

# PRIVATE BANK PORTFOLIO SERVICES DAILY BULLETIN



Wednesday, 08 August 2007

Topic	Page Number
Overnight Summary	2
US Equities	3
US Bonds	3
Commodities	3
International Markets	4
US Economic Action	4
Australian Market Summary	5
Australian Equity Market Movers (Sector)	5
Australian Equity 5 Best / Worst Stocks	5
Australian Companies Ex-Dividend	6
Australian Equity Snapshots	7
Summary of Daily Research Reports	8

ST GEORGE BANK LIMITED  
SHARE PRICE AS AT 07 August 2007  
Last Sale \$33.18  
Changes -\$0.38  
Total Volume 1,428,615

Web Address: [www.stgeorge.privatebank.com.au](http://www.stgeorge.privatebank.com.au)  
[www.banksa.privatebank.com.au](http://www.banksa.privatebank.com.au)

# Daily Bulletin

08 August 2007

## Overnight Markets

US stocks flip-flopped between positive and negative territories before ending with modest gains. Comments from the US Federal Reserve gave investors reason to cheer, although mixed earnings reports and a poor reading on productivity held back gains.

## Australian Market Summary

Following a tough start to the week, the Australian market bounced back, opening Tuesday trading sharply higher. The market held onto early gains, with the All Ordinaries finishing the day 64 points in the black.

## Flashnotes

**Hills Industries (HIL)** - FY07 Result: In line with expectations  
**Telstra Corp (TLS)** - TEN signs digital transmission deal with FOXTEL  
**ConnectEast (CEU)** - Transurban acquires a 6.28% stake in CEU  
**Tap Oil (TAP)** - Totem-1 oil well is a duster  
**Macquarie Airports (MAP)** - Copenhagen Airport 1H07 Results  
**Transurban (TCL)** - Transurban acquires 6.28% stake in ConnectEast Group  
**Leighton Holdings (LEI)** - John Holland awarded Stage One Northern Sewerage Project worth \$301M  
**Publishing & Broadcasting (PBL)** - TEN signs digital transmission deal with FOXTEL  
**News Corporation (NWS)** - TEN signs digital transmission deal with FOXTEL  
**Ten Network (TEN)** - TEN signs digital transmission deal with FOXTEL  
**Energy Developments (ENE)** - ENE enters a Gas Supply Agreement with Anglo Coal  
**Rio Tinto (RIO)** - Heads of Agreement signed for Malaysian aluminium smelter  
**Mirvac Real Estate Investment Trust (MRZ)** - Proposal to acquire MIF and MRP  
**AXA Asia Pacific (AXA)** - 1H07 benefits from strong markets  
**Paladin Resources (PDN)** - Further significant uranium intercepts from Bigrlyi Uranium Project (PDN 41.7%)  
**Iluka Resources (ILU)** - Divestment of Narama Coal interest to Xstrata  
**Bradken (BKN)** - Strong FY07 result: in line with expectations  
**Australian Agricultural (AAC)** - 1H07 result: Outlook remains challenging  
**Centro Retail Trust (CER)** - FY07 Result: Just above expectations

## Foreign Equities

Index/Security	Close	Chg	%Chg
Dow Jones (US)	13,504	+35.5	+0.3
S&P 500	1,477	+9.0	+0.6
NASDAQ	2,562	+14.3	+0.6
FTSE 100 (UK)	6,309	+119.7	+1.9
DAX 30 (Germany)	7,514	+69.2	+0.9
CAC 40 (France)	5,620	+87.4	+1.6
Nikkei (Japan)	16,922	+7.3	+0.0

Figures as at 08/08/2007 8:30 AM AEST

## Australian Market Summary

Index/Security	Close	Chg	%Chg
All Ordinaries	6,014	+64.1	+1.1
ASX 200	5,985	+64.8	+1.1
ASX Small Ords	3,759	+46.8	+1.3
Industrials	6,703	+96.7	+1.5
Fin.-x-Prop Trusts	6,986	+86.9	+1.3
Materials	12,878	+11.7	+0.1
Cons. Staple	7,638	+98.9	+1.3
Telecom Serv.	1,661	+23.7	+1.4
10y Bond Yield	5.96	+0.05	+0.8

Figures as at 07/08/2007 4:30 PM AEST

## Commodities

Index/Security	Close	Chg	%Chg	Units
<b>Base Metals</b>				
CRB Index	312.8	+0.47	+0.2	
Aluminium	2,604	+13.3	+0.5	USD/t
Copper	7,873	+51.5	+0.7	USD/t
Lead	3,213	+62.0	+2.0	USD/t
Nickel	28,750	-455.0	-1.6	USD/t
Tin	16,680	+570.0	+3.5	USD/t
Zinc	3,425	+34.5	+1.0	USD/t

### Precious Metals

Gold	672	+0.1	+0.0	USD/Oz
Silver	13.1	+0.1	+1.0	USD/Oz

### Energy

Oil (West Texas)	72.4	+0.4	+0.5	USD/Bar
------------------	------	------	------	---------

Figures as at 08/08/2007 8:30 AM AEST

## Currencies

Index/Security	Close	Chg	%Chg	Units
AUD / USD	0.855	-0.003	-0.4	\$US
AUD / Euro	0.622	0.000	0.0	\$A
AUD / STG	0.423	+0.000	+0.1	GBP
AUD / Yen	102	-0.5	-0.5	Yen
USD / Yen	119	0.0	0.0	Yen
Euro / USD	1.37	-0.01	-0.4	\$US

Figures as at 07/08/2007 4:30 PM AEST

## Daily Research Reports

---

**Hills Industries (HIL)** - FY07 Result: Respectable but uninspiring  
**Australian Agricultural (AAC)** - 1H07 Results: Drought conditions lower profitability  
**Centro Retail Trust (CER)** - FY07 result: Just above expectations  
**AXA Asia Pacific (AXA)** - Strong 1H07 result - AXA benefits from favourable environment  
**Tap Oil (TAP)** - Totem-1 oil well is a duster  
**Bradken (BKN)** - FY07 result: Strong EBITDA growth, in line with expectations  
**Sino Gold (SGX)** - SGX approves White Mountain development in China  
**Food Beverage & Tobacco (3020)** - FY07 sector preview: Food & Beverage  
**Investa Property Group (IPG)** - Recommend accept offer  
**Healthscope (HSP)** - Releases high level FY07 forecasts - in line with expectations  
**Telecom NZ (TEL)** - FY07 Result: TEL faces challenging times

**US Equities**

US stocks flip-flopped between positive and negative territories before ending with modest gains. Comments from the US Federal Reserve gave investors reason to cheer, although mixed earnings reports and a poor reading on productivity held back gains.

The US Federal Reserve acknowledged it was concerned about the recent credit problems but said the economy remained on track. This calmed investors' nerves as the comments could indicate that the Fed will move if the credit situation worsens. However, the Fed stressed inflation remained its primary concern as it held interest rates steady for the ninth straight time at 5.25%.

On the earnings front, Wynn Resorts jumped 10% after delivering results that beat expectations by a mile. Duke Energy also produced better than expected results and its shares finished up 5.4%. On the flip side, Warner had to face the music after announcing widening losses for the 2Q due to slower music sales. Its shares fell to a tune of 10.3%.

After the closing bell, Cisco Systems reported earnings that came in slightly ahead of expectations, thanks to stronger quarterly sales. The technology bellwether said it earned 36cps, compared with 35cps that analysts were expecting.

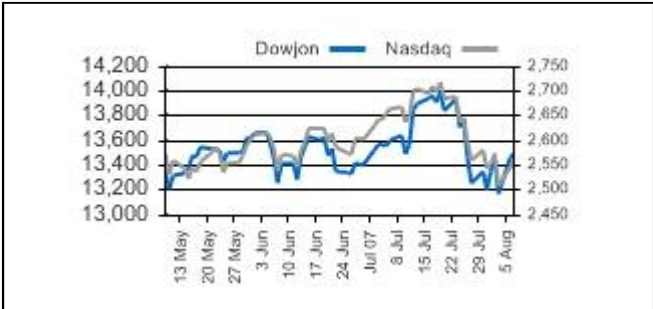
Unlike previous sessions that saw gains, market breadth was positive with all NYSE sector indices finishing up. However, buying interest came late in the session again, prompting some to speculate that the market remains nervous.

**US Bonds**

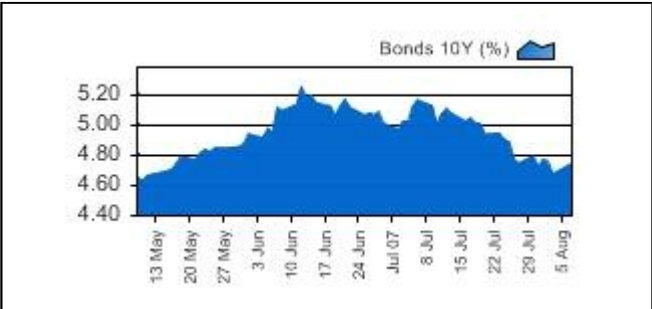
Treasury bond prices slipped again in volatile trade after the US Federal Reserve kept interest rates on hold as expected.

The yield on the 30-year note inched up 0.01 to 4.92%, while the yields on the two- and five-year notes are 4.56% (+0.05) and 4.59% (+0.02) respectively. Bond prices and yields are inversely correlated.

**US EQUITIES**



**US BONDS**



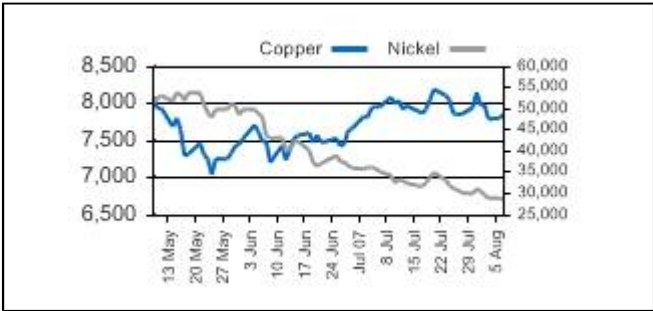
**Commodities**

Tin surged to fresh record highs while copper continued to be well supported due to a more optimistic view on the US economy. Copper fell in earlier sessions as traders were worried that a weakening US economy would reduce demand for the red metal.

Tin's strong performance was underpinned by speculation that there will be a shortage of the metal once unreported stocks of tin are run down. Indonesia's continual crack down on illegal mines is not helping either. Indonesia is the second largest producer of tin after China.

Gold dipped earlier ahead of the US Federal Reserve's announcement, but soon recovered to end flat as US interest rates held steady at 5.25%. Meanwhile, crude oil managed to steady itself after its sharp fall from record highs. A firmer US dollar is also weighing on commodities.

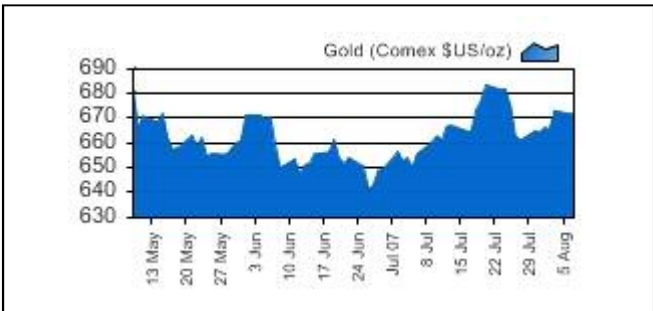
**COPPER & NICKEL**



**OIL**



**GOLD**



International Markets

Major European markets made strong gains as banks and insurance companies enjoyed a stellar recovery following the recent sell down due to turmoil on the credit markets.

French bank Natixis and German counterpart Commerzbank were the top percentage gainers, soaring 9% and 5% respectively. Other advancers in the sector included Deutsche Bank, Societe Generale, BNP Paribas, and Axa. Shares in these companies rallied over 3% each.

A broker upgrade for the sector gave financial stocks a further boost as more analysts are coming around to the view that the US sub-prime contagion is relatively well contained and is unlikely to impact positive economic growth and corporate earnings in Europe. Standard Chartered's stronger than expected half year earnings is a case in point. The bank rose 4.3% on the day.

Elsewhere, Bayer gave back yesterday's gains and fell 1.9% as enthusiasm waned following its 2Q results that only met expectations. Over in Sweden, Securities AB plunged 10% to a three-year low after the security services firm announced a 2Q results that fell well short of expectations.

Amongst the European markets, Sweden's OMX index was a rare decliner, falling 1.39%. In contrast, the FTSE 100 led gainers by adding 1.93%, while the DAX and CAC finished up 0.93% and 1.58% respectively.

The US dollar firmed against the euro and British pound as reassuring comments by the US Federal Reserve on the credit market problems steadied nerves. US interest rates were left unchanged as expected.

In early AEST trade, the pound slipped 0.46% to US\$2.0219, while the Australian dollar continues to soften ahead of the Reserve Bank of Australia's interest rate decision later today.

FTSE EURO TOP 100



\$US/\$A VS EUR/\$A



Australian Stock Prices Overnight

In New York, News Corp fell by US\$0.22 to US\$22.34, equivalent to A\$26.11, A\$0.04 below its last close on the ASX.

ResMed rose by US\$0.25 to US\$45.40, equivalent to A\$5.31, A\$0.09 above its last close on the ASX.

In London, Rio Tinto rose 51.0 pence to £32.70, A\$1.21 higher in Australian currency terms.

BHP-Billiton rose 33.0 pence to £13.66, A\$0.78 higher in Australian currency terms.

Henderson Group Plc rose 7.25 pence to £1.54, A\$0.17 higher in Australian currency terms.

## US Economic Action

As expected, the US Federal Reserve held interest rates steady at 5.25%. However, its accompanying statement was positive for equity markets as the Fed said the US economy is still poised for modest growth despite the recent credit market problems. Nonetheless, investors are not expecting an interest rate cut anytime soon.

Meanwhile, the Productivity report came in below expectations and Consumer Credit jumped. Productivity rose by 0.8% to 1.8% for the 2Q, but this was still below the 2% economists were hoping for. Consumer Credit hit US\$13.2B, more than double the consensus. These reports support the view that interest rates are not likely to fall.

- Wholesale Inventories (for June, released Thur AEST, F/cast: 0.4%, Prior: 0.5%)
- Crude Inventories (for week of 3 August, released Thur AEST, Prior: -6497K)
- Initial Claims (for week of 4 August, released Fri AEST, Prior: 307K)
- Export Prices excluding Agriculture (for July, released Sat AEST, Prior: 0.1%)
- Import Prices excluding Oil (for July, released Sat AEST, Prior: 0.2%)
- Treasury Budget (for July, released Sat AEST, F/cast: -US\$32.5B%, Prior: -US\$33.2B)

**Australian Market Summary:** As at 07 August 2007

**Overview**

AUSTRALIAN EQUITIES MARKET: Following a tough start to the week, the Australian market bounced back, opening Tuesday trading sharply higher. The market held onto early gains, with the All Ordinaries finishing the day 64 points in the black.

The S&P/ASX 200 climbed 65 points higher, as the Financials sector bounced back from yesterday's sell-off. National Bank (+\$0.99), Macquarie Bank (+\$4.28), Westfield Group (+\$0.28) and AXA (+\$0.41) led the charge for Financials. Industrials rose with Wesfarmers (+\$1.12) finding support from investors, along with buying in Macquarie Infrastructure Group (+\$0.15), Qantas (+\$0.14) and Leighton Holdings (+\$1.57). Consumer Staples rose on buying in Woolworths (+\$0.31), Coles (+\$0.24) and Coca-Cola Amatil (+\$0.28). The only disappointing sector was Energy, with selling of Paladin Resources (-0.10), WorleyParsons (-\$0.35) and Woodside Petroleum (-\$0.12). Other notable movers on the day included Publishing and Broadcasting (+0.68), Telstra (+\$0.06), CSL (+\$2.68), Babcock and Brown Infrastructure (+\$0.07), DUET (+\$0.25) and Australian Agricultural Company (-0.23).

In other news, AXA reported 1H07 NPAT of \$374M, up 23% on 1H06. The result was driven by strong funds inflows in Australia, buoyant equity markets, lower claims in financial protection and good expense control. Bradken (+\$0.15) reported NPAT of \$49.1M, up 45% on FY06. EBITDA was \$102.6M (including \$10.8M contribution from acquisitions), up 32% and broadly in-line with forecasts. Centro Retail Trust (+\$0.10) reported FY07 NPAT of \$266.6M up 16.9% on the pcp, broadly in-line with our forecast. Management reaffirmed FY07 distribution guidance of 12.7cpu and 13.73cpu for FY08, representing DPS growth of 8.1%.

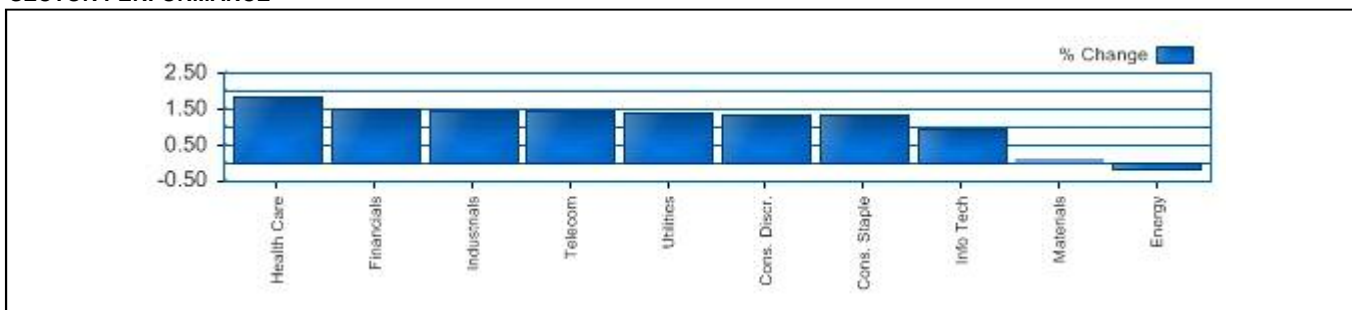
AUSTRALIAN BOND MARKET: Australian Treasury bond yields went about 4 basis points higher over Tuesday trading.

AUSTRALIAN DOLLAR: The Australian dollar moved higher against the US currency, to finish Australian trading at around US\$0.859.

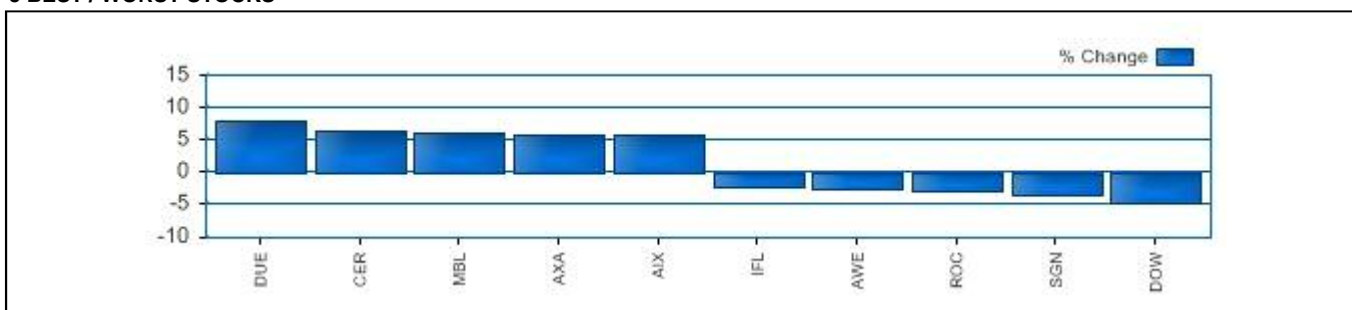
AUSTRALIAN ECONOMIC STATISTICS: AIG PERFORMANCE OF CONSTRUCTION INDEX: The construction index, measuring the activity in the housing market, fell 2.5 points to 48.8 in July. A reading below 50 is signalling a contraction in the building industry, and a further increase in interest rates would put more pressure on the industry.

**Market Movers**

**SECTOR PERFORMANCE**



**5 BEST / WORST STOCKS**



## Companies Ex-Dividend

Ex Date	Sub Type	Security	Div Amt (cents)	Franking
21-Aug-07	Final Year Result	Global Mining Investments Limited (GMI)	4	100
20-Aug-07	Final Year Result	Fiducian Portfolio Services Limited (FPS)	6	100
20-Aug-07	Final Year Result	G.U.D. Holdings Limited (GUD)	34	100
20-Aug-07	Final Year Result	Telecom Corporation of New Zealand Limited (TEL)	14.5	0
17-Aug-07	Final Year Result	Silver Chef Notes (SIVG)	5.01	0
16-Aug-07	Final Year Result	Tidewater Investments Limited (TDI)	2.5	100
15-Aug-07	Final Year Result	CMI Limited Converting Preference Shares (CMIPB)	3.5	100
15-Aug-07	Final Year Result	Milton Corporation Limited (MLT)	43	100
14-Aug-07	Final Year Result	Alesco Corporation Limited (ALS)	36	100
14-Aug-07	Final Year Result	Argo Investments Limited (ARG)	15	100
13-Aug-07	Half Yearly Result	Coal & Allied 7% Cumulative Preference Shares (CNAPA)	1.75	100
13-Aug-07	Special Event	HPAL Limited (HPX)	13.25	100
13-Aug-07	Half Yearly Result	HPAL Limited (HPX)	4.75	100
13-Aug-07	Final Year Result	Korvest Limited (KOV)	14	100
09-Aug-07	Final Year Result	IBT Education Limited (IBT)	5	100
08-Aug-07	Half Yearly Result	Alumina Limited (AWC)	12	100
08-Aug-07	Final Year Result	Pro-Pac Packaging Limited (PPG)	1	100
08-Aug-07	Half Yearly Result	Rio Tinto Limited (RIO)	60.69	100
08-Aug-07	Half Yearly Result	Westfield Group (WDC)	53.25	0

## Flashnotes

### **Hills Industries (HIL)** - FY07 Result: In line with expectations

08-Aug-07 01:08

HIL's FY07 reported NPAT was \$47.2M, 9% above FY06, and largely in line with our forecast. EPS grew 6.7% to 27.6cps. Divisionally, the strongest performance was by the Building & Industrial Products division. The Home, Hardware & Eco Products division recorded solid growth on flat margins. In a break from recent years, the Electronic Security & Entertainment division disappointed with moderate sales growth and EBIT down on the pcp. A fully franked, final dividend of 14 cps was declared.

### **Telstra Corp (TLS)** - TEN signs digital transmission deal with FOXTEL

07-Aug-07 18:21

TEN's digital signal and program schedule will appear on metropolitan pay-TV carrier FOXTEL's platform and electronic program guide from Sept-07. TLS owns 50% of FOXTEL. To date, TEN has only been broadcast to FOXTEL's cable subscribers on an analogue signal. The new arrangement will enable TEN's signal to be delivered to FOXTEL's satellite subscribers in Brisbane, Melbourne, Sydney, NSW central coast and Geelong. FOXTEL already transmits digital signals for the Nine Network, ABC and SBS.

### **ConnectEast (CEU)** - Transurban acquires a 6.28% stake in CEU

07-Aug-07 18:15

Transurban (TCL) has announced that it has acquired a 6.28% interest in CEU via cash-settled equity swaps (4.36%) and a direct holding (1.92%). The average price per share is \$1.26, with the consideration funded from existing facilities. TCL stated this would not impact its distribution target. TCL advised that the acquired interest is a strategic stake and has no current intention to make a takeover bid.

**Tap Oil (TAP) - Totem-1 oil well is a duster***07-Aug-07 17:11*

TAP has completed drilling of the Totem-1 well in Western Australia. Preliminary results show that it is not an oil discovery. The well will now be plugged and abandoned. In our valuation of TAP we attributed a risked value of 8 cents per share to the Totem-1 well. That value is now gone as we now believe, after the completion of drilling, that Totem-1 has no value. The next stage of TAP's exploration is the Maitland appraisal in August 2007, to which we have attributed a risked value of 49 cps.

**Macquarie Airports (MAP) - Copenhagen Airport 1H07 Results***07-Aug-07 16:27*

Copenhagen Airport (CPH) has announced a 1H07 EBITDA of DKK777M (~A\$168M), up 1.4% YoY. A five day SAS cabin crew strike and the acceleration of a central security checkpoint has impacted on the airport's 1H07 aeronautical and concession revenues. Rental and services revenue remains strong. Operating expenses declined 2.4% improving EBITDA margins. CPH has also announced an interim dividend of DKK200M (~A\$43.2M). CPH aims to maintain a 100% payout ratio going forward.

**Transurban (TCL) - Transurban acquires 6.28% stake in ConnectEast Group***07-Aug-07 16:22*

TCL has announced that it has acquired a 6.28% interest in the ConnectEast Group via cash-settled equity swaps (4.36%) and a direct holding (1.92%). The average price per share is \$1.26, with the consideration funded from existing facilities. TCL stated this would not impact its distribution target. TCL advised that the acquired interest is a strategic stake and has no current intention to make a takeover bid.

**Leighton Holdings (LEI) - John Holland awarded Stage One Northern Sewerage Project worth \$301M***07-Aug-07 16:08*

LEI today announced that one of its subsidiaries, John Holland, has been awarded a \$301M contract to construct Stage One of the Northern Sewerage Project by the Melbourne Water Corporation. The project involves the construction of 8km of tunneled sewers in the Northern suburbs of Melbourne. Construction is expected to commence shortly and this first of the two-stage project is due for completion by 2012.

**Publishing & Broadcasting (PBL) - TEN signs digital transmission deal with FOXTEL***07-Aug-07 15:44*

TEN's digital signal and program schedule will appear on metropolitan pay-TV carrier FOXTEL's platform and electronic program guide from Sept-07. PBL owns 25% of FOXTEL. To date, TEN has only been broadcast to FOXTEL's cable subscribers on an analogue signal. The new arrangement will enable TEN's signal to be delivered to FOXTEL's satellite subscribers in Brisbane, Melbourne, Sydney, NSW central coast and Geelong. FOXTEL already transmits digital signals for the Nine Network, ABC and SBS.

**News Corporation (NWS) - TEN signs digital transmission deal with FOXTEL**

*07-Aug-07 15:41*

TEN's digital signal and program schedule will appear on metropolitan pay-TV carrier FOXTEL's platform and electronic program guide from Sept-07. NWS owns 25% of FOXTEL. To date, TEN has only been broadcast to FOXTEL's cable subscribers on an analogue signal. The new arrangement will enable TEN's signal to be delivered to FOXTEL's satellite subscribers in Brisbane, Melbourne, Sydney, NSW central coast and Geelong. FOXTEL already transmits digital signals for the Nine Network, ABC and SBS.

**Ten Network (TEN) - TEN signs digital transmission deal with FOXTEL**

*07-Aug-07 15:15*

TEN's digital signal and program schedule will appear on metropolitan pay-TV carrier FOXTEL's platform and electronic program guide (EPG) from Sept-07. To date, TEN has only been broadcast to FOXTEL's cable subscribers on an analogue signal. The new arrangement will enable TEN's signal to be delivered to FOXTEL's satellite subscribers in Brisbane, Melbourne, Sydney, NSW central coast and Geelong. FOXTEL already transmits digital signals for the Nine Network, ABC and SBS.

**Energy Developments (ENE) - ENE enters a Gas Supply Agreement with Anglo Coal**

*07-Aug-07 14:58*

ENE has announced that a Gas Supply Agreement has been executed with Anglo Coal which will underpin a 45MW Coal Mine Methane Power Project at Anglo Coal's Moranbah North Mine in Queensland's Bowen Basin. ENE targets to have the project complete and in full commercial operation during the December quarter of 2008. The total project budget of \$60M is expected to be funded from existing cash reserves and debt facilities.

**Rio Tinto (RIO) - Heads of Agreement signed for Malaysian aluminium smelter**

*07-Aug-07 14:41*

RIO and Malaysian conglomerate CMS have signed a Heads of Agreement for the development of an Aluminium smelter in the State of Sarawak, Malaysia. A detailed feasibility study into the project has commenced. The smelter will have an initial capacity of 550Kt with the capability to be expanded to 1.5Mt. First production from the smelter is expected 4Q CY10. Electricity for the smelter will come from the Bakun hydro-electric dam, which is currently under construction.

## **Mirvac Real Estate Investment Trust (MRZ) - Proposal to acquire MIF and MRP**

07-Aug-07 13:29

MRZ today announced it has entered into Merger Implementation Deeds for the proposed acquisition of all securities in the Mirvac Industrial Fund (MIF) and the Mirvac Retail Portfolio (MRP) for a total cash consideration of \$94.1M. These assets will complement the existing portfolio and increase MRZ's gross assets to approximately \$1.5B, and provide potential development opportunities. A unitholder meeting will be held in September/October 2007 to approve the proposal.

## **AXA Asia Pacific (AXA) - 1H07 benefits from strong markets**

07-Aug-07 11:26

AXA reported 1H07 NPAT of \$374M, up 23% on 1H06. The result was driven by strong funds inflows in Australia, buoyant equity markets, strong claims experience in financial protection and good expense control. Hong Kong experienced strong earnings growth benefiting from recent acquisitions and strong sales growth. Interim dividend has been increased by 23% to 9.25 cps (35% franked). AXA also announced a \$150M increase in its on-market share buy-back to \$400M.

## **Paladin Resources (PDN) - Further significant uranium intercepts from Bigrlyi Uranium Project (PDN 41.7%)**

07-Aug-07 11:06

Energy Metals (EME) has released additional uranium (eU3O8) intersections from its Bigrlyi exploration program (PDN controls 41.7%) via downhole gamma logging (eU3O8). Summary results have now been received for 91 of an approved 262 hole drill program, with uranium mineralisation intersected in 69 of those holes. Importantly, the majority of these holes have been drilled outside the current resource envelope. We believe that EME remains a potential PDN takeover target.

## **Iluka Resources (ILU) - Divestment of Narama Coal interest to Xstrata**

07-Aug-07 10:38

ILU has announced that they will divest its 50% non-operating interest in the Narama thermal coal mine located in NSW to Xstrata for approximately \$53M. ILU will continue to receive an earnings contribution from the asset until the end of the 2007 contractual year. We believe that it is likely that funds gained from this sale will be channeled towards growing ILU's other assets in Murray and Eucla Basin's.

## **Bradken (BKN) - Strong FY07 result: in line with expectations**

07-Aug-07 09:42

BKN reported NPAT of \$49.1M, up 45% on FY06. EBITDA was \$102.6M (including \$10.8M contribution from acquisitions), up 32% and broadly in line with forecasts. Importantly EBITDA growth continued to exceed revenue growth which was up 17% on FY06. Divisionally, strong performance in Mining, Rail and Industrials was partially offset by a weaker performance in Mineral Processing. BKN declared a final fully franked dividend of 17cps, bringing the full dividend to 31.5 cps, up 10.5c on FY06.

## **Australian Agricultural (AAC) - 1H07 result: Outlook remains challenging**

07-Aug-07 09:26

AAC announced 1H07 NPAT of \$5.8M down 31% on the pcp. Cattle inventory numbers jumped by 19% to 630,515. The company reported average or above conditions across most AAC properties. An unfranked dividend of 7cps was declared. The company expects that the recent Winter rainfall will assist with production and lower costs in the 2H07 period. However, the higher \$A and pricing issues may offset the benefits.

## **Centro Retail Trust (CER) - FY07 Result: Just above expectations**

07-Aug-07 09:01

CER reported FY07 NPAT of \$266.6M up 16.9% on the pcp, broadly in-line with our forecast. Excluding revaluation gains and other AIFRS adjustments, FY07 NPAT was \$85.5M up 57.9% on FY06 reflecting a combination of acquisitions and strong rental growth both domestically and in the USA. Management reaffirmed FY07 distribution guidance of 12.7cpu and 13.73cpu for FY08, representing DPS growth of 8.1%. Strong revaluations totaling \$181M increased NTA by 7.3% to \$1.90 per unit.

## Daily Research Reports

### **Hills Industries (HIL) - FY07 Result: Respectable but uninspiring**

---

HIL's FY07 reported NPAT was \$47.2M, 9% above FY06, and largely in line with our forecast. EPS grew 6.7% to 27.6cps. Divisionally, the strongest performance was by the Building & Industrial Products division. The Home, Hardware & Eco Products division recorded solid growth on flat margins. In a break from recent years, the Electronic Security & Entertainment division disappointed with moderate sales growth and EBIT down on the pcp. A fully franked, final dividend of 14 cps was declared.

### **Australian Agricultural (AAC) - 1H07 Results: Drought conditions lower profitability**

---

AAC reported a 1H07 NPAT of \$5.9M, down 31% on 1H06 and 21% below our expectations. Cattle inventory numbers increased 19% from the pcp to 630,515, boosted by herd retention. An unfranked dividend of 7cps was declared, in addition to the 2cps dividend that was paid in April 2007. AAC reported seasonal conditions to be average or above average for the majority of the company's properties. NTA increased to \$2.38 per share for 1H07, up from \$2.22 per share on the pcp.

### **Centro Retail Trust (CER) - FY07 result: Just above expectations**

---

CER reported an FY07 NPAT of \$266.6M, up 16.9% on the pcp and broadly in line with our forecast. Excluding revaluation gains and other AIFRS adjustments, FY07 NPAT was \$85.5M, up 57.9% on FY06, reflecting a combination of acquisitions and strong rental growth, both domestically and from the US. Management reaffirmed distribution guidance of 12.7cpu for FY07 and 13.73cpu for FY08, representing DPS growth of 8.1%. Strong revaluations, totaling \$181M, increased NTA to \$1.90 as at 30 June 2007.

### **AXA Asia Pacific (AXA) - Strong 1H07 result - AXA benefits from favourable environment**

---

AXA reported 1H07 NPAT of \$374M, up 23% on 1H06 and above our forecast of \$323M. The result was driven by strong funds inflows in Australia, buoyant equity markets, strong claims experience in financial protection and good expense control. Hong Kong experienced strong earnings growth benefiting from recent acquisitions and strong sales growth. The interim dividend has been increased by 23% to 9.25 cps (35% franked). AXA also announced a \$150M increase in its on-market share buy-back to \$400M.

### **Tap Oil (TAP) - Totem-1 oil well is a duster**

---

TAP has completed drilling of the Totem-1 well in Western Australia. Preliminary results show that it is not an oil discovery. The well will now be plugged and abandoned. In our valuation of TAP, we attributed a risked value of 8cps to the Totem-1 well. That value is now gone, as we now believe, after the completion of drilling, that Totem-1 has no value. The next stage of TAP's exploration is the Maitland appraisal in August 2007, to which we have attributed a risked value of 49cps.

## **Bradken (BKN) - FY07 result: Strong EBITDA growth, in line with expectations**

---

BKN reported an FY07 NPAT of \$49.1M, up 45% on FY06 and marginally behind our forecast. EBITDA was \$103.2M (including \$10.8M contribution from acquisitions), up 33% on FY06, and importantly, continuing to exceed revenue growth. A 17.0cps final dividend (ff) was declared, up 5.5cps on FY06. All divisions performed strongly except Mineral Processing, which was impacted by lower gold and copper mine production. Our price target fell 3%. We retain a positive view on BKN on a 12-month time frame.

## **Sino Gold (SGX) - SGX approves White Mountain development in China**

---

SGX has approved the development of the White Mountain Gold project in Jilin Province, northern China. Gold production is forecast to be 70kozpa; capex will be around US\$55M (around A\$65M); and operating costs are estimated to be less than US\$250/oz. The project has received environmental approval, and SGX is expecting to receive a Provincial Project Permit in the next four to six weeks. Commissioning of the project is expected to occur in late CY08, with commercial production in early CY09.

## **Food Beverage & Tobacco (3020) - FY07 sector preview: Food & Beverage**

---

We preview the results for Coca Cola Amatil (CCL), Foster's Group (FGL), Goodman Fielder (GFF) and McGuigan Simeon Wines (MGW) in the upcoming reporting season. Note, LNN has a September year end and will not report its full-year results until early November.

## **Investa Property Group (IPG) - Recommend accept offer**

---

Parties associated with Morgan Stanley Real Estate have made a cash offer of \$3.08 per unit for IPG. A meeting of securityholders will be held on 22 August 2007 to vote on the offer. Since the announcement of the offer, there has been no indication of an alternative bid for IPG. We believe the offer price is very attractive and above the current trading price. In the absence of a superior proposal, we recommend that IPG securityholders vote in favour of the proposal.

## **Healthscope (HSP) - Releases high level FY07 forecasts - in line with expectations**

---

The SYB scheme memorandum contained unaudited, high level profit and cashflow FY07 forecasts by HSP. Adjusted NPAT and EPS are in line with our expectations. Our EPS forecasts for FY07-FY09 have all changed less than 1% and our target price is relatively unchanged. HSP is likely to succeed in its bid for SYB, but Primary Healthcare, which has a 13.65% stake, may seek to either block the deal or trade its support for some key assets. We retain our short and long term HOLD recommendations on HSP.

## **Telecom NZ (TEL) - FY07 Result: TEL faces challenging times**

---

TEL announced a net profit after tax of NZ\$3.02B for FY07, compared with a net loss of NZ\$435M pcp. The FY07 reported profit reflected several anomalies, including the capital gain from the sale of the Yellow Pages Group and Telecom Samoa Cellular Limited.

# Hills Industries

## FY07 Result: Respectable but uninspiring

### Event

HIL's FY07 reported NPAT was \$47.2M, 9% above FY06, and largely in line with our forecast. EPS grew 6.7% to 27.6cps. Divisionally, the strongest performance was by the Building & Industrial Products division. The Home, Hardware & Eco Products division recorded solid growth on flat margins. In a break from recent years, the Electronic Security & Entertainment division disappointed with moderate sales growth and EBIT down on the pcp. A fully franked, final dividend of 14 cps was declared.

### Implications

The FY07 result was respectable, with EBIT growth in the Building & Industrial Products and Home, Hardware & Eco Products divisions offsetting a decline in earnings in the Electronic Security & Entertainment division. Given HIL's cautious guidance for FY08 however, we have trimmed our FY08 adjusted EPS by 4.0%. Nevertheless, our 12 month target price is largely unchanged and we retain our negative view on the stock.

### Investment Opinion

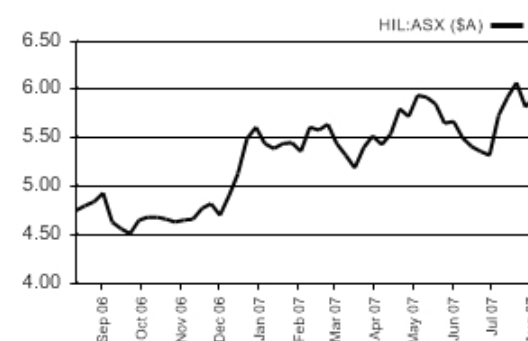
HIL is a mature-stage, largely Australian-based company that has consistently delivered solid double-digit ROE levels, and it should continue to do so, despite the current slowdown in the housing sector. Its divisions house some well-known Australian products, including the iconic Hills hoist, while its management team is very stable. The Hills family is still actively involved in HIL. We view HIL as overvalued on a long-term view.

HIL's FY08 guidance statement was rather cautious, stating that in the absence of any major acquisitions, profit growth would be "modest". It then suggested that "there are a number of uncertainties which have yet to be evaluated". Nevertheless, whilst management doesn't expect the FY08 results to be dominated by any particular division, it is "budgeting for profit improvement in all segments". Although we have softened our forecast increase in FY08 NPAT to around 8%, our 12 month target price is largely unchanged and we retain our negative view on the stock.

### Key Information

<b>Share Price</b>	<b>\$5.85</b>
<b>12 month view</b>	<b>SELL</b>
12 month target return (%)	(16.0)
12 month target price	\$4.63
<b>Long Term View</b>	<b>SELL</b>
Long Term Target Return (% pa)	0.8
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$965
Shares (M)	171.1
% of Market	0.06
% of Sector	0.59
12 Month Range	\$4.52 - \$6.12
Company Risk	★ ★ ★ ☆ ☆
Share Price Risk	★ ★ ★ ★ ☆
Ethical rating	★ ★ ★ ☆ ☆

### Performance against indices (%)

	3 Months	6 Months	12 Months
HIL	(1.7)	7.3	23.2
Sector	(4.4)	0.9	29.1
Market	(5.0)	2.4	21.9

### Key Assumptions

Beta:	1.1
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	11.0
Forecast cashflow (years):	10
Residual value % of total valuation:	54.6
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	43.3	43.0	25.8	7.4	22.6	1.2	0.8	26.0	4.4	100	14.2
2007A	47.2	47.0	27.6	6.7	21.2	1.3	0.8	27.5	4.7	100	14.6
2008F	56.5	50.9	29.5	6.8	19.8	1.3	1.0	28.0	4.8	100	14.6
2009F	55.9	55.9	31.8	7.8	18.4	1.3	1.0	29.0	5.0	100	15.0

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Hills Industries

12M Recommendation<sup>1</sup>: SELL

12M Target: \$4.63

Long Term Recommendation<sup>2</sup>: SELL

Long Term Target Return: 0.8% pa

Year end Jun. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
<b>Operating revenue</b>	<b>931.8</b>	<b>1,014.0</b>	<b>1,104.0</b>	<b>1,195.6</b>	Revenue growth (%)	14.9	8.8	8.9	8.3
Invest & other income	0.0	0.0	0.0	0.0	EBITDA growth (%)	7.4	11.6	8.4	6.3
<b>EBITDA</b>	<b>90.5</b>	<b>101.0</b>	<b>109.5</b>	<b>116.4</b>	EPS growth (%)	7.4	6.7	6.8	7.8
Depreciation/Amort	(17.6)	(19.0)	(19.4)	(19.9)	EBITDA/Sales margin (%)	9.7	10.0	9.9	9.7
<b>EBIT</b>	<b>73.0</b>	<b>82.0</b>	<b>90.1</b>	<b>96.5</b>	EBIT/Sales margin (%)	7.8	8.1	8.2	8.1
Net Interest	(5.9)	(9.1)	(8.8)	(8.0)	Tax rate (%)	28.4	28.9	31.0	31.0
<b>Pre-tax profit</b>	<b>67.1</b>	<b>72.9</b>	<b>81.3</b>	<b>88.5</b>	Net debt/equity (%)	38.4	44.1	30.8	27.1
Tax expense	(19.1)	(21.0)	(25.2)	(27.4)	Net debt/net debt + equity (%)	27.8	30.6	23.5	21.3
Minorities/Assoc./Prefs	(4.9)	(4.9)	(5.2)	(5.2)	Net interest cover (x)	12.4	9.0	10.3	12.1
<b>NPAT</b>	<b>43.0</b>	<b>47.0</b>	<b>50.9</b>	<b>55.9</b>	Payout ratio (%)	100.6	99.7	95.0	91.3
Non recurring items	0.2	0.2	5.6	0.0	Capex to deprec'n (%)	184.2	209.2	169.8	165.7
<b>Reported profit</b>	<b>43.3</b>	<b>47.2</b>	<b>56.5</b>	<b>55.9</b>	NTA per share (\$)	1.23	1.29	1.42	1.53
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	12.2	12.4	12.6	12.8
<b>Adjusted profit</b>	<b>43.0</b>	<b>47.0</b>	<b>50.9</b>	<b>55.9</b>	ROE (%)	14.2	14.6	14.6	15.0
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
<b>EBITDA</b>	<b>90.5</b>	<b>101.0</b>	<b>109.5</b>	<b>116.4</b>	Market cap (M)	965			
Working capital changes	(13.4)	(31.5)	14.0	(14.1)	Net debt (\$M)	146.3			
Interest and tax	(27.8)	(26.6)	(34.9)	(34.5)	Peripheral assets (\$M)	(0.0)			
Other operating items	5.0	3.9	10.6	3.4	<b>Enterprise value (\$M)</b>	<b>1,111.5</b>			
<b>Operating cashflow</b>	<b>54.4</b>	<b>46.8</b>	<b>99.2</b>	<b>71.1</b>	<b>EV/EBIT (x)</b>	<b>15.2</b>	<b>13.6</b>	<b>12.3</b>	<b>11.5</b>
Required capex	(31.0)	(38.5)	(32.0)	(32.0)	<b>EV/EBITDA (x)</b>	<b>12.3</b>	<b>11.0</b>	<b>10.2</b>	<b>9.5</b>
<b>Maintainable cashflow</b>	<b>23.4</b>	<b>8.4</b>	<b>67.2</b>	<b>39.1</b>	EV/EBITDA All Ind (x)	9.3	8.3	7.4	6.9
Dividends	(37.1)	(39.7)	(48.9)	(49.9)	EV/EBITDA rel All Ind (x)	1.3	1.3	1.4	1.4
Acq/Disp	(26.7)	(6.7)	0.0	0.0	<b>P/E (x)</b>	<b>22.6</b>	<b>21.2</b>	<b>19.8</b>	<b>18.4</b>
Other investing items	0.4	0.5	(2.0)	0.0	P/E rel All Ind (x)	1.1	1.2	1.3	1.3
<b>Free cashflow</b>	<b>(39.9)</b>	<b>(37.5)</b>	<b>16.3</b>	<b>(10.8)</b>	P/E rel All Ind ex banks (x)	1.0	1.1	1.2	1.3
Equity	9.9	10.2	19.6	17.5	P/E sector (x)	28.0	25.0	20.5	17.7
Debt inc/(red'n)	29.2	41.4	(35.9)	(6.7)	P/E rel sector (x)	0.8	0.8	1.0	1.0
<b>Balance sheet</b>					<b>Assumptions</b>				
Cash & deposits	20.2	27.4	26.9	28.8	GDP growth (%)	2.92	2.50	3.02	3.64
Inventories	135.9	175.5	158.8	170.1	Interest Rates (%)	5.73	6.38	6.34	6.30
Trade debtors	160.7	172.7	184.4	197.5	Inflation (%)	3.20	3.09	2.47	2.50
Other curr assets	0.0	15.9	15.9	15.9	<b>Notes To Accounts</b>				
<b>Total current assets</b>	<b>316.8</b>	<b>391.5</b>	<b>386.1</b>	<b>412.2</b>	All P&L items (except Reported profit) now exclude Goodwill				
Prop., plant & equip.	172.0	173.2	195.7	207.8	Amortisation as per the new IFRS requirements.				
Non-curr intangibles	104.8	111.4	111.4	111.4					
Non-curr investments	0.0	0.0	0.0	0.0					
Other non-curr assets	28.1	30.8	30.8	30.8					
<b>Total assets</b>	<b>621.7</b>	<b>706.9</b>	<b>724.0</b>	<b>762.2</b>					
Trade creditors	113.9	133.9	143.1	153.2					
Curr borrowings	17.8	2.1	2.1	2.1					
Other curr liabilities	37.4	45.6	51.8	55.3					
<b>Total current liab.</b>	<b>169.1</b>	<b>181.6</b>	<b>197.0</b>	<b>210.6</b>					
Borrowings	121.5	171.6	135.1	130.3					
Other non-curr liabilities	6.7	4.9	10.7	11.5					
<b>Total liabilities</b>	<b>297.3</b>	<b>358.1</b>	<b>342.9</b>	<b>352.5</b>					
Minorities/Convertible	14.5	17.0	22.2	27.4					
<b>Shareholders equity</b>	<b>324.4</b>	<b>348.8</b>	<b>381.1</b>	<b>409.7</b>					

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



# Hills Industries

TABLE 2: SUMMARY P&L

For the 12 months ended**:		pcp	Aegis	Actual	Change	
		Jun-06	Jun-07	Jun-07	pcp	Aegis
<b>Sales revenue</b>	:\$M	<b>931.8</b>	<b>1,005.1</b>	<b>1,014.0</b>	+9%	+1%
<b>EBITDA</b>	:\$M	<b>90.5</b>	<b>100.9</b>	<b>101.0</b>	+12%	+0%
Depreciation & amort	:\$M	-17.6	-18.4	-19.0	+8%	+3%
<b>EBIT</b>	:\$M	<b>73.0</b>	<b>82.5</b>	<b>82.0</b>	+12%	-1%
Net Int Expense	:\$M	-5.9	-8.5	-9.1	+55%	+7%
<b>Profit Before Tax</b>	:\$M	<b>67.1</b>	<b>74.0</b>	<b>72.9</b>	+9%	-1%
Tax on Recurring	:\$M	-19.1	-21.4	-21.0	+10%	-2%
<b>Profit After Tax</b>	:\$M	<b>48.0</b>	<b>52.6</b>	<b>51.9</b>	+8%	-1%
Minorities/Associates	:\$M	-4.9	-4.8	-4.9	-2%	+1%
Preference Dividends	:\$M	0.0	0.0	0.0		
<b>NPAT</b>	:\$M	<b>43.0</b>	<b>47.8</b>	<b>47.0</b>	+9%	-2%
Non Recurring (net of Tax)	:\$M	0.2	0.0	0.2	-18%	
<b>Reported Profit</b>	:\$m	<b>43.3</b>	<b>47.8</b>	<b>47.2</b>	+9%	-1%
** All numbers are adj. for non-recurring items except Reported Profit						
<b>PER SHARE DATA</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
Average weighted Capital, fully diluted	:M	167	171	171	+2%	-0%
E.P.S. on Adj profit	:cents	25.8	28.0	27.6	+7%	-2%
D.P.S.	:cents	26.0	25.5	27.5	+6%	+8%
Franking	:%	100	100	100		
Payout Ratio		101%	91%	100%	-1%	+9%
<b>RATIOS</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
EBITDA Margin	:%	9.7	10.0	10.0	+0%	-0%
EBIT Margin	:%	7.8	8.2	8.1	+0%	-0%
Effective Tax rate	:%	28.4	28.9	28.9	+0%	-0%

Source: Company/Aegis Equities

## Result overview

- **Reported result** – HIL reported headline NPAT of \$47.2M, up 9.0% on FY06 headline NPAT of \$43.3M. On an adjusted basis, FY07 NPAT rose 9.2% to \$47.0M and EPS rose 6.7% to 27.6cps on the pcp.
- **Sales revenue** – For the first time in several years, group sales revenue failed to record double-digit growth, increasing a more modest 8.8% on FY06, to \$1,013.2M. This was led by the Home, Hardware & Eco Products division (up 13.3%), followed by the Building & Industrial Products division (up 9.3%) and the Electronic Security & Entertainment Products division (up 5.0%).
- **EBIT** – Group EBIT rose 12.3% to \$82.3M. Improved margins helped the Building & Industrial Products division record a 34.6% increase in FY07 EBIT, whilst the Home, Hardware & Eco Products division's margins were largely unchanged on the pcp. Nevertheless, FY07 EBIT was up 12.1%. The Electronic Security & Entertainment Products division suffered a drop in margins however, which resulted in EBIT declining 6.8% on FY06.
- **Dividends** – HIL declared a fully franked, final dividend of 14 cps. HIL reconfirmed its stated policy to pay around 100% of its after tax profits to shareholders, as long as: (1) the debt-to-equity ratio stays below 45%, taking account of the funding required for growth; (2) no change in franking credit distribution laws occurs; and (3) an acceptable level of profitability is achieved.
- **Operating cash flow** - HIL's operating cash flow fell 14% to \$46.8M in FY07 from \$54.4M in the pcp driven predominantly by increased working capital requirements. This resulted largely from higher stock levels in the Home, Hardware & Eco Products division as it transitioned its manufacturing operations offshore, and in the Building & Industrial Products division.
- **Gearing** – HIL's net debt increased to \$146.3M by end FY07, from \$119.1M 12 months earlier. Whilst still at comfortable levels, interest cover weakened further in FY07, down from 12.4x in FY06 to 9.0x. The company's gearing (net debt-to-equity) also continued to deteriorate, increasing from 38.4% at the end of FY06, to 44.1% in FY07.
- **Outlook** – HIL's FY08 guidance statement was cautious, stating that in the absence of any major acquisitions, profit growth would be "modest". It then suggested that "there are a number of uncertainties which have yet to be evaluated". In a subsequent statement, HIL's Managing Director, Mr David Simmons, said that whilst they don't expect the FY08 results to be dominated by any particular division, they are "budgeting for profit improvement in all segments".



## Divisional analysis

### Electronic Security & Entertainment Products – (27% of group revenue, 39% of group EBIT)

- This division comprises a range of communications-related products and services, antennas, closed circuit TV systems, electronic security systems, home and commercial automation and control systems, fibre optic transmission solutions and subscription TV installation services.
- After several years of stellar growth (assisted by acquisitions and contributions from major projects), the FY07 performance of the Electronic Security & Entertainment Products division declined sharply. Sales revenue was up a modest 5.0%, and EBIT declined 6.8% on FY06.
- The Hills Sound Vision and Lighting business, which provides professional audio, lighting and control solutions in Australia and New Zealand, is reported to have performed strongly in FY07.
- With the CCTV industry shifting to Internet Protocol based systems, management's confidence that Pacific Communications "will provide a compelling product offer in this exciting new market space" suggests that it is lagging the market and performed accordingly.
- Direct Alarms Supplies, a security systems' supplier in both Australia and New Zealand, delivered a flat result yet again. Growth continues to be expected from extensions to the current product range and geographic expansion.
- Notwithstanding that demand in the subscription television segment continues to be strong, the Antenna and TV Systems business failed to match its FY06 performance. In addition to providing wireless solutions for the reception and transmission of video and data signals, the business also supplies Australia's subscription television providers, Foxtel and Austar, with a wide range of equipment for home installations. Management attributed the soft performance however, "to the absence of any major telecommunications projects".
- It would appear from the following comments by HIL's management, that Access Television Services in Australia and Signalmaster in New Zealand, which provide pay TV installation services to Austar and Sky NZ respectively, also underperformed - despite the fact that underlying demand in the subscription television segment continues to be strong. "These businesses operate in a highly competitive and low margin environment. A major emphasis has been placed on refining our systems and processes to ensure that we continue to deliver the highest level of service at acceptable margins."

### Outlook

- Notwithstanding its subdued performance in FY07, HIL expects its dual strategy of product range extension and geographic expansion to drive growth for this division in FY08. Clearly however, acquisitions and contributions from major projects are critical. Although not anticipated, any weakness in the A\$/US\$ exchange rate would be a negative for the division's margins. It also remains unclear whether Lighthouse Distribution, a new business launched in 2H07, will achieve profitability in FY08. On its FY07 performance, the division looks somewhat directionless and we expect continued weakness.

### Home, Hardware & Eco Products – (19% of group revenue, 17% of group EBIT)

- This division manufactures and distributes a wide range of (predominantly metal based) products for use around the home (such as Hills-branded outdoor clothes lines, ironing boards, laundry trolleys, security doors and playtime equipment), rehabilitation, mobility and hospital equipment, in the building trade (such as ladders, scaffolding and wheel barrows) and water tanks and other rotationally moulded products.
- The Home, Hardware & Eco Products recorded sales revenue in FY07 of \$191.4M, a 13.3% increase over FY06. FY07 EBIT rose 12.1% to \$13.8M over the pcp, on largely flat margins suggesting that the full benefits of the recent restructuring may now have been realised.
- The restructure of HIL's Consumer Products business was finalised during the year, with the majority of Hills-branded products now being sourced from a number of Asian manufacturing centres. Comments from management suggest that the restructure did not proceed as smoothly as was expected.
- Whilst HIL's Home and Hardware Products business remains competitive, margins are clearly under pressure. Accordingly, supply chain initiatives and reductions in inventory levels and warehousing and distribution costs are expected to deliver margin gains. Quantum and timing however, are unclear. Growth is also expected from the release of several new products during 1H08.
- Despite the acquisition of Toowoomba-based Alquip at the start of FY06, the FY07 results from access equipment supply business, Bailey, were below management's expectations. Management's strategy to 'broaden its product offer and improve efficiencies in its manufacturing operations' suggests that both sales revenue and margins disappointed in FY07.
- According to HIL's management, both the K-Care and Kerry Equipment businesses, which manufacture rehabilitation, mobility and hospital equipment, performed well in FY07 for the second successive year. In May 2007 HIL acquired the Air Comfort Seating business, and bundled the three businesses into the Hills Healthcare brand which was launched in July 2007. Management expects strong growth in this business segment in the short- to medium-term, driven by

expansion of its existing product range, although further bolt-on acquisitions can't be ruled out.

- With widespread water restrictions and increased government incentives, it is not surprising that the performance of the Team Poly business, which manufactures and distributes water storage tanks, has been strong. Following the vertical integration of the business through the installation of a powder compounding and grinding facility which enables HIL to produce its own plastic, distribution costs remain the most significant challenge for the business. To overcome the not insignificant costs associated with distributing bulky water storage tanks across Australia, management's strategy is to get closer to its end markets by establishing satellite manufacturing facilities in regional locations. During the year, the first such facility was established at Bathurst, with additional facilities planned for Toowoomba and Ballarat in the near future. Despite recent rainfall, HIL believes that "the majority of the population seems to understand there's a need for long-term change in consumer habits and how we utilise our water resources." Accordingly continued strong growth is expected.

## Outlook

- Realising the benefits of its recent restructuring program, operational improvements and cost reduction initiatives, and new product releases will continue to be the focus of this division through FY08. Additional bolt-on acquisitions also remain likely.
- In addition, with the heightened awareness of the need for water conservation and the focus on products contributing to building sustainability gaining momentum in Australia, the Team Poly business is part of HIL's emerging Eco segment growth strategy. HIL's objective is to broaden its Eco product offer targeting the building sustainability market, which it expects will continue to gather momentum through FY08. Providing recent rainfall doesn't dampen consumers' memories, we would agree.

## Building & Industrial Products – (54% of group revenue, 44% of group EBIT)

- This division comprises structural, precision and large steel tubing, roofing, cladding, fencing, rainwater goods, galvanising, sheds, carports, cable support products, precision metal and stainless steel products, food service equipment, steel door frames and roll-formed metal building products.
- HIL's Building & Industrial Products division recorded the largest increase in EBIT in FY07, up 34.6% to \$36.0M on sales revenue of \$544.7M, up 9.3% on FY06.
- The capex program aimed at bolstering manufacturing efficiency of the Orrcon Big Tube Mill in Unanderra (NSW) would appear to have been beneficial. Despite the circa \$50M South East Queensland Water Grid Project not achieving expectations, the performance of the Orrcon Pipe & Tube business improved during FY07, but was not quantified. HIL has advised that it is pursuing legal action against a supplier involved in the project for unspecified damages. In June 2007, a major contract was secured with the Eurobodalla Shire to supply around \$10M of spiral welded pipe in 1H08. In May 2007 Orrcon acquired the Impressive Steel distribution business in Bunbury, Western Australia. This expansion of HIL's steel distribution footprint is designed to assist it secure steel supply contracts for major infrastructure and mining projects across Australia.
- The strategy to create a national network and gain access to the robust Queensland market through the acquisition of Brisbane Sheet Metal in late 2005, appears to be working with the Fielders Rollforming business performed solidly in FY07, especially in Western Australia, where the market remains very strong.
- Both the Centenary Carport and Verandah and Endurance Sheds businesses reportedly grew in FY07. Having proven the model for these two ranges in South Australia, HIL is planning to expand into interstate markets in FY08.
- HIL's innovative angle cut process which reduces installation costs through the pre-fabrication of a complete steel roof offsite, has gained market acceptance in the South Australian and Victorian markets. Similar success in other states is expected to follow.
- After performing below expectation in 1H07, the Woodroffe stainless steel fabrication business returned to sustainable profitability in the 2H07. Management is currently shifting the focus of this business from being a sub-contract manufacturer to a business that has equity in its own products and brands.
- The FY07 operating results for the Korvest and EzyStrut businesses were again satisfactory, whilst the Galvanising business recorded a strong (but unquantified) improvement in profit.

## Outlook

- The division will continue to benefit from continued strength in the non-residential, engineering and infrastructure market segments in Australia. Having secured one major contract already for FY08, HIL is pitching for a number of other large proposed water and oil and gas projects across Australia. This may be tempered however, by a slow-down in economic growth driven by further interest rate rises.
- Whilst the Orrcon Pipe & Tube business' expanded steel distribution footprint and the Fielders Rollforming business' national network should start to deliver benefits in FY08, they are not expected to be significant.
- Interstate expansion of both the Centenary Carport and Verandah and Endurance Sheds businesses whilst expected in FY08, is likely to be modest at best.
- The Woodroffe stainless steel fabrication business is expected to deliver a more consistent performance in FY08.
- Fluctuating global steel prices, the major manufacturing input for this division, competition from cheap Asian imports and a slow-down in economic growth driven by further interest rate rises remain the key threats to this division's performance in FY08.



## Summary and investment view

- The FY07 result was respectable, with EBIT growth in the Building & Industrial Products and Home, Hardware & Eco Products divisions offsetting a decline in earnings in the Electronic Security & Entertainment division.
- Driven by: operational improvements; cost reduction initiatives; possible further bolt-on acquisitions; continued strength in the non-residential, engineering and infrastructure market segments in Australia; and the release of new products, and tempered by: fluctuating steel prices; currency volatility; continued softness in the east-coast residential construction market; increased import competition; the threat of further interest rate rises; and “a number of uncertainties which have yet to be evaluated” (including the acquisition of Smorgon Steel by OneSteel and the BlueScope Steel purchase of the Smorgon distribution assets), HIL expects a “modest” increase in profit in FY08.
- Given HIL's cautious guidance for FY08 however, we have trimmed our FY08 adjusted EPS by 4.0%. Nevertheless, our 12 month target price is largely unchanged, and we retain our negative view on the stock.

# Australian Agricultural

## 1H07 Results: Drought conditions lower profitability

### Event

AAC reported a 1H07 NPAT of \$5.9M, down 31% on 1H06 and 21% below our expectations. Cattle inventory numbers increased 19% from the pcp to 630,515, boosted by herd retention. An unfranked dividend of 7cps was declared, in addition to the 2cps dividend that was paid in April 2007. AAC reported seasonal conditions to be average or above average for the majority of the company's properties. NTA increased to \$2.38 per share for the six months ending 30 June 2007, up from \$2.22 per share in the previous corresponding period.

### Implications

Reported NPAT was down largely due to increased borrowing expenses and increased tax expenses. The 1H07 result at the EBITDA and EBIT levels was 9% and 7% below our expectations, respectively, with reported NPAT well below our expectations. Despite most of the company's properties being unaffected by the drought conditions throughout the 1H07, it was these conditions which were a primary driver of the poor half-year result, given increased grain prices and oversupply of cattle to the market. In addition, the uncertainty surrounding the re-entry of the US into Japanese and Korean beef markets has resulted in price pressures, which have been magnified by a strong \$A. The soft cattle market led to an increase in herd retention by the company, adversely impacting the operating cash flow.

Based on the result, we have revised downward forecast FY07 and FY08 EPS by 37.2% and 27.4%, respectively. The 12-month price target decreased 6% to \$2.83. We have a negative view on the stock.

### Investment Opinion

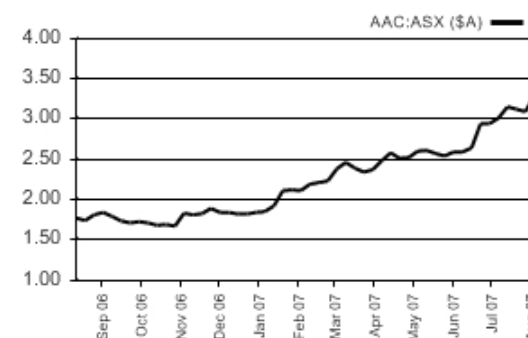
AAC is a listed exposure to one of Australia's largest primary beef producers. It is pursuing cashflow growth through improvements in landholding productivity and acquisitions. While AAC's extensive landholdings have experienced consistent value appreciation, free cashflow generation is volatile and low relative to AAC's market capitalisation. A valuation discount is warranted, given the volatility in cashflow, and for these reasons, we view AAC as overvalued over the long term.

Key risks for AAC include its reliance on favourable seasonal conditions. Successful re-entry of the US into the Japan and Korean beef markets will adversely impact beef prices. Based on high forward PE ratios, we view AAC as overvalued.

### Key Information

<b>Share Price</b>	<b>\$2.99</b>
<b>12 month view</b>	<b>SELL</b>
12 month target return (%)	(2.8)
12 month target price	\$2.83
<b>Long Term View</b>	<b>SELL</b>
Long Term Target Return (% pa)	6.8
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$764
Shares (M)	255.6
% of Market	0.04
% of Sector	0.39
12 Month Range	\$1.65 - \$3.38
Company Risk	☆☆☆☆☆
Share Price Risk	☆☆☆☆☆
Ethical rating	☆☆☆☆☆

Performance against indices (%)	Performance against indices (%)		
	3 Months	6 Months	12 Months
AAC	14.6	34.1	62.9
Sector	(9.4)	(1.1)	27.6
Market	(5.0)	2.4	21.9

### Key Assumptions

Beta:	1.3
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	10.3
Forecast cashflow (years):	10
Residual value % of total valuation:	56.4
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Dec	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	10.0	10.0	4.0	(41.6)	73.8	4.0	3.1	7.0	2.3	0	1.8
2007F	14.2	14.2	5.7	41.5	52.2	3.2	2.4	9.0	3.0	0	2.4
2008F	21.2	21.2	8.4	47.2	35.4	2.4	2.0	8.0	2.7	0	3.5
2009F	33.6	33.6	13.2	56.9	22.6	1.6	1.4	8.5	2.8	0	5.4

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Australian Agricultural

12M Recommendation<sup>1</sup>: SELL

12M Target: \$2.83

Long Term Recommendation<sup>2</sup>: SELL

Long Term Target Return: 6.8% pa

Year end Dec. All figures in A\$M

Profit & loss summary					Ratio analysis				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>Operating revenue</b>	<b>195.8</b>	<b>267.4</b>	<b>304.7</b>	<b>335.2</b>	Revenue growth (%)	6.7	36.6	13.9	10.0
Invest & other income	0.0	0.0	0.0	0.0	EBITDA growth (%)	(33.6)	86.9	18.8	24.6
<b>EBITDA</b>	<b>30.9</b>	<b>57.8</b>	<b>68.6</b>	<b>85.6</b>	EPS growth (%)	(41.6)	41.5	47.2	56.9
Depreciation/Amort	(9.3)	(10.4)	(12.1)	(14.0)	EBITDA/Sales margin (%)	15.8	21.6	22.5	25.5
<b>EBIT</b>	<b>21.6</b>	<b>47.4</b>	<b>56.6</b>	<b>71.6</b>	EBIT/Sales margin (%)	11.0	17.7	18.6	21.3
Net Interest	(20.2)	(27.4)	(26.5)	(23.9)	Tax rate (%)	(603.3)	29.7	30.0	30.0
<b>Pre-tax profit</b>	<b>1.4</b>	<b>19.9</b>	<b>30.1</b>	<b>47.7</b>	Net debt/equity (%)	61.3	66.9	56.1	48.5
Tax expense	8.5	(5.9)	(9.0)	(14.3)	Net debt/net debt + equity (%)	38.0	40.1	35.9	32.7
Minorities/Assoc./Prefs	0.1	0.2	0.2	0.2	Net interest cover (x)	1.1	1.7	2.1	3.0
<b>NPAT</b>	<b>10.0</b>	<b>14.2</b>	<b>21.2</b>	<b>33.6</b>	Payout ratio (%)	172.9	122.2	94.8	64.2
Non recurring items	0.0	0.0	0.0	0.0	Capex to deprec'n (%)	124.4	107.6	85.9	76.2
<b>Reported profit</b>	<b>10.0</b>	<b>14.2</b>	<b>21.2</b>	<b>33.6</b>	NTA per share (\$)	2.28	2.32	2.41	2.46
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	2.2	4.1	4.9	6.2
<b>Adjusted profit</b>	<b>10.0</b>	<b>14.2</b>	<b>21.2</b>	<b>33.6</b>	ROE (%)	1.8	2.4	3.5	5.4
Cashflow summary					Multiple analysis				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>EBITDA</b>	<b>30.9</b>	<b>57.8</b>	<b>68.6</b>	<b>85.6</b>	Market cap (M)	764			
Working capital changes	(67.8)	(6.4)	2.1	2.9	Net debt (\$M)	401.9			
Interest and tax	(25.1)	(29.3)	(33.6)	(35.4)	Peripheral assets (\$M)	(0.0)			
Other operating items	49.6	(15.3)	24.3	16.2	<b>Enterprise value (\$M)</b>	<b>1,166.1</b>			
<b>Operating cashflow</b>	<b>(12.4)</b>	<b>6.7</b>	<b>61.5</b>	<b>69.3</b>	<b>EV/EBIT (x)</b>	<b>53.9</b>	<b>24.6</b>	<b>20.6</b>	<b>16.3</b>
Required capex	(10.5)	(10.0)	(9.0)	(9.0)	<b>EV/EBITDA (x)</b>	<b>37.7</b>	<b>20.2</b>	<b>17.0</b>	<b>13.6</b>
<b>Maintainable cashflow</b>	<b>(23.0)</b>	<b>(3.3)</b>	<b>52.5</b>	<b>60.3</b>	EV/EBITDA All Ind (x)	9.3	8.3	7.4	6.9
Dividends	(17.4)	(27.5)	0.0	(20.1)	EV/EBITDA rel All Ind (x)	4.1	2.4	2.3	2.0
Acq/Disp	(75.4)	(15.9)	0.0	0.0	<b>P/E (x)</b>	<b>73.8</b>	<b>52.2</b>	<b>35.4</b>	<b>22.6</b>
Other investing items	0.0	0.0	0.0	0.0	P/E rel All Ind (x)	3.6	2.9	2.2	1.6
<b>Free cashflow</b>	<b>(115.9)</b>	<b>(46.7)</b>	<b>52.5</b>	<b>40.2</b>	P/E rel All Ind ex banks (x)	3.3	2.8	2.2	1.6
Equity	0.5	5.2	0.0	0.0	P/E sector (x)	23.6	21.4	17.8	15.8
Debt inc/(red'n)	112.5	35.6	(52.5)	(40.2)	P/E rel sector (x)	3.1	2.4	2.0	1.4
Balance sheet					Assumptions				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
Cash & deposits	10.8	0.0	0.0	0.0	GDP growth (%)	2.66	2.63	3.47	3.49
Inventories	21.6	25.8	25.9	24.9	Interest Rates (%)	6.05	6.41	6.30	6.30
Trade debtors	9.3	14.3	16.2	17.8	Inflation (%)	3.54	2.51	2.50	2.50
Other curr assets	134.7	162.8	162.8	162.8					
<b>Total current assets</b>	<b>176.5</b>	<b>202.9</b>	<b>204.8</b>	<b>205.5</b>					
Prop., plant & equip.	586.5	636.1	633.1	628.1					
Non-curr intangibles	13.7	11.4	11.4	11.4					
Non-curr investments	0.0	0.0	0.0	0.0					
Other non-curr assets	312.3	313.4	313.4	313.4					
<b>Total assets</b>	<b>1,089.1</b>	<b>1,163.8</b>	<b>1,162.7</b>	<b>1,158.4</b>					
Trade creditors	28.2	31.5	35.6	39.2					
Curr borrowings	57.5	57.5	57.5	57.5					
Other curr liabilities	2.8	3.9	6.3	9.3					
<b>Total current liab.</b>	<b>88.5</b>	<b>92.9</b>	<b>99.4</b>	<b>106.0</b>					
Borrowings	310.2	340.6	288.1	248.0					
Other non-curr liabilities	108.0	135.0	159.0	174.8					
<b>Total liabilities</b>	<b>506.7</b>	<b>568.6</b>	<b>546.5</b>	<b>528.8</b>					
Minorities/Convertible	0.1	(0.1)	(0.3)	(0.5)					
<b>Shareholders equity</b>	<b>582.4</b>	<b>595.3</b>	<b>616.3</b>	<b>629.6</b>					

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



# Australian Agricultural

TABLE 1: KEY FINANCIALS

For the 6 months ended:**		pcp	pp	Aegis	Actual	Change	
		Jun-06	Dec-06	Jun-07	Jun-07	pcp	Aegis
Sales revenue	:\$M	85.6	110.2	115.6	124.2	+45%	+7%
EBITDA	:\$M	16.5	14.4	28.9	26.3	+59%	-9%
Depreciation & amort	:\$M	-4.6	-4.7	-6.0	-5.0	+10%	-16%
EBIT	:\$M	12.0	9.7	22.9	21.3	+78%	-7%
Net Int Expense	:\$M	-8.5	-11.7	-12.5	-13.0	+52%	+4%
Profit Before Tax	:\$M	3.4	-2.0	10.5	8.3	+142%	-21%
Tax on Recurring	:\$M	4.9	3.6	-3.1	-2.4	-149%	-23%
Profit After Tax	:\$M	8.4	1.6	7.3	5.9	-30%	-20%
Minorities/Associates	:\$M	0.1	0.0	0.2	0.1	-47%	-70%
Preference Dividends	:\$M	0.0	0.0	0.0	0.0		
NPAT	:\$M	8.5	1.6	7.5	5.9	-30%	-21%
Non Recurring (net of Tax)	:\$M	0.0	0.0	0.0	0.0		
Reported Profit	:\$M	8.5	1.6	7.5	5.9	-30%	-21%
** All numbers are adj. for non-recurring items except Reported Profit							
<b>PER SHARE DATA</b>		<b>Jun-06</b>	<b>Dec-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
Average weighted Capital, fully diluted	:M	256	249	256	256	-0%	+0%
E.P.S. on Adj profit	:cents	3.4	0.6	3.0	2.4	-29%	-21%
D.P.S.	:cents	7.0	0.0	0.0	7.0	+0%	
Franking	:%	0	0	0	0		
Payout Ratio		207%	0%	0%	290%	+83%	+290%
<b>Ratios</b>		<b>Jun-06</b>	<b>Dec-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
EBITDA Margin	:%	19.3	13.1	25.0	21.2	+2%	-4%
EBIT Margin	:%	14.0	8.8	19.9	17.1	+3%	-3%
Effective Tax rate	:%	-144.1	177.1	30.0	29.2	+173%	-1%

Source: Company/Aegis Equities

## KEY POINTS OF THE RESULT

- **Revenue** - Sales revenue was up 45% on the pcp to \$124.2M, which was 7% above our expectations. Cattle revenue was \$63.7M, up 21% on 1H07, despite the uncertainty surrounding the re-entry of the US into the Japanese and South Korean markets. Contributing to this increase was the buoyancy of the Wagyu business coupled with improved export prices and strong global demand. The release of the "1824 Premium Beef" range also contributed to the increase in revenue.
- **Margins** - EBIT margin expanded 3% to 17% resulting from the increased margins derived from premium beef products.
- **NPAT** - AAC reported NPAT of \$5.9M for 1H07, down 31% on the pcp. NPAT was down due to increased borrowing expenses and increased tax expense. We note the company had a \$6.0M tax credit in 1H06 from the sale of Wrotham Park.
- **Acquisition of the Goonoo Station** - AAC converted the Goonoo station and feedlot from an operating lease to freehold.
- **Settlement of AMP Litigation** - The company settled the AMP litigation, receiving \$10M before tax.
- **Operating cash flow (OCF)** - OCF was negative \$20M for 1H07, down \$4M on the pcp. The outflow was primarily driven by the increased herd retention due to a soft cattle market. Cattle retention is expected to affect OCF in 2H07.
- **Market Conditions** - Drought affected conditions throughout the 1H07, resulted in increased grain prices and an oversupply of cattle to the market, depreciating cattle prices. In addition, a strong \$A and uncertainty regarding the return of US beef in Japan and South Korean markets adversely impacted beef prices.
- **Cattle numbers** - Cattle numbers increased 19% on 1H06 to 630,515.
- **Dividend** - AAC declared an unfranked dividend of 7cps to be paid on 16 October 2007, in addition to the special dividend of 2cps that was paid in April 2007. The company also announced the recommencement of the dividend reinvestment plan (DRP), which is to be underwritten by ABN Amro. Funds raised from the DRP will be invested in breeding cattle to populate the increased property capacity which has been developed over the past 12 months.
- **Net Tangible Assets (NTA)** - NTA per share increased to \$2.38 per share from 2.22 per share in 1H06.
- **Whether conditions** - AAC reported seasonal conditions were average or above average for a large portion of its properties. Whilst drought affected conditions in the market generally, the company's properties were unaffected, experiencing good rainfall, with unseasonably high rainfall in June expected to provide benefits in 2H07.



# Australian Agricultural

TABLE 2: KEY PERFORMANCE INDICATORS

	1H06**	1H07
Total operating revenue *	85.6	124.2
EBITDA (\$M)	16.7	26.3
NPAT (\$M)	8.5	5.9
Cattle Herd (head) *	528,578	630,515
EPS (cents per share)	3.4	2.4
Operating cashflow (\$M)	-16.0	-20.0
Cattle sold (head)	68,565	65,587
Kg sold (Dress weight - DW)	17.8	16.6
Average selling price per head	\$1,001	\$1,071
Average selling price per kilogram	\$3.85	\$3.92
Average kilogram per DW sold	259	273

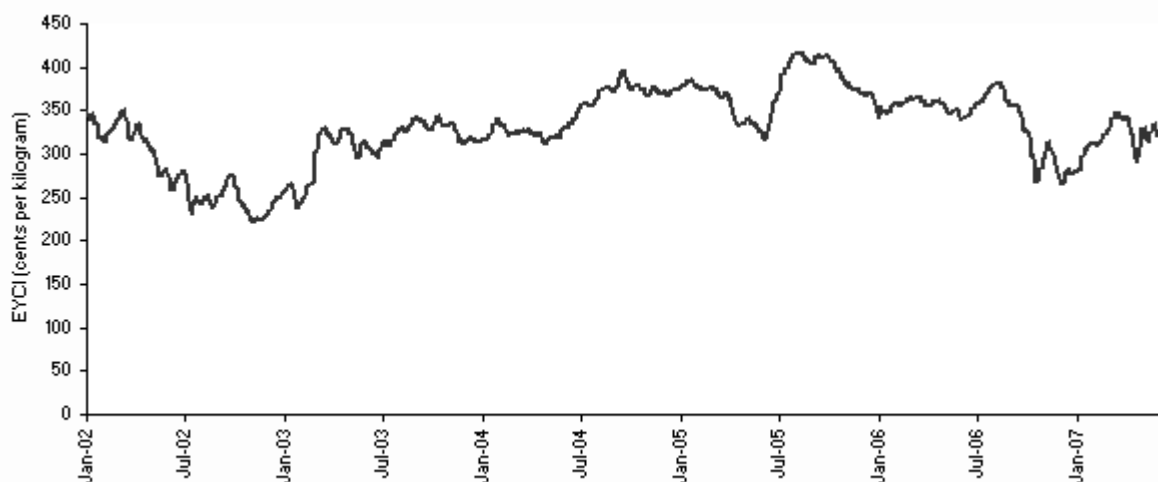
\* Revenue includes six months of Chef's Partner sales

\*\* Excludes sale of Wrotham Park herd in 2006

Source: Company/Aegis Equities

Figure 3 illustrates the historical prices for the Eastern Young Cattle Indicator (EYCI). We view the EYCI as the most appropriate proxy for cattle prices received by AAC.

FIGURE 3: EYCI



Source: Meat and Livestock Australia

## OUTLOOK

- **FY07 NPAT guidance** - AAC was hesitant to provide any foresight regarding FY07 stipulating that there are numerous external influences that will determine cattle prices and earnings over 2H07.
- **Seasonal conditions** - Seasonal conditions improved throughout June 2007 providing a more positive outlook for 2H07 with regards to production and costs.
- **Demand for beef** - Demand for beef remains high both globally and domestically, with strong demand for premium products. Another outbreak of foot-and-mouth disease has occurred in Britain, with the suggestion by officials that an outbreak in Australia would be detrimental to the domestic beef industry. However, quarantine control has been increased in Australian airports and the risk to the domestic market is considered low.
- **Carrying capacity** - AAC has increased carrying capacity over the last 12 months and intends to continue to develop its properties to further increase carrying capacity.
- **High \$A** - A strong \$A has adversely affected export prices and therefore revenues. If the \$A remains at current levels or continues to rise, this will further impact the earnings capability of the company.

# Australian Agricultural

---

- **High grain prices** - If drought conditions continue grain prices will remain inflated. Whilst AAC has forward purchased grain supplies for the remainder of FY07 and 1H08, average grain costs have increased.

## **INVESTMENT VIEW**

- Negative influences on AAC's earnings include the re-entry of the US into the Japan and South Korea beef markets and a strong \$A.
- Whilst we acknowledge that the company's properties have largely been unaffected by the drought, if the dry conditions continue, profitability will continue to be adversely impacted.
- Furthermore, herd retention is expected to negatively impact operating cash flows.
- We have revised downward our forecast EPS for FY07 and FY08 by 37.2% and 27.4%, respectively. Our 12-month price target decreased 6% to \$2.83. We retain a SELL recommendation on AAC.



# Centro Retail Trust

## FY07 result: Just above expectations

### Event

CER reported an FY07 NPAT of \$266.6M, up 16.9% on the pcp and broadly in line with our forecast. Excluding revaluation gains and other AIFRS adjustments, FY07 NPAT was \$85.5M, up 57.9% on FY06, reflecting a combination of acquisitions and strong rental growth, both domestically and from the US. Management reaffirmed distribution guidance of 12.7cpu for FY07 and 13.73cpu for FY08, representing DPS growth of 8.1%. Strong revaluations, totaling \$181M, increased NTA by 1% to \$1.90 per unit as at 30 June 2007, from \$1.88 per unit as at 31 December 2006.

### Implications

The results were as expected, and, as such, lead to little change to our forecasts. The portfolio is well diversified (after the New Plan acquisition) across a range of quality retail shopping centres, both domestically and in the US. The key ingredients of the portfolio, such as high occupancy rates, organic rental growth and high lease renewal rates, remain sound. On the back of the healthy result, we have slightly revised upward our 12-month target to \$1.87 and maintain our positive view on the stock.

### Investment Opinion

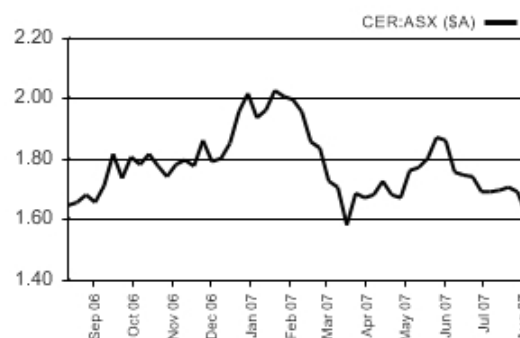
CER invests in a well-balanced portfolio of shopping centres in Australia and the US. Management's emphasis is on efficient asset and capital management. Organic rent growth remains the key earnings driver, as CER is expected to be highly acquisitive. Financial leverage is well above the LPT sector average. With currency and interest rate risk mitigated through appropriate derivative instruments, CER is viewed as a passive LPT, offering an attractive yield.

We expect medium to long term CER will trade around its NTA, implying some pricing upside if management achieves its targeted rental growth across the portfolio. CER offers an attractive forecast FY08 yield. Its participation in the acquisition of New Plan is earnings accretive and consistent with its corporate strategy.

### Key Information

<b>Share Price</b>	<b>\$1.68</b>
<b>12 month view</b>	<b>BUY</b>
12 month target return (%)	19.6
12 month target price	\$1.87
<b>Long Term View</b>	<b>BUY</b>
Long Term Target Return (% pa)	14.5
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$1,905
Shares (M)	1,133.8
% of Market	0.11
% of Sector	0.32
12 Month Range	\$1.56 - \$2.13
Company Risk	☆☆☆☆☆
Share Price Risk	☆☆☆☆☆
Ethical rating	☆☆☆☆☆

### Performance against indices (%)

	3 Months	6 Months	12 Months
CER	(4.8)	(14.7)	5.3
Sector	(8.8)	(4.9)	13.9
Market	(5.0)	2.4	21.9

### Key Assumptions

Beta:	1.0
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	9.3
Forecast cashflow (years):	10
Residual value % of total valuation:	56.6
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	Deferred Tax %
2006A	228.0	54.2	13.0	n/a	13.0	0.7	0.7	12.0	7.1	0	87
2007A	266.6	85.5	12.7	(2.2)	13.2	0.8	0.8	12.7	7.6	0	94
2008F	305.1	142.8	12.6	(0.7)	13.3	0.9	1.0	13.7	8.2	0	72
2009F	319.0	148.6	13.1	4.1	12.8	0.9	1.0	14.3	8.5	0	73

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Centro Retail Trust

12M Recommendation<sup>1</sup>: BUY

12M Target: \$1.87

Long Term Recommendation<sup>2</sup>: BUY

Long Term Target Return: 14.5% pa

Year end Jun. All figures in A\$M

Profit & loss summary					Ratio analysis				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
<b>Operating revenue</b>	<b>144.6</b>	<b>223.2</b>	<b>279.0</b>	<b>289.7</b>	Revenue growth (%)	0.0	54.4	25.0	3.8
Invest & other income	(14.5)	(26.9)	(33.1)	(36.6)	EBITDA growth (%)	n/a	55.4	33.9	2.9
<b>EBITDA</b>	<b>113.6</b>	<b>176.5</b>	<b>236.4</b>	<b>243.2</b>	EPS growth (%)	n/a	(2.2)	(0.7)	4.1
Depreciation/Amort	0.0	0.0	0.0	0.0	EBITDA/Sales margin (%)	78.6	79.1	84.7	84.0
<b>EBIT</b>	<b>113.6</b>	<b>176.5</b>	<b>236.4</b>	<b>243.2</b>	EBIT/Sales margin (%)	78.6	79.1	84.7	84.0
Net Interest	(55.3)	(75.2)	(69.6)	(69.8)	Tax rate (%)	6.7	13.7	12.5	12.5
<b>Pre-tax profit</b>	<b>58.3</b>	<b>101.3</b>	<b>166.8</b>	<b>173.4</b>	Net debt/equity (%)	124.9	65.9	61.1	57.4
Tax expense	(3.9)	(13.9)	(20.8)	(21.7)	Net debt/net debt + equity (%)	55.5	39.7	37.9	36.5
Minorities/Assoc./Prefs	(0.2)	(1.9)	(3.1)	(3.2)	Net interest cover (x)	2.1	2.3	3.4	3.5
<b>NPAT</b>	<b>54.2</b>	<b>85.5</b>	<b>142.8</b>	<b>148.6</b>	Payout ratio (%)	92.5	100.1	109.0	109.0
Non recurring items	173.8	181.1	162.3	170.4	Capex to deprec'n (%)	0.0	0.0	0.0	0.0
<b>Reported profit</b>	<b>228.0</b>	<b>266.6</b>	<b>305.1</b>	<b>319.0</b>	NTA per share (\$)	1.92	1.90	2.04	2.18
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	7.1	6.4	6.4	6.3
<b>Adjusted profit</b>	<b>54.2</b>	<b>85.5</b>	<b>142.8</b>	<b>148.6</b>	ROE (%)	8.1	6.6	6.5	6.3
Cashflow summary					Multiple analysis				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
<b>EBITDA</b>	<b>113.6</b>	<b>176.5</b>	<b>236.4</b>	<b>243.2</b>	Market cap (M)		1,905		
Working capital changes	(256.8)	(120.1)	16.3	0.0	Net debt (\$M)		1,410.1		
Interest and tax	(56.1)	(71.0)	(93.1)	(90.9)	Peripheral assets (\$M)		(0.0)		
Other operating items	64.9	92.5	0.0	0.0	<b>Enterprise value (\$M)</b>		<b>3,314.9</b>		
<b>Operating cashflow</b>	<b>(134.4)</b>	<b>77.9</b>	<b>159.6</b>	<b>152.3</b>	<b>EV/EBIT (x)</b>	<b>29.2</b>	<b>18.8</b>	<b>14.0</b>	<b>13.6</b>
Required capex	0.0	0.0	0.0	0.0	<b>EV/EBITDA (x)</b>	<b>29.2</b>	<b>18.8</b>	<b>14.0</b>	<b>13.6</b>
<b>Maintainable cashflow</b>	<b>(134.4)</b>	<b>77.9</b>	<b>159.6</b>	<b>152.3</b>	EV/EBITDA All Ind (x)	9.3	8.3	7.4	6.9
Dividends	(31.2)	(64.9)	(150.4)	(158.8)	EV/EBITDA rel All Ind (x)	3.1	2.3	1.9	2.0
Acq/Disp	(166.8)	(1,206.9)	0.0	0.0	<b>P/E (x)</b>	<b>13.0</b>	<b>13.2</b>	<b>13.3</b>	<b>12.8</b>
Other investing items	0.0	0.0	0.0	0.0	P/E rel All Ind (x)	0.6	0.7	0.8	0.9
<b>Free cashflow</b>	<b>(332.4)</b>	<b>(1,193.9)</b>	<b>9.2</b>	<b>(6.5)</b>	P/E rel All Ind ex banks (x)	0.6	0.7	0.8	0.9
Equity	(37.9)	1,022.9	0.0	0.0	P/E sector (x)	18.8	15.9	13.5	12.2
Debt inc/(red'n)	200.9	183.1	(9.2)	6.5	P/E rel sector (x)	0.7	0.8	1.0	1.0
Balance sheet					Assumptions				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
Cash & deposits	10.1	24.5	15.0	15.0	GDP growth (%)	2.92	2.50	3.02	3.64
Inventories	0.0	0.0	0.0	0.0	Interest Rates (%)	5.73	6.38	6.34	6.30
Trade debtors	21.7	30.4	0.0	0.0	Inflation (%)	3.20	3.09	2.47	2.50
Other curr assets	3.6	0.0	0.0	0.0					
<b>Total current assets</b>	<b>35.4</b>	<b>54.9</b>	<b>15.0</b>	<b>15.0</b>					
Prop., plant & equip.	0.0	0.0	0.0	0.0					
Non-curr intangibles	0.0	0.0	0.0	0.0					
Non-curr investments	2,125.1	3,245.9	3,408.2	3,578.6					
Other non-curr assets	165.4	410.6	410.6	410.6					
<b>Total assets</b>	<b>2,325.9</b>	<b>3,711.3</b>	<b>3,833.7</b>	<b>4,004.1</b>					
Trade creditors	15.3	14.1	0.0	0.0					
Curr borrowings	0.0	0.0	0.0	0.0					
Other curr liabilities	7.4	72.6	69.9	70.5					
<b>Total current liab.</b>	<b>22.7</b>	<b>86.7</b>	<b>69.9</b>	<b>70.5</b>					
Borrowings	1,260.4	1,443.8	1,425.1	1,431.6					
Other non-curr liabilities	32.6	17.8	17.8	17.8					
<b>Total liabilities</b>	<b>1,315.7</b>	<b>1,548.3</b>	<b>1,512.8</b>	<b>1,519.9</b>					
Minorities/Convertibles	9.5	9.7	12.8	16.0					
<b>Shareholders equity</b>	<b>1,010.1</b>	<b>2,163.1</b>	<b>2,320.9</b>	<b>2,484.3</b>					

## Notes To Accounts

All income statement items (except reported profit) now exclude Goodwill Amortisation as per the new IFRS requirements. We also exclude revaluation gains from reported profit to estimate the operating profit generated by the Trust.

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



# Centro Retail Trust

TABLE 1: FY07 INCOME STATEMENT

For the 12 months ended**:		pcp	Aegis	Actual	Change	
		Jun-06	Jun-07	Jun-07	pcp	Aegis
Sales revenue	:\$M	144.6	209.3	223.2	+54%	+7%
EBITDA	:\$M	113.6	177.4	176.5	+55%	-0%
Depreciation & amort	:\$M	0.0	0.0	0.0		
EBIT	:\$M	113.6	177.4	176.5	+55%	-0%
Net Int Expense	:\$M	-55.3	-88.8	-75.2	+36%	-15%
Profit Before Tax	:\$M	58.3	88.6	101.3	+74%	+14%
Tax on Recurring	:\$M	-3.9	-0.9	-13.9	+258%	+1446%
Profit After Tax	:\$M	54.5	87.7	87.4	+60%	-0%
Minorities/Associates	:\$M	-0.2	-0.7	-1.9	+661%	+171%
Preference Dividends	:\$M	0.0	0.0	0.0		
NPAT	:\$M	54.2	87.0	85.5	+58%	-2%
Non Recurring (net of Tax)	:\$M	173.8	171.0	181.1	+4%	+6%
Reported Profit	:\$m	228.0	258.0	266.6	+17%	+3%
** All numbers are adj. for non-recurring items except Reported Profit						
<b>PER SHARE DATA</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
Average weighted Capital, fully diluted	:M	418	665	674	+61%	+1%
E.P.S. on Adj profit	:cents	13.0	13.6	12.7	-2%	-7%
D.P.S.	:cents	12.0	12.6	12.7	+6%	+1%
Franking	:%	0	0	0		
Payout Ratio		93%	92%	100%	+8%	+8%
<b>RATIOS</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
EBITDA Margin	:%	78.6	84.8	79.1	+0%	-6%
EBIT Margin	:%	78.6	84.8	79.1	+0%	-6%
Effective Tax rate	:%	6.7	1.0	13.7	+7%	+13%

Source: Company/Aegis Equities

## Key Highlights

- Reported result:** CER reported FY07 NPAT of \$266.6M, up 16.9% on the pcp. Excluding revaluation gains and other AIFRS adjustments, FY07 NPAT was \$85.5M, up 57.9% on FY06, reflecting a combination of acquisitions and strong rental growth, both domestically and in the US.
- Healthy property performance:** The domestic portfolio of shopping centres has provided net property income growth of 11.7%, with 5% comparable income growth. In the US, the portfolio provided a 54.8% net property income growth, driven by the New Plan acquisition, and a 2.4% comparable growth.
- Adding value through development:** During the year, \$119M of a development project was completed on the Centro Colonnades in South Australia. The New Plan acquisition has also substantially added developments to CER's pipeline.
- Leasing metrics remain healthy:** During the year, a total of 801 leasing deals were completed across the Australian portfolio and the US portfolio, with an average 5.2% and 8.7% increase in rental growth in Australia and the US, respectively. As at 30 June 2007, occupancy rate was 99.7% in the Australian portfolio, 97.9% in the US East Coast portfolio and 99.3% in the US West Coast portfolio, while the New Plan portfolio occupancy was 94.8%.
- Distribution Reinvestment Plan (DRP):** The DRP contributed \$41M in the 12 months to June 2007. CER will continue to review the operation of the DRP on a six monthly basis.
- Distribution guidance:** CER declared a final distribution of 6.4cpu, taking FY07 distribution to 12.7cpu, up 5.83% on FY06. Management provided FY08 distribution guidance of 13.73cpu (following the New Plan acquisition). The distribution amount represents a DPS growth of 8.1%.
- New Plan acquisition:** The Trust successfully raised \$1B capital via a \$386M entitlement offer and \$632M placement, which was used to partially fund the New Plan Excel Realty Trust acquisition with joint bidder Centro Properties Group (CNP). The Trust now has 228 centres (an increase of 240%).
- Debt levels:** The Trust's interest-bearing liabilities comprise A\$1.07B of Australian debt and A\$0.38B of US debt, at an average fixed interest rates of 5.35% and 4.84%, respectively. This represents a look-through gearing ratio of 58.5%, which is within CER's target range of 50%–65%.
- Net tangible assets:** CER reported revaluation gains of \$181M, increasing NTA from \$1.88 per unit as at 31 December 2006 to \$1.90 per unit as at 30 June 2007 (or up 1%).



# Centro Retail Trust

TABLE 2: PORTFOLIO MAT BY CATEGORY

Category	MAT (A\$M)	MAT Composition (%)	SCCA MAT Growth (%)
Supermarkets	807.3	32.3%	0.1%
Discount Department Stores	412.8	16.5%	-2.4%
Department Stores	146.8	5.9%	8.1%
<b>Total Majors</b>	<b>1,366.9</b>	<b>54.7%</b>	<b>0.4%</b>
Specialities	873.5	35.0%	4.2%
Mini Majors	130.8	5.2%	15.5%
Others	127.7	5.1%	3.1%
<b>Total</b>	<b>2,498.9</b>	<b>100.0%</b>	<b>2.5%</b>

Source: CER/Aegis Equities

## Australia

- CER's portfolio generated a moving annual turnover (MAT) growth of 2.5% to sales of over \$2.4B. Among the strongest performers were mini-majors and department stores, with 15.5% and 8.1% growth, respectively (refer to Table 2). We expect retail sales to continue, driving the strong demand for retail space, both domestically and in the US.
- The Australian portfolio's weighted average cap rate firmed from 6.13% as at 30 June 2006 to 5.87% as at 30 June 2007, resulting in an increase of \$97.9M to CER's book value.
- During the year, a total of 332 leasing deals were completed across the Australian portfolio, with an average 5.2% increase in rental growth and a 79% renewal rate. As at 30 June 2007, occupancy rate was 99.7% in the Australian portfolio.

## United States

- Retail sales in the US remained solid for the year, with the International Council of Shopping Centers (ICSC) reporting a forecast increase of 3.4% for CY2007 (excluding automobiles, gas stations and restaurant sales) and 4.3% in CY2008. We expect retail sales to remain strong, driving the continued demand for retail space. This is also supported by the US retail sales reports, which indicate a continued healthy retail environment.
- The US portfolio's weighted average cap rate firmed to 6.48% as at 30 June 2007, lifting CER's book value further by \$82.9M (including the New Plan portfolio).
- During the year, a total of 469 leasing deals were completed across the US portfolios, with an average rental growth of 8.7% over the year. As at 30 June 2007, occupancy rates were 97.9% and 99.3% for the US East and West Coast portfolios, respectively, while New Plan's occupancy rate was 94.8%.

## Development Pipeline - Australia

- Brooks Garden - The neighbourhood centre is anchored by a Woolworths supermarket and was purchased on a valuation yield of 7% (excluding the adjacent vacant land). The site includes 3.1ha of vacant land, which is suitable for redevelopment, and another 4,500sqm vacant building, which is suitable for refurbishment to a bulky goods use.
- Centro Galleria - Target to be expanded.
- Centro Colonnades - Stage three planning underway for new discount department stores, cinemas and specialities.
- Centro Toombul - Master planning continues for new Target store, BiLo conversion to a Diners Life food court and negotiations with David Jones continue.

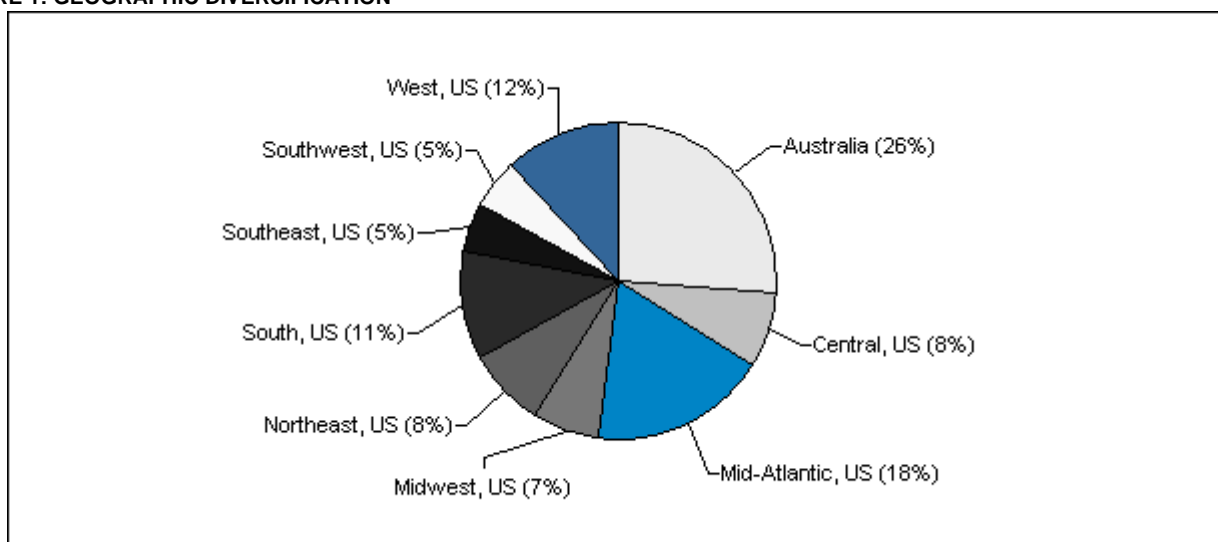
## Development Pipeline - United States

- CER has US\$82M worth of development opportunities in the US.
- The development pipeline has a stabilised yield of 9.1%, which is significantly higher than CER's US weighted average cap rate of 6.48%. This provides ample opportunity for property valuation growth.
- Pointe Orlando, Florida - The centre had significant renovation and retailer remixing undertaken. A project forecast cost of US\$51.9M will provide a stabilised yield of 7.6%. Target completion in November 2007.
- The Shoppes at Cinnaminson, New Jersey - Acquired in 2006 and coincides with a major state-funded road improvement, which provides premium site access. The 30,600sqm development site will cost US\$53.1M, with 9% stabilised yield and due to complete in April 2008.



# Centro Retail Trust

FIGURE 1: GEOGRAPHIC DIVERSIFICATION



Source: CER/Aegis Equities

## Investment View and Summary

- The Trust portfolio is highly diversified (after the New Plan acquisition) across a range of quality retail shopping centres, both domestically and in the US, as illustrated in Figure 1 above. The outlook for the Trust is positive as a geographically balanced and diversified portfolio, investing in quality assets, in both Australia and the US and being well placed to continue to grow its property income.
- NTA increased from \$1.88 per unit as at 31 December 2006 to \$1.90 per unit as at 30 June 2007, following a revaluation uplift of \$180.8M from its Australian and the US portfolios.
- CER's total asset value grew by \$1.4B (up 59.6%) to \$3.7B since 30 June 2006. This was mainly attributable to the New Plan acquisition in April 2007.
- Management reported a look-through gearing ratio of 58.5%, which is within its target range of 50%–65%.
- Management reaffirmed FY07 distribution guidance of 12.7cpu and 13.73cpu for FY08, following the New Plan acquisition. The amount represents DPS growth of 8.1%.
- Offshore income is 86% hedged for the next five years (until 2012) at an average AUD/USD rate of 0.7780.
- Centro Shopping America Trust (CSF) is currently under strategic review by Centro Properties Group (CNP). The strategic review includes a potential merger with CER, and further information is awaited.
- Strong sales and leasing results point to confidence in the retail environment in both domestic and US markets. CER is well placed with its geographically balanced and diversified portfolio to thrive in these conditions.
- The overall result is broadly in line with our expectations, and the continuing growth of the property income have led to our 12-month price target increasing slightly to \$1.87.
- CER is currently trading at a significant discount to our 12-month price target of \$1.87. Accordingly, we maintain our BUY recommendation on the stock for both the short-term and long-term.

# AXA Asia Pacific

## Strong 1H07 result - AXA benefits from favourable environment

### Event

AXA reported a 1H07 NPAT of \$374M, up 23% on 1H06 and above our forecast of \$323M. The result was driven by strong funds inflows in Australia, buoyant equity markets, strong claims experience in financial protection and good expense control. Hong Kong experienced strong earnings growth, benefiting from recent acquisitions and strong sales growth. The interim dividend has been increased by 23% to 9.25cps (35% franked). AXA also announced a \$150M increase in its on-market share buyback to \$400M.

### Implications

We have increased our FY07 and FY08 EPS forecasts by 4% and 3%, respectively, reflecting the stronger than expected 1H07 result and some changes to our investment earnings forecasts, partly offset by the adverse impact of changes to our A\$/HK\$ exchange rate assumptions. We note that the 1H07 NPAT included larger than normal experience gains, which we have assumed reduce to more normal levels going forward. Our valuation and share price target are largely unchanged. We retain our positive 12-month view on the stock at current levels.

### Investment Opinion

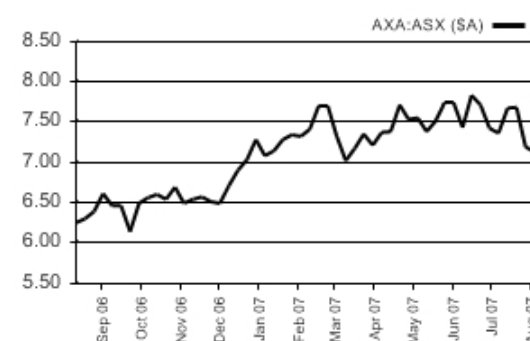
The medium- to long-term outlook for AXA is positive, with the company operating in the high-growth wealth management industry in Australia. AXA is well placed in New Zealand and the key growth markets in Asia. AXA has repositioned itself as a leading player in the Australian and New Zealand wealth management industry and has successfully expanded rapidly into the Asian region, particularly in Hong Kong. At current levels, our long-term view is neutral.

AXA continues to improve its earnings quality, growing underlying business volumes and expanding further into Asia. AXA is well positioned to take advantage of the fast-growing Australian retirement savings industry as well as key Asian growth markets. The potential for AXA's majority shareholder, AXA SA, to make another offer for the company is also a positive. We have a positive view of AXA on a 12-month time frame.

### Key Information

<b>Share Price</b>	<b>\$7.44</b>
<b>12 month view</b>	<b>BUY</b>
12 month target return (%)	18.5
12 month target price	\$8.57
<b>Long Term View</b>	<b>HOLD</b>
Long Term Target Return (% pa)	13.0
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$12,787
Shares (M)	1,719
% of Market	0.74
% of Sector	2.17
12 Month Range	\$6.07 - \$8.13
Company Risk	★★★★☆☆
Share Price Risk	★★★★☆☆
Ethical rating	★★★★☆☆

### Performance against indices (%)

	3 Months	6 Months	12 Months
AXA	(1.6)	1.1	18.7
Sector	(8.8)	(4.9)	13.9
Market	(5.0)	2.4	21.9

### Key Assumptions

Beta:	1.1
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	12.8
Forecast cashflow (years):	10
Residual value % of total valuation:	49.4
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Dec	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	668	678	38.9	26.3	19.1	1.0	1.0	18.8	2.5	33	18.2
2007F	748	748	43.4	11.6	17.1	1.1	1.1	22.3	3.0	35	19.3
2008F	781	781	46.2	6.6	16.1	1.1	1.2	25.0	3.4	35	19.4
2009F	841	841	49.8	7.6	14.9	1.1	1.2	29.0	3.9	35	19.0

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# AXA Asia Pacific

12M Recommendation<sup>1</sup>: BUY

12M Target: \$8.57

Long Term Recommendation<sup>2</sup>: HOLD

Long Term Target Return: 13.0% pa

Year end Dec. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>Operating revenue</b>	<b>723</b>	<b>794</b>	<b>829</b>	<b>891</b>	Revenue growth (%)	29.0	9.9	4.4	7.4
Invest & other income	0	0	0	0	EBITDA growth (%)	29.0	9.9	4.4	7.4
<b>EBITDA</b>	<b>723</b>	<b>794</b>	<b>829</b>	<b>891</b>	EPS growth (%)	26.3	11.6	6.6	7.6
Depreciation/Amort	0	0	0	0	EBITDA/Sales margin (%)	100.0	100.0	100.0	100.0
<b>EBIT</b>	<b>723</b>	<b>794</b>	<b>829</b>	<b>891</b>	EBIT/Sales margin (%)	100.0	100.0	100.0	100.0
Net Interest	(45)	(47)	(48)	(50)	Tax rate (%)	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>678</b>	<b>748</b>	<b>781</b>	<b>841</b>	Net debt/equity (%)	(19.2)	(25.7)	(34.5)	(41.6)
Tax expense	0	0	0	0	Net debt/net debt + equity (%)	(23.7)	(34.6)	(52.6)	(71.3)
Minorities/Assoc./Prefs	0	0	0	0	Net interest cover (x)	16.1	17.1	17.1	17.7
<b>NPAT</b>	<b>678</b>	<b>748</b>	<b>781</b>	<b>841</b>	Payout ratio (%)	48.2	51.3	54.1	58.3
Non recurring items	(10)	0	0	0	Capex to deprec'n (%)	0.0	0.0	0.0	0.0
<b>Reported profit</b>	<b>668</b>	<b>748</b>	<b>781</b>	<b>841</b>	NTA per share (\$)	1.33	1.30	1.53	1.76
NPAT add Goodwill & Pref	0	0	0	0	ROA (%)	2.3	2.4	2.5	2.6
<b>Adjusted profit</b>	<b>678</b>	<b>748</b>	<b>781</b>	<b>841</b>	ROE (%)	18.2	19.3	19.4	19.0
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>EBITDA</b>	<b>723</b>	<b>794</b>	<b>829</b>	<b>891</b>	Market cap (M)	12,787			
Working capital changes	0	1	33	32	Net debt (\$M)	0			
Interest and tax	0	(24)	(48)	(50)	Peripheral assets (\$M)	0			
Other operating items	427	(82)	49	48	<b>Enterprise value (\$M)</b>	<b>12,787</b>			
<b>Operating cashflow</b>	<b>1,150</b>	<b>690</b>	<b>863</b>	<b>920</b>	<b>EV/EBIT (x)</b>	<b>17.7</b>	<b>16.1</b>	<b>15.4</b>	<b>14.3</b>
Required capex	0	0	0	0	<b>EV/EBITDA (x)</b>	<b>17.7</b>	<b>16.1</b>	<b>15.4</b>	<b>14.3</b>
<b>Maintainable cashflow</b>	<b>1,150</b>	<b>690</b>	<b>863</b>	<b>920</b>	EV/EBITDA All Ind (x)	9.3	8.3	7.4	6.9
Dividends	(266)	(355)	(389)	(456)	EV/EBITDA rel All Ind (x)	1.9	1.9	2.1	2.1
Acq/Disp	0	(311)	0	0	<b>P/E (x)</b>	<b>19.1</b>	<b>17.1</b>	<b>16.1</b>	<b>14.9</b>
Other investing items	(845)	86	0	0	P/E rel All Ind (x)	0.9	1.0	1.0	1.1
<b>Free cashflow</b>	<b>39</b>	<b>110</b>	<b>474</b>	<b>464</b>	P/E rel All Ind ex banks (x)	0.9	0.9	1.0	1.0
Equity	0	(371)	0	0	P/E sector (x)	18.8	15.9	13.5	12.2
Debt inc/(red'n)	(92)	517	(474)	(464)	P/E rel sector (x)	1.0	1.1	1.2	1.2
<b>Balance sheet</b>					<b>Assumptions</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
Cash & deposits	1,574	991	1,466	1,930	GDP growth (%)	2.66	2.63	3.47	3.49
Inventories	0	0	0	0	Interest Rates (%)	6.05	6.41	6.30	6.30
Trade debtors	623	753	810	866	Inflation (%)	3.54	2.51	2.50	2.50
Other curr assets	0	0	0	0					
<b>Total current assets</b>	<b>2,197</b>	<b>1,745</b>	<b>2,276</b>	<b>2,796</b>					
Prop., plant & equip.	62	333	333	333					
Non-curr intangibles	1,579	1,665	1,665	1,665					
Non-curr investments	28,365	28,982	28,982	28,982					
Other non-curr assets	352	658	658	658					
<b>Total assets</b>	<b>32,555</b>	<b>33,383</b>	<b>33,914</b>	<b>34,434</b>					
Trade creditors	1,199	1,186	1,276	1,364					
Curr borrowings	0	0	0	0					
Other curr liabilities	253	150	150	150					
<b>Total current liab.</b>	<b>1,452</b>	<b>1,336</b>	<b>1,426</b>	<b>1,514</b>					
Borrowings	825	0	0	0					
Other non-curr liabilities	26,374	28,188	28,237	28,284					
<b>Total liabilities</b>	<b>28,651</b>	<b>29,524</b>	<b>29,663</b>	<b>29,798</b>					
Minorities/Convertibles	0	0	0	0					
<b>Shareholders equity</b>	<b>3,904</b>	<b>3,859</b>	<b>4,251</b>	<b>4,636</b>					

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



**TABLE 1: RESULTS SUMMARY**

A\$M	1H06A	1H07A	1H07A v. 1H06A
Australia & NZ	121.9	142.8	17%
Hong Kong	98.1	123.2	26%
Asia (excluding HK)	-2.0	0.2	n/a
<b>Total Operating Earnings</b>	<b>218.0</b>	<b>266.2</b>	<b>22%</b>
Australia & NZ	80.1	66.7	-17%
Hong Kong	66.3	96.3	45%
Asia (excluding HK)	0.4	3.0	large
<b>Total Investment Earnings</b>	<b>146.8</b>	<b>166.0</b>	<b>13%</b>
Net Interest	-31.6	-22.8	-28%
Corporate Expenses	-25.2	-24.5	-3%
Executive Share Plan Expense	-4.2	-7.0	67%
Amort. Of Acquired Businesses	0.0	-3.9	n/a
<b>NPAT pre non-recurring items</b>	<b>303.8</b>	<b>374.0</b>	<b>23%</b>
Non-Recurring	0.0	0.0	0%
<b>Net Profit Reported</b>	<b>303.8</b>	<b>374.0</b>	<b>23%</b>
<b>EPS (adjusted) - cents</b>	<b>17.40</b>	<b>21.50</b>	<b>24%</b>
<b>DPS - cents</b>	<b>7.50</b>	<b>9.25</b>	<b>23%</b>
<b>Franking</b>	<b>30%</b>	<b>35%</b>	

Source: Company

## Key Points

- AXA reported a 1H07 result higher than our expectations, with both operating earnings and investment returns better than our forecast. 1H07 NPAT of \$374M was up 23% on 1H06, with EPS up 24%.
- Operating earnings were up 22% to \$266M from \$218M in 1H05. The Australian and New Zealand (NZ) business was up 17%, while AXA Hong Kong was up 26% in Australian dollar terms or 38% in local currency terms.
- Investment earnings of \$166M were up from \$147M in 1H06 due to higher equity returns and an increase in US bond yields.
- Corporate expenses fell 3% to \$24.5M.
- Interest expense decreased to \$22.8M, down from \$31.6M. An increased interest expense due to higher A\$ borrowings was more than offset by lower expense due to the restructure of US\$ debt and a positive differential on interest rate swaps.
- Executive share plan expense increased to \$7M and is expected to increase further until reaching a steady state at the end of FY07.
- Total group funds under management, administration and advice at 30 June 2007 of \$106.4B were up 9% compared to those on 31 December 2006 and 21% compared to those on 30 June 2006. The increase reflects strong equity markets, increased fund net inflows and recent acquisitions.
- Balance sheet strength. AXA has total capital above regulatory requirements of \$1.38B as at 30 June 2007, of which \$785M represents capital in excess of its current internal target surplus (even after the purchase of Winterthur Life Hong Kong). This strong capital position enabled AXA to announce an increase in its on-market buyback from \$250M to \$400M. Gearing of 33% at 30 June 2007 remains below the group target range of 40%–50%.
- Increased interim dividend. AXA declared an increased interim dividend of 9.25cps for 1H07, up 23% on the 7.50cps paid in 1H06, with the franking rate increasing slightly to 35% from 30%. The higher dividend reflects the strong growth in earnings.

## Divisional Results

### Australia and New Zealand

- Total operational earnings for 1H07 increased 17% to \$143M, driven by strong net funds flows, strong investment markets and strong claims experience in financial protection.
- Financial Protection earnings increased by 16% on 1H06 to \$59M in 1H07 due to favourable claims experience in individual life insurance and profits from surrenders and higher bonuses at maturity on the closed long-term risk book.
- Wealth Management operating earnings were up by 18% on 1H06 to \$84M in 1H07, reflecting higher fee income on the back of growth in funds under management and the benefit of the acquisition of the remaining 67% stake of Tynan Mackenzie.
- The cost-to-income ratio improved from 60.5% at 31 December 2006 to 57.3% as at 30 June 2007, reflecting the benefits of tight expense control and strong growth in income.
- Total gross inflows increased 14% and total net inflows soared 54% due to strong inflows across platforms, superannuation and international equity funds and retention of existing funds.
- Superannuation gross inflows were up 35% while net inflows climbed 70% due to strong platform personal superannuation products and good retention levels in existing funds.
- Investment products gross inflows were up 40% while net inflows grew 47% on the back of continued strong flows in international equity funds.
- AllianceBernstein's gross retail inflows were up 73% and net retail inflows soared 144% following strong inflows and a new mandate awarded in March 2007.
- AllianceBernstein's gross wholesale inflows fell 23% due to the inclusion of two new large international equity mandates in 2006. However, net wholesale inflows were up 21%.
- Individual life new business was up 1%, whilst individual income protection new business grew 5% and Group life new business rose 4%.
- Total funds under management, administration and advice (FUMA) was up 10% on 31 December 2006.
- As at 31 December 2006, AXA had achieved its overarching goal to increase illustrative enterprise value by 65%, which was ahead of schedule. AXA is on track to deliver the remaining "AXA 6" aspirational goals by the end of December 2007. The company plans to announce its next strategic program at the annual strategy briefing in late November 2007.

**TABLE 2: AUSTRALIA AND NEW ZEALAND WEALTH MANAGEMENT FUNDS FLOWS**

A\$M	Gross Inflows (6mths)			Net Inflows (6mths)		
	1H06A 30-Jun-06	1H07A 30-Jun-07	1H07A v. 1H06A	1H06A 30-Jun-06	1H07A 30-Jun-07	1H07A v. 1H06A
Superannuation	1,850	2,500	35%	814	1,386	70%
Retirement Income	262	187	-29%	- 67	- 197	N/A
Investment Products	1,769	2,485	40%	706	1,037	47%
<b>Total Aust &amp; NZ Flows excl. CMTs</b>	<b>3,882</b>	<b>5,173</b>	<b>33%</b>	<b>1,453</b>	<b>2,226</b>	<b>53%</b>
Alliance Bernstein - Retail Mandates	1,137	1,964	73%	214	521	144%
Alliance Capital - Wholesale Mandates	3,680	2,844	-23%	812	986	21%
Other	136	113	-17%	- 51	5	N/A
<b>Total Australia &amp; NZ Flows incl CMTs</b>	<b>8,835</b>	<b>10,094</b>	<b>14%</b>	<b>2,428</b>	<b>3,738</b>	<b>54%</b>
<b>Included in the above:</b>						
Platforms	1,956	2,614	34%	1,111	1,585	43%
Advice	845	797	-6%	422	342	-19%

Source: Company

**TABLE 3: AUSTRALIAN AND NEW ZEALAND FINANCIAL PROTECTION**

A\$M	New Business (6mths)			Inforce (6mths)		
	1H06A	1H07A	1H07A	1H06A	1H07A	1H07A
	30-Jun-06	30-Jun-07	v. 1H06A	30-Jun-06	30-Jun-07	v. 1H06A
Individual Life - non-linked	27.3	27.5	1%	282	307	9%
Individual Income Protection	12.0	12.6	5%	200	205	2%
<b>Total Individual Financial Protection</b>	<b>39.3</b>	<b>40.1</b>	<b>2%</b>	<b>482</b>	<b>512</b>	<b>6%</b>
Group Insurance	9.3	9.7	4%	133	133	0%
Long Term Risk	1.3	1.3	0%	82	80	-3%
<b>Total Financial Protection</b>	<b>49.9</b>	<b>51.1</b>	<b>2%</b>	<b>697</b>	<b>725</b>	<b>4%</b>
<b>Single Premiums</b>	16.4	15.5	-5%	N/A	N/A	N/A

Source: Company

## Hong Kong

- In Hong Kong dollar terms, 1H07 operating earnings grew 38% to HK\$780M compared to those in 1H06, driven by strong sales growth and the inclusion of earnings from ex MLC Hong Kong. In Australian dollar terms, operating earnings increased at a lower rate of 26% due to the appreciation of the Australian dollar against the Hong Kong dollar.
- The total life new business index was up 37%, or 26% excluding the impact of the acquired Winterthur Life Hong Kong (WLHK) business.
- New individual life regular premiums increased 24% due to the April launch of the new Signature Series unit-linked savings product, the successful integration of MLC Hong Kong and the inclusion of HK\$64M regular premium sales from WLHK since 27 April 2007.
- Individual life single premiums improved by only 1% due to the inclusion of HK\$206M sales from WLHK since 27 April, offset by lower single premium sales through the broker channel. Sales through the broker channel have mainly been of retirement products.
- Group retirement and investment products new business index climbed 96%, driven by strong growth in group retirement regular premiums, given the buoyant economy and strong sales through the broker channel.
- AXA's management expense ratio decreased from 5.6% in 1H06 to 5.5% in 1H07, despite recent acquisitions.
- The integration of the WLHK is progressing well, and AXA is on track to achieve the annualised cost savings target of HK\$35M–HK\$45M.

**TABLE 4: HONG KONG**

HK\$M	New Regular Premiums (6mths)			Inforce Regular Premiums (6mths)		
	1H06A	1H07A	1H07A	1H06A	1H07A	1H07A
	30-Jun-06	30-Jun-07	v. 1H06A	30-Jun-06	30-Jun-07	v. 1H06A
<b>Regular premiums</b>						
Individual Life - non-linked	385	352	-9%	6,499	6,974	7%
Individual Life - unit linked	144	301	110%	833	2,365	184%
<b>Total Individual life</b>	<b>528</b>	<b>653</b>	<b>24%</b>	<b>7,332</b>	<b>9,339</b>	<b>27%</b>
Group Retirement - including MPF	65	201	211%	1,451	1,432	-1%
Group Risk	60	92	54%	504	569	13%
<b>Total New Regular Premiums</b>	<b>652</b>	<b>945</b>	<b>45%</b>	<b>9,288</b>	<b>11,340</b>	<b>22%</b>
<b>Single Premiums</b>						
Individual Life - including unit linked	569	577	1%	N/A	N/A	N/A
Group Retirement and Investment Products	718	662	-8%	N/A	N/A	N/A
<b>Total Single Premiums</b>	<b>1,288</b>	<b>1,239</b>	<b>-4%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Life New Business Index</b>	<b>781</b>	<b>1,069</b>	<b>37%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

Source: Company

## Asia excluding Hong Kong

- AXA also operates in China, Singapore, The Philippines, Thailand, Indonesia, India and Malaysia via a mix of wholly owned subsidiaries and joint ventures. This division is relatively small, but is growing rapidly. The division delivered a small operational earnings surplus of A\$0.2M.
- The total new business index for the rest of Asia was up 87%; premium income rose 86%; and funds under advice increased by 47% over the past six months. While growth in these emerging markets is very strong, it is coming off a low base.
- AXA is progressing well towards its "Asia 6" aspirational goals, which has an overarching goal of doubling the illustrative enterprise value by December 2008.

**TABLE 5: ASIA (EX HONG KONG)**

	Total Premium Income (6mths)			New Business (6mths)		
	1H06A 30-Jun-06	1H07A 30-Jun-07	1H07A v. 1H06A	1H06A 30-Jun-06	1H07A 30-Jun-07	1H07A v. 1H06A
Philippines (Peso M)	3,332	10,113	204%	446	1,211	172%
Indonesia (Rupiah B)	445	1,061	138%	177	342	93%
Thailand (Baht M)	1,644	2,436	48%	647	1,104	71%
China (Rmb M)	248	347	40%	36	55	53%
Singapore (Sing\$ M)	181	210	16%	21	25	19%
India (Rupee M)	-	110	N/A	-	180	N/A
Malaysia (Ringgit M)	-	13	N/A	-	1	N/A
<b>Tota (A\$M)</b>	<b>391</b>	<b>726</b>	<b>86%</b>	<b>81</b>	<b>152</b>	<b>87%</b>

Source: Company

## Outlook

- AXA continues to benefit from the favourable investment environment in Australia (with superannuation a key driver), growth in its Asian businesses (supplemented by acquisitions) and its transformation programs.
- The strong growth in funds under management, administration and advice, particularly the strong inflows in the second quarter, establishes a platform for earnings growth in 2H07 and beyond. Despite the recent volatility in equity markets, AXA remains well positioned to benefit from the ongoing growth in superannuation in Australia. In Australia, AXA also plans to grow its business through growth in its distribution footprint and by acquisition of advice businesses.
- AXA's Asian operations are expected to continue their rapid growth trajectory, leveraging off the recent Winterthur acquisition in Hong Kong. We expect AXA will continue to grow its presence in the rapidly growing Asian markets. Its AXA's wholly owned subsidiaries and/or joint venture initiatives in Hong Kong, China, Singapore, The Philippines, Thailand, Indonesia, India and Malaysia are expected to maintain solid medium-term momentum.
- AXA has made very good progress with its aspirational goals and is on track to achieving (or exceeding) the "AXA 6" Australia and New Zealand targets (set for end of December 2007) and the "Asia 6" targets (set for end of December 2008).
- AXA has a strong capital and financial position, and we expect the company to continue growing shareholder value. The excess capital position and low gearing provide the company with the flexibility to pursue attractive growth opportunities as they arise.

## Forecast and Valuation

- We have increased our FY07 and FY08 EPS forecasts by 4% and 3%, respectively, reflecting the stronger than expected 1H07 result and some changes to our investment earnings forecasts, partly offset by the adverse impact of changes to our A\$/HK\$ exchange rate assumptions. We note that the 1H07 NPAT included larger than normal experience gains, which we have assumed reduce to more normal levels going forward.
- Our valuation and share price target are largely unchanged.

## Investment view

- AXA is well positioned in the high-growth wealth management markets in Australia and Asia. AXA continues to achieve good growth in funds under management, administration and advice and, with a conservative balance sheet, has opportunities to grow through further acquisitions. On the basis of the current share price, we have a long-term HOLD recommendation on AXA and a short-term BUY recommendation.

# Tap Oil

## Totem-1 oil well is a duster

### Event

TAP has completed drilling of the Totem-1 well in Western Australia. Preliminary results show that it is not an oil discovery. The well will now be plugged and abandoned.

### Implications

In our valuation of TAP, we attributed a risked value of 8cps to the Totem-1 well. That value is now gone, as we now believe, after the completion of drilling, that Totem-1 has no value. TAP is also currently drilling the Fletcher well in Western Australia. In our valuation, we have attributed a risked value of 5cps to Fletcher. If Fletcher is also a duster, it should not have a significant impact on TAP's share price. The next stage of TAP's exploration is the Maitland appraisal in late August 2007, to which we have attributed a risked value of 49cps. Success or failure in the Maitland appraisal may have a significant impact on TAP's share price. Exploration is a high-risk/high-reward endeavour that can be quite speculative; there are no guarantees of success. The failure at Totem-1 has reduced our 12-month share price target by 4% to \$2.49, and we maintain our current BUY recommendation on TAP.

### Investment Opinion

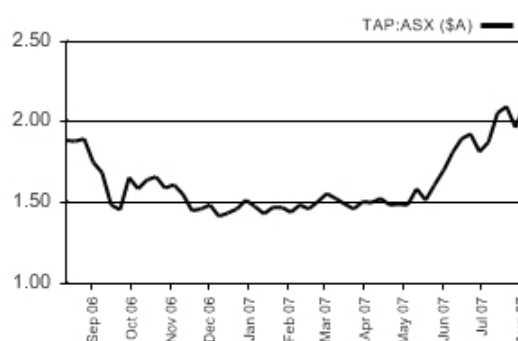
TAP is an oil stock, the performance of which will depend largely on additions to reserves. It has a 12.2% stake in the strategically located oil and gas gathering facilities on the Varanus Island on the North West Shelf. A large drilling program is currently being carried out, and exploration success could be a turning point for the company. TAP is fully exposed to oil price movements, as it has no hedging in place.

TAP has adopted an aggressive exploration program designed to generate new growth projects beyond the currently producing assets and to extend production in the existing fields of Harriet and Woollybutt in the Carnarvon basin. The company is financially strong, with no debt and high cash levels.

### Key Information

<b>Share Price</b>	<b>\$1.93</b>
<b>12 month view</b>	<b>BUY</b>
12 month target return (%)	28.8
12 month target price	\$2.49
<b>Long Term View</b>	<b>BUY</b>
Long Term Target Return (% pa)	16.5
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$319
Shares (M)	159.0
% of Market	0.02
% of Sector	0.33
12 Month Range	\$1.41 - \$2.18
Company Risk	☆☆☆☆☆
Share Price Risk	☆☆☆☆☆
Ethical rating	☆☆☆☆☆

### Performance against indices (%)

	3 Months	6 Months	12 Months
TAP	29.5	34.0	1.0
Sector	(2.9)	9.8	9.0
Market	(5.0)	2.4	21.9

### Key Assumptions

Beta:	1.4
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	13.8
Forecast cashflow (years):	10
Residual value % of total valuation:	8.4
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Dec	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	0.8	19.2	11.9	(52.9)	16.2	0.9	0.8	0.0	0.0	0	7.8
2007F	8.0	8.0	5.2	(56.6)	37.3	2.3	1.9	0.0	0.0	0	3.3
2008F	22.0	22.0	13.9	167.9	13.9	0.9	0.9	0.0	0.0	0	8.4
2009F	19.8	19.8	12.4	(10.3)	15.5	1.1	1.1	0.0	0.0	0	7.0

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Tap Oil

12M Recommendation<sup>1</sup>: BUY

12M Target: \$2.49

Long Term Recommendation<sup>2</sup>: BUY

Long Term Target Return: 16.5% pa

Year end Dec. All figures in A\$M

Profit & loss summary					Ratio analysis				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>Operating revenue</b>	<b>126.9</b>	<b>72.2</b>	<b>99.0</b>	<b>87.2</b>	Revenue growth (%)	1.6	(43.1)	37.1	(12.0)
Invest & other income	(42.9)	(27.3)	(25.5)	(15.0)	EBITDA growth (%)	(32.8)	(72.4)	102.3	13.9
<b>EBITDA</b>	<b>54.6</b>	<b>15.1</b>	<b>30.5</b>	<b>34.7</b>	EPS growth (%)	(52.9)	(56.6)	167.9	(10.3)
Depreciation/Amort	(37.6)	(10.0)	(6.5)	(15.9)	EBITDA/Sales margin (%)	43.0	20.9	30.8	39.9
<b>EBIT</b>	<b>17.0</b>	<b>5.1</b>	<b>24.0</b>	<b>18.9</b>	EBIT/Sales margin (%)	13.4	7.0	24.3	21.6
Net Interest	4.9	6.4	7.4	9.4	Tax rate (%)	12.6	30.0	30.0	30.0
<b>Pre-tax profit</b>	<b>21.9</b>	<b>11.5</b>	<b>31.4</b>	<b>28.2</b>	Net debt/equity (%)	(43.8)	(40.1)	(49.8)	(56.9)
Tax expense	(2.8)	(3.4)	(9.4)	(8.5)	Net debt/net debt + equity (%)	(77.9)	(66.9)	(99.3)	(132.2)
Minorities/Assoc./Prefs	0.0	0.0	0.0	0.0	Net interest cover (x)	n/a	n/a	n/a	n/a
<b>NPAT</b>	<b>19.2</b>	<b>8.0</b>	<b>22.0</b>	<b>19.8</b>	Payout ratio (%)	0.0	0.0	0.0	0.0
Non recurring items	(18.4)	0.0	0.0	0.0	Capex to deprec'n (%)	121.4	34.2	26.5	29.0
<b>Reported profit</b>	<b>0.8</b>	<b>8.0</b>	<b>22.0</b>	<b>19.8</b>	NTA per share (\$)	1.18	1.23	1.37	1.49
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	5.5	1.7	7.5	5.5
<b>Adjusted profit</b>	<b>19.2</b>	<b>8.0</b>	<b>22.0</b>	<b>19.8</b>	ROE (%)	7.8	3.3	8.4	7.0
Cashflow summary					Multiple analysis				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>EBITDA</b>	<b>54.6</b>	<b>15.1</b>	<b>30.5</b>	<b>34.7</b>	Market cap (M)	319			
Working capital changes	0.0	1.4	(0.8)	0.5	Net debt (\$M)	(101.7)			
Interest and tax	(4.6)	4.5	1.4	0.2	Peripheral assets (\$M)	(0.0)			
Other operating items	11.4	16.8	25.6	7.0	<b>Enterprise value (\$M)</b>	<b>217.1</b>			
<b>Operating cashflow</b>	<b>61.3</b>	<b>37.7</b>	<b>56.7</b>	<b>42.4</b>	<b>EV/EBIT (x)</b>	<b>12.8</b>	<b>42.7</b>	<b>9.0</b>	<b>11.5</b>
Required capex	(5.7)	(1.7)	(1.7)	(1.7)	<b>EV/EBITDA (x)</b>	<b>4.0</b>	<b>14.4</b>	<b>7.1</b>	<b>6.2</b>
<b>Maintainable cashflow</b>	<b>55.6</b>	<b>36.0</b>	<b>54.9</b>	<b>40.7</b>	EV/EBITDA All Ind (x)	9.3	8.3	7.4	6.9
Dividends	0.0	0.0	0.0	0.0	EV/EBITDA rel All Ind (x)	0.4	1.7	1.0	0.9
Acq/Disp	1.4	(42.6)	(20.5)	(10.0)	<b>P/E (x)</b>	<b>16.2</b>	<b>37.3</b>	<b>13.9</b>	<b>15.5</b>
Other investing items	0.0	0.0	0.0	0.0	P/E rel All Ind (x)	0.8	2.1	0.9	1.1
<b>Free cashflow</b>	<b>57.0</b>	<b>(6.6)</b>	<b>34.4</b>	<b>30.7</b>	P/E rel All Ind ex banks (x)	0.7	2.0	0.9	1.1
Equity	(3.7)	1.5	1.7	0.0	P/E sector (x)	21.2	19.7	14.9	13.6
Debt inc/(red'n)	0.0	5.1	(36.2)	(30.7)	P/E rel sector (x)	0.8	1.9	0.9	1.1
Balance sheet					Assumptions				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
Cash & deposits	105.2	100.2	136.4	167.0	Oil (US\$/bbl)	66.13	62.63	58.75	55.75
Inventories	6.2	3.6	5.1	4.2	GDP growth (%)	2.66	2.63	3.47	3.49
Trade debtors	10.8	6.2	8.9	7.3	US\$/A\$ (\$)	0.75	0.81	0.80	0.78
Other curr assets	3.9	3.9	3.9	3.9					
<b>Total current assets</b>	<b>126.1</b>	<b>113.9</b>	<b>154.3</b>	<b>182.5</b>					
Prop., plant & equip.	117.0	129.0	124.2	110.0					
Non-curr intangibles	56.3	56.3	56.3	56.3					
Non-curr investments	0.0	0.0	0.0	0.0					
Other non-curr assets	0.0	0.0	0.0	0.0					
<b>Total assets</b>	<b>299.3</b>	<b>299.2</b>	<b>334.8</b>	<b>348.8</b>					
Trade creditors	13.7	7.9	11.3	9.3					
Curr borrowings	0.0	0.0	0.0	0.0					
Other curr liabilities	0.2	7.5	13.4	11.2					
<b>Total current liab.</b>	<b>13.9</b>	<b>15.4</b>	<b>24.7</b>	<b>20.5</b>					
Borrowings	0.0	0.0	0.0	0.0					
Other non-curr liabilities	45.1	33.9	36.4	34.9					
<b>Total liabilities</b>	<b>59.0</b>	<b>49.3</b>	<b>61.1</b>	<b>55.4</b>					
Minorities/Convertibles	0.0	0.0	0.0	0.0					
<b>Shareholders equity</b>	<b>240.3</b>	<b>249.9</b>	<b>273.7</b>	<b>293.4</b>					

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



# Tap Oil

**TABLE 2: TAP'S EXPLORATION PROGRAM WITH AEGIS RISK WEIGHTINGS**

Prospect	Drilling Date	Net Potential Resource (mmboe)	Probability of success	Risked Potential Resources (mmboe)	Risked in-situ Value (US\$M) (@US\$15/bbl)	Risked in-situ Value (A\$M) (A\$/US\$ @0.87)	Risked Value per Share
Fletcher	Jul-07	4.10	10%	0.41	\$ 6.2	\$ 7.1	\$ 0.05
Totem-1	Jul-07	-	10%	-	\$ -	\$ -	\$ -
Maitland Appraisal	Aug-07	11.00	40%	4.40	\$ 66.0	\$ 75.9	\$ 0.49
Phillipines Exploration	2008	25.00	10%	2.50	\$ 37.5	\$ 43.1	\$ 0.28
Marley-2	Q407	20.00	10%	2.00	\$ 30.0	\$ 34.5	\$ 0.22
<b>Total</b>		<b>56.00</b>		<b>9.31</b>	<b>\$ 139.65</b>	<b>\$ 160.52</b>	<b>\$ 1.03</b>
						Number of shares on issue	155.88

Source: Aegis Equities

**TABLE 3: TAP VALUATION**

TAP Valuation	Value (A\$M)	Value (A\$/share)
Operational NPV	\$64	\$0.41
Cash Balance	\$100	\$0.64
Franking Credits	\$28	\$0.18
Value of Exploration (Aegis risk weightings)	\$161	\$1.03
<b>Total</b>	<b>\$353</b>	<b>\$2.26</b>
Number of shares	155.88	

Source: Aegis Equities



## Bradken

### FY07 result: Strong EBITDA growth, in line with expectations

#### Event

BKN reported an FY07 NPAT of \$49.1M, up 45% on FY06 and marginally behind our forecast. EBITDA was \$103.2M (including a \$10.8M contribution from acquisitions), up 33% on FY06 and marginally ahead of previous guidance of 30% growth. Importantly, EBITDA growth continued to exceed revenue growth, which was up 17% on FY06. This was driven by an improvement in manufacturing efficiencies and the continued shift towards higher margin consumables. A 17.0cps final dividend (ff) was declared, up 5.5cps on FY06. All divisions performed strongly, except Mineral Processing, which was impacted by lower gold and copper mine production. BKN's growth outlook continues to be driven by ongoing strength in its underlying markets, contributions from recent acquisitions and further margin expansion.

#### Implications

Australia's strong mining production outlook over the medium term, particularly in iron ore and coal, combined with BKN's dominant market position in mining consumables supply, places the company in a firm position to continue to achieve strong earnings growth. Over FY08 and FY09, BKN anticipates to remain focused on capital expenditure for additional capacity and cost reductions. Our forecasts are broadly unchanged, with the exception that we have revised down our revenue growth forecasts in the Mineral Processing division to reflect the flat medium-term outlook for copper and gold mine production volumes. The net effect is a decrease in our earnings forecasts by 1.7% and 5.7% for FY08 and FY09, respectively. Our 12-month price target marginally decreased by 3%.

#### Investment Opinion

BKN has a leading market share in Australia for its key product groups. We like the stock's exposure to the long-term positive Australian mining production outlook. With Australia's high-quality ore bodies, large-scale mining operations and strong mining production outlook, BKN's dominant supply position of industry-related consumables should see the company perform well throughout the commodity cycle. We have a positive long-term view of BKN.

BKN's strong EBITDA growth is set to continue to exceed revenue growth in the medium term. BKN's forward PE ratios are undemanding, given our forecasted EPS growth, presenting further upside potential for the stock. BKN offers a competitive fully franked yield along with strong capital growth prospects. We remain bullish on BKN on a 12-month view.

#### Earnings Summary

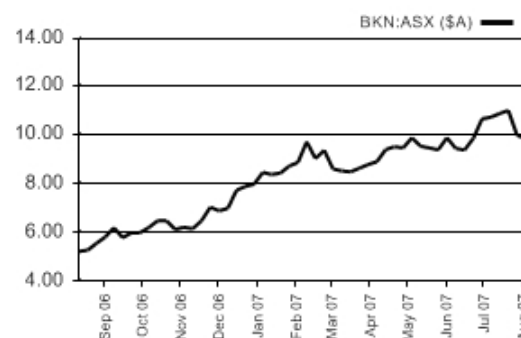
Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	33.9	33.9	32.3	(0.1)	30.5	1.7	1.1	21.0	2.1	100	22.0
2007A	49.1	49.1	45.8	41.8	21.5	1.3	0.9	31.5	3.2	100	33.5
2008F	64.9	64.9	61.2	33.6	16.1	1.1	0.8	42.0	4.3	100	37.7
2009F	77.6	77.6	73.2	19.5	13.5	1.0	0.8	50.0	5.1	100	39.0

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

#### Key Information

Share Price	\$9.85
12 month view	BUY
12 month target return (%)	24.5
12 month target price	\$11.84
Long Term View	BUY
Long Term Target Return (% pa)	17.1
3 year target price	n/a

#### Price Performance



#### Market Statistics

Market Cap (M)	\$1,044
Shares (M)	106.0
% of Market	0.06
% of Sector	0.64
12 Month Range	\$5.02 - \$11.48
Company Risk	★★★★☆
Share Price Risk	★★★☆☆
Ethical rating	★☆☆☆☆

#### Performance against indices (%)

	3 Months	6 Months	12 Months
BKN	(0.7)	4.8	85.8
Sector	(4.4)	0.9	29.1
Market	(5.0)	2.4	21.9

#### Key Assumptions

Beta:	1.1
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	10.9
Forecast cashflow (years):	10
Residual value % of total valuation:	53.3
Nominal terminal growth rate (%):	3.0

# Bradken

12M Recommendation<sup>1</sup>: BUY

12M Target: \$11.84

Long Term Recommendation<sup>2</sup>: BUY

Long Term Target Return: 17.1% pa

Year end Jun. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
<b>Operating revenue</b>	<b>547.3</b>	<b>639.7</b>	<b>741.3</b>	<b>810.5</b>	Revenue growth (%)	12.8	16.9	15.9	9.3
Invest & other income	0.0	0.0	0.0	0.0	EBITDA growth (%)	75.1	32.7	25.0	15.6
<b>EBITDA</b>	<b>77.8</b>	<b>103.2</b>	<b>129.0</b>	<b>149.1</b>	EPS growth (%)	(0.1)	41.8	33.6	19.5
Depreciation/Amort	(17.5)	(20.0)	(23.8)	(25.5)	EBITDA/Sales margin (%)	14.2	16.1	17.4	18.4
<b>EBIT</b>	<b>60.3</b>	<b>83.3</b>	<b>105.2</b>	<b>123.7</b>	EBIT/Sales margin (%)	11.0	13.0	14.2	15.3
Net Interest	(11.9)	(13.2)	(12.4)	(12.8)	Tax rate (%)	30.0	30.0	30.0	30.0
<b>Pre-tax profit</b>	<b>48.4</b>	<b>70.1</b>	<b>92.8</b>	<b>110.9</b>	Net debt/equity (%)	84.5	122.0	117.0	101.3
Tax expense	(14.5)	(21.0)	(27.8)	(33.3)	Net debt/net debt + equity (%)	45.8	54.9	53.9	50.3
Minorities/Assoc./Prefs	0.0	0.0	0.0	0.0	Net interest cover (x)	5.1	6.3	8.5	9.7
<b>NPAT</b>	<b>33.9</b>	<b>49.1</b>	<b>64.9</b>	<b>77.6</b>	Payout ratio (%)	64.9	68.7	68.6	68.3
Non recurring items	0.0	0.0	0.0	0.0	Capex to deprec'n (%)	159.2	255.6	250.0	231.9
<b>Reported profit</b>	<b>33.9</b>	<b>49.1</b>	<b>64.9</b>	<b>77.6</b>	NTA per share (\$)	0.91	0.97	1.21	1.52
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	15.6	19.6	21.4	23.3
<b>Adjusted profit</b>	<b>33.9</b>	<b>49.1</b>	<b>64.9</b>	<b>77.6</b>	ROE (%)	22.0	33.5	37.7	39.0
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
<b>EBITDA</b>	<b>77.8</b>	<b>103.2</b>	<b>129.0</b>	<b>149.1</b>	Market cap (M)		1,044		
Working capital changes	0.0	(17.9)	(17.6)	(11.4)	Net debt (\$M)		192.4		
Interest and tax	(18.6)	(29.1)	(39.4)	(43.5)	Peripheral assets (\$M)		(0.0)		
Other operating items	8.5	9.0	3.1	3.6	<b>Enterprise value (\$M)</b>		<b>1,236.7</b>		
<b>Operating cashflow</b>	<b>67.7</b>	<b>65.2</b>	<b>75.1</b>	<b>97.7</b>	<b>EV/EBIT (x)</b>	<b>20.5</b>	<b>14.9</b>	<b>11.8</b>	<b>10.0</b>
Required capex	(20.7)	(41.6)	(50.0)	(50.0)	<b>EV/EBITDA (x)</b>	<b>15.9</b>	<b>12.0</b>	<b>9.6</b>	<b>8.3</b>
<b>Maintainable cashflow</b>	<b>47.0</b>	<b>23.6</b>	<b>25.1</b>	<b>47.7</b>	EV/EBITDA All Ind (x)	9.3	8.3	7.4	6.9
Dividends	(9.7)	(27.6)	(42.9)	(48.8)	EV/EBITDA rel All Ind (x)	1.7	1.4	1.3	1.2
Acq/Disp	(2.5)	(41.4)	0.0	0.0	<b>P/E (x)</b>	<b>30.5</b>	<b>21.5</b>	<b>16.1</b>	<b>13.5</b>
Other investing items	(4.2)	(18.7)	0.0	0.0	P/E rel All Ind (x)	1.5	1.2	1.0	1.0
<b>Free cashflow</b>	<b>30.5</b>	<b>(64.1)</b>	<b>(17.9)</b>	<b>(1.0)</b>	P/E rel All Ind ex banks (x)	1.4	1.1	1.0	0.9
Equity	0.0	0.0	0.0	0.0	P/E sector (x)	28.0	25.0	20.5	17.7
Debt inc/(red'n)	(11.5)	59.7	17.9	1.0	P/E rel sector (x)	1.1	0.9	0.8	0.8
<b>Balance sheet</b>					<b>Assumptions</b>				
Cash & deposits	20.2	15.7	0.0	0.0	GDP growth (%)	2.92	2.50	3.02	3.64
Inventories	75.2	91.5	107.4	117.5	Interest Rates (%)	5.73	6.38	6.34	6.30
Trade debtors	58.5	86.7	85.9	94.0	Inflation (%)	3.20	3.09	2.47	2.50
Other curr assets	0.2	0.9	0.9	0.9					
<b>Total current assets</b>	<b>154.1</b>	<b>194.8</b>	<b>194.2</b>	<b>212.3</b>					
Prop., plant & equip.	151.6	206.9	236.9	265.4					
Non-curr intangibles	39.1	55.2	51.4	47.5					
Non-curr investments	0.0	0.0	0.0	0.0					
Other non-curr assets	23.1	28.5	28.5	28.5					
<b>Total assets</b>	<b>367.9</b>	<b>485.4</b>	<b>511.0</b>	<b>553.7</b>					
Trade creditors	53.5	74.1	71.6	78.3					
Curr borrowings	4.2	5.6	5.6	5.6					
Other curr liabilities	39.1	42.2	46.0	51.7					
<b>Total current liab.</b>	<b>96.8</b>	<b>121.9</b>	<b>123.1</b>	<b>135.6</b>					
Borrowings	130.2	202.5	204.6	205.7					
Other non-curr liabilities	5.7	3.2	3.5	3.9					
<b>Total liabilities</b>	<b>232.7</b>	<b>327.7</b>	<b>331.3</b>	<b>345.2</b>					
Minorities/Convertible	0.0	0.0	0.0	0.0					
<b>Shareholders equity</b>	<b>135.2</b>	<b>157.7</b>	<b>179.7</b>	<b>208.5</b>					

## Notes To Accounts

All P&L items except reported profit now exclude goodwill amortisation as per the new Australian equivalents to International Financial Reporting Standards (AIFRS) requirements.

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



**TABLE 2: KEY FINANCIALS**

For the 12 months ended**:		pcp	Aegis	Actual	Change	
		Jun-06	Jun-07	Jun-07	pcp	Aegis
<b>Sales revenue</b>	:\$M	<b>547.3</b>	<b>633.1</b>	<b>639.7</b>	+17%	+1%
<b>EBITDA</b>	:\$M	<b>77.8</b>	<b>101.2</b>	<b>103.2</b>	+33%	+2%
Depreciation & amort	:\$M	-17.5	-19.4	-20.0	+14%	+3%
<b>EBIT</b>	:\$M	<b>60.3</b>	<b>81.8</b>	<b>83.3</b>	+38%	+2%
Net Int Expense	:\$M	-11.9	-11.2	-13.2	+11%	+17%
<b>Profit Before Tax</b>	:\$M	<b>48.4</b>	<b>70.6</b>	<b>70.1</b>	+45%	-1%
Tax on Recurring	:\$M	-14.5	-21.1	-21.0	+45%	-1%
<b>Profit After Tax</b>	:\$M	<b>33.9</b>	<b>49.5</b>	<b>49.1</b>	+45%	-1%
Minorities/Associates	:\$M	0.0	1.3	0.0		-100%
Preference Dividends	:\$M	0.0	0.0	0.0		
<b>NPAT</b>	:\$M	<b>33.9</b>	<b>50.8</b>	<b>49.1</b>	+45%	-3%
Non Recurring (net of Tax)	:\$M	0.0	0.0	0.0		
<b>Reported Profit</b>	:\$m	<b>33.9</b>	<b>50.8</b>	<b>49.1</b>	+45%	-3%
** All numbers are adj. for non-recurring items except Reported Profit						
<b>PER SHARE DATA</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
Average weighted Capital, fully diluted	:M	105	106	107	+2%	+1%
E.P.S. on Adj profit	:cents	32.3	47.7	45.8	+42%	-4%
D.P.S.	:cents	21.0	32.5	31.5	+50%	-3%
Franking	:%	100	100	100		
Payout Ratio		65%	68%	69%	+4%	+1%
<b>RATIOS</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
EBITDA Margin	:%	14.2	16.0	16.1	+2%	+0%
EBIT Margin	:%	11.0	12.9	13.0	+2%	+0%
Effective Tax rate	:%	30.0	29.9	30.0	+0%	+0%

Source: Company/Aegis Equities

## OVERVIEW OF RESULT

### • **Headline Result:**

- Sales revenue was \$639.7M, up 17% on FY06 and in line with our forecast. EBITDA was \$103.2M, up 33% on FY06 and marginally ahead of our forecast. EBITDA growth exceeded revenue growth, as BKN continued to improve manufacturing efficiencies and shift its product mix towards higher margin consumables. Volume growth was particularly strong across BKN's Mining and Rail business segments. The Industrial division's result was boosted by the acquisition of the Wundowie and Boogan businesses. The Mineral Processing division experienced negative volume growth, impacted by lower production volumes in copper and gold and the rundown of inventories and consignment stock at some mines.
- Overall, reported NPAT was \$49.1M, up 45% on FY06, and EPS was up 42%, versus FY06.

- **Cash flow** - Operating cash flow for FY07 remains strong at \$65M (marginally down by \$2.5M on FY06), attributable to strong operations. Strong operating cash flow helped fund increased capital expenditure, acquisitions and higher dividend levels.

- **Debt levels** - Net debt was up from \$114.3M in FY06 to \$192.4M in FY07, with expected gearing levels for FY08 at 54% and interest coverage up to 8.5x. BKN spent \$41.6M in FY07 on the development of the Chinese rail facility, capacity upgrades of existing manufacturing facilities and purchase of strategic land at Mackay. BKN foresees capital expenditures of \$50M for FY08 and FY09. BKN remains well placed to fund future initiatives to expand capacity, to undertake cost reduction initiatives and/or to pursue further acquisitions.

- **Dividend** - A 17.0cps final dividend (ff) was declared, up 5.5cps on the previous corresponding period.

### • **Acquisitions/Disposals:**

- In November 2006, BKN acquired the Wundowie Foundry in WA for \$8M, which produces a range of small wear parts for the mining industry. The business was an addition to BKN's Industrial Products division.
- In March 2007, BKN acquired the Boogan Implement Company for \$16.4M. The business manufactures and sells a range of consumable and engineered products primarily to the sugar industry. The business was also an addition to BKN's Industrial Products division.
- In December 2006, BKN acquired the Firth Rixson Castings business for \$41M. The Firth Rixson Castings' business primarily produces large white iron wear parts for the cement and power industries. The business has been consolidated as a new division of BKN, which has been named "Power and Cement".

## BKN Operations

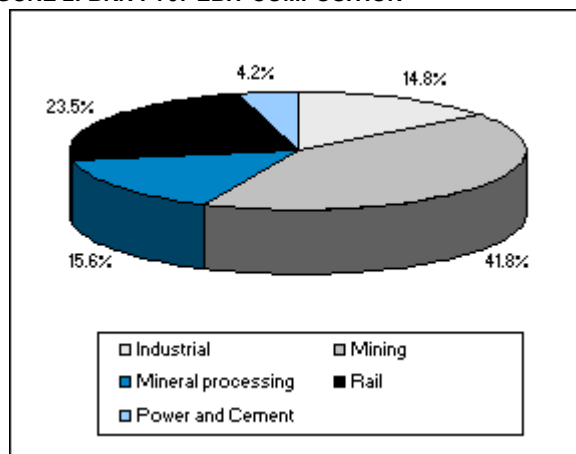
- BKN manufactures and supplies differentiated consumable iron and steel products and related services. These products and services are used throughout the Resources sector, from open cut and underground mining to processing and rail transport of the mined materials and then refining and smelting.
- BKN operates four main divisions: Mining, Mineral Processing, Rail and Industrial. A fifth division was established, Power and Cement, following the acquisition of the Firth Rixson Castings business in December 2006.
- The level of mining production volume predominantly drives BKN's revenues.

TABLE 3: BKN'S FY07 SEGMENTAL PERFORMANCE

	Actual FY06A	Actual FY07A	change pcp
<b>Industrial</b>			
External sales	63.7	87.6	38%
EBIT	22.3	30.4	36%
EBIT margin	35%	35%	0%
<b>Mining</b>			
External sales	212.1	237.9	12%
EBIT	72.0	85.7	19%
EBIT margin	34%	36%	2%
<b>Mineral Processing</b>			
External sales	105.9	94.0	-11%
EBIT	32.0	32.0	0%
EBIT margin	30%	34%	4%
<b>Rail</b>			
External sales	166.1	190.4	15%
EBIT	41.0	48.1	17%
EBIT margin	25%	25%	1%
<b>Power and Cement</b>			
External sales		29.8	
EBIT		8.7	
EBIT margin		29%	

Source: Company/Aegis Equities

FIGURE 2: BKN FY07 EBIT COMPOSITION



Source: Company/Aegis Equities

## Mining

The Mining division supplies ground engaging tools, wear plate and block products, crawler systems and associated refurbishment and maintenance services.

- Mining sales revenue was \$237.9M, up 12% on FY06, driven by continued growth in mining production volumes, particularly for iron ore and coal, resulting in strong sales growth for engaging tools and wear plate and block products. Sales of crawler shoe systems had strong growth due to the worldwide increase in demand for mining consumables and equipment.
- **Outlook.** Sales revenue for the Mining division is correlated to the level of tonnes mined in Australia. We forecast sustained strong revenue growth for the Mining division over the medium term, driven by growth in services revenue; strong ground engaging tool sales to the coal mining sectors in the Bowen basin and iron ore mining sectors in the Pilbara region; and sales of crawler systems. BKN remains committed to an operational and capital expenditure plan to increase capacity and to lower production costs for Plate & Block products and Crawler Shoes. The increased Plate and Block manufacturing capacity will be targeted at supplying major infrastructure projects in WA. Furthermore, the Wundowie Foundry acquisition synergies are expected to have an impact in FY08.

## Mineral Processing

*The Mineral Processing division designs and manufactures mill liners, crusher liners and consumable engineered products.*

- Mineral Processing sales revenue was \$94.0M, down 11% on FY06. Sales were impacted by lower production volumes in copper and gold and the rundown of inventories and consignment stock at some mines. Margins continued to improve as a result of increased manufacturing efficiencies (due in part to improved alloy scrap utilisation). This largely offset the impact of lower volumes.
- **Outlook.** Sales revenue for the Mineral Processing division is correlated to the level of tonnes mined in Australia. The flat outlook for copper and gold mining volumes over the medium term is expected to dampen revenue growth. Additional capacity will be available from the expansion of the scrap business through an additional facility under development in Brisbane combined with options under review for a similar facility in South Australia. Furthermore, the upgrade of the Adelaide foundry (pending government approval) will provide both capacity and cost improvements. Ongoing government approval delays continue to impact BKN in terms of cost-saving opportunities, though this is expected to be short-term.

## Rail

*The Rail division designs, manufactures and supplies rail freight rolling stock, including wagons, bogies, drawgear, cast and general spares, and also provides maintenance and refurbishment services.*

- Rail sales revenue was \$190.4M, up 15% on FY06. A high level of sales of iron ore wagons to Rio Tinto along with higher refurbishment and parts sales offset lower volume of bogies and general freight work. Late in FY07, BKN started to buy components from China, fabricated by Bradken Zuzhou, which were used to build wagons in Australia.
- **Outlook.** Demand for new rolling stock, particularly for iron ore, continues to be strong following the continued expansion of mining activity in Australia. BKN forecast a 30% increase in wagon builds for FY08 for the Australian market based on the current level of tendering activity, providing an opportunity to sustain strong growth in the Rail division. The new rail sub-assembly manufacturing facility in China is expected to provide an increase in production of fabricated components in FY08, with the benefits of reduced production costs.

## Industrial

*The Industrial division manufactures and supplies cast, forged and fabricated products, mainly consumables, directly to end users for use in their process plants or manufacturing processes.*

- Industrial sales were \$87.6M, up 38% on FY06. This was primarily driven by the recent acquisitions of the Wundowie and Innisfail (formerly Boogan) foundries. Sales in the core business remain constrained due to capacity issues of foundry for production of mining consumable products.
- The two acquisitions contributed \$22.4M of the revenue increase for the division. On a like-for-like basis (excluding these acquisitions), sales of \$65.2M were \$1.5M, or 2%, higher than those in FY06.
- **Outlook.** The acquisitions are also expected to be EPS accretive in FY08. Excluding the impact of acquisitions, core sales revenue from the Industrial division is forecast to increase moderately, driven by incremental capacity improvements, increased export sales to the UK in the coal pulverising market and continued steady growth in castings products supplied into the OEM production cycle.

## Power and Cement

*Based in the UK, this division manufactures and supplies a range of large white iron wear parts for the power generation and cement industries globally.*

- The sales figure of \$29.8M represents the period from acquisition of the Firth Rixson Castings business on 11 December 2006 to 30 June 2007.
- The Power and Cement division successfully penetrated into the power market in South Africa over the year and also secured orders for two very large cement plants in the USA.
- **Outlook.** We expect continued growth of the strong order book. Over the short term, attention will be focused on efforts to integrate the business, to enhance product development methods and to reduce production costs before focusing efforts on growth over the longer term.

## Outlook and Recommendation

- BKN has leading market share and dominant positions in Australia for its key product groups. We like the stock's exposure to the long-term positive Australian mining production outlook. Australia's high-quality ore bodies and large-scale mining operations, combined with BKN's dominant position in manufacturing and supply of industry-related consumables, should see the company perform well throughout the commodity cycle.
- BKN's revenue base is predominantly driven by tonnes growth in mining, particularly in iron ore and coal. BKN continues to hold strong client relationships with most major miners in Australia. Key miners BHP Billiton Ltd and Rio Tinto Ltd recently announced initiatives to significantly expand annual tonnage production rates, particularly in iron ore and coal. With iron ore and coal mining production volumes expected to grow over the medium term, BKN is well placed to continue achieving strong earnings growth.
- However, copper and gold mining production volume is expected to be flat over the medium term, which is expected to dampen revenue growth within the Mineral Processing division.
- BKN is committed to grow core products and services, both organically and globally, through complementary acquisitions. BKN seeks to continue to pursue profit improvement strategies through cost reduction programs and vertical integration initiatives.
- BKN's commitment to pursuing growth is evident in its focus to expand capacity, including the significant upgrade of the capacity and environmental effectiveness of its Adelaide foundry once government approval is granted. The investment towards additional capacity is largely dedicated to satisfying forecast demand.
- Overall, we anticipate a sustained strong earnings outlook for BKN. Our forecasts are broadly unchanged with the exception that we have revised down our revenue growth forecasts for the Mineral Processing division to reflect the flat medium-term outlook for copper and gold mine production volumes. The net effect is a decrease in our earnings forecasts by 1.7% and 5.7% for FY08 and FY09, respectively. Our 12-month price target marginally decreased by 3%. BKN offers a competitive fully franked yield along with strong growth prospects. We maintain our positive investment view.

# Sino Gold

## SGX approves White Mountain development in China

### Event

SGX has approved the development of the White Mountain Gold project in Jilin Province, northern China. Gold production is forecast to be 70koz per annum; capex will be around US\$55M (around A\$65M); and operating costs are estimated to be less than US\$250/oz. The project has received environmental approval, and SGX is expecting to receive a Provincial Project Permit in the next four to six weeks. Commissioning of the project is expected to occur in late CY08, with commercial production in early CY09.

### Implications

The development of White Mountain was already factored into our SGX model. Our current 12-month target price of \$5.80 remains unchanged, and we maintain our current SELL recommendation on SGX. We expect SGX to trade on a lower PE multiple than the gold majors. SGX does not have the 20 years+ of reserves that the gold majors enjoy; this decreases its perpetuity value and, thus, decreases its valuation.

### Investment Opinion

SGX has gold production and exploration assets in China and has dual listing: on the ASX and in Hong Kong. The Jinfeng mine began production in 2Q07, with underground development to add to production in early 2008. Subject to feasibility, White Mountain should begin production in late 2008. SGX's current mines have a limited lifespan and it needs to find additional long-life reserves in order to be attractive on a long-term basis.

Jinfeng has suffered numerous delays coming into production and this has weighed on our valuation. We have a neutral outlook on the gold price and do not expect a major rally. SGX's current assets are not long-life mines and, therefore, have a limited value in perpetuity, which reduces our valuation. We believe our target price has fully valued SGX.

### Key Information

<b>Share Price</b>	<b>\$5.70</b>
<b>12 month view</b>	<b>SELL</b>
12 month target return (%)	3.7
12 month target price	\$5.80
<b>Long Term View</b>	<b>SELL</b>
Long Term Target Return (% pa)	3.1
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$1,012
Shares (M)	181
% of Market	0.06
% of Sector	0.18
12 Month Range	\$3.78 - \$8.31
Company Risk	☆☆☆☆☆
Share Price Risk	☆☆☆☆☆
Ethical rating	☆☆☆☆☆

### Performance against indices (%)

	3 Months	6 Months	12 Months
SGX	(6.4)	(22.1)	17.4
Sector	2.4	16.1	27.9
Market	(6.0)	1.3	20.6

### Key Assumptions

Beta:	1.3
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	10.7
Forecast cashflow (years):	10
Residual value % of total valuation:	39.0
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Dec	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	(20)	(9)	(5.8)	n/a	(98.7)	(5.4)	(7.0)	0.0	0.0	0	(21.7)
2007F	7	7	3.8	n/a	>99	9.3	11.6	0.0	0.0	0	4.3
2008F	68	68	37.4	880.0	15.2	1.0	1.2	11.0	1.9	0	28.1
2009F	100	100	55.5	48.2	10.3	0.8	0.8	16.5	2.9	0	32.4

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Sino Gold

12M Recommendation<sup>1</sup>: SELL

12M Target: \$5.80

Long Term Recommendation<sup>2</sup>: SELL

Long Term Target Return: 3.1% pa

Year end Dec. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>Operating revenue</b>	<b>12</b>	<b>44</b>	<b>179</b>	<b>249</b>	Revenue growth (%)	0.8	269.8	312.1	38.8
Invest & other income	1	(8)	(11)	(11)	EBITDA growth (%)	n/a	n/a	495.8	43.1
<b>EBITDA</b>	<b>(4)</b>	<b>17</b>	<b>104</b>	<b>149</b>	EPS growth (%)	n/a	n/a	880.0	48.2
Depreciation/Amort	0	(10)	(12)	(14)	EBITDA/Sales margin (%)	(33.1)	40.1	57.9	59.7
<b>EBIT</b>	<b>(4)</b>	<b>7</b>	<b>92</b>	<b>135</b>	EBIT/Sales margin (%)	(33.8)	16.9	51.2	54.3
Net Interest	(5)	2	5	8	Tax rate (%)	0.0	30.0	30.0	30.0
<b>Pre-tax profit</b>	<b>(9)</b>	<b>10</b>	<b>97</b>	<b>143</b>	Net debt/equity (%)	393.9	(33.9)	(33.6)	(50.8)
Tax expense	0	(3)	(29)	(43)	Net debt/net debt + equity (%)	79.8	(51.4)	(50.5)	(103.4)
Minorities/Assoc./Prefs	0	0	0	0	Net interest cover (x)	(0.9)	n/a	n/a	n/a
<b>NPAT</b>	<b>(9)</b>	<b>7</b>	<b>68</b>	<b>100</b>	Payout ratio (%)	0.0	0.0	29.4	29.8
Non recurring items	(11)	0	0	0	Capex to deprec'n (%)	137.2	59.5	50.0	44.3
<b>Reported profit</b>	<b>(20)</b>	<b>7</b>	<b>68</b>	<b>100</b>	NTA per share (\$)	0.13	1.18	1.51	1.92
NPAT add Goodwill & Pref	0	0	0	0	ROA (%)	(2.2)	2.1	22.0	27.2
<b>Adjusted profit</b>	<b>(9)</b>	<b>7</b>	<b>68</b>	<b>100</b>	ROE (%)	(21.7)	4.3	28.1	32.4
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>EBITDA</b>	<b>(4)</b>	<b>17</b>	<b>104</b>	<b>149</b>	Market cap (M)	1,012			
Working capital changes	(11)	0	0	0	Net debt (\$M)	(72)			
Interest and tax	(4)	2	(11)	(31)	Peripheral assets (\$M)	0			
Other operating items	10	8	11	11	<b>Enterprise value (\$M)</b>	<b>940</b>			
<b>Operating cashflow</b>	<b>(8)</b>	<b>28</b>	<b>104</b>	<b>129</b>	<b>EV/EBIT (x)</b>	<b>(&lt;99)</b>	<b>&gt;99</b>	<b>10.2</b>	<b>7.0</b>
Required capex	0	(6)	(6)	(6)	<b>EV/EBITDA (x)</b>	<b>(&lt;99)</b>	<b>53.9</b>	<b>9.0</b>	<b>6.3</b>
<b>Maintainable cashflow</b>	<b>(8)</b>	<b>22</b>	<b>98</b>	<b>123</b>	EV/EBITDA All Ind (x)	9.3	8.2	7.4	6.8
Dividends	0	0	(7)	(27)	EV/EBITDA rel All Ind (x)	(26.1)	6.5	1.2	0.9
Acq/Disp	(118)	(58)	(71)	(11)	<b>P/E (x)</b>	<b>(98.7)</b>	<b>&gt;99</b>	<b>15.2</b>	<b>10.3</b>
Other investing items	1	0	0	0	P/E rel All Ind (x)	(4.9)	8.5	1.0	0.7
<b>Free cashflow</b>	<b>(125)</b>	<b>(36)</b>	<b>20</b>	<b>85</b>	P/E rel All Ind ex banks (x)	(4.5)	8.0	1.0	0.7
Equity	61	187	0	0	P/E sector (x)	14.1	12.9	12.9	13.1
Debt inc/(red'n)	61	(151)	(20)	(85)	P/E rel sector (x)	(7.0)	11.6	1.2	0.8
<b>Balance sheet</b>					<b>Assumptions</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
Cash & deposits	22	82	102	186	US\$/A\$ (\$)	0.75	0.81	0.80	0.78
Inventories	1	1	1	1	Gold (US\$/oz)	605.82	653.50	670.00	635.00
Trade debtors	3	3	3	3	Copper (US\$/lb)	3.03	2.61	1.96	1.58
Other curr assets	7	7	7	7					
<b>Total current assets</b>	<b>32</b>	<b>93</b>	<b>113</b>	<b>197</b>					
Prop., plant & equip.	240	286	340	333					
Non-curr intangibles	0	0	0	0					
Non-curr investments	0	0	0	0					
Other non-curr assets	3	6	6	6					
<b>Total assets</b>	<b>276</b>	<b>385</b>	<b>458</b>	<b>535</b>					
Trade creditors	25	25	25	25					
Curr borrowings	10	10	10	10					
Other curr liabilities	26	31	44	48					
<b>Total current liab.</b>	<b>61</b>	<b>66</b>	<b>79</b>	<b>83</b>					
Borrowings	90	0	0	0					
Other non-curr liabilities	71	71	71	71					
<b>Total liabilities</b>	<b>222</b>	<b>137</b>	<b>150</b>	<b>154</b>					
Minorities/Convertibles	34	34	34	34					
<b>Shareholders equity</b>	<b>54</b>	<b>247</b>	<b>308</b>	<b>381</b>					

## Notes To Accounts

SGX follows the International Financial Reporting Interpretations Committee (IFRIC) with regards to the treatment of equity instruments issued in exchange for fixed amount of foreign currency. This is relevant because SGX is now considered to be US\$ functional even though it continues to report in A\$.

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



# Food Beverage & Tobacco

07 August 2007

## FY07 sector preview: Food & Beverage

We preview the results for Coca Cola Amatil (CCL), Foster's Group (FGL), Goodman Fielder (GFF) and McGuigan Simeon Wines (MGW) in the upcoming reporting season. Note, LNN has a September year end and will not report its full-year results until late November.

### INDUSTRY ISSUES FOR THE ALCOHOL SECTOR

#### Wine

- Total Australian grape intake fell in 2007 for the second successive year, to 1.42Mt, down 25% or 0.483Mt on the 2006 vintage of 1.90Mt.
- Red wine grape intake, which accounted for 48% of the total vintage, fell 35%, from 1.04Mt to 0.68Mt, while white wine grape intake, which accounted for the remaining 52% of the total vintage, was down 14.0% to 0.74Mt.
- The reduction in the 2007 vintage can be attributed to lower yields due to the combined effects of the drought, frosts, bushfire smoke taint and lower allocations of irrigation water, somewhat offset by an increase in bearing area, up an estimated 5% to 160,000ha. The lower 2007 intake is expected to lead to a reduction in wine stocks and take some downward pressure off both wine and grape prices.
- Intense competition and market saturation are constraining growth in the major export markets of Europe and the US. Furthermore, having built a reputation for delivering reasonable quality wines at low prices, Australian producers may have difficulty passing on price increases in export markets, as consumers switch to more prestigious French or Italian labels or to other value brands from Chile and Argentina. However, demand is emerging from smaller export markets such as China.
- Despite the slightly lower vintage this year, we expect the strength of the A\$, continued expansion in the number of small wineries and retail consolidation and discounting, both domestically and offshore, to persist. Hence, we retain a negative outlook for the profitability of Australian-based wine producers.

#### **Beer and Spirits & Ready-to-Drink (S&RTD)**

- The once-comfortable Australian beer market is coming under increasing pressures from customers crimping margins; increases in commodity costs squeezing margins; substitute products securing market share; regulatory changes reducing volumes; and a (potentially significant) new market entrant.
- Although the total Australian beer market remains relatively flat in terms of volume growth, it has grown in value over the past three years (up approximately 5% CAGR), driven by price increases and a shift towards premium (quality and price) products. Over that period, the premium and mid-strength beer segments have grown in both volume and value at the expense of the full and light strength beer segments.
- A year after the introduction of total smoking bans in pubs throughout Queensland, on-premise beer volumes have declined around 5%. There is little reason to think that the impact in other states will be very different as the bans broaden across Australia.
- A new entrant to the Australian beer market is also challenging the status quo. LNN and FGL currently account for around 93% of the total market volume and 91% in terms of the total market value. What is unclear is whether CCL will expand total beer volumes or simply take market share from the current duopoly. In our view, the latter is more likely, although CCL's target 5% market share by 2012 is doubtful.
- As a category, beer is losing market share in Australia to wine and S&RTD, declining from around 85% of the total volume in 2003 to around 81% in 2007.
- The New Zealand beer market has also been under pressure on a number of fronts: volume shifts from traditional off-and on-premise channels to the emerging grocery off-premise channel at the expense of margins; in commodity costs squeezing margins; the increase in the legal drinking age proposed by the Robson/Gallagher Bill, which was only narrowly defeated; volumes in the RTD and wine segments have continued to grow, although its not clear whether or not this has been at the expense of beer volumes; the competitive landscape has continued to evolve with the behaviour of DB Breweries a little less erratic, the strategic intentions of the new private owners of Independent Liquor remaining uncertain and the entrance of CCL expected; and aggressive pricing from competitors constraining volume and value growth, although some relief appears near.

# Food Beverage & Tobacco

**TABLE 1: RESULTS PREVIEW**

Stock	Rec.	LT Rec.	Result	Date	Adjusted NPAT			EPS Diluted			DPS			Franking %
					FY06A	FY07F	Chg	FY06A	FY07F	Chg	FY06A	FY07F	Chg	
					\$M	\$M	%	cps	cps	%	cps	cps	%	
FGL	SELL	SELL	FY07	28-Aug	623.1	718.7	15.3%	31	35.5	14.5%	21.5	23.8	10.7%	100%
GFF	HOLD	HOLD	FY07	28-Aug	194.9	226.3	16.1%	14.7	17.1	16.3%	5.5	12.8	132.7%	53%
MGW	SELL	SELL	FY07	22-Aug	17.5	-3.9	-122.3%	14.6	-2.8	-119.2%	5	0	-100.0%	0%
					<b>1H06A</b>	<b>1H07F</b>	<b>Chg</b>	<b>1H06A</b>	<b>1H07F</b>	<b>Chg</b>	<b>1H06A</b>	<b>1H07F</b>	<b>Chg</b>	<b>Franking</b>
CCL	SELL	SELL	1H07	9-Aug	145.4	145.4	0.0%	19.2	19.3	0.5%	14.5	14.5	0.0%	100%

Source: Company/Aegis Equities

## STOCK-SPECIFIC ISSUES

### Foster's Group (FGL)

- Whilst guidance from FGL is that earnings growth would accelerate in FY07, management has not quantified it. The key driver remains the extent to which synergistic benefits can be extracted following the completion of the integration of Southcorp and the success or otherwise of the multi-beverage strategy. Additional costs in overcoming integration complexity, commissioning delays and initial operating inefficiencies totalling \$20M were incurred during 1H07, with at least another \$10M expected in 2H07.
- We expect the EBIT growth rate at FGL's Australian brewing operations to slow to 8%–10%. Recent indications suggest that FGL enjoyed strong beer volumes in May and June, but on the back of trade loading activities. Notwithstanding the broader market conditions, we remain optimistic about a further strong underlying result from the Americas division, driven by an improved supply/demand balance for grapes and a fast-growing premium wine segment, although the appreciation of the A\$ is likely to have reduced FGL's competitiveness. In the Europe, Middle East and Africa division, we expect continued volume growth but on flat margins due to the highly price competitive nature of these markets and downward pressure from the powerful UK-based retailers. Customer response to the revamped Rosemount brand will be important.

### Goodman Fielder (GFF)

- We are expecting GFF's FY07 EBIT to be flat at \$360.7M, with total sales revenues and margins below prospectus forecast due to continuing commodity cost pressures and margin pressure from the supermarket chains. However, we expect NPAT to be \$226.3M, slightly ahead of prospectus forecast due to lower net interest costs. At the divisional level, we are expecting the Baking division to exceed prospectus forecast following its bolt-on acquisitions during the year, and the NZ operation to have recovered somewhat from its poor 1H07, but not sufficient to bring FY07 in line with prospectus forecasts.
- Note: This will be the first result with GFF's new divisional reporting structure following the New Zealand division being split along product lines (that is, bakery and dairy) rather than geographic lines.

### McGuigan Simeon Wines (MGW)

- MGW issued an earnings downgrade on 1 June, indicating that it expects to record a loss of \$4M–\$6M for FY07. The primary driver for the downgrade was a 33% drop in MGW's wine crush on FY06, in line with the industry decline. In addition, MGW has withheld some bulk wine sales due to the risk of a lower 2008 vintage should the drought continue. This suggests that the worst may not yet be over despite the recent rainfall.
- We have adjusted our FY07 forecasts to reflect the company's guidance, which has resulted in a decrease in EPS from 14.6 cps in FY06 to -2.8cps in FY07. Overall, we retain our negative view on the stock, given the tough operating conditions in the wine industry and MGW's skew to low-value, bulk wine.

### Coca Cola Amatil (CCL)

- In June-07, CCL upgraded its 1H07 guidance based on the strong trading performance of its key Australian and New Zealand markets. In 1H07, EBIT is expected to grow by around 12% to around \$282M, retreating slightly to high single-digit growth in 2H07. The key priority for CCL continues to be the recovery of commodity-driven cost of goods sold increases through management of the key variables of volume, price and product mix to drive improvement in operating margins.
- The momentum established by the Australian business during 2H06 has continued in 1H07, with the business maintaining solid price per unit case realisation. Volumes have been maintained in line with FY06, which is a strong outcome, given the successful launch of Coke Zero in 1H06.
- New Zealand continues to show a strong recovery in earnings following a challenging FY06. The business is achieving good price per unit case realisation, offsetting commodity-driven cost of goods sold increases.
- The Indonesian & PNG region is experiencing good demand with strong volume growth and price per unit case realisation. This is expected to deliver a material improvement in performance in 1H07.
- South Korea has continued to be impacted by the reduced demand following the extortion threat in July 2006.
- Notwithstanding the earnings impact of the 2006 frost damage and continued input cost pressures for SPC Ardmona, 1H07 result is expected to be broadly in line with 1H06 result, and a modest earnings improvement is expected for the full year.
- Pacific Beverages continues to perform well with strong customer support for the joint venture's premium beer brands of Peroni, Pilsner Urquell and Miller Genuine Draft. The integration of the Maxxium business has also progressed smoothly.

Strong trading momentum post-Easter has been maintained into 2Q07.



Copyright © 2000 - 2007 Aegis Equities Holdings Pty Limited. All rights reserved.  
This information must be read in conjunction with the Legal Notice which can be located at <http://www.aegis.com.au/public/disclaimer.aspx>.

# Investa Property Group

## Recommend accept offer

### Event

On 31 May 2007, IPG entered into an implementation agreement with funds managed by Morgan Stanley Real Estate (MSRE) in relation to a cash offer to acquire all stapled securities in IPG for \$3.08 per unit. As the offer was cum-distribution, it has been reduced by the 8cpu distribution declared in June 2007. The board of IPG has unanimously recommended the offer in the absence of a superior offer. KPMG, the independent expert, has concluded that the offer is in the best interests of IPG securityholders and that the offer is fair and reasonable to the non-associated IPG securityholders. The Scheme Booklet was despatched to securityholders on 22 July 2007 and the securityholders' meeting to vote on the offer will be held on 22 August 2007.

### Implications

Since the announcement of the offer by MSRE, there has been no indication of an alternative bid for IPG. We believe the \$3.00 offer price (ex distribution) is very attractive and above the current trading price. In the absence of a superior proposal, we recommend that IPG securityholders vote in favour of the proposal at the securityholders' meeting on 22 August 2007. Accordingly, we have changed our recommendation to ACCEPT OFFER.

### Investment Opinion

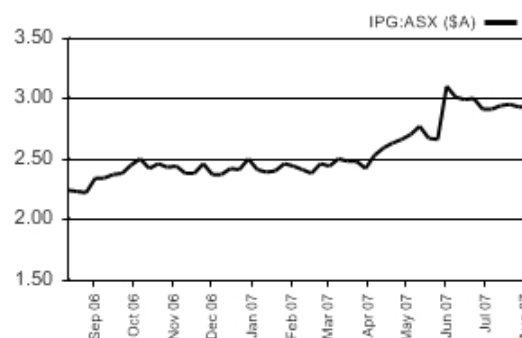
Internal management and the addition of the services businesses provide IPG with a diversification advantage relative to other pure office trusts. However, an increase in corporate earnings, delivering 15%–25% of group earnings, moves IPG up the risk spectrum. Contributions from recently acquired portfolios, combined with the group's ability to develop assets for syndication or sale, should lead to moderate earnings momentum over the longer term.

While FY06 saw an ill-timed move into residential development, which significantly heightened IPG's risk profile, the stock became subject to an offer from Morgan Stanley Real Estate on 31 May 2007. The offer is supported by the board and is considered fair and reasonable by the independent expert. In the absence of a superior offer, it is recommended that securityholders vote to accept the offer at the securityholders' meeting on 22 August 2007.

### Key Information

<b>Share Price</b>	<b>\$2.94</b>
<b>12 month view</b>	<b>ACCEPT OFFER</b>
12 month target return (%)	7.7
12 month target price	\$3.00
<b>Long Term View</b>	<b>ACCEPT OFFER</b>
Long Term Target Return (% pa)	10.7
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$4,586
Shares (M)	1,570.4
% of Market	0.27
% of Sector	0.78
12 Month Range	\$2.20 - \$3.14
Company Risk	★★★★★
Share Price Risk	★★★★★
Ethical rating	★★★★★

### Performance against indices (%)

	3 Months	6 Months	12 Months
IPG	7.7	19.2	28.1
Sector	(10.1)	(6.3)	12.2
Market	(6.0)	1.3	20.6

### Key Assumptions

Beta:	1.1
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	10.5
Forecast cashflow (years):	10
Residual value % of total valuation:	57.2
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	Deferred Tax %
2006A	333.9	258.0	17.0	8.1	17.3	1.0	0.9	16.9	5.7	3	52
2007F	478.5	187.9	12.1	(28.7)	24.3	1.5	1.5	15.6	5.3	3	56
2008F	208.9	208.9	13.3	9.9	22.1	1.5	1.7	16.4	5.6	3	52
2009F	237.8	237.8	15.1	13.2	19.5	1.4	1.6	17.0	5.8	3	52

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Investa Property Group

12M Recommendation<sup>1</sup>: ACCEPT OFFER 12M Target: \$3.00 Long Term Recommendation<sup>2</sup>: ACCEPT OFFER Long Term Target Return: 10.7% pa

Year end Jun. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>Operating revenue</b>	<b>1,027.9</b>	<b>1,011.6</b>	<b>1,032.2</b>	<b>1,062.2</b>	Revenue growth (%)	112.4	(1.6)	2.0	2.9
Invest & other income	2.4	0.0	0.0	0.0	EBITDA growth (%)	8.3	17.0	2.6	4.2
<b>EBITDA</b>	<b>348.0</b>	<b>407.1</b>	<b>417.7</b>	<b>435.3</b>	EPS growth (%)	8.1	(28.7)	9.9	13.2
Depreciation/Amort	(3.7)	(4.9)	(2.0)	(2.0)	EBITDA/Sales margin (%)	33.9	40.2	40.5	41.0
<b>EBIT</b>	<b>344.3</b>	<b>402.1</b>	<b>415.7</b>	<b>433.3</b>	EBIT/Sales margin (%)	33.5	39.8	40.3	40.8
Net Interest	(77.6)	(88.7)	(87.8)	(81.5)	Tax rate (%)	3.3	5.2	3.0	1.5
<b>Pre-tax profit</b>	<b>266.7</b>	<b>313.5</b>	<b>327.8</b>	<b>351.8</b>	Net debt/equity (%)	63.1	49.1	45.2	42.9
Tax expense	(8.7)	(16.2)	(9.8)	(5.3)	Net debt/net debt + equity (%)	38.7	32.9	31.1	30.0
Minorities/Assoc./Prefs	0.0	(109.3)	(109.1)	(108.8)	Net interest cover (x)	4.4	4.5	4.7	5.3
<b>NPAT</b>	<b>258.0</b>	<b>187.9</b>	<b>208.9</b>	<b>237.8</b>	Payout ratio (%)	99.6	128.9	123.3	112.9
Non recurring items	75.9	290.5	0.0	0.0	Capex to deprec'n (%)	>1000	>1000	0.0	0.0
<b>Reported profit</b>	<b>333.9</b>	<b>478.5</b>	<b>208.9</b>	<b>237.8</b>	NTA per share (\$)	1.79	1.95	1.93	1.92
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	6.3	6.7	7.0	7.3
<b>Adjusted profit</b>	<b>258.0</b>	<b>187.9</b>	<b>208.9</b>	<b>237.8</b>	ROE (%)	9.0	6.1	6.5	7.5
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
<b>EBITDA</b>	<b>348.0</b>	<b>407.1</b>	<b>417.7</b>	<b>435.3</b>	Market cap (M)	4,586			
Working capital changes	0.0	224.6	(11.1)	(14.6)	Net debt (\$M)	1,878.7			
Interest and tax	(114.6)	(93.2)	(98.8)	(89.0)	Peripheral assets (\$M)	(0.0)			
Other operating items	(40.2)	(1.8)	16.4	17.6	<b>Enterprise value (\$M)</b>	<b>6,464.2</b>			
<b>Operating cashflow</b>	<b>193.2</b>	<b>536.7</b>	<b>324.2</b>	<b>349.3</b>	EV/EBIT (x)	<b>18.8</b>	<b>16.1</b>	<b>15.6</b>	<b>14.9</b>
Required capex	(79.5)	(65.2)	0.0	0.0	EV/EBITDA (x)	<b>18.6</b>	<b>15.9</b>	<b>15.5</b>	<b>14.8</b>
<b>Maintainable cashflow</b>	<b>113.7</b>	<b>471.5</b>	<b>324.2</b>	<b>349.3</b>	EV/EBITDA All Ind (x)	9.3	8.2	7.4	6.8
Dividends	(238.7)	(248.0)	(253.7)	(263.8)	EV/EBITDA rel All Ind (x)	2.0	1.9	2.1	2.2
Acq/Disp	135.3	80.1	0.0	0.0	<b>P/E (x)</b>	<b>17.3</b>	<b>24.3</b>	<b>22.1</b>	<b>19.5</b>
Other investing items	(147.1)	(71.4)	0.0	0.0	P/E rel All Ind (x)	0.9	1.4	1.4	1.4
<b>Free cashflow</b>	<b>(136.9)</b>	<b>232.2</b>	<b>70.5</b>	<b>85.5</b>	P/E rel All Ind ex banks (x)	0.8	1.3	1.4	1.4
Equity	(47.5)	(0.4)	50.7	0.0	P/E sector (x)	18.6	15.7	13.3	12.1
Debt inc/(red'n)	194.8	(239.4)	(121.2)	(85.5)	P/E rel sector (x)	0.9	1.5	1.7	1.6
<b>Balance sheet</b>					<b>Assumptions</b>				
Cash & deposits	17.8	0.0	0.0	0.0	GDP growth (%)	2.92	2.50	3.02	3.64
Inventories	321.7	105.9	108.3	111.4	Interest Rates (%)	5.73	6.38	6.34	6.30
Trade debtors	124.4	96.6	98.8	101.7	Inflation (%)	3.20	3.09	2.47	2.50
Other curr assets	103.2	8.7	8.7	8.7					
<b>Total current assets</b>	<b>567.1</b>	<b>211.3</b>	<b>215.8</b>	<b>221.8</b>					
Prop., plant & equip.	59.0	53.8	51.8	49.8					
Non-curr intangibles	147.6	145.7	145.7	145.7					
Non-curr investments	4,658.9	4,972.5	4,972.8	4,973.1					
Other non-curr assets	468.3	495.0	503.7	515.1					
<b>Total assets</b>	<b>5,900.8</b>	<b>5,878.3</b>	<b>5,889.8</b>	<b>5,905.6</b>					
Trade creditors	163.6	96.6	98.8	101.7					
Curr borrowings	613.0	613.0	613.0	613.0					
Other curr liabilities	166.3	120.0	121.6	122.9					
<b>Total current liab.</b>	<b>943.0</b>	<b>829.6</b>	<b>833.4</b>	<b>837.5</b>					
Borrowings	1,244.5	952.3	831.1	745.6					
Other non-curr liabilities	17.5	36.5	36.5	36.6					
<b>Total liabilities</b>	<b>2,205.0</b>	<b>1,818.4</b>	<b>1,701.0</b>	<b>1,619.7</b>					
Minorities/Convertibles	781.4	869.7	992.7	1,115.7					
<b>Shareholders equity</b>	<b>3,695.8</b>	<b>4,059.8</b>	<b>4,188.8</b>	<b>4,285.9</b>					

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



# Healthscope

## Releases high level FY07 forecasts - in line with expectations

### Event

The SYB scheme memorandum, released today, contained high level profit and cashflow FY07 forecasts by HSP, which are unaudited versions of the full year results to be released by HSP on 22-Aug-07. Group operating revenue, at \$1.3B, is just 2% below our forecast, while EBITDA (\$178M), EBIT (\$142M) and Adjusted NPAT (68.7M) are all less than 1% away from our current forecasts. Hospital EBITDA margin is higher than we had anticipated but this was offset by the Gribbles EBITDA margin, which improved on pcp but was lower than we had expected. HSP will also be announcing \$15.6M in non-recurring profit (net of tax) largely driven by profit on sale of hospitals and a tax provision adjustment related to the Gribbles acquisition. Gross operating cashflow is very strong for FY07, at \$172M, being 97% of EBITDA.

### Implications

The unaudited revenue and earnings figures released today are right in line with our expectations and our EPS forecasts for FY07-FY09 have all changed less than 1%. Our target price is relatively unchanged, and shows a 12 month total return of 12.0%. We consider the probability of HSP's bid for SYB succeeding to be high. However, Primary Healthcare has secured a 13.65% stake in SYB. Primary's intentions are unclear, but if it moves to 19.9%, then it may seek to either block the deal or trade its support for some key assets. We retain our short and long term HOLD recommendations on HSP.

### Investment Opinion

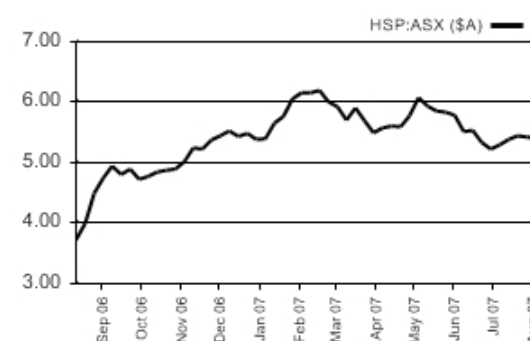
HSP is Australia's second largest private hospital player and a major player in pathology also. The core hospital business (80% of sales and EBIT) is in very good shape, with margin expansion across the portfolio. Pathology now appears to be doing well. Aging demographics and supportive government policy underlie good medium-term prospects for both divisions. We hold a neutral long-term investment view on HSP.

If HSP succeeds in its acquisition of SYB, HSP will become the largest domestic pathology provider (by revenue), the second largest private hospital operator and the third largest radiology and medical centre provider. Integration presents a key risk, although HSP has considerable experience in this area. We remain neutral in our 12 month outlook for HSP.

### Key Information

<b>Share Price</b>	<b>\$5.40</b>
<b>12 month view</b>	<b>HOLD</b>
12 month target return (%)	12.0
12 month target price	\$5.86
<b>Long Term View</b>	<b>HOLD</b>
Long Term Target Return (% pa)	13.7
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$1,256
Shares (M)	237.6
% of Market	0.07
% of Sector	2.51
12 Month Range	\$3.61 - \$6.43
Company Risk	★★★★☆
Share Price Risk	★★★★☆
Ethical rating	★★★★★

### Performance against indices (%)

	3 Months	6 Months	12 Months
HSP	(11.2)	(12.2)	42.9
Sector	(5.3)	1.2	33.4
Market	(5.5)	1.7	20.8

### Key Assumptions

Beta:	1.4
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	12.1
Forecast cashflow (years):	10
Residual value % of total valuation:	52.6
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	53.7	46.1	21.4	(8.4)	25.2	1.4	0.8	14.5	2.7	100	7.2
2007F	84.0	68.7	29.2	36.6	18.5	1.1	0.7	18.0	3.3	100	8.9
2008F	86.6	86.6	36.5	24.7	14.8	1.0	0.7	19.0	3.5	100	10.7
2009F	102.1	102.1	43.0	17.9	12.6	0.9	0.7	23.0	4.3	100	11.8

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

Year end Jun. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>Operating revenue</b>	<b>1,060.3</b>	<b>1,390.9</b>	<b>1,428.3</b>	<b>1,524.2</b>	Revenue growth (%)	100.8	31.2	2.7	6.7
Invest & other income	0.0	0.0	0.0	0.0	EBITDA growth (%)	118.6	32.8	17.8	9.0
<b>EBITDA</b>	<b>133.7</b>	<b>177.6</b>	<b>209.2</b>	<b>228.0</b>	EPS growth (%)	(8.4)	36.6	24.7	17.9
Depreciation/Amort	(30.0)	(35.3)	(36.0)	(37.8)	EBITDA/Sales margin (%)	12.6	12.8	14.6	15.0
<b>EBIT</b>	<b>103.8</b>	<b>142.3</b>	<b>173.2</b>	<b>190.2</b>	EBIT/Sales margin (%)	9.8	10.2	12.1	12.5
Net Interest	(40.4)	(44.7)	(51.2)	(46.1)	Tax rate (%)	27.1	30.1	30.0	30.0
<b>Pre-tax profit</b>	<b>63.3</b>	<b>97.6</b>	<b>122.1</b>	<b>144.2</b>	Net debt/equity (%)	79.2	79.4	64.7	55.2
Tax expense	(17.2)	(29.4)	(36.6)	(43.3)	Net debt/net debt + equity (%)	44.2	44.3	39.3	35.6
Minorities/Assoc./Prefs	(0.0)	0.5	1.2	1.2	Net interest cover (x)	2.6	3.2	3.4	4.1
<b>NPAT</b>	<b>46.1</b>	<b>68.7</b>	<b>86.6</b>	<b>102.1</b>	Payout ratio (%)	67.7	61.6	52.1	53.5
Non recurring items	7.6	15.3	0.0	0.0	Capex to deprec'n (%)	155.4	118.3	105.0	105.0
<b>Reported profit</b>	<b>53.7</b>	<b>84.0</b>	<b>86.6</b>	<b>102.1</b>	NTA per share (\$)	(0.09)	0.00	0.19	0.41
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	7.4	8.9	10.3	11.3
<b>Adjusted profit</b>	<b>46.1</b>	<b>68.7</b>	<b>86.6</b>	<b>102.1</b>	ROE (%)	7.2	8.9	10.7	11.8
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
<b>EBITDA</b>	<b>133.7</b>	<b>177.6</b>	<b>209.2</b>	<b>228.0</b>	Market cap (M)	1,256			
Working capital changes	(37.4)	(58.1)	44.7	(5.0)	Net debt (\$M)	555.3			
Interest and tax	(51.0)	(68.4)	(84.4)	(86.1)	Peripheral assets (\$M)	(7.2)			
Other operating items	39.2	50.3	(2.4)	2.9	<b>Enterprise value (\$M)</b>	<b>1,803.7</b>			
<b>Operating cashflow</b>	<b>84.6</b>	<b>101.3</b>	<b>167.1</b>	<b>139.9</b>	EV/EBIT (x)	<b>17.4</b>	<b>12.7</b>	<b>10.4</b>	<b>9.5</b>
Required capex	(46.6)	(41.8)	(37.8)	(39.7)	EV/EBITDA (x)	<b>13.5</b>	<b>10.2</b>	<b>8.6</b>	<b>7.9</b>
<b>Maintainable cashflow</b>	<b>38.0</b>	<b>59.6</b>	<b>129.3</b>	<b>100.2</b>	EV/EBITDA All Ind (x)	9.3	8.2	7.4	6.8
Dividends	(27.7)	(37.2)	(41.5)	(49.9)	EV/EBITDA rel All Ind (x)	1.5	1.2	1.2	1.2
Acq/Disp	(521.9)	(72.5)	0.0	0.0	<b>P/E (x)</b>	<b>25.2</b>	<b>18.5</b>	<b>14.8</b>	<b>12.6</b>
Other investing items	(1.5)	(27.1)	0.0	0.0	P/E rel All Ind (x)	1.2	1.0	1.0	0.9
<b>Free cashflow</b>	<b>(513.0)</b>	<b>(77.2)</b>	<b>87.8</b>	<b>50.3</b>	P/E rel All Ind ex banks (x)	1.1	1.0	0.9	0.9
Equity	273.3	17.6	0.0	0.0	P/E sector (x)	32.4	27.6	22.1	17.5
Debt inc/(red'n)	243.8	50.3	(87.8)	(50.3)	P/E rel sector (x)	0.8	0.7	0.7	0.7
<b>Balance sheet</b>					<b>Assumptions</b>				
	2006A	2007F	2008F	2009F		2006A	2007F	2008F	2009F
Cash & deposits	9.8	0.0	0.0	0.0	GDP growth (%)	2.92	2.50	3.02	3.64
Inventories	25.7	35.1	32.3	34.4	Interest Rates (%)	5.73	6.38	6.34	6.30
Trade debtors	137.7	192.1	172.8	184.3	Inflation (%)	3.20	3.09	2.47	2.50
Other curr assets	20.4	22.8	22.0	23.3					
<b>Total current assets</b>	<b>193.7</b>	<b>250.0</b>	<b>227.1</b>	<b>242.0</b>					
Prop., plant & equip.	566.6	611.5	613.3	615.2					
Non-curr intangibles	747.3	793.4	793.4	793.4					
Non-curr investments	9.9	9.9	11.1	12.3					
Other non-curr assets	30.2	31.8	31.8	31.8					
<b>Total assets</b>	<b>1,547.7</b>	<b>1,696.6</b>	<b>1,676.7</b>	<b>1,694.8</b>					
Trade creditors	116.7	126.8	148.7	158.6					
Curr borrowings	7.0	7.0	7.0	7.0					
Other curr liabilities	83.8	97.5	99.7	104.1					
<b>Total current liab.</b>	<b>207.6</b>	<b>231.4</b>	<b>255.4</b>	<b>269.8</b>					
Borrowings	579.0	623.0	535.3	484.9					
Other non-curr liabilities	29.9	48.7	47.5	49.3					
<b>Total liabilities</b>	<b>816.5</b>	<b>903.2</b>	<b>838.2</b>	<b>804.0</b>					
Minorities/Convertible	4.0	0.0	0.0	0.0					
<b>Shareholders equity</b>	<b>731.2</b>	<b>793.4</b>	<b>838.5</b>	<b>890.8</b>					

### Notes To Accounts

1. All P&L items (except Reported profit) now exclude Goodwill Amortisation as per the new IFRS requirements.

2. We have not incorporated the proposed SYB acquisition into our forecasts and will wait until the acquisition appears certain to proceed before we do so.

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

# Telecom NZ

## FY07 Result: TEL faces challenging times

### Event

TEL announced an FY07 NPAT of NZ\$3.02B, compared with a net loss of NZ\$435M in FY06. The FY07 reported profit reflected several anomalies, including the capital gain from the sale of the Yellow Pages Group. Adjusted FY07 NPAT for continuing operations was NZ\$856M, up 20.4% on pcp's NZ\$711M. Adjusted EBITDA fell 3.6% on pcp to NZ\$1.97B, from NZ\$2.04B. TEL will pay a final dividend of NZ14.5cps for 4Q07 (up from NZ7cps in pcp).

### Implications

We have updated our model to account for the FY07 result and adjusted our near-term forecasts to reflect TEL's FY08 guidance of NZ\$680M-\$720M NPAT. We have reduced our near-term EPS forecasts in light of TEL's uncertain view on the future and revised our capex expenditure to reflect TEL's investment requirements in rolling out the W-CDMA network as well as likely future capex due to restructuring. We have upgraded our beta from 0.9 to 1 to reflect the increasingly competitive market that TEL must operate in. TEL's Australian operations have still not made any drastic turnaround, although the recent acquisition of PowerTel offers several advantages within the market. TEL's New Zealand operations are plagued by regulatory pricing intervention, forthcoming access restructuring and increased competition trying to chip away at its market share. TEL however is still the dominant player in NZ and we believe that the current market price undervalues TEL's strong cashflows. We maintain our neutral view on the stock, with a 12-month target price of \$3.98.

### Investment Opinion

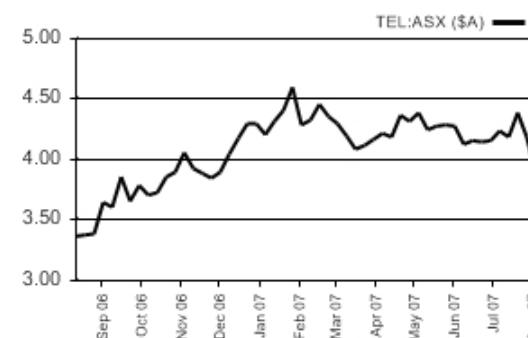
TEL is an incumbent telecommunications company, with a strong position in its local NZ market. The company continues to focus on advancing broadband and wireless data (EVDO) penetration, while managing pricing and margin problems in its other core businesses. The medium-term outlook is characterised by greater uncertainty, primarily due to the NZ government adopting a harsher regulatory stance and what this may imply for TEL's wholesale margins.

In the near term, risks associated with the proposed regulatory break up of TEL, the weak NZ economy and the question regarding the viability of the Australian operations are expected to remain. However, we believe these risks have been adequately incorporated in the share price and we have a neutral view on the stock.

### Key Information

<b>Share Price</b>	<b>\$3.89</b>
<b>12 month view</b>	<b>HOLD</b>
12 month target return (%)	8.3
12 month target price	\$3.98
<b>Long Term View</b>	<b>HOLD</b>
Long Term Target Return (% pa)	12.6
3 year target price	n/a

### Price Performance



### Market Statistics

Market Cap (M)	\$7,827
Shares (M)	2,012
% of Market	0.45
% of Sector	7.35
12 Month Range	\$3.18 - \$4.63
Company Risk	★★★★☆
Share Price Risk	★★★★☆
Ethical rating	★★★★☆

### Performance against indices (%)

	3 Months	6 Months	12 Months
TEL	(11.4)	(11.2)	16.5
Sector	(5.5)	5.4	27.2
Market	(5.0)	2.4	21.9

### Key Assumptions

Beta:	1.0
Market risk premium (%):	5.5
Risk free rate (%):	6.1
WACC (%):	9.7
Forecast cashflow (years):	10
Residual value % of total valuation:	57.4
Nominal terminal growth rate (%):	3.0

### Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT <sup>1</sup> Adj \$M	EPS <sup>1</sup> c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	(356)	671	36.4	(11.7)	10.7	0.6	0.7	37.2	9.6	0	39.9
2007A	2,646	758	38.0	4.6	10.2	0.6	0.7	31.4	8.1	0	48.5
2008F	596	596	32.2	(15.2)	12.1	0.8	0.8	23.3	6.0	0	24.9
2009F	522	522	29.2	(9.4)	13.3	1.0	1.0	23.1	5.9	0	23.5

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Telecom NZ

12M Recommendation<sup>1</sup>: HOLD

12M Target: \$3.98

Long Term Recommendation<sup>2</sup>: HOLD

Long Term Target Return: 12.6% pa

Year end Jun. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
<b>Operating revenue</b>	<b>4,709</b>	<b>4,928</b>	<b>4,733</b>	<b>4,708</b>	Revenue growth (%)	(8.8)	4.6	(4.0)	(0.5)
Invest & other income	0	0	0	0	EBITDA growth (%)	(13.3)	(2.3)	(8.5)	(3.1)
<b>EBITDA</b>	<b>1,782</b>	<b>1,741</b>	<b>1,594</b>	<b>1,544</b>	EPS growth (%)	(11.7)	4.6	(15.2)	(9.4)
Depreciation/Amort	(577)	(577)	(590)	(614)	EBITDA/Sales margin (%)	37.8	35.3	33.7	32.8
<b>EBIT</b>	<b>1,205</b>	<b>1,164</b>	<b>1,004</b>	<b>930</b>	EBIT/Sales margin (%)	25.6	23.6	21.2	19.7
Net Interest	(208)	(204)	(146)	(176)	Tax rate (%)	32.3	20.5	30.0	30.0
<b>Pre-tax profit</b>	<b>997</b>	<b>960</b>	<b>858</b>	<b>753</b>	Net debt/equity (%)	310.8	25.7	91.6	91.5
Tax expense	(322)	(197)	(258)	(226)	Net debt/net debt + equity (%)	75.7	20.4	47.8	47.8
Minorities/Assoc./Prefs	(3)	(5)	(5)	(5)	Net interest cover (x)	4.7	5.1	5.9	4.5
<b>NPAT</b>	<b>671</b>	<b>758</b>	<b>596</b>	<b>522</b>	Payout ratio (%)	85.5	82.7	72.2	79.0
Non recurring items	(1,027)	1,888	0	0	Capex to deprec'n (%)	104.5	172.2	181.0	175.8
<b>Reported profit</b>	<b>(356)</b>	<b>2,646</b>	<b>596</b>	<b>522</b>	NTA per share (\$)	0.10	1.18	0.74	0.79
NPAT add Goodwill & Pref	0	0	0	0	ROA (%)	20.7	19.6	16.5	16.0
<b>Adjusted profit</b>	<b>671</b>	<b>758</b>	<b>596</b>	<b>522</b>	ROE (%)	39.9	48.5	24.9	23.5
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
<b>EBITDA</b>	<b>1,782</b>	<b>1,741</b>	<b>1,594</b>	<b>1,544</b>	Market cap (M)		7,827		
Working capital changes	130	0	49	(7)	Net debt (\$M)		817		
Interest and tax	(367)	(299)	(403)	(411)	Peripheral assets (\$M)		437		
Other operating items	(66)	22	9	16	<b>Enterprise value (\$M)</b>		<b>8,207</b>		
<b>Operating cashflow</b>	<b>1,479</b>	<b>1,465</b>	<b>1,249</b>	<b>1,142</b>	<b>EV/EBIT (x)</b>	<b>6.8</b>	<b>7.1</b>	<b>8.2</b>	<b>8.8</b>
Required capex	(603)	(762)	(819)	(828)	<b>EV/EBITDA (x)</b>	<b>4.6</b>	<b>4.7</b>	<b>5.1</b>	<b>5.3</b>
<b>Maintainable cashflow</b>	<b>876</b>	<b>703</b>	<b>430</b>	<b>314</b>	EV/EBITDA All Ind (x)	9.3	8.2	7.4	6.8
Dividends	(878)	(437)	(636)	(413)	EV/EBITDA rel All Ind (x)	0.5	0.6	0.7	0.8
Acq/Disp	241	1,587	0	0	<b>P/E (x)</b>	<b>10.7</b>	<b>10.2</b>	<b>12.1</b>	<b>13.3</b>
Other investing items	(93)	53	0	0	P/E rel All Ind (x)	0.5	0.6	0.8	1.0
<b>Free cashflow</b>	<b>146</b>	<b>1,906</b>	<b>(206)</b>	<b>(99)</b>	P/E rel All Ind ex banks (x)	0.5	0.5	0.8	0.9
Equity	0	0	(949)	0	P/E sector (x)	16.2	14.8	14.3	13.0
Debt inc/(red'n)	(211)	(290)	1,154	99	P/E rel sector (x)	0.7	0.7	0.8	1.0
<b>Balance sheet</b>					<b>Assumptions</b>				
	2006A	2007A	2008F	2009F		2006A	2007A	2008F	2009F
Cash & deposits	179	1,730	171	171	GDP growth (%)	2.92	2.50	3.02	3.64
Inventories	42	62	60	61	Interest Rates (%)	5.73	6.38	6.34	6.30
Trade debtors	760	837	713	729	Inflation (%)	3.20	3.09	2.47	2.50
Other curr assets	103	76	74	74					
<b>Total current assets</b>	<b>1,084</b>	<b>2,705</b>	<b>1,017</b>	<b>1,034</b>					
Prop., plant & equip.	2,701	3,234	3,373	3,587					
Non-curr intangibles	678	814	792	792					
Non-curr investments	426	434	403	385					
Other non-curr assets	187	83	81	81					
<b>Total assets</b>	<b>5,076</b>	<b>7,271</b>	<b>5,667</b>	<b>5,879</b>					
Trade creditors	850	879	802	812					
Curr borrowings	782	429	417	417					
Other curr liabilities	102	90	86	78					
<b>Total current liab.</b>	<b>1,734</b>	<b>1,397</b>	<b>1,305</b>	<b>1,307</b>					
Borrowings	2,081	2,112	1,679	1,778					
Other non-curr liabilities	392	596	573	573					
<b>Total liabilities</b>	<b>4,207</b>	<b>4,105</b>	<b>3,557</b>	<b>3,657</b>					
Minorities/Convertibles	6	5	8	10					
<b>Shareholders equity</b>	<b>869</b>	<b>3,167</b>	<b>2,110</b>	<b>2,222</b>					

## Notes To Accounts

All P&L items (except Reported profit) now exclude Goodwill Amortisation as per the new IFRS requirements. TEL is modelled in New Zealand Dollars (NZ\$) and then uploaded for reporting purposes into Australian Dollars (A\$). Alternative methods are currently being looked into, to report the numbers in NZ\$ as well.

**Notes:** 1. The 12M recommendation rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.

2. The Long Term Recommendation rates stocks on a long term, absolute basis based on the average total return per annum (capital and dividends). BUY denotes a long term expectation of 1% or more above the cost of equity (also known as the required return, which measures the the return required by investors given the company's risk); HOLD within the range of 1% above and 3% below the cost of equity; SELL more than 3% below the cost of equity but above a total forecast annual return for the stock of 0%; AVOID denotes a long term expectation of a total annual return below 0%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer.



## Result Overview

[All figures are in New Zealand Dollars (NZD) unless specifically stated otherwise.]

**TABLE 1: CONSOLIDATED FY07 RESULTS (NZ\$)**

		pcp	Aegis	Actual	Change	
		Jun-06	Jun-07	Jun-07	pcp	Aegis
<b>For the 12 months ended**:</b>						
Sales revenue	:\$M	5,755.0	5,677.2	5,562.0	-3%	-2%
EBITDA	:\$M	2,177.0	1,965.8	1,966.0	-10%	+0%
Depreciation & amort	:\$M	-705.0	-638.0	-652.0	-8%	+2%
EBIT	:\$M	1,472.0	1,327.8	1,314.0	-11%	-1%
Net Int Expense	:\$M	-254.0	-212.3	-230.0	-9%	+8%
Profit Before Tax	:\$M	1,218.0	1,115.6	1,084.0	-11%	-3%
Tax on Recurring	:\$M	-394.0	-230.1	-222.0	-44%	-4%
Profit After Tax	:\$M	824.0	885.5	862.0	+5%	-3%
Minorities/Associates	:\$M	-4.0	-3.5	-6.0	+50%	+71%
Preference Dividends	:\$M	0.0	0.0	0.0		
NPAT	:\$M	820.0	882.0	856.0	+4%	-3%
Non Recurring (net of Tax)	:\$M	-1,255.0	2,146.0	2,148.0	-271%	+0%
Reported Profit	:\$m	-435.0	3,028.0	3,004.0	-791%	-1%
** All numbers are adj. for non-recurring items except Reported Profit						
<b>PER SHARE DATA</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
Average weighted Capital, fully diluted	:M	1,980	1,990	1,994	+1%	+0%
E.P.S. on Adj profit	:cents	41.5	44.3	42.9	+3%	-3%
D.P.S.	:cents	35.5	32.0	35.5	+0%	+11%
Franking	:%	0	0	0		
Payout Ratio		85%	72%	83%	-3%	+10%
<b>RATIOS</b>		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-07</b>		
EBITDA Margin	:%	37.8	34.6	35.3	-2%	+1%
EBIT Margin	:%	25.6	23.4	23.6	-2%	+0%
Effective Tax rate	:%	32.3	20.6	20.5	-12%	-0%

Source: TEL/Aegis Equities

TEL reported its 4Q and FY07 financial results on 3 August 2007. The key points include the following:

- **Profit:** TEL reported a net profit of NZ\$3.02B for FY07, compared with a net loss of NZ\$435M in pcp. The FY07 result was bolstered by the sale of the Yellow Pages Group, recording a capital gain of around NZ\$2B. Adjusted FY07 NPAT for continuing operations was NZ\$856M, up 20.4% on pcp's NZ\$711M.
- **Abnormal Items:** The FY07 result included several abnormal items, including a gain of NZ\$2,084M recorded in April 2007 arising from the sale of the Yellow Pages Group; an abnormal gain of \$20M arising from the sale of TEL's equity stake in Telecom Samoa Cellular Limited; restructuring costs of \$36M recognised in FY07, covering the costs of rationalising Australian call centres and the integration of PowerTel; and a provision of \$16M for the cost of rectifying several billing issues.
- **EPS:** Adjusted EPS was up 6% on the pcp at NZ43.9cps.
- **Dividends:** TEL has announced a final dividend of NZ14.5cps for 4Q07 (NZ35.5cps for FY07).
- **Capital Return:** TEL intends to return around \$1.1B to shareholders by way of a capital return. The board has proposed the cancellation of one in nine ordinary securities on a pro-rata basis in exchange for NZ\$4.88 for each cancelled share. The capital return is anticipated to be completed in October 2007.
- **Result Drivers:** TEL's Australian operations continued to struggle to turn profitable. Faced with a competitive market and pricing pressures, Calling, Data and Internet and Resale offered the only growth within the Australian divisions, lifted by the inclusion of the 4Q07 results from PowerTel. TEL's New Zealand operations revenue increased marginally in the face of a challenging domestic market, brought on by regulated pricing and deterioration of legacy revenue streams. Reduced business broadband pricing offset gains from residential customers, and mobile revenue was supported through growth in mobile data, while mobile voice remained flat.
- **Regulation:** TEL is currently awaiting the final details of the proposed operational separation submitted by the Ministry of Economic Development. The commerce commission has released a draft determination for the pricing of unbundled copper local loop and co-location services, with the final determination expected by early November 2007.

## New Zealand Operations

**TABLE 2: NZ OPERATIONS**  
**NZ Operations (NZ\$M)**

For Period ended:	4Q06	4Q07	% Chg QoQ	FY06	FY07	% Chg YoY
<b>Operating Revenues</b>						
Local service	265	264	0%	1,049	1,049	0%
Calling	248	224	-10%	968	962	-1%
Interconnection	36	33	-8%	159	146	-8%
Cellular & other mobile	201	202	0%	774	816	5%
Data, internet & solutions	291	308	6%	1,120	1,126	1%
Other op revenue	21	47	124%	108	127	18%
Internal revenue	23	15	-35%	72	74	3%
<b>Total revenue</b>	<b>1085</b>	<b>1093</b>	<b>1%</b>	<b>4,250</b>	<b>4,300</b>	<b>1%</b>
Corporate	0	2	n/a	10	14	40%
<b>NZ Op Revenue</b>	<b>1,085</b>	<b>1,095</b>	<b>1%</b>	<b>4,260</b>	<b>4,314</b>	<b>1%</b>
<b>Operating Expenses</b>						
Labour	137	136	-1%	505	507	0%
Intercarrier Costs	116	110	-5%	500	491	-2%
Other operating expenses	293	331	13%	1,181	1286	9%
Internal expenses	6	8	33%	19	26	37%
<b>Total Op Expenses</b>	<b>552</b>	<b>585</b>	<b>6%</b>	<b>2,205</b>	<b>2310</b>	<b>5%</b>
<b>EBITDA (ex Corp)</b>	<b>533</b>	<b>508</b>	<b>-5%</b>	<b>2,045</b>	<b>1990</b>	<b>-3%</b>
Corp Expenses	23	28	22%	96	89	-7%
EBITDA (incl Corp)	510	482	-5%	1,959	1901	-3%
EBITDA Margin	49.1%	46.5%	(2.6) pts	48.1%	46.3%	(1.8) pts
Adjusted EBITDA Margin						

Source: TEL/Aegis Equities

NZ operations look ahead to challenging times, with regulatory enforced restructuring set to ravage TEL's domestic playground. TEL faces threats of new entrants, shrinking operating margins and negative revenue growth.

- **Results:** Operating revenue was up slightly by 1.2% year-on-year to NZ\$4.3B. Mobile and IT services provided the support to hold revenues relatively flat, while negative growth was seen across Calling, Data, Broadband and interconnection. EBITDA fell 2.7% year-on-year to \$1.99B, while earnings from operations came in 6.3% lower at \$1.4B.
- **Local Call:** Local call revenue continues on a downward path, as the rollout of naked DSL and other products make its mark. We also believe that increased competition will drive residential local call margins lower. TEL commented in the results briefing that it expects the profile of this business to change.
- **Mobile:** Despite the 16.1% increase in connections, mobile revenue growth increased only 5.4%, voice revenue was down slightly, while data grew 27.5% on the back of 3G services. TEL attributed the small rise in revenue to price pressure and the addition of lower number of ARPU customers to the subscriber base. TEL will begin investment in its new W-CDMA network next year, with NZ\$150M spend planned for FY08.
- **Broadband:** Broadband revenues were relatively flat with only a 3% increase registered. Consumer growth was strong, up 27.9% to \$156M; however, Business revenues slumped 37.3% to \$69M, reflecting the large reduction in business broadband pricing. Overall DSL and mobile broadband connections increased 40.4% to 653,000. Dial-up revenue declined 27.1%, reflecting the migration of customers to broadband.
- **Interconnection:** New mobile termination rates resulted in an 8.2% decline in revenues.
- **Wholesale:** Wholesale broadband connections increased 44.1%, access revenue grew 11.1%. TEL identified this as a sign of increasing competition as competitors lease lines from TEL to offer services to customers.
- **Investments:** TEL has entered into an agreement with Hutchinson Communications (Australia) Limited (HTAL) to exchange its 19.94% holding in Hutchinson 3G Australia Holdings Pty Limited (H3GA) for a 10% stake in HTAL (the parent company and controlling shareholder of H3GA). The agreement also includes an option for TEL to increase its stake in HTAL to 19.94% on or before 31 December 2008 with a strike of A\$250–A\$300M.

## Australian Operations

[Australian performance (in A\$)]

**TABLE 3: AUSTRALIAN OPERATIONS**

**Australian Operations (A\$M)**

For Period ended:	4Q06	4Q07	% Chg QoQ	FY06	FY07	% Chg YoY
<b>Operating Revenues</b>						
Local Service	7	10	43%	29	30	3%
Calling	85	83	-2%	376	324	-14%
Cellular & other mobile	18	16	-11%	87	69	-21%
Interconnection	9	9	0%	37	36	-3%
Data & internet	60	80	33%	249	260	4%
Resale	90	81	-10%	325	346	6%
Other	27	14	-48%	74	70	-5%
Internal revenue	2	4	100%	16	15	-6%
<b>Total Revenue</b>	<b>298</b>	<b>297</b>	<b>0%</b>	<b>1193</b>	<b>1150</b>	<b>-4%</b>
<b>Operating Expenses</b>						
Labour	48	49	2%	190	185	-3%
Cost of sales	162	151	-7%	630	641	2%
Other operating expenses	54	62	15%	230	215	-7%
Internal expenses	14	15	7%	67	65	-3%
<b>Total Op Expenses</b>	<b>287</b>	<b>277</b>	<b>-3%</b>	<b>1117</b>	<b>1106</b>	<b>-1%</b>
<b>EBITDA</b>	<b>42</b>	<b>20</b>	<b>-52%</b>	<b>76</b>	<b>44</b>	<b>-42%</b>
EBITDA Margin	14.1%	6.7%	(7.4) pts	6.4%	3.8%	(2.5) pts

Source: TEL/Aegis Equities

## Key Highlights

- Results:** Operating revenues was down 3.5% to A\$1,150M, as competitive pressure drove retail prices lower. Growth in broadband and the inclusion of 4Q07 revenues from PowerTel strengthened the result, while the majority of the remaining divisions recorded negative growth. EBITDA was \$44M, down 41.3%. Loss from operations was A\$26M, a reduction of 65.8% year-on-year.
- Mobile:** Mobile revenue declined 19.8% following the sale of the prepaid customer base in 2Q06 to focus on selling mobiles in bundles of multiple products instead of stand-alone. Post-paid connections decreased by 24.7% year-on-year, while the percentage of bundled connections increased to 70.9%.
- Broadband:** Broadband customers increased during FY07 from 102,000 to 174,000, while dial-up customers fell 38.2% to 63,000, mainly through the migration to broadband. 4Q07 also reflects the inclusion of PowerTel broadband and internet revenue.
- Data Revenue:** Data revenue fell 18.2%, as AAPT lost two large corporate customers, VicOne and Tradegate.
- Acquisitions:** We believe the purchase of PowerTel for A\$357M in April to be a valuable acquisition in supporting TEL's Australian operations. PowerTel owns a fibre network throughout most major Australian cities. PowerTel offers the much needed backbone for AAPT, which has previously been leasing lines from Telstra and Optus. The transfer of customers on to PowerTel's network is expected to improve operating margins significantly. The merger of PowerTel and AAPT is now underway, although rumours have circled at some tension in the integration process, with conflicting corporate cultures slowing the proceedings. The integration costs are expected to be offset by some of the operating synergies from the merger.
- Labour expenses:** Labour costs decreased 2.6% for FY07, as AAPT sold two of its call centres as a result of restructuring.
- Business Development:** AAPT has completed its "Hyperbaric" initiative, which went live on June 2007. This initiative is targeted at improving sales, customer service and IT capabilities in order to support customer acquisition and retention. To date, this investment has had a negative impact on costs and free cash flow and is also expected to impact FY08 as part of a program to fundamentally reposition AAPT's services.

## Outlook and Investment View

In relation to the FY08 outlook, management has provided the following guidance:

- Adjusted NPAT for FY08 to fall within the range of NZ\$680–NZ\$720M, while capex for FY08 is forecast to be approximately NZ\$950–NZ\$975M.
- EBITDA from NZ Operations is expected to decline 5% to 8%, which includes anticipated costs of NZ\$20–NZ\$30M allocated for operational separation.
- EBITDA from Australian Operations is expected in the range of A\$90M–A\$100M.
- TEL's depreciation and amortisation expense for FY08 is expected to be between NZ\$685M and NZ\$715M.
- The dividend for 1Q08, 2Q08 and 3Q08 has been set at NZ7cps, with a target payout ratio of 75% of net profit after tax. TEL will also re-set the discount on DRP to zero and re-introduce on-market buyback to neutralise DRP.

We view the FY07 result as a taste of things to come over the near term. TEL faces significant challenges and uncertainty in its domestic market. Operational separation, regulatory price determinations and an increasingly competitive environment are likely to impact both revenue and margins. We expect wholesale revenues to rise at the expense of other revenue streams as market competition increases. We project that margins will be impacted by the increasing cost of customer acquisition and retention, and competition will chip away at market share.

We expect TEL to feel the impact of new regulatory pricing and the costs of operational separation in FY08. The commerce commission has released its draft determination on the price and non-price terms on which TEL must make ULL and co-location regulated services available to other telecommunication providers. The initial proposal for access to the ULL is \$16.49/month for urban areas and \$32.20/month for non-urban areas. The final determination is anticipated by early November 2007. The exact details of the operational separation have yet to be confirmed, as TEL awaits the New Zealand government's final decision on the nature of the separation. TEL estimated the costs of operational separation at an additional NZ\$20M–NZ\$30M operating expenditure for FY08, rising to NZ\$40M per annum over the next four years.

We believe that TEL is trying to adapt to its new environment by implementing its "Next Generation Telecom" business model in an effort to reduce operational costs and to enhance product and service offerings; however, we do not expect the benefits of these changes to be realised in the near term. TEL has projected growth to come through its Australian Operations and IT services. We feel that TEL can improve its performance within Australia by capitalising on the synergies through the vertical integration of PowerTel and AAPT.

The new CEO, Paul Reynolds, has a significant challenge ahead of him. Despite our cautious outlook on TEL's growth opportunities, it is our view that the market has over-reacted to TEL's FY07 result and has undervalued TEL. TEL is still the dominant player in the New Zealand market, with strong cashflows and capital on hand to meet future capex requirements. We feel that TEL's current market price alongside its yield is attractive, yet given the risks, we feel a neutral view is appropriate.



**Andrew Black**  
General Manager, St George Private Bank  
[blacka@stgeorge.com.au](mailto:blacka@stgeorge.com.au)  
Phone +61 2 9236 3056



**Neil Verringer**  
Head of BSA Private Bank  
[verringern@banksa.com.au](mailto:verringern@banksa.com.au)  
Phone + 61 088424 5487

## St. George Private Bank & BankSA Private Bank

### Locations

#### Sydney

Level 4, 182 George Street, Sydney, NSW 2000  
Phone (02) 9236 1882

#### Melbourne

Level 8, 530 Collins Street, Melbourne, VIC 3000  
Phone (03) 9274 4850

#### Brisbane

Central Plaza, Level 4, 345 Queen Street,  
Brisbane, QLD 4000  
(07) 3232 8888

#### Perth

152-158 St Georges Terrace, Perth, WA 6000  
Phone (08) 9265 7510

#### Adelaide

BankSA Private Bank  
Level 1, 97 King William Street  
Adelaide, SA 5000  
(08) 8424 4141

### Staff Directory

#### Private Bank Directors

Warren Acworth	Brisbane	<a href="mailto:acworthw@stgeorge.com.au">acworthw@stgeorge.com.au</a>
Richard Battifuoco	Adelaide	<a href="mailto:battifuoco@banksa.com.au">battifuoco@banksa.com.au</a>
Roxanne Gorman	Sydney	<a href="mailto:gormanr@stgeorge.com.au">gormanr@stgeorge.com.au</a>
David Gray	Sydney	<a href="mailto:grayda@stgeorge.com.au">grayda@stgeorge.com.au</a>
David Scannell	Sydney	<a href="mailto:scannell@stgeorge.com.au">scannell@stgeorge.com.au</a>
David Wyndham	Sydney	<a href="mailto:wyndhamd@stgeorge.com.au">wyndhamd@stgeorge.com.au</a>

#### Private Bank Relationship Managers – Financial Advice

Peter Coulthard	Melbourne	<a href="mailto:coulthardp@stgeorge.com.au">coulthardp@stgeorge.com.au</a>
Jason Whitaker	Sydney	<a href="mailto:whitakerj@stgeorge.com.au">whitakerj@stgeorge.com.au</a>
Terri Ho	Sydney	<a href="mailto:hot@stgeorge.com.au">hot@stgeorge.com.au</a>
Roy Palic	Sydney	<a href="mailto:palicr@stgeorge.com.au">palicr@stgeorge.com.au</a>
Andrew Smith	Sydney	<a href="mailto:smitha@stgeorge.com.au">smitha@stgeorge.com.au</a>
Damian Ferguson	Brisbane	<a href="mailto:fergusond@stgeorge.com.au">fergusond@stgeorge.com.au</a>

#### Private Bank Relationship Managers – Banking

Jeanette McCann	Sydney	<a href="mailto:mccannj@stgeorge.com.au">mccannj@stgeorge.com.au</a>
Brett Edwards	Sydney	<a href="mailto:edwardsbr@stgeorge.com.au">edwardsbr@stgeorge.com.au</a>
Anne Fraser	Sydney	<a href="mailto:frasera@stgeorge.com.au">frasera@stgeorge.com.au</a>
Scott Heyes	Melbourne	<a href="mailto:heyess@stgeorge.com.au">heyess@stgeorge.com.au</a>
Andrew Horsnell	Adelaide	<a href="mailto:horsnella@banksa.com.au">horsnella@banksa.com.au</a>
Bruce Kleem	Sydney	<a href="mailto:kleemb@stgeorge.com.au">kleemb@stgeorge.com.au</a>
Lisa Marks	Melbourne	<a href="mailto:marksju@stgeorge.com.au">marksju@stgeorge.com.au</a>
Justin Morris	Brisbane	<a href="mailto:morrisju@stgeorge.com.au">morrisju@stgeorge.com.au</a>
Kishore Mudaliar	Sydney	<a href="mailto:mudaliark@stgeorge.com.au">mudaliark@stgeorge.com.au</a>
Richard Northey	Sydney	<a href="mailto:northeyr@stgeorge.com.au">northeyr@stgeorge.com.au</a>
Josie Prasad	Sydney	<a href="mailto:prasadj@stgeorge.com.au">prasadj@stgeorge.com.au</a>
Chris White	Perth	<a href="mailto:whitech@stgeorge.com.au">whitech@stgeorge.com.au</a>
Geoffrey Bell	Sydney	<a href="mailto:bellge@stgeorge.com.au">bellge@stgeorge.com.au</a>
Josephine Prasad	Sydney	<a href="mailto:prasadjo@stgeorge.com.au">prasadjo@stgeorge.com.au</a>

## Disclaimer and Disclosure of Interest

This publication has been prepared by Aegis Equities Research Pty Limited (ACN 085 293 910) ("Aegis"), an Australian Financial Services Licensee . St.George Wealth Management Pty Limited (ABN 28 006 929 004), St.George Bank Limited (ABN 92 055 513 070), trading as BankSA (SGB Entities) has not had any involvement in the research for or preparation of any part of this publication. Whilst the information contained in this publication has been prepared with all reasonable care from sources, which Aegis believes are reliable, no responsibility or liability is accepted by Aegis or SGB Entities for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgement and assumptions of Aegis as at the date of publication and may change without notice. Aegis and SGB Entities, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any securities recommendation contained in this publication is unsolicited general information only. Aegis and SGB Entities are not aware that any recipient intends to rely on this publication and are not aware of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors must obtain individual financial advice from their investment advisor to determine whether recommendations contained in this publication are appropriate to their personal investment objectives, financial situation or particular needs before acting on any such recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Aegis. Aegis and/or SGB Entities, their officers, employees, consultants or its related bodies corporate may, from time to time hold positions in any securities included in this report and may buy or sell such securities or engage in other transactions involving such securities. Aegis and SGB Entities, their Directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from securities mentioned in this publication.

Aegis, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any recommendation contained in this report and/or on this web site. Aegis discloses that from time to time, it or its officers, employees, consultants and its related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these recommendations or may perform paid services for the companies that are the subject of such recommendations. HOWEVER, UNDER NO CIRCUMSTANCES, HAS AEGIS BEEN INFLUENCED, EITHER DIRECTLY OR INDIRECTLY, IN MAKING ANY RECOMMENDATION CONTAINED IN THIS REPORT AND/OR ON THIS WEB SITE.

This information must be read in conjunction with the [Legal Notice](http://www.aer.com.au/legal_notice) which can be located at <http://www.aer.com.au/disclaimer.asp>