

Equity Strategy

Monthly Market Review - January 2009

Equity Strategy | Australia

Key Points:

- The ASX200 started the year in much the same way as it finished 2008, with January proving to be a volatile month due to renewed concerns over the viability of US/UK financials/banks. Investor risk aversion was compounded by further poor macro data combined with a number of profit warnings ahead of the February reporting period. The ASX200 tested the November lows before staging a modest rally to finish the month down 4.9%. Equity raisings remained a feature as companies continued to repair their balance sheets.
- With the majority of domestic investors enjoying the summer holiday period, transactional volumes were very low. The modest Christmas rally proved short lived as investor focus moved back to the financials following a fresh round of profit warnings and government rescue packages for the UK and US banks. Investors initially took refuge in the defensive sectors although markets did start to show some resilience to the poor news flow by month-end. The Healthcare, Telecom and Staple sectors outperformed while the Industrials, Banks and REIT sectors lagged.
- Economic data shifted lower during January with the IMF forecasting 2009 global growth will be the lowest since the depression. December building approvals fell significantly while the employment data saw a large decline in full-time jobs. The RBA did not meet in January, while the market is forecasting a further interest rate cut in early February. The AUD came under renewed pressure in January finishing the month at 64.7¢ (-5.6¢), after trading through 72¢ intra month.
- The key issue facing investors remains the trade-off between ongoing poor macro news flow (economic and earnings) 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 prolonged slowdown with recovery deferred till 2010 remains the key risk. We continue to monitor opportunities in the Resources ahead of an expected improvement in news flow from China during 2009.
- Our model portfolio is currently **overweight Materials, Media Financials and Telecoms**; and underweight Property Trusts, Healthcare, Consumer (Discretionary & Staples) and Infrastructure. The top five overweight positions in the GSJBW Institutional Model Portfolio are **Woodside, QBE, Orica, Telstra and NAB** while the five largest underweight positions are **Commonwealth Bank, Westfield Group, CSL, Newcrest** and **Woolworths**.

Analyst: Chris Pidcock
+61 3 9679 1862
chris.pidcock@gsjwbw.com

Assistant Analyst: Jien Goh
+61 3 9679 1855
jien.goh@gsjwbw.com

Performance Table – January 2009

	Accumulation Index Performance Since		
	31/12/2008	31/07/2008	31/01/2008
S&P/ASX 200	-4.9%	-27.0%	-34.3%
S&P/ASX 200 Industrials	-6.1%	-22.9%	-35.5%
S&P/ASX 200 Resources	-1.7%	-35.3%	-30.7%
S&P/ASX Small Ordinaries	-4.7%	-41.5%	-47.9%

	Recommendation	Risk Bias	Relative Index Performance to S&P/ASX 200		
			1 Month	6 Months	12 Months
			Consumer Discretionary	Underweight	Up
Consumer Staples	Underweight	Down	4.2%	16.4%	17.0%
Energy	Neutral	Up	-1.0%	-2.5%	24.0%
Financials	Overweight	Up	-3.9%	1.5%	-6.7%
Healthcare/Biotech	Underweight	Down	10.9%	38.0%	36.1%
Industrials	Overweight	Down	-6.2%	-7.9%	-11.6%
Information Technology	Overweight	Down	-1.1%	11.3%	27.2%
Materials	Overweight	Up	3.9%	-10.9%	-2.7%
REITS	Underweight	Up	-4.8%	-10.0%	-17.4%
Telecommunication Services	Overweight	Down	5.0%	13.3%	24.9%
Utilities	Underweight	Down	3.8%	8.4%	13.1%

Source: IRESS, GSJBW Research estimates

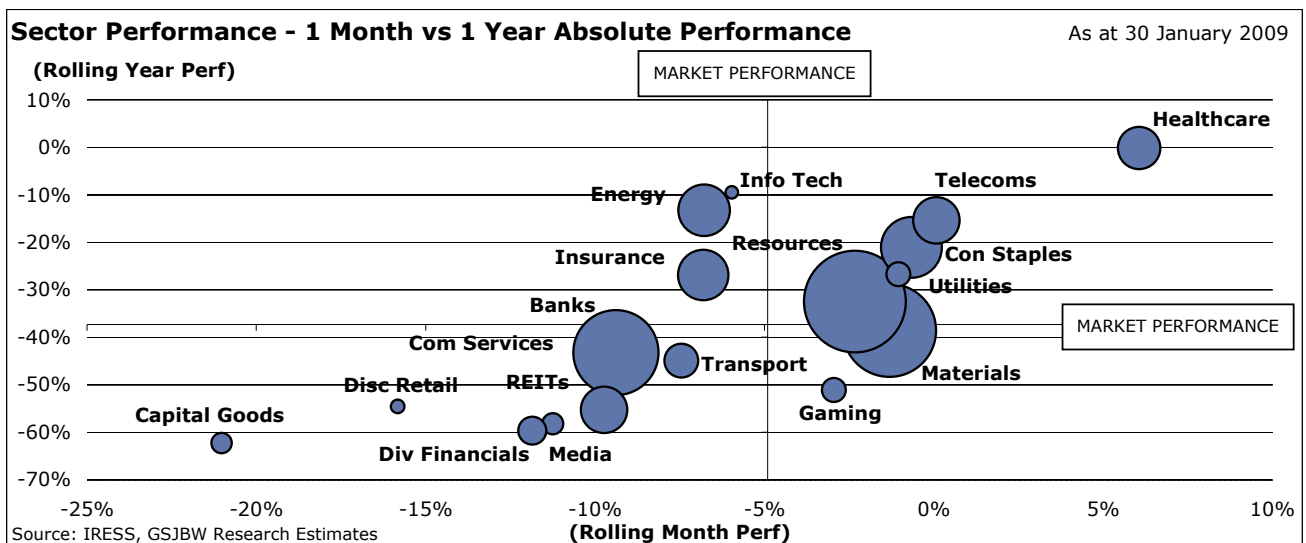
ASX 200 Leading Contributors in January 2009

Top & Bottom 10 Pts Contributors over January - ASX 200				
1.	CSL	10.8	ANZ	-20.0
2.	WOW	5.9	WBC	-18.3
3.	RIO	5.6	NAB	-17.6
4.	PDN	1.8	CBA	-13.4
5.	TEL	1.8	ORG	-8.9
6.	IPL	1.4	QBE	-8.5
7.	GFF	1.3	LEI	-7.6
8.	LGL	1.2	WDC	-7.6
9.	RMD	1.1	NCM	-6.2
10.	CTX	1.0	WES	-6.0

The ASX 200 Index decreased by 182 pts in the month of January

Source: IRESS

Sector Performance for month end January 2009



CONSUMER DISCRETIONARY – Underweight (prefer BBG and NWS)

Media

News Corporation (-11.0%) shares ended the month lower. In Film, strong box office numbers helped by Golden Globe nominations for 'Slumdog Millionaire' and 'The Wrestler' have driven stronger than expected revenue. In Television, although audiences are slightly down on last year, Fox continues to maintain a strong market position within the 18-49 year old age bracket this month. In Newspapers, Dow Jones has been approved to publish a facsimile edition of the Wall Street Journal in India after a review by the Foreign Investment Promotion Board cleared the proposal. Currently there is a 100% foreign direct investment prohibition in newspapers. For FIM, search ad spend declined by ~8% in the fourth quarter raising concerns over MySpace revenue growth. Finally, Premiere (NWS 25%) has proceeded with the first tranche of its proposed rights issue, raising €38m as part of a restructuring plan that aims to bring the company back into profitability by 2010.

Fairfax Media (-14.1%) ended the month down, led by various retail profit warnings (incl. DJS, TWO, SRA) and other data suggesting further weakness in classifieds (i.e. ANZ Job Ads Series; Seek Employment Index; GSJBW Page Count). In other news, Fairfax sold the Southern Star television production and distribution business to Endemol for \$75m. Combined with last year's sale of Carnival (UK), Fairfax will receive net cash proceeds of \$120m, a \$30m loss on the \$150m acquisition price in 2007. **APN News & Media (-19.0%)** shares declined over the month. Major shareholder Independent News & Media announced it had ceased plans to sell its 39.1% stake in APN as it was unable to source an appropriate bid given the "deteriorating state of credit markets". In other news, Commercial Radio Australia released soft December radio ad market data suggesting a decline of 2.4% in total metro advertising revenues (down 3.2% for 1H09). **West Australian Newspapers (-26.1%)** stock ended the month lower. During the month Mr. Paul Armstrong was terminated as the Editor of the West Australian newspaper. The group Editor-in-Chief, Mr Bob Cronin, will act as the interim editor for the paper.

Ten Network Holdings (-12.0%) shares declined this month after parent CanWest released a very soft 1Q09 result, and announced that it was reviewing asset sales to avoid breaching its debt covenants. With the loan in question secured against the 56.6% stake in TEN, the threat of a potential stock overhang placed downward pressure on TEN's price. **Seven Network (-15.6%)** ended the month lower with its share buy-back inactive during the month. **Prime Media (-21.6%)** shares declined over the month after the company extended an off-market takeover offer for Broadcast Production Services (formerly Becker) to 20th February.

Consolidated Media Holdings (+2.7%) shares ended the month higher while **Austar (0.0%)** shares were flat; both benefiting from positive news flow coming from a solid BSKyB (UK) result which delivered a resilient 2Q09 result, ahead of analyst expectations, despite the tough UK economic environment. With Austar pursuing a similar churn-reduction-based growth strategy and CMJ's exposure to the pay TV industry via Foxtel (CMJ 25%), the stocks reacted positively to the news. Austar also continued its on-market share buy-back, acquiring c.5.3m shares during January.

Seek (-5.1%) shares finished the month lower after: (1) CEO Paul Bassat stated that the December quarter was the "toughest quarter for some time" and that advertising volumes were "significantly lower" than 12 months ago; and (2) the Seek Employment Index indicated December new job ads were down 22.3% on pcp (down 28.9% seasonally adjusted).

Austereo (-5.6%) shares finished the month lower after the release of the Commercial Radio Australia data suggesting a 2.4% decline in the December radio ad market, despite the support of the government's pre-Christmas bonus on retail ad spend. The company continued its on-market share buy-back, acquiring ~180k shares during the month.

Retail

Billabong (-5.7%) declined during the month on ongoing concerns regarding trading conditions within its key market regions. Generally US board sports retailers reported deteriorating sales trends during December 2008 (Zumiez, Pacific Sunwear).

Harvey Norman (-19.6%) declined in January after posting a "System" sales report late in the month. HVN commented that retail margins continued to be under pressure.

Pacific Brands (-1.2%) fell during January on limited news flow and low volumes.

David Jones (-27.0%) traded lower during the month after providing a trading update that saw FY09 and FY10 NPAT guidance lowered to between 0% to 5% growth (previously 5% to 10% vs consensus pre-announcement at ~4% FY09 NPAT growth).

Gaming

Tatts Group (+3.2%) continued to rise for a second consecutive month after data released by the Victorian Commission for Gambling Regulation indicated that Victorian EGM revenues surged 13.4% in December 2008 following the government's economic stimulus package. In other news, the Tasmanian Government announced its intention to sell its wagering business TOTE Tasmania by the end of June this year, with an expected price of A\$300m or more. Tatts Group and Tabcorp are considered possible bidders.

Tabcorp (-5.7%) announced its 1H09 result which was slightly better than market expectations. TAH also announced: (1) a \$300m underwritten institutional placement at a fixed price of \$5.80 per share; (2) a non-underwritten Share Purchase Plan of up to \$150m; and (3) that it had received planning approval from the New South Wales Government for the \$475m redevelopment and expansion of Sydney's Star City casino.

Crown (-7.2%) shares ended the month lower despite approval from the Nevada Gaming Commission for the purchase of two Las Vegas casinos from Cannery Casino Resorts. Crown is now awaiting regulatory approval in Pennsylvania and also for a 3rd casino in Las Vegas.

Aristocrat (-3.3%) shares fell this month despite US peer IGT's solid result with stronger revenues driven both by strength in the product sales and its gaming operations segment.

CONSUMER STAPLES - Underweight

Woolworths (+3.9%) ended the month higher following the release of a strong 2Q09 Sales result late in the month. WOW reported Group sales growth of 8.1%. Furthermore, comparable store sales growth for the key Australian Food & Liquor division accelerated to 7.1% in 2Q09.

Metcash (-3.9%) traded lower during January on limited news flow and low volumes.

Goodman Fielder (+15.4%) ended the month higher after reiterating guidance for 1H09 NPAT to be "about 15% lower than the prior corresponding period" (guidance was initially provided at the AGM on 20 November 2008).

Beverages

Foster's Group (-0.6%) shares were broadly flat despite negative outlook comments from its US wine peer, Constellation Brands. Constellation commented that the UK wine market has slowed significantly, US consumers have started trading down but, to date, the Australian wine market remains healthy. Positive price performance from FGL mid-month came from strong Australian Nielsen data for November which showed the Australian beer market growing 10% in value terms. This data was also supportive of **Lion Nathan's (-0.2%)** share price (mid month) which ended broadly flat. There was no direct news flow on the Kirin/LNN merger proposal for **Coca-Cola Amatil (-0.4%)** but Japanese brewing companies continued their Asian acquisition spree. In the past month alone, Asahi reached agreement to buy both Schweppes Australia and a stake in Chinese brewer, Tsingtao, while Kirin is in talks to acquire a stake in San Miguel Brewing.

ENERGY - Underweight (prefer WPL)

Oil prices remained relatively weak and volatile in January, characterised by ongoing demand weakness. Reports emerged that traders were renting floating tankers as storage to take advantage of the oil futures curve that has been in sharp contango (e.g. *Where is oil going next?*, NY Times, 14/1/09).

Woodside Petroleum's (-3.6%) share price ended lower despite reporting its 4Q quarterly report indicating full year production for 2008 of 81.3mmbbl, up ~15% on 2007 (70.6mmbbl). 4Q production was ~6% higher than 3Q due to the start-up of Angel and NWS Train 5, and a full quarter contribution from Neptune and Vincent. CY08 profit guidance

of \$1.75 - 1.8bn was provided which included impairment charges and FX losses totalling ~\$310m (net after tax). Woodside has suspended work on its OceanWay LNG import project in California, this was one component of the total CY08 impairment charge.

Santos (-3.4%) ended the month down after reporting CY08 production of 54.4mmboe, down 8% on CY07. STO also provided CY09 production guidance of 53-56mmboe, broadly flat vs CY08. The company released its audited reserves statement as at December 2008, upgrading 2P reserves by ~15% to 1,103mmboe (~85% gas). 2P reserves for the Gladstone LNG project (at the gross JV level) increased by ~142% to 3,246PJ.

Oil Search (-6.7%) shares fell at the end of January. During the month, OSH reported CY08 production of 8.6mmboe; while CY09 guidance has not yet been provided, the company commented that it expects it to be broadly in line with CY08. The company is in the process of finalising CY09 budgets, mentioning that it was looking for opportunities to reduce discretionary spending. The company sees PNG LNG still progressing to FID by late 2009 and expects to sign LNG agreements in early 2009.

Caltex (+22.0%) shares rose this month after advising the market that CY08 unaudited profit was \$185m, ~19-37% above guidance given in December due to unexpected FX gains and an improvement in refining margins during December.

Nexus (-5.7%) shares ended the month lower after selling its Roc Oil shareholding (56.4m shares) on-market during January at an average net sale price of \$0.52/share (\$29.5m total sale proceeds vs original purchase price of \$119m). Nexus also reported that the 206m gross gas column discovered at Libra-1 (NXS 15%) had increased its confidence in the prospects of the Greater Crux Area, providing additional incentive for follow-up drilling at Auriga and Caelum (NXS currently has 85%). The company reported that it expects an outcome of the Crux sale process in the coming month, targeting transaction execution in 1Q CY09 – it is considering both asset and corporate level possibilities.

AWE (+3.1%) shares rose this month despite reporting a delay in the Henry tieback to late 2009 (was 1H CY09) due to pipelay vessel availability. Late in the month, AWE announced its 2Q09 production result indicating it had: (1) produced 2.12mmboe due to lower-margin gas production and from BassGas and Casino; (2) a cash balance of \$383m; and (3) provided FY09 production guidance for 9.0mmboe.

ROC (+1.0%) shares ended the month higher. Late in the month, ROC announced its 4Q08 results (on the match of the last day of the month). ROC flagged the impairment of production and exploration assets (including recently-acquired Basker Manta Gummy from Anzon) though no numerics were provided.

TAP (+8.5%) shares ended the month higher after announcing its 4Q08 result late in the month. TAP reported that Varanus Island repairs were still underway and had received \$10.4m thus far in business interruption insurance.

FINANCIALS ex PROPERTY TRUSTS - Overweight (prefer ANZ, AXA, MQG, NAB, QBE, WBC)

During January, ASIC announced plans to extend the financials short-selling ban until 6 March, benefitting the Financials sector as a whole.

Banks

The banking sector (ASX200 Banks: -9.4%) underperformed the market through January, driven largely by negative offshore sentiment. January started positively, with the banks performing in line with the market for the first week. However, the banks took a turn for the worse, driven by negative news flow around further write-downs for offshore banks.

The sector (ASX200 Financials -8.8%) benefitted this month from the extension of the short-selling band on financials. Whilst the short-selling ban on financials was originally set to be lifted on 27 January, ASIC announced on 21 December that the ban on short selling financials stocks will be extended to 6 March.

BOQ (-25.6%) and **Bendigo & Adelaide Bank (-9.1%)** shares fell this month after BOQ announced a capital raising for \$108m. This included a placement to institutional and sophisticated investors (\$63m) as well as the previously-announced SPP (~\$45m).

ANZ Banking Group (-13.2%) and **National Australia Bank (-9.3%)** saw the largest declines of the major banks as investor concerns on offshore operations grew. Also during the month ANZ announced an increase in its holding in PT Panin Bank in Indonesia to 38%.

Macquarie Group (-9.8%) shares fell this month following negative news flow from offshore peers. This included the purchase of a majority stake in the Smith Barney business by Morgan Stanley as well as below-consensus trading updates from both Bank of America and Citigroup.

Insurance

QBE (-7.0%) completed its Share Purchase Plan raising. While the initial target was \$100m, QBE received applications for \$227m and it decided to accept \$115m of this. In offshore news, the 1 January renewal season showed positive signs, with rate increases in a number of classes.

Suncorp (-10.7%) had its S&P rating for the bank lowered from A+ to A. S&P said that this was because it no longer considered the bank to be a "core" part of the group (given SUN explored divestment options in late 2008). In line with this reasoning, S&P affirmed the A+ rating on SUN's insurance subsidiaries.

IAG (+0.5%) ended the month marginally higher after benefitting from press articles (e.g. The Age, 21 January) about premium rate increases in home and motor insurance.

AXA Asia Pacific (-4.2%) released its 4Q08 sales/fund flow figures late in the month and advised the market that: (1) it "anticipated (operating earnings) to be slightly above the 2007 result of \$543.7m"; and (2) investment earnings for the 10 months to 31 October 2008 were \$495.9m and AXA expects a further 10% deterioration for the full year.

The other insurers, **AMP (-2.8%)** and **Tower Australia (-6.0%)** ended the month lower.

Diversified Financials

ASX (-18.5%), which had been in favour due to its clean balance sheet and monopoly status, fell in January due to trading (in all products) slowing substantially (even after adjusting for seasonality). On the positive side, there was a flurry of secondary raisings in late 2008, and there are signs that this could continue in 2009.

Among the wealth managers, **Henderson (+6.1%)** announced that it was in talks to acquire New Star, the beleaguered UK fund manager. Late in the month, HGG made an offer of £115m for New Star, to be funded by £50m of internal cash, a fully-underwritten raising of £40m and the issue of £25m of new shares to New Star preference shareholders. HGG also announced that its FY08 NPBT (pre NRIs) would be ~£80m (vs consensus in the high 70s).

Perpetual (-17.2%) announced its December FUM (which implied small outflows for the month). **Challenger (-38.0%)** gave back its December gain despite continuing its share buy-back. Many brokers also marked to market in January and are predicting big investment experience losses for the half. **BT Investment (-4.0%)** announced good December FUM numbers; in particular, net outflows were only \$0.1bn for the quarter. **IOOF (-7.1%)** fell on limited news flow, though the company's focus is likely on the impending merger with AUW.

REAL ESTATE INVESTMENT TRUSTS - Underweight (No exposure)

The A-REIT 200 Index continued its decline, falling -9.7% in January, as A-REITs repair balance sheets through dilutive equity raisings, asset sales and distribution cuts. Companies that outperformed in January were the smaller cap A-REITs including Abacus Property Group (+19.8%), **Babcock & Brown Japan Trust (+8.8%)**, and **Macquarie Countrywide Trust (+16.7%)**. Underperformers are all pure office plays, and included **ING Office Fund (-38.9%)**, **Macquarie Office Trust (-20.8%)** and **Commonwealth Property Office Fund (-27.1%)**.

Significant news flow included:

CFS Retail Property Trust (-3.7%) ended the month lower. During the month, CFX announced the sale of its Golden Grove Shopping Centre in Adelaide for a price of \$100m, representing a cap rate of 7.5% which is 4.8% below last book value. The proceeds will be

used to retire debt to preserve balance sheet capacity to pursue future value-adding opportunities.

Westfield Group (-7.0%) shares were weaker after announcing several negative comments about the outlook for 2009, including: (1) CY09 operational earnings (pre income hedging available for distribution) are expected to be flat to -3% at 97-100cpc; (2) income hedging available for distribution (management guidance of 6.5c per security in CY08) is expected to be negligible in 2009, hence distribution will be ~97-100cpc; (3) the leverage ratio is currently estimated to be 40% with \$5.5bn of available liquidity; and (4) an expected \$3bn of asset write-downs will be reflected in the 2008 full year results due to rising cap rates, however the stronger US\$ will mean that, even post this, net asset values will rise at Dec 08 vs Jun 08.

Commonwealth Property Office Fund (-27.1%) fell after it announced a \$192m underwritten institutional placement at \$0.80 per unit, to provide financial flexibility and strengthen CPA's balance sheet. CPA also provided revised DPU guidance for 2H09 of 4.2cpc (was 4.6cpc) as well as a revision of its dividend policy to better align the DPU with underlying earnings. CPA's payout policy now excludes: (a) amortisation of fit-out incentives and leasing fees and (b) performance fee expense. Under this revised policy, CPA expects capital savings of ~\$100m over 5 years.

Macquarie Countrywide Trust (+16.7%) shares ended the month higher after entering into contracts with Inland Real Estate Acquisitions Inc. for the sale of the equity and debt interests of 30 US shopping centre assets for approximately US\$427m (A\$646m), a 12% discount to original cost. The proceeds from the sale will be used to reduce debt and position the trust to meet its refinancing obligations in the second half of 2009.

HEALTHCARE - Underweight (prefer HSP)

Regulatory reform remained topical in healthcare as the Obama administration took office in Washington. The new president proposed a number of healthcare reforms, including a stimulus package to help the unemployed obtain health insurance and additional funding to the states for their Medicaid and children's health insurance programs. For the Australian companies with significant offshore exposures, it remains too early to determine any potential impact.

CSL's (+11.3%) main competitor, Baxter, reported a solid 4Q08 result with upbeat outlook commentary. For CY09, Baxter is projecting 'mid-to-high-single-digit' volume growth and 'low-to-mid-single-digit' price growth. Gardasil experienced further setbacks after the FDA issued a second response letter to Merck requesting additional data in relation to a new indication of Gardasil for females aged 27-45. Merck expects to submit this data in 4Q CY09 and stated that the letter does not affect either the currently approved indication for females aged 9-26 or Merck's submission to have Gardasil approved in males (submitted in December 2008).

The potential return of Medicare competitive bidding loomed for **RMD (+15.7%)** which was stronger on the back of favourable currency moves. The CMS revived the bidding program for durable medical equipment (including CPAP) after it issued an interim final ruling to conduct Round 1 rebid sometime in 2009. Changes proposed to the bidding process include a channel for providing feedback to suppliers regarding missing financial documentation, and a requirement to disclose information on subcontracting relationships.

SIP (+11.1%) ended the month higher. Its major competitor in pharmacy distribution, API, noted at the AGM that pharmacy reordering patterns were re-established following destocking leading up to PBS Reform with the trend stronger than API expected. However, API is looking to reduce its reliance on its pharmacy distribution business, citing concerns over ongoing pricing pressure in generics and regulatory uncertainties.

The press (AFR) reported that industry insiders expect private health insurers to request premium increases of about 6% or more (vs 4.99% last year) from the government this year due to the fallout from increases in Medicare Levy Surcharge thresholds and falling investment returns. Both HSP and RHC previously stated that they have locked in multi-year contracts with the major insurers.

SHL (-4.5%) finished the month weaker after its US peers moderated their respective growth outlooks (to ~3%) for CY09. The key driver of this was the slowing US economy, with employer-sponsored drugs of abuse testing the hardest hit.

Managing Director of **PRY (-2.0%)**, Dr Ed Bateman, reduced his stake in the company by selling 4.6m shares on-market. After the disposal, his remaining stake in the company is 12.36%.

Latex prices ticked up for **ANN (-18.5%)** to MYR 392/kg, an increase of 15%. Further concerns over the impact of the slowing economy also contributed to weakness in the stock price. **COH (+6.5%)** rose in limited news flow.

INFORMATION TECHNOLOGY - Overweight (CPU)

CPU (-7.1%) shares fell on investor concern about the impact of falling interest rates and weak M&A activity.

INDUSTRIALS - Overweight (prefer BXB, MCG, ORI, TOL and UGL)

Agriculture

ABB Grain (-12.8%) finished weaker for the month, as South Australia's Department of Agriculture reported that total production of winter grain in the state from the harvest that ended this month fell 2.9% on year to 4.74mt. **GrainCorp (-10.0%)** shares ended the month lower despite the company reportedly saying (*Bloomberg* article, 8/1/09) that it had received 7.4mt of grain since October and was therefore likely to meet its guided range of 7.5mt - 10mt (with the sorghum harvest still to come). **AWB (-12.6%)** shares continued to fall after its merger discussions with ABB ended mid last month. AWB also announced during the month a share sale facility for holders of share parcels less than \$500 - the sale likely to reduce AWB's share registry costs.

Capital Goods

The diversified engineers had a mixed month in January with **Transfield Services (+7.1%)** shares ending the month higher after announcing that its US facilities management subsidiary, US Maintenance, had been awarded two key contract extensions. **United Group (-2.8%)** was weaker in January despite announcing a \$78m locomotive contract with QR. **Downer EDI (-7.1%)** finished the month lower, driven by the deteriorating mine production outlook and market concerns for Downer's contract mining business.

Boart Longyear (-5.0%) saw a month of volatile trade with its shares falling below \$0.20 (all-time low for the stock); driven by news of mine production and capex cuts both in Australia and overseas. The global hydrocarbon Engineering & Contractors sector continues to be impacted by the fluctuating oil price; **WorleyParsons (+6.8%)** ended the month higher, broadly trading in line with the oil price. Notably, WOR recently announced one of the largest contracts it has ever been awarded as prime-contractor, with the Saudi Aramco Mobil Refinery Company awarding WOR the US\$400m Clean Fuels Project in Saudi Arabia.

Chemicals

NUF (+7.7%) shares ended the month higher on the back of a solid result from global peer Monsanto (MON). MON attributed the result to "strong demand in Brazil for Roundup and other glyphosate-based herbicides" - this holds relevance to NUF's Brazilian Agripec business.

IPL (+7.2%) shares continued their upward trend post the completion of the retail entitlement offer mid last month and were also positive affected by industry consolidation news after CF Industries announced a takeover of pure-play US nitrogen company Terra Industries. This was despite falling DAP prices in January.

ORI (-3.2%) shares traded lower throughout January but recovered late in the month after ORI said at its AGM that "they see no reason to change their expectation of continued profit growth in FY09".

Commercial Services

Brambles (-8.4%) shares ended the month lower. During the month BXB held an 'Understanding CHEP' day for analysts but gave no trading comments.

Transportation

QAN (-6.8%) was negatively impacted this month by weak news flow from global peers; Air France-KLM, Cathay Pacific and British Airways all issued profit warnings during the month. QAN also released November traffic numbers which reflected a rapid deterioration in both domestic and international demand and yields. A stronger month for **Virgin Blue (+3.3%)**, which benefited from its November traffic numbers reported late last month (traffic up 12% on pcp).

TOL (-11.4%) shares fell this month as fears of declining logistics activity amid the global economic slowdown negatively affected the stock.

Asciano (-26.2%) shares ended the month lower after the company did not provide any update on the progress (or outcome) of its asset monetisation program. Additionally, there was a significant slowdown in container volume growth reported across its key ports from December.

Infrastructure

Australian Infrastructure Fund (-7.9%) was softer in January as weak airport passenger numbers across European airports in December highlighted the potential impact of a severe slowdown in domestic economic conditions. However, traffic at AIX's key airports has held up relatively well to date, particularly Melbourne (+4.0% on pcp in December), Perth (+6.9%) and the Gold Coast (+3.9%) which are benefitting from their exposure to low-cost carriers.

Macquarie Airports (-4.6%) was also weaker after traffic growth fell across all of its airports in December, particularly in Europe with Brussels -9.0% on pcp, Copenhagen -9.8% and Bristol -12.7%. However, tight cost control and better-than-expected retail revenues saw a solid Sydney Airport CY08 result.

Macquarie Infrastructure Group (-6.4%) ended the month lower after **Transurban (-5.0%)** declined to exercise its pre-emptive right over MIG's stake in WestLink. Additionally, weak traffic numbers across its road portfolio during the December quarter provided a further headwind for the stock, with M6 Toll -11.5% on pcp, Indiana Toll Road -21.4% and Chicago Skyway -9.2%. **ConnectEast (-16.4%)** finished the month lower after reporting softer-than-expected traffic growth of ~2% in December, despite cycling a very weak November which was down 3.6% on October.

Macquarie Communications Group (+11.2%) shares rose in January. During the month, MCG announced that Airwave was selected as the provider of private mobile radio services to all Olympic Games venues, as well as the completion of the roll-out of the Airwave system throughout the London underground.

MATERIALS - Overweight (prefer BLD, OST)

Building Materials

Boral (-28.3%) shares fell after cutting its full year profit guidance by 40% due to a further deterioration in global housing markets. BLD also signalled a "substantially lower" first half dividend. In addition, a raft of weak economic data surrounding the Australian and US housing markets was released during the month. The latest Australian Building Approvals statistics (November) fell to a record low (mom -12.8%) and was much weaker than market expectations (mom -1.5%). Meanwhile, US Housing starts for December showed a 15.5% decline on the prior month (to 0.550m) and weighed on stocks with US exposure (**JHX (-16.1%)** and BLD). **ABC (-19.1%)** shares were additionally negatively impacted by the recent closure of the BHP Ravensthorpe nickel operation through its effect on lime demand (ABC is a leading lime producer in Australia).

LEI (-39.4%) shares fell throughout the month after management downgraded FY09 guidance at the beginning of January. FY09 guided NPAT was downgraded to \$650m (8% growth on FY08) from prior guidance of "an increase in NPAT... of 15%" given on 6 Nov 2008. LEI expects the 1H09 result to be ~\$270m, 8% higher than the pcp. The company noted

that the performance of the group's operating companies "continues to be strong with the exception of Leighton Properties".

Paper & Packaging

PaperlinX (-37.1%) continued to weaken during January. This was driven by ongoing concerns regarding: (1) the previously announced delay in European asset sales; and (2) how the banks will respond to the breach in debt covenants for the period ending 31 December 2008. **Amtcor (-7.1%)** shares fell on limited news flow.

Steel

Performance of the Australian steel stocks was largely dominated by negative stock-specific news flow. Although having made progress on its debt refinancing obligations, **OneSteel (-1.2%)** announced intentions to scale back production at its major steel works to bring inventory and operating levels in line with demand. On a similar note, **Sims Group (-2.0%)** announced that NPAT in 1H09 was now expected to be between \$90-95m (previously \$120-140m) and this was subject to further downside risk following finalisation of the company's 1H09 accounts. **BlueScope (+0.9%)** ended the month slightly higher.

Diversified Resources

BHP Billiton (+0.2%) and **Rio Tinto (+10.9%)** saw weaker production reports coupled with write-downs flagged for upcoming profit results impacting share price performance this month. Rio Tinto rebounded from November's weaker performance after announcing measures to reduce net debt by US\$10bn by 2009; late in the month, RIO announced the sale of its Corumba iron ore asset in Brazil and its undeveloped Potash assets to Value for US\$750m and US\$850m respectively. BHP announced production cuts in iron ore and coking coal and job cuts of 6,000 across the group due to weaker demand for commodities.

Other Metals and Coal

Whitehaven (+14.3%) shares rose early in the month after its sale of 7.5% interest in the Narrabari Project but then drifted downwards for the rest of January. WHC posted its 2Q09 production result late in the month, which saw sales for 1H09 fall 9% on pcp to 1,252kt. **Macarthur (-1.0%)** confirmed production cuts at both of its mines due to a weaker demand outlook for steel production. Both **Felix (-21.6%)** and **Centennial (-14.8%)** performed weaker as the focus moved to the outlook for thermal coal. CEY reported a slightly weaker than expected result although had strong share price performance late in the month despite reporting production of 7.0mt impacted by lower domestic volumes of 5.2mt in its 2Q09 production report.

PanAust (+58.8%) rose after it successfully negotiated the refinancing of its \$80m subordinated debt facility until March 2010. **OZ Minerals (0.0%)** remained in suspension but managed to secure a bridging facility of \$140m from some its lenders which is repayable on 27 February 2009. OZL must refinance its debt or finalise asset sales to repay them by this date. **Equinox (+20.0%)** shares rose as it is now in production at Lumwana. The company's focus is on ramping up to nameplate levels as fast as possible. Nickel (+1.6%) rose this month with the equities following; **Minara (+29.8%)**, **Western Areas (+13.9%)** and **Independence Group (+15.3%)**. In particular, IGO announced its 2Q09 production report late in the month, reiterating guidance of 8.4-8.8kt of nickel for FY09. IGO also noted that its Long Nickel mine is both profitable and cash flow positive at current nickel prices. **Iluka (-8.4%)** fell from its intra-month high of \$4.91 after releasing its quarterly production report. **Alumina (-18.0%)** continued its decline on the back of a weaker aluminium price (-10.0%).

Mount Gibson (-9.0%) fell after releasing a strong quarterly production report and after finalising its \$96.5m rights issue. In the smaller, pure play, iron ores space **Murchison (-18.1%)** and **Sphere (-18.1%)** ended lower. **Sundance (+21.3%)** shares rose after reporting its 2Q09 result late in the month. The conclusions from iron ore negotiations (which occur in March quarter) will be the next key catalyst for these stocks.

Gold, Platinum and Uranium

For the uranium stocks, **Paladin (+25.0%)** shares rose early in the month ahead of reporting a mixed quarterly production and sales report. PDN is currently readying to

commission its second mine, Kayelekera, in Malawi. **Energy Resources (+1.8%)** shares were weaker after reporting its CY08 profit results late in the month. ERA saw underlying NPAT rise 56% on pcp to \$119m on the back of a 39% rise in revenues to A\$496m.

Gold (+2.9%) was relatively flat during the month of January but **Newcrest (-8.5%)** lost ground. **Lihir (+4.0%)** was down at the start of the month but rebounded as it announced late in the month that operations at Lihir Island had resumed following the resolution of a dispute between landowner representative groups. Most of the gold equities were flat during the month with the exception of **Bendigo (+13.8%)** and **Apex (-27.9%)**. Apex announced a \$19.6m capital raising to fund the ramp-up phase of its Wiluna operations. Bendigo rose after announcing it was generating positive cash flow from its trial production.

Aquarius Platinum (+5.1%) and **Platinum Australia (+2.6%)** closely followed the platinum price (+4.1%), with both only recording small gains for the month. AQP's quarterly production report highlighted the negative impact of provisional pricing on a mining company's profitability and cash flow, when metal prices are falling.

TELECOMMUNICATION SERVICES - Overweight (prefer TLS)

Telstra (-1.0%) ended the month marginally lower. During the month, Senator Conroy announced that the government had received the NBN Expert Panel's final report on the NBN. Senator Conroy indicated the Government will give the detailed report careful consideration. In other news, Telstra announced that COO Mr Greg Winn will leave the company on 31 January to return home to the US.

SingTel (+6.9%) announced that it had subscribed to its pro-rata entitlement of shares in Warid Telecom (SingTel owns 30%) for a cash consideration of US\$75m. The capital injection will fund the network rollout of Warid Telecom to expand its network coverage.

Telecom New Zealand (+10.7%) shares rose during the month after: (1) submission of termination rate undertakings by major mobile providers; (2) the announcement that the regulator will review backhaul competition with the possibility of deregulating some geographic routes; and (3) public conjecture around government's proposed fibre investment (to be detailed in coming weeks).

UTILITIES - Underweight (prefer ORG)

AGL Energy (-4.0%) shares ended the month down despite announcing that its off-market cash takeover bid for Sydney Gas was now unconditional with acceptances standing at ~80%. It also entered a 37.5% farm in agreement with Innamincka Petroleum for \$25m with respect to permits in the Cooper Basin prospective for CSG.

Origin Energy (-13.2%) shares fell following a ~20% FY09 profit downgrade from Contact Energy (51% owned by ORG) and the market's concern that its earnings guidance would be downgraded. ORG also announced the commissioning of Uranquinty power station. Also late in the month, ORG announced in its 2Q09 result that it did not intend to operate its buyback between now and the release of its interim result on 26 Feb.

The regulated utilities, **SP AusNet (+9.0%)** and **Spark Infrastructure (+3.5%)** both rose after the Australian Energy Regulator's Draft WACC review surprised on the downside. The final version is due by 31 Mar 2009.

News flow for **APA Group (+0.7%)** and **Envestra (-17.8%)** was limited, other than the latter providing an update on its 2 for 5 non-renounceable rights issue at 30c per security to raise up to \$111m. The offer is set to close on 6 February 2009.

Babcock & Brown Infrastructure (-23.6%) shares fell on adverse media attention devoted to the solvency of BNB.

EMERGING COMPANIES - Prefer AUB, DMP, RKN

Small Ordinaries Leading Contributors in January 2009

Top & Bottom 5 Points Contributions over January - Small Ordinaries				
1	RMD	6.7	CGF	-9.9
2	DUE	5.3	BPT	-5.5
3	SIP	3.0	FLX	-5.0
4	SPN	2.5	ABB	-4.9
5	SGT	2.4	PPX	-4.8

The Small Ordinaries Index decreased by 81 pts throughout January

Source: IRESS

ResMed (+15.7%) rose due to currency benefits from the lower \$A and given the flight to companies with a defensive earnings stream. **Duet Group (+22.5%)** and **SP AusNet (+9.0%)** rose during the month after the Australian Energy Regulator's Draft WACC review surprising to the downside. **SIP (+11.1%)** shares rose this month after its major competitor in pharmacy distribution, API, noted in its AGM that pharmacy recording patterns were re-established following destocking leading up to the PBS Reform. **SGT (+6.9%)** announced this month that it had taken up its pro-rata entitlement of shares in Warid Telecom (SGT 30%) for US\$75m.

Challenger Financial (-38.0%) shares fell after anticipation of further mark-to-market losses and continued net outflows in the Asset and Funds Management divisions. **Beach Petroleum (-19.3%)** declined due to ongoing uncertainty surrounding the Basker Manta Gummy expansion plans. **Felix Resources (-21.6%)** shares ended lower due to a weaker outlook for thermal coal prices. **ABB (-12.8%)** shares declined this month after South Australia's Department of Agriculture reported weaker winter grain production from the recent harvest. **PaperlinX (-37.1%)** declined over the month due to continuing solvency concerns.

Stock Recommendation Summary

Code	Name	Price (A\$)	
		30-Jan-09	Recommendation
ANZ	Australia and New Zealand Banking Group	13.27	HOLD
AUB	Austbrokers	3.63	BUY
AXA	AXA Asia Pacific Holdings	4.73	HOLD
BBG	Billabong International	7.40	HOLD
BLD	Boral	3.31	BUY
BXB	Brambles	6.80	HOLD
CBA	Commonwealth Bank of Australia	26.90	SELL
CPU	Computershare	7.25	BUY
CSL	CSL	37.50	HOLD
DMP	Domino Pizza	2.85	BUY
HSP	Healthscope	4.32	BUY
MCG	Macquarie Communications Infrastructure	0.94	BUY
MQG	Macquarie	25.99	BUY
NAB	National Australia Bank	18.93	BUY
NCM	Newcrest Mining	31.00	HOLD
NWS	News Corporation	12.01	BUY
ORG	Origin Energy	14.00	BUY
ORI	Orica	13.54	BUY
OST	OneSteel	2.43	BUY
QBE	QBE Insurance	24.00	BUY
RKN	Reckon	1.07	BUY
TLS	Telstra Corporation	3.79	HOLD
TOL	Toll Holdings	5.47	HOLD
UGL	United	8.02	BUY
WBC	Westpac Banking Corporation	15.64	HOLD
WDC	Westfield Group	12.04	HOLD
WOW	Woolworths	27.70	HOLD
WPL	Woodside Petroleum	35.38	HOLD

Source: IRESS, GSJBW Research.

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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.

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 2008

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	15%	12%
Hold	62%	66%
Buy	23%	22%

* 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.