MORNINGSTAR™

Huntleys' Your Money Weekly

- These notes are provided as a guide to our investment newsletter
- Our objective is simple: To provide useful and thorough information and analysis to enable the investor to make informed choices and maximise his or her return on investments

How to Read an Equities Report

Morningstar™ is a leading provider of independent investment research in North America, Europe, Australia, and Asia. Morningstar is a trusted source for insightful information on stocks, managed funds, exchange-traded funds, hedge funds, separate accounts and offers an extensive line of Internet, software, and print-based products and services for individuals, financial advisors, and institutions. We provide data on more than 325,000 investment offerings. The company has operations in 19 countries.

A long-time champion of the individual investor, our mission is to create great products that help investors reach their financial goals. Morningstar's purchase of Huntleys' in mid-2006 was a natural fit that marries perfectly with the role Ian Huntley and the Huntleys' publications have played in the Australian market for over 30 years.

Morningstar's Approach to Rating Stocks

At Morningstar, we think that purchasing shares of superior businesses at discounts to their fair values, and allowing those businesses to compound value over long periods of time, is the surest way to create wealth in the stock market. Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, we'll often appear to be out of step with the stock market.

When stocks are high, relatively few will receive our Buy recommendation. But when the market tumbles, there will likely be many more 'Buys'. We think assets are more attractive when they're cheap than when they're dear. We wait to buy clothes and DVD players when they're on sale, so why not do the same for stocks?

Our recommendations are anchored on each analyst's estimate of a company's 'fair value', which is what the analyst thinks the business is worth on a per-share basis. Our analysts arrive at this value by forecasting how much excess cash – or 'free cash flow'– the firm will generate in the future, and then adjusting that total for both timing and risk.

Cash generated next year is worth more than cash generated several years down the road, and cash from a stable business is worth more than cash from a cyclical or uncertain business. Stocks trading at meaningful discounts to our fair value estimates will receive positive recommendations. For high-quality businesses, we require a smaller discount than we do for mediocre ones, for a simple reason: we have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. The future is inherently uncertain, and that uncertainty is greater for some companies than it is for others. If a stock's market price is significantly above our fair value estimate, it will receive a negative recommendation, no matter how wonderful we think the business is. Even the best company is a poor investment if an investor overpays for its shares.

Morningstar Methodology for Valuing Companies

Competitive Analysis →	Economic Moat Rating →	Company Valuation →	Fair Value Estimates →	Risk Assessment →	Recommendation
Analyst conducts company and industry research: ► Management interviews ► Conference calls ► Trade shows visits ► Competitor, supplier, distributor, and customer interviews	The depth and sustainability of the firm's competitive advantage is rated: ► None ► Narrow ► Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Various modelling occurs including DCF.	DCF model and earnings multiple analysis leads to the firm's fair value estimate, which anchors the recommendation framework.	A business-risk analysis establishes the margin of safety required for the stock recommendation.	The current share price relative to fair value, adjusted for risk, determines the recommendation. ► Buy ► Accumulate ► Hold ► Reduce ► Sell

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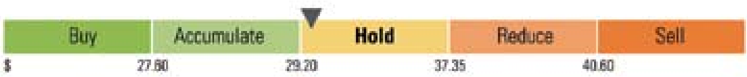
Woolworths WOW | $29.80

1 Blue Chip Industrial | Australian & New Zealand Retailer

2 Recommendation **Hold**

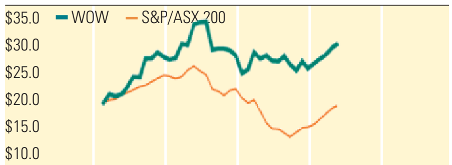
3 

4 Business Risk	**Low**
Price Risk	Medium
5 Moat Rating	Wide
6 Fair Value ($)	34.10
7 Morningstar Style Box	
Mkt Cap ($ Mil)	36,829.8
Last Review	10/09/09 (YMW35)
8 Ann. Share Turnover (%)	72.6
9 ROE-FY09 (%)	26.0
10 Net Interest Cover (x)	14.9
11 52 Week Hi/Low ($)	30.57/23.68
Ex-Dividend	07/09/09
Payable	09/10/09

Compound Growth	5Yr	10Yr
EPS %	17.6	18.6
DPS %	18.2	19.2

14 **Investment Rating**

WOW has an enviable track record with well above average EPS and DPS growth driving exceptional total returns over the past decade. This reflects well on operational and shareholder focus. Project Refresh is a great success capturing over $9bn in cumulative savings with another $1.5bn to come through further logistics and development initiatives. WOW is a defensive growth stock with a solid balance sheet and an imposing moat surrounding its economic castle. WOW deserves a premium multiple.



	06/07(a)	06/08(a)	06/09(a)	06/10(e)	06/11(e)
NPAT	1294.0	1626.8	1835.7	2005.0	2185.0
EPS	107.9	133.6	149.7	162.3	175.6
EPS % Chg	19.5	23.8	12.1	8.4	8.2
DPS	74.0	92.0	104.0	113.0	123.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	3.1	3.1	3.9	3.8	4.1
P/E	21.9	22.2	17.6	18.4	17.0

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Lower inflation takes the edge off!

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Australian Food & Liquor operations – Supermarkets – continue their domination of the WOW's top line sales growth. Group sales for the 14 weeks to 4 October 2009 increased 4.2% to $13.37bn with sales excluding Petrol up 7.4% to $11.93bn. This was slightly below expectation but reflects a strong comparative period and lower food inflation – particularly in fresh. Despite the fading impact of government stimulus spending and the unpredictable trend in discretionary spending management maintained the FY10 sales outlook for growth in "the upper single digits – excluding Petrol sales." For WOW to lift growth toward the upper end – from 7.4% to 8.5% -9.0% – a strong Christmas trading period is imperative and the return of a little inflation would also assist.

Australian Food & Liquor lifted sales 7.8% representing 67.3% of group sales – up from 65.0% in 1Q09. BIG W growth was more subdued reflecting a high 1Q09 comparative and representing 8.2% of group sales. NZ supermarkets improved with 0.2% real growth from -2.7% in 1Q09.

No change in our FY10 and FY11 estimates at this stage. Earnings guidance will be updated at the November AGM. We retain our Hold recommendation growth was 3.7% compared to 2.8% in 1Q09 and 3.9% in 4Q09. Customer numbers increased due to the combination of price, range, refurbishment and 2010 store format roll out and incentive programs. Market share gains continue.

New Zealand Supermarkets lifted sales by 4.8% in NZ$ and by 5.4% in A$. NZ$ comps rose by 4.5% including 4.3% inflation reflecting 0.2% real growth. This is an improved performance compared with negative real growth of 2.7% in 1Q09.

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Headline Petrol sales fell 16.4% and comparables were 18.1% lower reflecting a 19.3% fall in average petrol prices from 152.7¢ to 123.3¢ per litre. Total litres sold increased by 3.6% while comparable litres were up 1.6%. The shopper docket incentive continues to enhance the strong competitive position within the segment.

BIG W lifted headline sales by 5.8% with comparables up 3.9% – down from 4.4% in 1Q09. This slower growth reflects a strong comparative quarter. This is the 12th consecutive quarter of positive comparable sales growth in a very competitive segment.

Consumer Electronics – Australia & New Zealand lifted comparable sales by 4.1% with headline sales up 8.4%. Australian comparables rose 6.5% assisted by Dick Smith medium sized stores lifting comparables by 15.1%. Comparables in New Zealand fell 7.0% reflecting the difficult economic environment.

Hotels continued to struggle with comparables down 1.2% and gaming comparables down 1.4%. This reflected the reduction in legislated trading hours in Queensland. Excluding Queensland gaming comparables were positive.

($millions)	1Q09	1Q10	% Change
Australian Food & Liquor	8,347	9,001	+7.8
New Zealand Supermarkets	1,010	1,065	+5.4
Petrol	1,723	1,440	-16.4
Supermarket Division	**11,080**	**11,506**	**+3.8**
BIG W	1,036	1,096	+5.8
Consumer Electronics – Aust/NZ	368	399	+8.4
Consumer Electronics – India	40	63	+57.5
General Merchandise Division	**1,444**	**1,558**	**+7.9**

- Serious investment money should be invested in blue-chips and quality second liners with low to medium business risk
- 'Second liners' are those stocks well advanced beyond the speculative stage, usually earning profits and paying dividends, or in the mining areas at least at the stage of owning a slab of a decent resource. But these stocks have not yet achieved the vintage, the size or the creditworthiness of a blue-chip. This is the hunting ground for 'growth stocks', since some will become the blue-chips of tomorrow
- Speculatives are usually best ignored by the serious investor and those with little experience in the vagaries of these stocks. Speculative stocks rarely pay a dividend, as they don't have an established business from which to pay one
- Buying speculative stocks for the medium term or trading them can be fun and profitable as long as you are comfortable with the risks and have the right trading instincts

1 Stock Classification

Each company report now shows the stock classifications. Industrial and Resource stocks are classified as either Blue Chip, Second Liner, Small Cap or Speculative. Morningstar emphasises investing your serious investment money in blue-chips and quality second liners.

Do not forget, very importantly, that blue-chips also can be growth stocks – and often are. Or on the other hand that the same second liners can have excellent balance sheets, though they do not have the length of track record or perhaps the size of operation to justify blue-chip status.

With the specs the potential gains can be large but it must be clearly understood you can lose everything you put into specs and often will. This is no place for superannuation money, and remember most newcomers to speculative markets lose money greedily chasing wildly overvalued stocks with no real businesses, just hope about to turn into no hope. It's a place only for money you can afford to lose without losing a wink of sleep.

2 Recommendations

We use a five-point recommendation scale. There are two positive recommendations. In both cases we see upside in the long term share price; the distinction lies in the difference between current price and fair value. 'Buy' means the stock is substantially undervalued. 'Accumulate' means the stock is modestly undervalued. A glance at the recommendation price ranges will tell you how close the share price is to the Buy range. 'Sell' means sell all holdings now and 'Reduce' means sell part of your holding (take profits). 'Hold' means the stock is appropriately priced, so you should neither buy nor sell. Holding a first class stock, such as Commonwealth Bank, over the years is an 'Excellent' strategy. We have never recommended Sell or Reduce on CBA, which over the years has been a great performer. Don't fall into the trap of thinking a Hold recommendation means a stock is unwanted; it just means the stock is currently in our view not an immediate Buy or Sell, but that in the long term we think you will do well.

3 Recommendation Trigger Guide

This graphic instantly conveys our current recommendation and indicates the levels at which we might change our recommendation following a price move. Should the price move through a trigger level we will alter our recommendation accordingly. If there has been a change in fundamentals we will issue a research note to convey our revised view.

4 Risk Ratings

Investors should consider their risk tolerance before investing in the share market. Many investors will decide to have only low risk stocks in their portfolio though others will accept higher risk levels in order to pursue higher returns. We encourage investors to have the main bulk of their portfolio in low to medium risk stocks. Subscribers should look at the Risk Ratings first, before looking at the recommendation, and consider whether the stock suits their risk tolerance.

Business Risk encompasses all operational risk and financial risk. Companies with low business risk have the most reliable earnings streams. A change in business conditions may reduce earnings predictability and therefore increase risk. Examples are market entry of a new competitor, unfavourable shifts in the economy, changes in key management personnel, major investment in an uncertain new venture or acquisition, and increased interest burden caused by higher debt levels or raised interest rates.

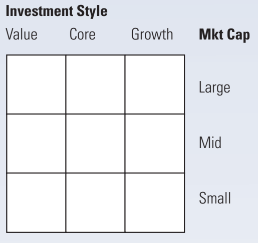
Pricing Risk reflects the premium or discount implied in the current price of the shares. Many growth stocks trade on high earnings multiples giving them high pricing risk though they may have low business risk.

5 Moat Rating

The concept of economic moats is valuable in assessing the quality of a business, with the phrase popularised by Warren Buffett and Charlie Munger. Just as wide moats protected castles from invaders in medieval times, businesses with wide economic moats have strong defences against their profits being competed away.

We ascribe a moat rating to each stock researched: Wide, Narrow or None. The moat is the competitive advantage that one company has over other companies in the same industry. Wide moat firms have unique skills or assets, allowing them to stay ahead of the competition and earn above-average profits for many years. Returns on their

Morningstar Style Box™



Investor Benefits

- Describes securities in terms of their relative size and value-growth orientation
- Provides a powerful, fundamental lens for understanding stocks, funds, and portfolios
- Creates more accurate, stable classifications
- Helps investors construct and monitor diversified portfolios

invested capital will exceed the cost of that capital. Without a moat, highly profitable firms can have their profits competed away. Other companies will see how attractive the market is and try to move in to reap some of the rewards themselves.

Sources of economic moats include innovation skills or first mover advantages, a superior cost position, the ability to provide a range of products to suit the needs of a variety of markets, high switching costs or locking out of competitors.

The moat rating is just one of the ingredients used in determining whether a company is undervalued, though it is obviously an important one. We are not saying that no-moat companies should be avoided. Simply, the very best long term investments are in wide moat firms bought when they are undervalued.

6 Fair Value

Otherwise known as Intrinsic or Underlying Value, Fair Value is the analyst's interpretation of what the stock is worth today. The stock is considered to be undervalued when the quoted price is below this point or overvalued when above it.

Whether to invest in a stock will depend on consideration of the prospective return and the risk undertaken. Prospective return includes both share price moves and dividend yield. Our analysts incorporate the stock's risk in their fair value. Other things being equal, lower risk stocks will have greater fair value than higher risk ones. A stock becomes a Buy when the quoted share price is at a discount to fair value that provides a sufficient prospective return.

7 Morningstar Style Box™

The Morningstar Style Box is a nine-square grid that provides a graphical representation of the 'Investment Style' of stocks and managed funds. For stocks and stock funds, it classifies securities according to market capitalisation (the vertical axis) and growth and value factors (the horizontal axis).

By providing an easy-to-understand visual representation of stock and fund characteristics, the Morningstar Style Box allows for informed comparisons and portfolio construction based on actual holdings, as opposed to assumptions based on a fund's name or how it is marketed. The Style Box also forms the basis for Morningstar's style-based fund categories and market indices.

How It Works

The vertical axis of the Style Box defines three size categories, or market capitalisation bands-small, mid-size, and large. The horizontal axis defines three style categories. Two of these categories, 'value' and 'growth,' are common to both stocks and funds. However, for stocks, the central column of the style box represents the core style (those stocks for which neither value nor growth characteristics dominate); for funds, it represents the blend style (a mixture of growth and value stocks or mostly core stocks).

Horizontal Axis

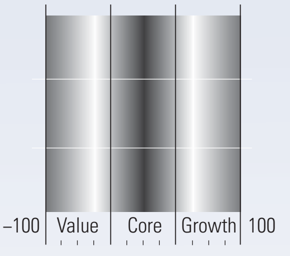
Style Box assignments begin at the individual stock level. Morningstar determines the investment style of each individual stock in the database. Stocks are evaluated against other stocks in the same

Morningstar Style Box™ Methodology

Horizontal Axis: Style	**Value Score Components and Weights**		**Growth Score Components and Weights**	
	Forward-looking measures	**50.0%**	**Forward-looking measures**	**50.0%**
	► Price-to-projected earnings		► Projected earnings growth	
	Historically-based measures	**50.0%**	**Historically-based measures**	**50.0%**
	► Price-to-book	12.5%	► Book value growth	12.5%
	► Price-to-sales	12.5%	► Sales growth	12.5%
	► Price-to-cashflow	12.5%	► Cashflow growth	12.5%
	► Dividend yield	12.5%	► Trailing earnings growth	12.5%
Vertical Axis: Market Capitalisation	► Top 70% of the market	Large Cap		
	► Next 20%	Mid Cap		
	► Next 10%	Small and Micro Cap		

Determining the Style Score

Growth Score	0 to 100
Value Score	0 to 100
Style Score	–100 to 100



geographic area (United States, Latin America, Canada, Europe, Japan, Asia ex-Japan, Australia/New Zealand).

Growth and value characteristics for each individual stock are compared to those of other stocks within the same capitalisation band and are scored from 0 to 100 for both value and growth. To determine the overall style score, the value score is subtracted from the growth score.

The resulting number can range from 100 (for low-yield, extremely growth-oriented stocks) to –100 (high-yield, low-growth stocks). A stock is classified as growth if the net score equals or exceeds the 'growth threshold' (normally about 25 for large-cap stocks). It is deemed value if its score equals or falls below the 'value threshold' (normally about –15 for large-cap stocks). And if the score lies between the two thresholds, the stock is classified as 'core.'

The thresholds between value, core, and growth stocks vary to some degree over time, as the distribution of stock styles changes in the market. However, on average, the three stock styles each account for approximately one third of the total free float in each size category.

Vertical Axis

Rather than a fixed number of 'large cap' or 'small cap' stocks, Morningstar uses a flexible system that isn't adversely affected by overall movements in the market. Large-cap stocks are defined as the group that accounts for the top 70% of the capitalisation of each geographic area; mid-cap stocks represent the next 20%; and small-cap stocks represent the balance.

Moving from Individual Stocks to Funds

A stock fund is an aggregation of individual stocks and its style is determined by the style assignments of the stocks it owns. By plotting all of a fund's stocks on the stock style grid, the range of stock styles included in the fund immediately becomes apparent. An asset-weighted average of the underlying stocks' style and size scores determines a fund's placement in the Style Box.

Using the Style Box

Understanding how different types of stocks behave is crucial for building a diversified, style-controlled portfolio of stocks or managed funds. The Morningstar Style Box helps investors construct portfolios based on the characteristics – the style factors – of all the stocks and funds that portfolio includes.

In general, a growth-oriented portfolio will hold the stocks of companies that the investor believes will increase earnings faster than the rest of the market. A value-oriented portfolio contains mostly stocks the investor thinks are currently undervalued in price and will eventually see their worth recognized by the market. A core portfolio might be a mix of growth stocks and value stocks, or it may contain stocks that exhibit both characteristics.

Sample styles of some well known stocks

	Value	Core	Growth
Large-Cap	AMP (AMP) QBE (QBE) Telstra (TLS)	Brambles (BXB) Rio Tinto (RIO) Toll (TOL)	ASX (ASX) CSL (CSL) Woolworths (WOW)
Mid-Cap	CSR (CSR) Fairfax (FXJ) Tabcorp (TAH)	Boral (BLD) Nufarm (NUF) Perpetual (PPT)	Cochlear (COH) Harvey Norman (HVN) Seek (SEK)
Small-Cap	Boom Logistics (BOL) Crane Group (CRG) Geodynamics (GDY)	Alesco (ALS) Blackmores (BKL) GUD (GUD)	Invocare (IVC) SAI Global (SAI) Webjet (WEB)

8 Annual Share Turnover %

Number of shares traded as a percentage of total shares outstanding over the last 12 months.

9 Return on Equity (ROE)

ROE is an evaluation of profit earned in relation to equity invested (the viewpoint of equity holders). It is calculated by dividing net profit before one-offs by shareholders equity. In the cases where shareholders equity is less than zero, we have set the value of ROE to null. Return on Equity is a key indication of the company's performance as it provides information on how well managers are employing funds invested by the shareholders to generate returns. Long run value of a company can be determined by the relationship between

ROE and the cost of equity capital. ROE is affected by two factors, how profitably the company employs assets and the size of the firm's asset base relative to the shareholder's investment.

10 Net Interest Cover

What's more important than the amount of debt a company has is its ability to pay the interest expense obligations. Net Interest Cover shows how easily a company can pay back its interest costs. It is calculated as earnings before interest and tax divided by interest expense and shows how many times profit exceeds interest. The higher the NIC, the less risky the debt.

11 52 Week High and Low Prices

Shows the high and low prices on a rolling 12-month basis.

12 Share Price Charts

Each chart is designed to show the relative performance of the particular share against the S&P/ASX 200. If the share price trend charted is ABOVE the S&P/ASX 200, it has outperformed, and vice versa.

In order to provide a clear visual comparison of the movements in the two variables on each chart, it was necessary to make them start from the same point and scale. This is called rebasing. In each case the share price was kept the same and a factor was applied to the index to bring them to a common starting point. Additionally, the S&P/ASX 200 was scaled to the stock price. For example, if the first share price 10 years ago was $1.00 and the S&P/ASX 200 Index at that time was 2000 points, all points on the S&P/ASX 200 line would be divided by 2000 and multiplied by $1.00, so that both lines start at the exact same position on the chart. The x axis of the chart lines up with financial year.

The charts should be used with care. It is not normally possible to compare points on the charts with historic share price data. This is because adjustments are made to the historic price series when companies issue new shares which can dilute the existing capital. It is similarly impossible to read off values for the S&P/ASX 200 Index which have been substantially adjusted, as mentioned above.

13 Earnings Table

This is one of the core components of the report and directly supports the recommendation. Look for histories and forecasts for net profit after tax (NPAT), earnings per share (EPS), the percentage change in EPS, dividends per share (DPS), franking, the dividend yield and the price-earnings ratio (P/E). For companies listed for at least five years we include historical compound rates of growth or decline in EPS and DPS. Look also in the earnings table for any trends in EPS and DPS. High historical rates of growth and uptrends in the table are a delight to see! That is after all what equities are all about: rising profits and rising dividends per share. We give you our forecast EPS and DPS for the current year and the next year. These enable you to assess the dividend yield you are likely to receive on purchase and also indicate the upside or downside in the stock. Solid dividend yields, with DPS well covered by EPS, can support your share's price.

14 Investment Rating

This section summarises our view on the stock independent of price. The investment rating tells you the merits or otherwise of the stock commenting on the quality of the business and its suitability for investment depending on your objectives and tolerance for risk. For example we state whether the stock is best for long-term capital growth, for those needing income and thus a high dividend yield now, whether it is speculative or a special situation, and how risky it is. We make it easy for you to distinguish between the merits and characteristics of each investment, just as when you go to a supermarket you can easily distinguish between apples and oranges.

15 Analyst Commentary

The combination of the Recommendation, Key Data and Investment Rating should give you a clear indication of a stock's suitability for your risk profile and investment objectives. The Analyst Commentary gives you greater depth and explains further nuances of its investment merits.