

Private Wealth Management

Portfolio Strategy Review - January 2009

Investment 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. 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.
- Included in this document is an analysis of the regulated assets and cash flows of **APA Group (APA)**, **Spark Infrastructure (SKI)** and **SP Ausnet (SPN)**.

Private Wealth Management Investment Strategy

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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%

	Relative Index Performance to S&P/ASX 200		
	1 Month	6 Months	12 Months
Consumer Discretionary	-3.9%	-2.2%	-17.6%
Consumer Staples	4.2%	16.4%	17.0%
Energy	-1.0%	-2.5%	24.0%
Financials	-3.9%	1.5%	-6.7%
Healthcare/Biotech	10.9%	38.0%	36.1%
Industrials	-6.2%	-7.9%	-11.6%
Information Technology	-1.1%	11.3%	27.2%
Materials	3.9%	-10.9%	-2.7%
REITS	-4.8%	-10.0%	-17.4%
Telecommunication Services	5.0%	13.3%	24.9%
Utilities	3.8%	8.4%	13.1%

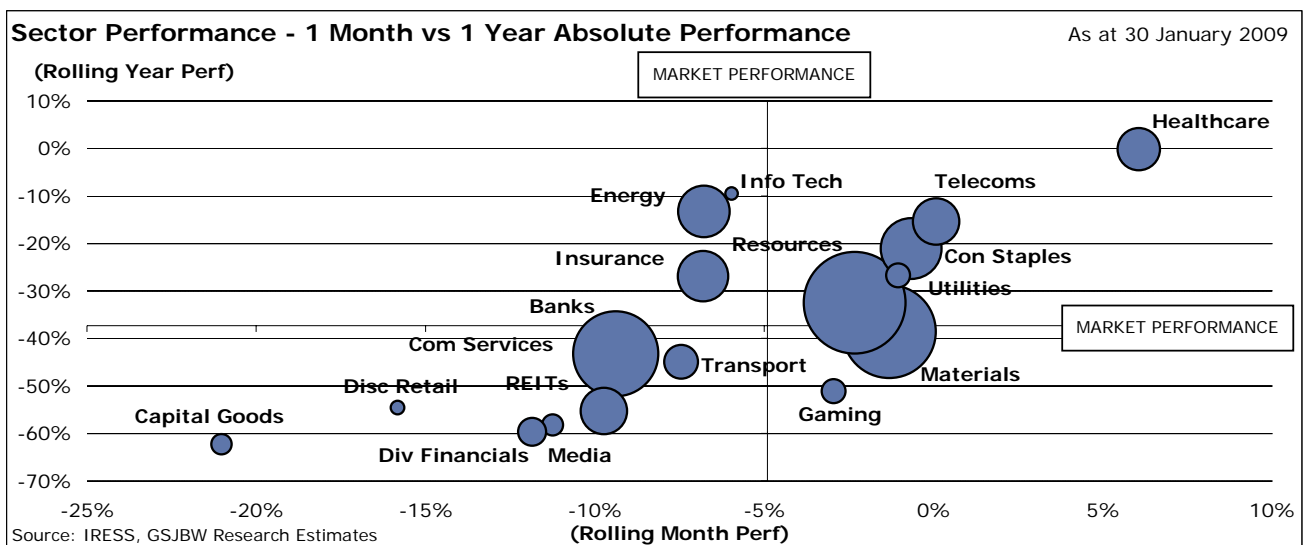
ASX 200 Leading Contributors in January 2009

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

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. **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. **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).

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.

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). **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. **Tabcorp (-5.7%)** announced its 1H09 result which was slightly better than market expectations. **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.

CONSUMER STAPLES

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%. **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.

ENERGY

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. **Santos (-3.4%)** ended the month down after reporting CY08 production of 54.4mmbbl, down 8% on CY07. STO also provided CY09 production guidance of 53-56mmbbl, broadly flat vs CY08.

Oil Search (-6.7%) shares fell at the end of January. During the month, OSH reported CY08 production of 8.6mmbbl; while CY09 guidance has not yet been provided, the company commented that it expects it to be broadly in line with CY08. **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.

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.

FINANCIALS ex PROPERTY TRUSTS

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.

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. **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.

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, **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.

REAL ESTATE INVESTMENT TRUSTS

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.

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. **Westfield Group (-7.0%)** shares were weaker after announcing several negative comments about the outlook for 2009.

HEALTHCARE

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. 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.

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.

INFORMATION TECHNOLOGY

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

INDUSTRIALS

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. 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.

Chemicals

NUF (+7.7%) shares ended the month higher on the back of a solid result from global peer Monsanto (MON). **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

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%.

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

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

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 of 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. **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.

Gold

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.

TELECOMMUNICATION SERVICES

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.

UTILITIES

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%. **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. 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.

Regulated assets APA Group (APA), Spark Infrastructure (SKI) and SP Ausnet (SPN)

Order of preference

1. SP Ausnet (SPN)
2. Spark Infrastructure (SKI)
3. APA Group (APA)

Yield investors have been drawn to the cash flows and yield returns of **APA**, **SKI** and **SPN**. The underlying assets of these companies are broadly similar ie. energy/gas transmission operating in regulated monopolies.

Regulation has two sides: it creates a degree of certainty on energy pricing and therefore company returns, but it introduces an external element through the regulator with sets the returns that can be achieved. Recently it was decided that regulation is to move from state based regulators to a national regulator, the Australian Energy Regulator (AER). As part of the shift to national regulation, the AER is undertaking a weighted average cost of capital (WACC) review which is the most important input into calculating regulated revenue earned on networks. By setting a WACC the regulator is effectively determining the rate of return the asset owners can earn on the regulated asset base (RAB) ie the value of the assets set by the regulator, it is however important to note the new WACC will not apply until the next reset date.

The AER released its draft WACC review late last year. Based on current market conditions it implies a nominal WACC of 8.60% for electricity assets or around 0.8% less than currently. Gas assets will probably be slightly higher as gas is viewed as higher risk with more volatile volumes. The AER decision was below our expectations and the markets expectations. Accordingly we expect market sentiment towards the regulated utilities to remain volatile, with the next key news flow being the release of the AER's final WACC decision by 31 March 2009.

While we await this decision, we will focus on the cash flow generation of these businesses and where the cash is directed. With finding sustainable yield proving a more difficult task in equity markets we highlight the risks to distributions, debt concerns and interest cover.

Analysis of cash flows for this financial year can be seen below. Of particular note are the yields which are currently well above the market average (but largely unfranked) and generally covered by free cash flow (FCF).

The expansionary capex numbers for this year, in the table below, are the expected capital required to fund this year's additional investment. In comparison to FCF these numbers appear quite high however the risk is that the companies cannot achieve an adequate rate of return on this capital invested in which case it may not be raised or spent. There is also risk in this environment of low credit availability that these companies come to the equity market to fund a proportion of these commitments, but this is a long dated risk.

Cash Flow Analysis	APA	SKI	SPN
FY09 Expected Figures (AU\$m)			
Operating EBI TDA	399	491	693
Gross cash flow	399	491	641
Net interest paid	-202	-173	-290
Operating cash Flow	213	318	377
Maintenance capex	-46	-110	-132
Free Cash Flow (FCF) Pre Divs	167	208	245
Dividends paid	-146	-191	-245
Expansionary capex	-376	-135	-318
New debt raised to fund expans capex	-337	-118	-318

Source: GSJBW Estimates

The gearing in these companies is relatively high with a range of ~57% to ~69% for FY09. In each case the companies are earning over two times their annual interest commitment, which in comparison to the rest of the market is quite low, so there is a risk the amount distributed to shareholders does not grow at the expected rate or is in fact cut. Below are metrics as at 3 Feb 09.

SKI trades on a slightly higher yield than the other two, because it is a more complicated entity and around 30% of earnings are unregulated, 15% of these are coming from mining operations. Here the mining companies pay for the work so there is some inherent risk to those cash flows but the regulator does have some input into pricing.

STOCK		APA	SKI	SPN
Current Price (\$/share)*		2.93	1.39	1.09
YIELD (%)	08 H	10.1%	13.3%	10.6%
	09 E	10.6%	13.7%	10.9%
	10 E	11.1%	14.0%	11.2%
EV/EBITDA	08 H	9.8	7.6	8.6
	09 E	10.6	7.7	7.7
	10 E	9.9	7.5	6.2
EBITDA CAGR (%)	FY08-11	2.1%	4.8%	3.0%
DPS (¢)	08 H	29.5	18.5	11.6
	09 E	31.0	19.0	11.9
	10 E	32.5	19.4	12.2
DPS CAGR (%)	FY08-11	3.9%	2.5%	2.0%
FRANKING (%)	09 E	0%	0%	32%
	10 E	0%	0%	32%
Debt / Debt + Equity	09 E	69%	57%	62%
	10 E	70%	58%	64%
Distribution Cover (%)	09 E	118%	109%	105%
	10 E	121%	116%	101%
Interest Cover (x)	09 E	2.1	2.8	2.4
	10 E	2.1	2.9	2.5

* As at close 4th Feb 09

E - expected figure

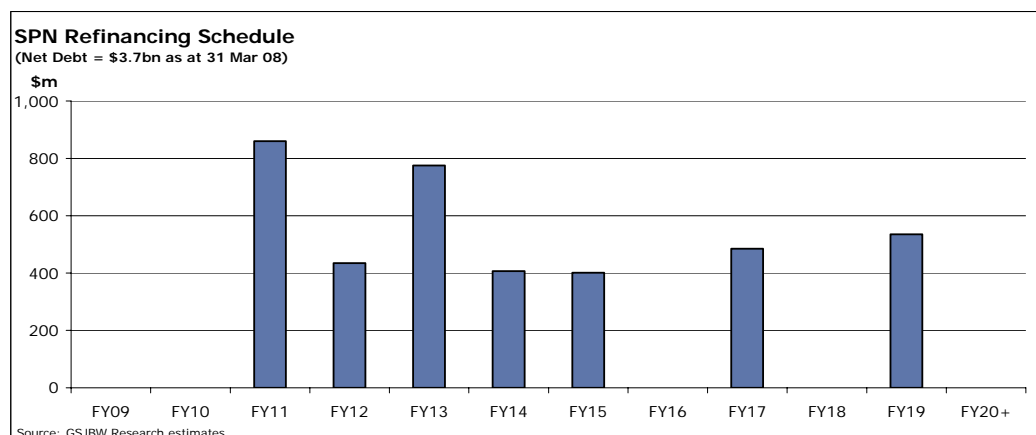
H - historic figure

Source: GSJBW Estimates

SPN Financial Position

As at 31 Mar 08, SPN's net debt was \$4.0bn with gearing (D/D+E) of 62% and interest coverage (EBITDA/Net Interest) of 2.4x. Its next refinancing is \$860m in FY11. SPN has hedged its interest rate exposure in line with recent resets but remains exposed to credit spreads at time of refinancing.

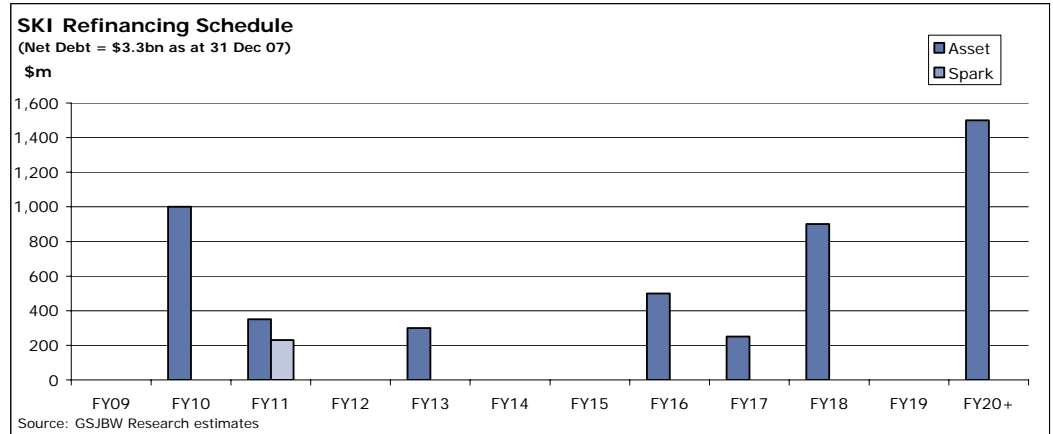
We are comfortable with this debt position and **this is our preferred of the three stocks.**



Source: GSJBW Research estimates

SKI Financial Position

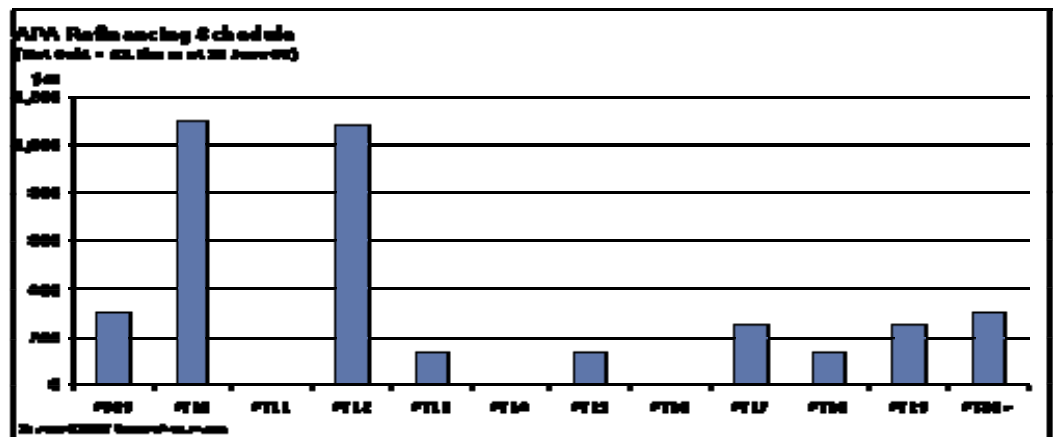
As at 31 Dec 08, SKI's net debt was \$3.3bn with gearing (D/D+E) of 57% and interest coverage (EBITDA/Net Interest) of 2.8x. Its next refinancing is \$1bn in FY10. SKI has hedged its interest rate exposure in line with recent resets, but remains exposed to credit spreads at the time of refinancing. Anecdotally, regulated utilities are a preferred asset of local banks as cash flows are effectively underwritten by the regulator so they are likely to refinance the \$1bn in FY10. **This is our second pick of the three.**



Source: GSJBW Research estimates

APA Financial Position

In mid December 08 APA successfully established its unlisted investment vehicle called Energy Infrastructure Investments Pty Ltd. They sold annuity style assets including gas stations, gas processing and gas pipelines for book value \$674m and the funds were used to decrease gearing to ~69% from ~73%. APA will maintain a 19.9% interest in the unlisted vehicle and will provide commercial and operating services to it under a long term agreement. APA are likely to pay down the \$300m due this year with funds from asset sales in December. The next ~\$1bn refinancing in FY10 is likely to remain an issue for the performance of the stock, **as a result APA is our least favoured exposure of the three options.**



Source: GSJBW Research estimates

What are the assets?

SPN

SPN has three assets, all in Victoria, which it owns and operates:

- 1. Electricity Transmission Network (Vic)** – Statewide.
- 2. Electricity Distribution Network (Vic)** – Located in eastern half of Victoria (one of five Victorian electricity distribution networks).
- 3. Gas Distribution Network (Vic)** – Located in western half of Victoria (one of the three Victorian gas distribution networks).

Asset	SPN o'ship %	FY09 RAB*		Revenue		EBITDA		Reset Date
		\$m	%	\$m	%	\$m	%	
Elec Trans	100%	2,225	45%	532	46%	307	45%	Apr-14
Elec Dist	100%	1,654	33%	451	39%	247	36%	Jan-11
Gas Dist	100%	1,072	22%	170	15%	129	19%	Jan-13
Total		4,951	100%	1,152	100%	683	100%	

* Regulated Asset Base (RAB); Source: Company data & GSJBW Research estimates

SKI

SKI's portfolio of assets comprises 49% of three electricity distribution networks plus an unregulated contracting business. Its networks comprise:

- 1. Citipower (Vic)** - Located in Melbourne's CBD and inner suburbs (one of the five Victorian electricity distribution networks).
- 2. Powercor (Vic)** - Located in central and western regional areas of Victoria and Western Melbourne (one of the five Victorian electricity distribution networks).
- 3. ETSA (SA)** – Sole electricity distribution network.

Asset	SKI O'ship %	FY09 RAB		Revenue		EBITDA		Reset Date
		\$m	%	\$m	%	\$m	%	
Citipower	49%	1,239	22%	123	16%	86	16%	Jan-11
Powercor	49%	2,058	36%	280	36%	193	37%	Jan-11
ETSA	49%	2,455	43%	376	48%	245	47%	Jul-10
Total		5,752	100%	779	100%	523	100%	

* Regulated Asset base (RAB); Source: Company data & GSJBW Research estimates

APA

APA's portfolio of assets includes energy and gas transmission pipelines and distribution networks, electricity transmission lines and an asset management business. About 90% of group earnings are derived from gas transmission with the balance spread across the remaining businesses.

Historically gas demand tends to increase at ~2-3% pa in line with GDP. The main drivers of our forecast for increased gas demand longer term are carbon constraints (leading to increased gas demand) and alternative coal seam and natural gas. We do note however in the near term that the upside from carbon will be offset by weakness in resource based gas volumes in WA and Qld pipelines.

APA Group Asset	APA's Equity	% of APA val'n
Gas Pipelines		
Western Australia		13%
Goldfields	88%	11%
Parmelia	100%	1%
Midwest	50%	1%
Mondara Gas Storage	100%	1%
Queensland		23%
Roma-Brisbane	100%	8%
Carpentaria	100%	6%
Allgas	100%	9%
Victoria		14%
GasNet	100%	
New South Wales		23%
Moomba-Sydney	100%	23%
Central West	100%	1%
Central Ranges	100%	2%
South Australia		16%
Envestra	19.1%	11%
SEA Gas (33.3%)	33.3%	4%
Various Laterals		1%
Northern Territory		3%
Amadeus	96%	0%
Electricity Transmission		0%
Unlisted Vehicle	0.199	3%
Asset Management		5%

Source: GSJBW Research estimates

STOCK RECOMMENDATION SUMMARY			
		Price (\$A)	Recommendation
Code	Name	5-Feb-09	
ABC	Adelaide Brighton Limited	\$1.69	HOLD
AGK	AGL Energy Limited	\$13.80	HOLD
AIO	Asciano Group	\$0.93	BUY
AIX	Australian Infrastructure Fund	\$1.83	BUY
AMC	Arcor Limited	\$5.02	HOLD
ANZ	Australia and New Zealand Banking Group Limited	\$12.34	HOLD
APA	APA Group	\$2.94	HOLD
APN	APN News & Media Limited	\$1.60	SELL
AXM	Apex Minerals NL	\$0.30	SELL
ASX	ASX Limited	\$23.52	HOLD
AUN	Austar United Communications Limited	\$0.81	BUY
AWC	Alumina Limited	\$1.12	SELL
AWE	Australian Worldwide Exploration Limited	\$2.41	BUY
AXA	AXA Asia Pacific Holdings Limited	\$4.26	HOLD
BBG	Billabong International Limited	\$6.77	HOLD
BDG	Bendigo Mining Limited	\$0.17	SELL
BHP	BHP Billiton Limited	\$31.62	BUY
BLD	Boral Limited	\$2.87	BUY
BSL	Bluescope Steel Limited	\$3.39	HOLD
BT	BT Investment Management Limited	\$1.93	HOLD
BXB	Brambles Limited	\$6.17	HOLD
CBA	Commonwealth Bank of Australia	\$28.98	SELL
CFX	CFS Retail Property Trust	\$1.65	HOLD
CGF	Challenger Financial Services Group Limited	\$1.16	HOLD
CMJ	Consolidated Media Holdings Limited	\$1.78	HOLD
CPU	Computershare Limited	\$6.56	BUY
CSL	CSL Limited	\$35.92	HOLD
CTX	Caltex Australia Limited	\$8.63	HOLD
CWN	Crown Limited	\$5.07	HOLD
DJS	David Jones Limited	\$2.12	HOLD
DOW	Downer EDI Limited	\$3.32	HOLD
EQN	Equinox Minerals Limited	\$2.06	HOLD
FGL	Foster's Group Limited	\$5.12	HOLD
FXJ	Fairfax Media Limited	\$1.12	SELL
GFF	Goodman Fielder Limited	\$1.41	HOLD
IPL	Incitec Pivot Limited	\$1.82	HOLD
JHX	James Hardie Industries N.V.	\$3.45	HOLD
LEI	Leighton Holdings Limited	\$17.29	HOLD
LGL	Lihir Gold Limited	\$3.06	HOLD
LNN	Lion Nathan Limited	\$8.08	HOLD
MAP	Macquarie Airports	\$2.00	BUY
MCG	Macquarie Communications Infrastructure Group	\$0.84	BUY
MGX	Mount Gibson Iron Limited	\$0.49	HOLD
MQG	Macquarie Group Limited	\$24.13	BUY
MTS	Metcash Limited	\$4.09	HOLD
NAB	National Australia Bank Limited	\$18.64	BUY
NCM	Newcrest Mining Limited	\$30.15	HOLD
NCM	Newcrest Mining Limited	\$30.15	HOLD
NUF	Nufarm Limited	\$9.49	BUY
NWS	News Corporation	\$11.12	BUY
ORG	Origin Energy Limited	\$14.13	BUY
ORI	Orica Limited	\$11.65	BUY
OSH	Oil Search Limited	\$4.30	HOLD
OST	OneSteel Limited	\$2.08	BUY
OZL	OZ Minerals Limited	\$0.55	NR
PNA	PanAust Limited	\$0.14	NR
PPT	Perpetual Limited	\$28.94	HOLD
PPX	PaperlinX Limited	\$0.38	SELL
QBE	QBE Insurance Group Limited	\$22.79	BUY
RIO	RIO Tinto Limited	\$47.40	HOLD

RMD	ResMed Inc.	\$6.14	HOLD
SGM	Sims Metal Management Limited	\$16.66	HOLD
SIP	Sigma Pharmaceuticals Limited	\$1.15	SELL
SKI	Spark Infrastructure Group	\$1.30	BUY
SPN	SP AusNet	\$1.03	BUY
STO	Santos Limited	\$13.71	HOLD
SUN	Suncorp-Metway Limited	\$7.13	HOLD
TAH	TABCORP Holdings Limited	\$6.59	HOLD
TLS	Telstra Corporation Limited	\$3.68	HOLD
TOL	Toll Holdings Limited	\$4.75	HOLD
TSE	Transfield Services Limited	\$1.93	HOLD
TTS	Tatts Group Limited	\$2.79	HOLD
UGL	United Group Limited	\$7.38	HOLD
WDC	Westfield Group	\$10.34	HOLD
WOR	WorleyParsons Limited	\$11.75	HOLD
WOW	Woolworths Limited	\$27.73	HOLD
WPL	Woodside Petroleum Limited	\$32.35	HOLD

Source: GSJBW Research estimates

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¹ EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

For Insurers

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Hold	62%	66%
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