1%
Telecommunication Services	5.2%	18.1%	27.9%
Utilities	5.5%	9.0%	10.6%

Source: IRESS, GSJBW Research estimates

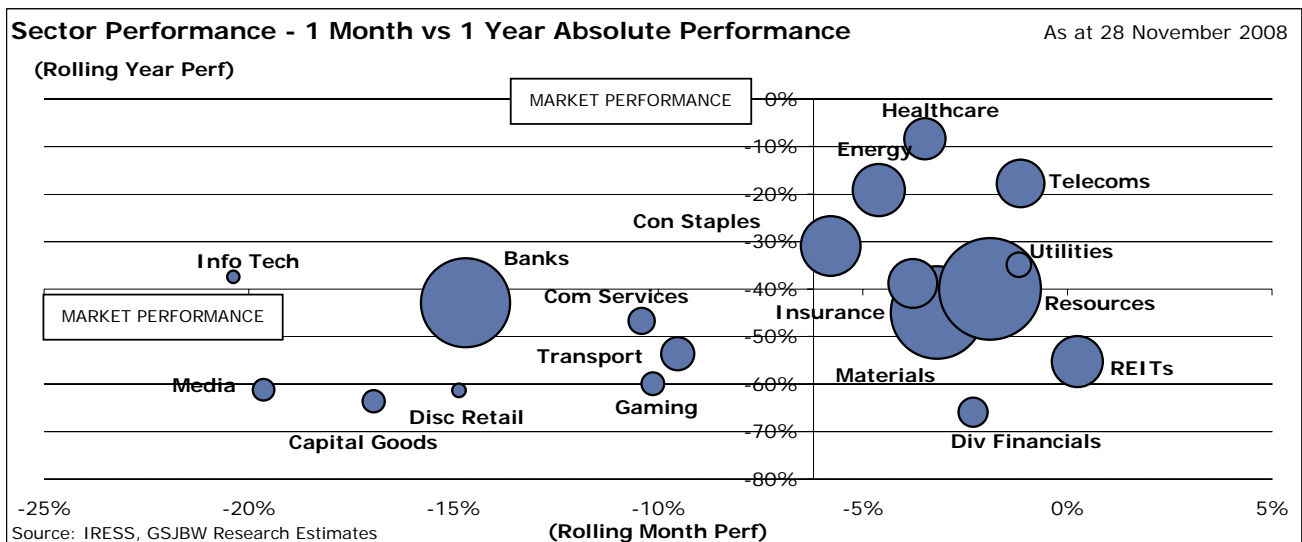
ASX 200 Leading Contributors in November 2008

<u>Top & Bottom 10 Pts Contributors over November - ASX 200</u>				
1.	BHP	49.0	RIO	-42.7
2.	NCM	8.3	CBA	-40.7
3.	STO	4.7	NAB	-32.5
4.	GPT	4.2	ANZ	-24.7
5.	SGP	3.3	WBC	-16.4
6.	MGR	2.9	SGB	-15.5
7.	AGK	2.9	WPL	-13.1
8.	LGL	2.7	WDC	-12.2
9.	OSH	1.9	WES	-11.3
10.	CCL	1.4	IPL	-8.1

The ASX 200 Index decreased by 276 pts in the month of November

Source: IRESS

Sector Performance – November 2008



CONSUMER DISCRETIONARY

Media

News Corporation (-20.7%) shares ended the month lower following the 1Q09 result in which the company delivered an unexpected 30% decline in NPAT. Comments from its recent conference call suggest visibility in the ad market is very low. **Fairfax Media** (-29.7%) shares ended the month lower, while **West Australian Newspapers** (-17.6%) experienced further share price falls after it reported a 6% decline in 1Q09 NPAT. **Seek** (-11.5%) continued to fall on concerns over a slowdown in online classified ad spend, while cable operator **Austar** (-15.6%) fell throughout the month on market concerns that the company shift in FY09 strategy from customer acquisition to customer retention signalled a tougher year ahead.

Retail

Billabong (-11.1%) ended the month lower on concerns regarding the consumer spending environment in key markets. **Harvey Norman** (-16.7%) also ended the month down after it advised that 1Q09 profit before tax was 32% lower than the pcp, a significant deterioration from previously advised profit before tax for the first 2 months of FY09 of 18%. **David Jones** (-18.6%) declined over the month. DJS now expects like-for-like sales to decline 7.5% over the remaining 3 quarters of FY09 but reiterated FY09 NPAT guidance for between 5% and 10% growth.

Gaming

Tabcorp (+2.3%) shares rose as it announced: (1) its Chief Executive of Casinos, Walter Bugno, had resigned from the company; and (2) late in the month it had appointed Atlantic City casino executive Larry Mullin to replace Mr Bugno. **Tatts Group** (+0.8%) ended the month broadly flat. **Crown** (-30.7%) shares declined following: (1) continued weak sentiment towards casino operators globally; (2) weak MPEL 3Q08 result which was impacted by a lower VIP win rate and reduced VIP volume; and (3) continued market concerns over City of Dreams and MPEL's balance sheet position. **Aristocrat** (+3.9%) rose late in the month. During the month Aristocrat held its North American Investor Tour and presented its new products at the Global Gaming Expo (G2E) in Las Vegas, however competition in the sector remains intense.

CONSUMER STAPLES

Woolworths (-3.6%) finished the month lower. At the AGM WOW reiterated FY09 guidance, while it expects fiscal stimulus, interest rate cuts and declining petrol prices to underpin Christmas trading. **Metcash** (-1.5%) ended the month lower and **Goodman Fielder** (-18.7%) also finished the month lower. **Wesfarmers** (-13.4%) traded lower during the month despite generally positive AGM commentary, with the company advising that: (1) It had refinanced \$800m of near-term debt in the past 2 weeks and remains confident about refinancing debt due in later years; (2) Sales momentum for all of key retail businesses remains strong in October with the exception of the Kmart business.

The big news for the month was **Lion Nathan's** (-1.3%) takeover proposal to **Coca-Cola Amatil** (+7.5%). LNN's proposal was for \$6.15 cash and 0.469 LNN shares per CCL share. CCL rejected the proposal as being inadequate. CCL's share price has fallen since its rejection of the proposal, though is still above its pre-proposal levels. **Foster's Group** (-4.2%) shares rose early in the month after Molson Coors of Canada disclosed that it was the mystery company behind Deutsche Bank's 5% stake in FGL.

ENERGY

Oil prices continued to slide in November, reaching a low of under US\$50/bbl driven by the ongoing financial crisis and a loosening of fundamentals, driven by ongoing weakness in demand.

Woodside Petroleum (-13.9%) held its annual investor briefing during the month. Significant expenditure continues to be made on the construction of the Pluto project (now over one-third complete), with Woodside outlining its requirement to raise US\$1-1.5bn in new debt prior to 30 June 2009. **Santos** (+11.9%) rose late in the month after having traded broadly in line with the oil price, while the lifting of the shareholder restriction occurred at the end of the month.

Caltex (-21.2%) continued to decline as it provided full year CY08 profit guidance of \$115-145m (RCOP), which was below market expectations. **AWE** (-0.8%) ended broadly flat despite announcing a reduction in BassGas production rates.

FINANCIALS ex PROPERTY TRUSTS

Banks

National Australia Bank (-12.6%) ended the month lower after completing a \$3bn equity raising to strengthen its balance sheet and take advantage of organic growth opportunities. **ANZ Banking Group** (-10.5%) and **Westpac Bank** (-8.2%), following their results and the announcement of their DRP underwrites, were impacted over the month by the pricing window associated with the program. These programs are expected to flow into the first few days of December. **Commonwealth Bank** (-15.4%) provided a 1Q trading update, noting it expects provision expense to average gross loans to increase by 40-50bp. CBA also noted during the update that it had completed ~40% of its term funding (including BankWest) requirement and continues to hold ~\$66bn of liquids. The bad debt expense was largely in line with our expectations.

Macquarie Group (+5.9%) fell early in the month but bounced after delivering its 1H09 result, with cash earnings slightly ahead of our expectations at \$604m. The merger between **SGB** (-16.8%) and **WBC** was successfully completed through the month with the share scheme meeting voting in favour of the transaction.

Insurance

November was a very busy month for the insurers. Among the life stocks, **AMP** (-0.7%) announced a \$400m capital raising (which was subsequently scaled up to \$450m) and an additional \$100m retail share plan. **AXA** (+2.3%) held its annual strategy day and confirmed that its capital position was actually a lot better than the market had been expecting. This was achieved by a combination of initiatives including hedging, reinsurance and additional debt from its parent.

QBE (-6.9%) announced a \$2bn capital raising and an additional \$100m retail share plan. The funds were raised partly to fund \$1.1bn of new offshore acquisitions (mostly in the US) which we estimated to be 5% accretive in Year-One. In local news, **Suncorp** (-2.0%) and **IAG** (-3.7%) were both hit by a series of storms in Brisbane; the final losses are yet to be determined.

REAL ESTATE INVESTMENT TRUSTS

The A-REIT 200 Index continued its volatile ride in November to finish flat for the month (+0.2%). Notably there has been no improvement in the credit markets and as such the market continues to price in dilutive capital raisings. **Mirvac Group** (+42.7%) was the last to raise equity, raising \$500m to strengthen its balance, while **Westfield** (-8.7%) announced it will underwrite 50% of its distribution for the next 12 months. Companies that saw favourable share price movements in November were a mixed bag and included Mirvac Group, **ING Industrial Fund** (+29.9%) and **GPT Group** (+26.2%). Negative price movements were seen in **Macquarie DDR Trust** (-14.0%), **Valad Property Group** (-34.5%) and **Tishman Speyer Office Fund** (-28.1%).

In addition to raising \$500m via a fully underwritten equity raising at \$0.90 per security, MGR also provided revised FY09 EPS/DPS guidance of 13.4cps. Also during the month, GPT (1) reiterated distribution guidance for CY08 (17.7cpu) and CY09 (7.2cpu); and (2) commented that the disposal of the Hotel/Tourism portfolio and Homemaker portfolios are expected to continue into CY09. **Goodman Group** (+2.7%), J-REP and Macquarie Group announced the establishment of two wholesale funds to invest in Japanese real estate. The funds have an initial investment of 15 assets valued at A\$1,154m (~Yen 66.7bn), and debt capacity of A\$779m (Yen 45bn) is in place. **Stockland** (+11.6%) acquired a 12.7% stake in GPT at \$1.07 per security. In total, SGP has acquired an interest in 507.3m GPT shares. **Galileo Japan Trust** (-64.7%) announced new capital management initiatives including: (1) not paying a distribution for 1H09; (2) reducing the 2H09 DPU to 1.5 cents; and (3) asset sales of at least Yen2.5bn (~A\$40m) in CY09.

HEALTHCARE

There were no great surprises to emerge from AGM commentaries across the sector during the month. Confirmation of previously issued guidance highlighted the defensive nature of earnings and positive currency moves continued to see the sector well supported.

Balance sheets were also a focus with **Sonic Healthcare** (-2.3%) completing an institutional placement raising \$425m at \$11.60 a share. **Ansell** (+1.3%) confirmed its guidance for FY09 EPS of US\$0.70-0.74 while acknowledging that it is closely watching the global economic environment. Similarly **Ramsay Health Care** (-10.9%) reiterated its guidance at its AGM, citing it is on track to meet its FY09 guidance for core EPS growth of 10%-12% and that Ramsay UK is also on track to be EPS-accretive in FY09. Both RHC and **Healthscope** (-2.8%) were sold off towards the end of the month on concerns that the slowing economy may negatively impact private health insurance membership.

CSL (-4.7%) came under pressure late in the month. IVIG pricing continued to tick up, while a Goldman Sachs survey highlighted Merck was still facing challenges achieving take-up of the Gardasil vaccine in females 19-26. It was a quiet month for both **SIP** (+1.6%) and **COH** (-3.0%).

INDUSTRIALS

Capital Goods

The diversified engineers all experienced declines this month with **United Group** (-12.2%) and **Downer EDI** (-14.3%) both impacted by the continued deterioration in the macro environment and concerns over industry capex plans. **Transfield Services** (-14.0%) fell early in the month after its CEO, Mr Peter Watson, announced his intention to resign from the company in April 2009. **WorleyParsons** (-10.2%) once again largely traded in line with the oil price this month (lower). The global E&C sector continues to be impacted by the falling oil price despite the outlook for hydrocarbon engineering demand remaining very robust in the longer term. **Boart Longyear** (-37.9%) fell as it came under pressure following its most recent earnings downgrade and market concerns over its gearing position given the declining outlook in commodity markets.

Chemicals

Orica (-17.0%) shares fell during the month after a string of negative news on the near term outlook for hard commodity prices and fears that the current global destocking process will put increased pressure on mining companies to cut production, arouse uncertainty over ORI's explosives volumes. A major driver of **Incitec Pivot's** (-21.2%) fall during the month was the announcement of a 5 for 13 non-renounceable entitlement offer at a price of \$2.50. IPL is seeking to raise a total of \$1.2bn, comprising a now complete, underwritten Institutional Entitlement Offer of ~\$819m and a non-underwritten Retail Entitlement Offer of ~\$351m. The equity raising will be used to refinance debt following the Dyno acquisition. **Nufarm** (-16.3%) finished the month lower. During the month it revealed that it was in talks to refinance \$600m of debt amid the global capital squeeze (source IRESS).

Commercial Services

Brambles (-8.7%) fell on the back of its AGM and 4-month FY09 trading update where it flagged a weak result for CHEP Americas.

Transportation

Qantas (-4.1%) continued its fall, buoyed by a weak monthly traffic update and a profit downgrade. **Virgin Blue** (-7.2%) shares also declined on the back of QAN's downward revision in profit. The stock bounced around as the market considered whether the benefits from falling oil prices would offset the rapid decline in passenger demand. **Toll Holdings** (-3.5%) rose post its AGM at the end of last month but ended November lower. **Asciano** (-50.2%) shares fell this month as the market continued to punish stocks with high gearing levels and potential refinancing risk. The market also remains concerned about its ability to sell assets in the current environment.

Infrastructure

Macquarie Airports (-5.1%) fell after reporting weakening traffic growth across its airports during October. Conversely, **Australian Infrastructure Fund** (-1.5%) held up relatively well as solid traffic data for the September quarter helped to highlight the resilience of AIX's portfolio to weakening economic conditions. **Macquarie Infrastructure Group** (-10.7%) again ended the month lower despite the ongoing share buy-back. **Transurban** (-7.8%) held up relatively well compared to other stocks in the sector as investors sought exposure to stocks with both defensive earnings and a more conservative capital structure. Meanwhile, **ConnectEast** (-23.0%) dropped after undertaking a dilutive ~\$450m capital raising (at \$0.55) and slashing its annual distributions (to 2.0¢ from 10.0¢) to improve its capital structure in light of weak traffic and a significant debt burden. **Macquarie Communications Group** (-49.4%) was again sold off heavily after it announced late last month that it would slash its distributions in order to repay any corporate debt and exchangeable bonds as and when they fall due.

MATERIALS - Overweight

Building Materials

CSR (-31.3%) fell after it raised A\$315m of equity at a 22% discount. CSR has now commenced its retail entitlement offer (which will close on 10 December). Meanwhile, **Boral** (-11.5%) finished weaker on the month, due to a combination of a weak Australia Building Approvals reading for September and comments in the press (Dow Jones NewsWires) that it would be next in line for a capital raising. **James Hardie** (-10.6%) shares were weaker despite reporting a solid result - NPAT (ex asbestos) down 26.4% to US\$36.5m vs GSJBW US\$28.7m. This was driven by stronger than expected sales volumes in the US, although these were still down 17% on the pcp. **Leighton Holdings** (-1.9%) held its AGM early in the month where it gave guidance for "an increase in NPAT... of 15%" which is a slight softening on the previous guidance of "at least" 15% NPAT growth.

Steel

Sims Group (-3.5%), **BlueScope** (-9.3%) and **OneSteel** (-25.5%) came under pressure during the month due to (1) ongoing weakness in global steel prices; and (2) negative short term outlook comments from each company at its respective AGM. In addition, SGM guided towards a loss in 2QFY09.

Diversified Resources

Sentiment on commodities markets weakened further during November as the prospect of a global recession, overlaid by the financial crisis and the difficulties it poses for international trade, forced continuing destocking of most raw materials by consumers in many parts of the world - including China. But, for once, commodities markets had relatively little to do with the contrasting performances: **BHP Billiton's** (+10.8%) withdrawal of its bid was the catalyst for a collapse in the **Rio Tinto** (-39.9%) share price, bringing market concerns about RIO's debt level, its struggle to dispose of non-core assets, and the fundamentally weak outlook for aluminium to the fore. RIO has announced stringent reviews of its expansions and capex programmes, while BHP reiterated its longer term confidence in demand from emerging markets by announcing a fresh expansion in its Australian iron ore business.

Other Metals and Coal

November was a month of mixed performances. **Equinox** (+26.8%) benefited from further commissioning progress, and the perception that the risk of additional financing requirements is receding. **Iluka** (+22.2%) is currently buoyed by a tight zircon market and the prospect of increasing contract prices for 1H09 despite the fact that the prices of most other commodities are falling. Likewise, a pick-up in the spot market price of uranium saw **ERA** (+13.0%) rally. Steep falls in the prices of the major base metals (zinc was the exception here) contributed to underperformance by most of the pure play names, with **Aditya Birla** (-50.0%), **Minara** (-43.8%) and **Alumina** (-40.1%) among the worst affected. Thermal coal producers **Centennial** (-25.4%) and **Felix Resources** (-53.6%) suffered as spot market coal prices fell sharply and the uncertain outlook for metallurgical coal saw **Macarthur** (-38.8%) lose further ground. Meanwhile, **Oz Minerals** (-41.8%) shares fell throughout the month before entering a trading halt as it negotiates an extension to its debt facilities. OZL is currently seeking extension of a US\$420m and a US\$240m debt facility.

Gold and Platinum

The gold price rallied by more than 12% in USD terms during the month and by 15% in AUD. On this occasion, the gold equities behaved more-or-less on-cue. Among the larger companies, **Newcrest** (+18.0%) was the strongest performer, with **Lihir** (+12.8%) and **Bendigo Mining** (+13.0%) also enjoying good gains while **Avoca** (+4.7%) posted more modest increases. Platinum prices levelled out this month and actually gained some US\$40/oz over the course of the month, helping **Aquarius Platinum** (+9.3%) to outperform the sector and the broader market, while **Platinum Australia** (+6.8%) continued its recent slide as doubts emerged over the company's Kalplats growth project.

TELECOMMUNICATION SERVICES

Telstra (-1.5%) edged down despite an upbeat Investor Day when it: (1) reiterated FY09 and FY10 guidance; (2) provided further details on its costs saving program; and (3) confirmed its IT transformation program is on track. **SingTel** (+0.8%) shares were relatively stable following a weak 1H09 result.

Submissions for the Federal government's proposed national broadband network closed on November 26. Submissions were received from six bidders: Telstra, Optus/SingTel, Canadian company Axia Netmedia, TransACT, Acacia, and the Tasmanian government. Telstra lodged its proposal via a letter from Telstra Chairman, Mr Donald McGauchie, to Senator Stephen Conroy and the Prime Minister. Telstra indicated that, while it has prepared a "highly detailed proposal", it is not in a position to lodge this detailed submission with the government due to its concerns over: (1) confidentiality of information supplied; (2) the length of negotiations; and (3) clarity on regulation (i.e. separation).

UTILITIES

Origin Energy (+3.5%) commenced its on-market buy-back of up to \$1.275bn. By the end of the month, it had spent ~\$80m. Operationally, it reduced BassGas production to around one-third of normal levels due to one of the two wells being shut in. We estimate the downside earnings impact is minimal at ~0.5%. Post the sale of its QGC stake and PNG interests, **AGL Energy** (+9.5%) has had its S&P BBB credit rating outlook revised from Negative to Stable.

APA Group (-7.8%) announced Osaka Gas would join a consortium led by Marubeni Corporation of Japan to invest in APA's unlisted vehicle. **SP AusNet** (-1.0%) shares ended the month lower despite reporting a good 1H09 result, benefiting from a cool winter in Victoria. Importantly, it confirmed its guidance of revenue and EBITDA growth of 8% and DPS growth of 2.5%. **Spark Infrastructure** (-4.8%) established a \$100m standby, revolving debt facility. It will pay an average margin of 102.5 bp over 90-day BBSW if fully drawn and will use the funds for working capital requirements and capex.

Chemicals Sector Update

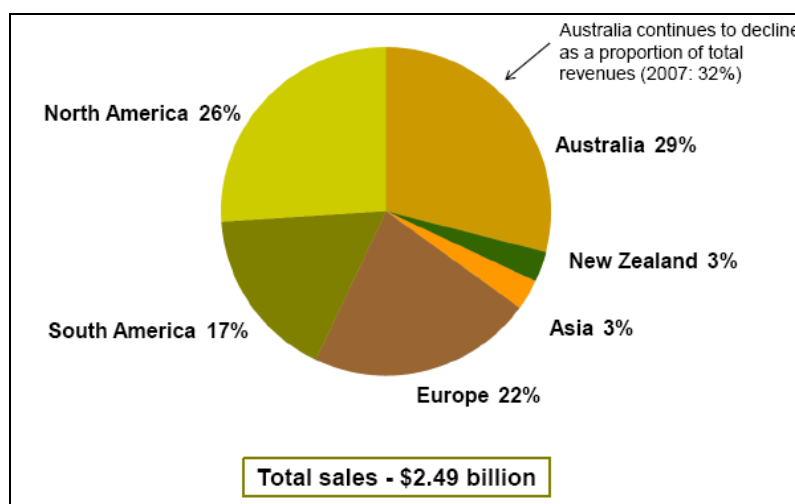
The fate of the chemicals sector has largely been driven by the forces of commodity prices, which in turn has been buoyed (until recently) by the apparent insatiable appetite for raw materials and soft commodities from China and other emerging markets.

In this article, we explore each of the three major Australian listed chemical companies that have significant exposures to the agriculture and resources themes; Nufarm Limited (NUF), Orica Limited (ORI) and Incitec Pivot Limited (IPL).

Nufarm – the medium term strategy outweighs near term soft commodity price volatility

Nufarm (NUF) manufactures and supplies agricultural chemicals used by farmers to protect crops from damage caused by weeds, pests and disease. This is distinct from the fertiliser market. Geographically, about 75% of current earnings are exposed to the Australian and American regions.

The company intends to rationalise and concentrate on the core business of crop protection, moving away from industrial chemicals. Future growth in sales is expected to be driven by increased market share in the Americas. Indeed, more broadly, Nufarm aims to expand its geographic base to achieve scale and diversify exposure to crop seasonality. In 2007 Australia represented 32% of A\$1.76bn in sales, whereas in 2008 Australian sales represented 29% of a larger A\$2.49bn total. See chart below for geographic breakdown of earnings for FY08.



Source: Nufarm

Another key growth initiative is to expand the product offering and include the roll-out of insecticides and fungicides into places such as Europe where summer is the dominant crop and requires the use of fungicides.

On the cost side, the precursor to NUF's Roundup product, which makes up around a third of earnings, is glyphosate. This has historically (for the most part) been supplied by agricultural chemical company Monsanto. Recently NUF has entered into partnerships with several glyphosate suppliers in China which will allow NUF to share in a manufacturing margin.

We continue to believe that the soft commodity segment represents an attractive position in the medium to longer term. This gets back to the core debate of demand from emerging markets. As China and others shift to protein-based diets, we believe companies that increase the focus on crop yield optimisation will continue to drive demand for crop inputs, and thus be viewed favourably by the market.

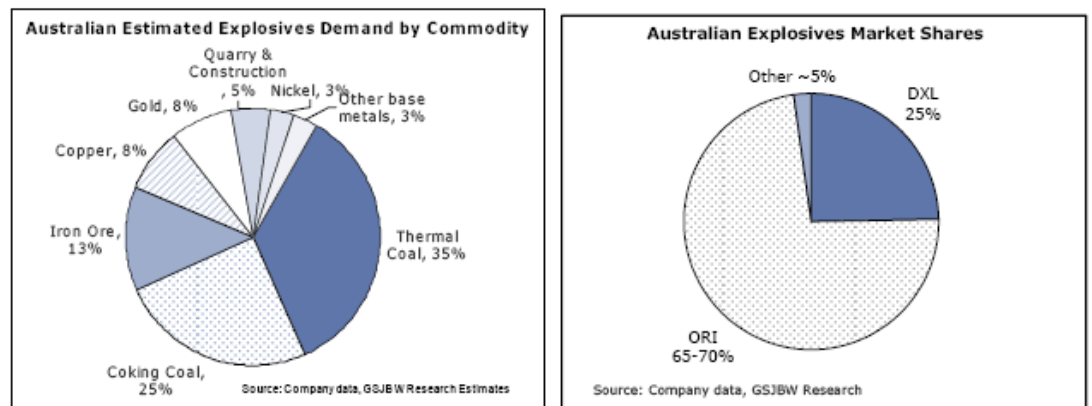
In terms of risks to our view, NUF has \$608m to refinance throughout the 12 months to July 2009, with \$671m in unused credit facilities. The following comments were made by Robert Reis, IR manager and group general manager corporate strategy on 27th November 08, in relation to the refinancing of \$600m of debt.

"We have a refinancing underway... we are well progressed on it. I'm perfectly comfortable where we're at with it and we'll be able to make an announcement in the near future about getting the job done."

Orica Limited – explosive activity to continue?

Orica is the world's largest supplier of commercial explosives and related services. Other businesses include Consumer Products (mainly paint), Chemical Services (sodium cyanide and chloralkali) and Chemnet, a chemicals distribution business. Mining Services accounts for ~75% of group earnings.

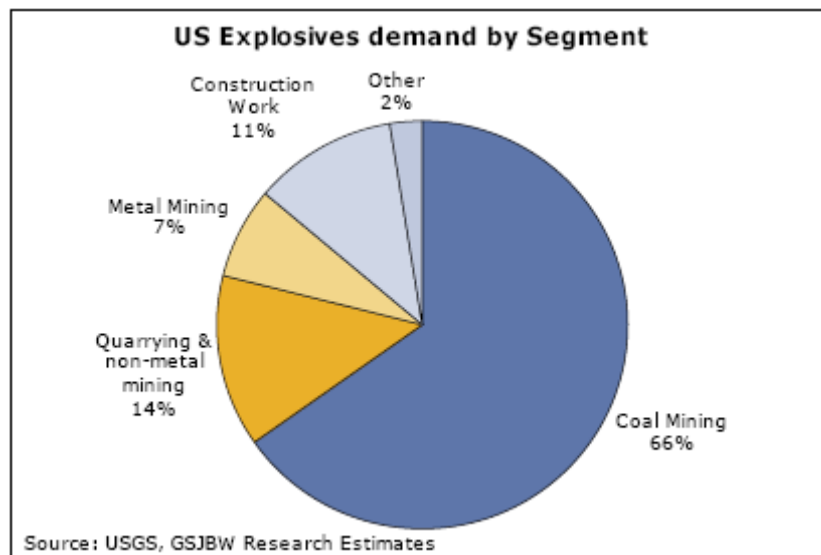
To date, Orica has had a boon in revenue due to demand for commodities, highlighting consumption of its explosive products. There has also been an emerging trend towards the outsourcing of onsite services by its explosives customers – driven in part by government regulations governing the transport, storages and security of explosives. The charts below highlight explosives demand by commodity, and the market share Orica has in the Australian explosives segment:



The North American explosives market (15% of ORI explosives EBIT) is the largest in the world, comprising ~2.7mtpa by volume. The coal sector accounts for the majority of US explosives demand, although in contrast to Australia, is almost entirely steaming coal for domestic power generation. The quarry/construction segment is a very important segment of the US explosive market.

Incitec Pivot (45%) and ORI (35%) dominate the market in the US. Given the dependence on the quarry and coal markets, US volumes are less volatile than in markets more dependent on metals mining.

While IPL derives the majority of its North American Ammonia Nitrate (AN) from external sources, ORI sources around 60% of its AN volumes from internal sources. In the event of any downturn in demand, ORI will be able to cut its externally sourced volumes first.



Despite concerns about slowing demand from the resources sector, we continue to believe ORI will report higher earnings in FY09.

Key drivers of this earnings growth include:

- An additional \$14m in cost synergies from the integration of the Excel business with Minova.
- A benefit from a reversal in ammonia prices which have fallen from US\$880/t to around US\$600/t in FY09, ORI is negatively impacted by sharply rising ammonia prices due to the lag in passing through these increases.
- An initial US\$8.5m contribution from South West Energy acquired on 1/10/08.
- Higher product prices. We understand ORI rolled around 35-40% of its AN contracts in FY08 at substantially improved prices.
- A reversal of the negative \$30m impact from the rising A\$ in FY08.

Risks to our view would be a further reduction in Chinese demand growth for energy, steel and minerals. Orica is exposed to volumes rather than value, and particularly to eastern Australian seaboard coal.

Mining Services would be most directly affected by a sharply declining outlook for Chinese growth, but this would indirectly affect the other divisions as a result of the effect on Australian economic activity.

Incitec Pivot Limited – The proof is in the DAP price...

Incitec Pivot Limited is a global chemicals company with nitrogen-based manufacturing at its core. With the acquisition of Dyno Nobel, the company is positioned to take advantage of the opportunities created through the agriculture and mining cycle, which is driving global demand for both fertilisers and explosives.

Prior to the addition of Dyno Nobel to the IPL business, the correlation between the IPL share price and the Di-ammonium Phosphate (DAP) price was >90%. While the additional of Dyno Nobel should weaken this relationship, the DAP price and prospects of the broader fertiliser market will undoubtedly remain the key driver of the stock.

Around 30% of the world's fertiliser use is consumed in the production of corn and wheat. Both corn and wheat prices have seen significant falls in recent months, albeit both commodities remain above their historical levels.

It has been this decline in soft commodity prices (particularly corn and wheat) that has led to concern amongst investors that a fall in the profitability of farmers will result in reduced demand for fertilisers.

Historically demand for agricultural products has been relatively price inelastic and periods of weaker global activity have had little impact on soft commodity prices. The current volatile economic environment has seen prices of soft commodities move substantially. The reasons lie, in part, with the fall in oil prices and the correlation to agricultural based ethanol demand as well as a better crop, particularly wheat in Australia.

In the near-term, finished fertiliser prices are likely to continue to come under pressure due to factors such as:

- Downside pressure on key fertiliser inputs, such as ammonia and phosphate rock;
- Concerns around the outlook for the world economy, and what impact any slowdown may have on demand for food;
- Lower grain prices will reduce the incentive for farmers to expand acreage and invest in productivity.

On the other hand there are longer term positives:

- The impact of economic weakness on food consumption is not likely to be significant, particularly in the developing economies of Brazil, India and China;

- Fertiliser supply remains constrained, with no significant new DAP production capacity expected to come on-line until at least 2012.

We think that the above factors indicate that current weakness in soft commodity prices is likely to be only temporary, and are comfortable with investing in IPL as a soft commodity exposure on a longer term investment horizon (~3 years).

Key Investment Statistics:

Stock Code	EPS Growth (%)		P/E (x)		P/FCF (X)		Div Yield (%)		Debt/Equity (x)		Interest Cover (x)	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
IPL	205.5	-30.6	4.3	6.2	4.7	6.8	11.2	11.3	64.5	30.4	12.0	14.3
NUF	25.1	40.5	10.8	7.7	0.0	5.9	3.8	4.9	108.5	76.3	3.0	4.3
ORI	12.2	4.8	8.6	8.2	8.3	7.6	6.1	6.5	23.6	21.1	6.4	8.9

Source: GSJBW Research Estimates

STOCK RECOMMENDATION SUMMARY

Code	Name	Price (\$)	
		1-Dec-08	Recommendation
ANZ	Australia and New Zealand Banking Group Limited	14.38	HOLD
AXA	AXA Asia Pacific Holdings Limited	4.21	HOLD
BBG	Billabong International Limited	10.08	HOLD
BLD	Boral Limited	3.99	BUY
BXB	Brambles Limited	6.70	HOLD
CBA	Commonwealth Bank of Australia	33.00	SELL
CPU	Computershare Limited	6.55	BUY
CSL	CSL Limited	33.99	HOLD
HSP	Healthscope Limited	4.09	BUY
IPL	Incitec Pivot Limited	2.70	HOLD
MCG	Macquarie Communications Infrastructure Group	0.82	BUY
MCU	Mitchell Communication Group Limited	0.46	BUY
MLE	Macquarie Leisure Trust Group	1.07	BUY
MQG	Macquarie Group Limited	30.12	BUY
MSL	The Mac Services Group Limited	1.29	BUY
NAB	National Australia Bank Limited	19.43	BUY
NCM	Newcrest Mining Limited	25.84	BUY
NUF	Nufarm Limited	8.74	BUY
NWS	News Corporation	12.10	BUY
ORG	Origin Energy Limited	15.65	BUY
ORI	Orica Limited	15.63	BUY
OST	OneSteel Limited	2.68	BUY
OZL	OZ Minerals Limited	0.55	HOLD
QBE	QBE Insurance Group Limited	23.94	BUY
TLS	Telstra Corporation Limited	4.05	BUY
TOL	Toll Holdings Limited	5.60	HOLD
UGL	United Group Limited	7.89	BUY
WBC	Westpac Banking Corporation	16.94	HOLD
WDC	Westfield Group	15.00	HOLD
WES	Wesfarmers Limited	18.94	BUY
WOW	Woolworths Limited	27.30	HOLD
WPL	Woodside Petroleum Limited	36.20	HOLD

Source: GSJBW Research, IRESS

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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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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.

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Recommendation	Overall	Corporate relationship* in last 12 months
Sell	11%	9%
Hold	60%	62%
Buy	29%	29%

* 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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