16 August 2012 | Issue 31

MORNINGSTAR®

Huntleys' Your Money Weekly

Playing the waiting game

In the global arena signals remain mixed. Central bankers sit tight. Perhaps Ben Bernanke will let something slip at the annual talk fest in Jackson Hole August 30 – September 1. Draghi is silent. Last week's Chinese economic data disappointed. July exports increased by just 1% over July 2011 and were well below June's growth rate of 11.3%. Imports rose 4.7%, below expectations. Subdued Chinese loan growth also disappointed. Calls for stimulus grow louder, particularly from outside the country. Authorities will wait until a new Premier is elected and then give the economy the required jab.

Equity markets remain calm holding on to solid gains of the previous week. Previously inaction saw markets fall. Bond yields creep higher despite PIMCO's Bill Gross obituary for equities. July US retail sales rose 0.8% from June, well above 0.2% consensus adding to upward momentum in bond yields. German 2Q GDP growth of 0.3% is slightly better than expected. International companies warn investment in Australia may be curtailed due to carbon tax, rising labour costs, low productivity, high dollar and political uncertainty. James Hardie's CEO Louis Gries sums it up best – "everything in Australia is expensive".

Telstra – Generating commission

Broking has been very difficult for a few years now for well publicised reasons. Telstra (TLS) is a big cap widely held stock and a star performer for the past year. The total return exceeded 40% – from below $3.00 to over $4.00 plus 28 cents of lovely fully franked dividends. The FY12 adjusted NPAT of $3.6bn was as expected. FY12 guidance was met on all metrics. FY13 guidance while subdued is considered reasonable with, I believe, a touch of conservatism. Since the FY12 result daily turnover in Telstra shares has jumped from an average 30–35m to over 100m – commission generation.

Some brokers seized on potential negatives including the FY13 capex to sales ratio increasing from 14% to 15% suggesting the FY14 capital management initiatives would be in jeopardy. This is scare mongering at its worst. The lift in the capex/sales ratio reflects the decision to increase the investment in the 4G/Long Term Evolution (LTE) network from a previously announced $700m to $1.2bn. Where is the additional $500m coming from? Capital management put on the back burner – nonsense! At 30 June, Telstra had excess free cash flow of $1.0bn – the top end of $500m–$1.0bn guidance. Additionally proceeds from the sale of Telstra Clear in New Zealand of A$660m will be incremental to the previously expected three-year excess free cash flow of $2–3 billion – subject to NBN roll out schedule and market conditions. Telstra Clear proceeds will fund the additional 4G network expenditure, which is an investment in growth and the future. The decision ensures the gap between Telstra and the competitors is maintained probably widened. After a dividend of 28 cents fully franked in FY13, I look to 31 cents fully franked in FY14 and perhaps a little higher beyond.

The slowing in Mobiles revenue in 2H is also seen as a cause for concern. Hold the phone really! Yes, Mobiles revenue did slow in 2H12 from 10.9% in 1H to 6.2%. FY12 revenue growth was 8.5% but EBITDA jumped 21% with the margin increasing from 33% to 36% and 2H an impressive 39%. In the past four years retail services in operation (SIOs) have increased by 4.45 million or 48% from 9.34m to 13.79m and by 3.2m in the past two years. Network capacity is not infinite – the more SIOs the slower the service. Thanks to Sol Trujillo Telstra has the most efficient mobile network. It has recaptured lost market share with a vengeance – this was a cornerstone of Project New along with the simplification program which delivered benefits of $1.1bn in FY12. Telstra must ensure the mobile 'eco system' is in place – spectrum, network and devices in the market. All must be aligned otherwise the service will deteriorate disappointing subscribers. Vodafone is a prime example of the damage that can be inflicted to customer numbers by poor service. David Thodey and his able management team have put Telstra and its shareholders in a good position. The battles have been fought and won. The rewards are close. Don't be scared out of them. The world environment is still uncertain and sustainable income remains a high priority.

Continued on page 2

Australia's Leading Independent Investment Newsletter Since 1973

Peter Warnes
Head of Equities Research

Overview continued from Page 1

Other research published online
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Code	Company	Rec
ARP	ARB Corp.	Hold
CDD	Cardno	Reduce
DWS	DWS	Hold
EGP	Echo Ent. Group	Hold
GFF	Goodman Fielder	Avoid
HDF	Hastings Div. Util. Fund	Hold
HGG	Henderson Group	Buy
HIL	Hills Holdings	Hold
MBN	Mirabela Nickel	Buy
SGM	Sims Metal Mgmt	Buy
WDC	Westfield Group	Hold
WRT	Westfield Retail Trust	Hold

Key Terms
Buy: Substantially undervalued.
Accumulate: Modestly undervalued.
Hold: Appropriately priced, neither buy nor sell.
Reduce: Sell part holding.
Sell: Sell all holdings now.
Avoid: Not investment grade.

Moat Rating: 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 invested capital will exceed the cost of that capital.

Business Risk and Share price risk: The analyst's opinion of a company's business and share price risk relative to other stocks. Cyclical and speculative companies will be riskier on both counts. Low-risk businesses can be overpriced and high risk businesses can be cheap.

Morningstar Equity Style Box: is a nine-square grid that provides a graphical representation of the "investment style" of stocks. It classifies securities according to market capitalization (the vertical axis) and growth and value factors (the horizontal axis).

Currency Wars – here and now!

As you all know Ian is on well-deserved long service leave although he has had time to send me a summary of a recent currency piece. He and I are different – I can assure you. When I go on long service leave I will be spending currency not reading about it.

James Rickards' *Currency Wars* (Penguin) is well worth reading in the current climate of competing quantitative easing/money printing programs between Europe and the US. Rickards gives a well thought out and simple discussion of the gold standard, and uses that to analyse the issues arising from major economic blocs using their currencies in economic war games.

He also brilliantly applies a form of chaos theory to the huge derivative structures built on top of the modern paper money systems. He argues the problem for the US authorities was that they focused on residential property mortgages, and not the towering inferno of derivatives built around them. He states by late 2011 just $300 billion had been lost in those mortgages but $6 trillion lost in derivatives.

Rickards is credited with correctly foreseeing the naughties decade gold Bull Run, and the mounting problems that led to the 2007–09 global financial crisis. For gold bugs, it is excellent reading in tabulating just what price gold could be in a new age of a gold standard formula. He argues it is not the limited quantity of gold that is the problem which central bankers such as Paul Volcker argue, it is simply the price needs to be far, far higher.

Three further points among many:

1. Keynesian fiscal stimulus does not always work, particularly if an economy is already heavily in debt. For instance Rickards argues the Obama stimulus was to produce 1.3 times every dollar spent in additional GDP but only returned 0.73. It might work better in a low debt situation.
2. Major problems continue to exist – banks "too big to fail" in the US are getting even bigger.
3. Investors actually rate "certainty" higher than academic fiscal theory would suggest.

Early reporting season signs generally positive

The first week of the 2012 reporting season sees surprises – positive and negative. The market appears to have reacted fairly. Positive reports from JB HiFi (JBH), carsales.com (CRZ), Bluescope Steel (BSL), Downer (DOW) and Domino's Pizza (DMP) well rewarded. Disappointing results from UGL (UGL), SAI Global (SAI), GWA Group (GWA) were belted. Commonwealth Bank's (CBA) record result and better than expected final dividend settled the banking sector after National Australia Bank's (NAB) slightly disappointing 3Q trading update. Dividends are paramount and increasingly relevant in the current environment.

Our belief the Teens Bull Market will be launched in 2012 holds. It's a prediction first made in our 15 December 2011 *Forecast 2012* and the cards are falling into place. Patience is required while banking dividend cheques from companies with sustainable earnings in challenging low growth times. Over the long-term income will generate at least half of total shareholder returns. M

Income Portfolio

For those of you following the Income Portfolio, we plan to make a number of transactions this week. For full details, please go to:
www.morningstar.com.au/SpecialReports

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Declaration
Declaration of all equities analysts' personal shareholdings, disclosure list for YMW 31. These positions can change at any time and are not additional recommendations. AAO, ABC, ACG, ACL, ACR, AFI, AGK, AGS, AGX, AKF, ALL, ALS, AMP, ANO, ANP, ANZ, APA, APN, ARD, ARG, ASB, ASZ, ATI, AVX, BEN, BFG, BHP, BKI, BKN, BLY, BND, BNO, BOL, BOQ, BSL, BTU, BWP, BXB, CAB, CBA, CCL, CDD, CGS, CIF, CND, COF, COH, CPA, CPB, CRK, CRZ, CSL, CSS, CTN, DOW, DTE, DUE, EGP, EPX, EQT, ERA, ESV, EVZ, FMG, FXJ, GBG, GFF, GMG, GPT, GWA, HIL, HSN, IAG, IFL, IGR, IIN, ILU, IPD, JMB, KAR, KCN, KEY, KMD, LEG, LEI, LLC, MBN, MCR, MFF, MIO, MPO, MQG, MSB, MTS, MUN, MYR, NAB, NEU, NHC, NMS, NUF, NUP, NVT, NWS, OSH, PBG, PBT, PGM, PMV, PNR, PPT, PRE, PRG, PRY, PTS, QBE, QFX, QUB, RCR, REX, RFE, RHC, RHG, RIO, RKN, RQL, SAKHA, SEK, SFW, SGP, SGT, SHV, SMX, SOL, SRH, SRX, STS, SUN, SVW, SWM, TAH, TCL, TEN, TLS, TOL, TPM, TRF, TRS, TSE, UGL, UXC, WAL, WAM, WBB, WBC, WCB, WDC, WES, WHC, WHG, WOW, WPL, ZGL.

Hybrid Corner

APA Group Subordinated Notes AQHHA

Hybrid | Infrastructure

Recommendation **Subscribe**

Key dates	
Margin announced	16/08/12
Offer opens	17/08/12
Closing date for APA securityholder and general offer	10/09/12
Closing date for broker firm offer	17/09/12
Issue date	18/09/12
Commencement of trading	19/09/12
First interest payment date	31/12/12
First Call Date	31/03/18
Step-up Date	31/03/38
Maturity date	30/09/72

Key terms

- ASX code is expected to be AQHHA.
- Face value: $100 per security.
- Minimum subscription amount: $5000 (50 units).
- Interest rate: 90-day BBSW + margin.
- Indicative margin range: 4.50% to 4.70% p.a. to be set via a bookbuild process.
- Ranking in wind-up: Ahead of APA stapled securities; Equally with other equal ranking obligations (if any); and Behind all other creditors and other classes of securities including all debt currently on issue.

The full version of this article is available at www.morningstar.com.au

Piping hot margin but be comfortable with the risk!
APA Group (APA) using its borrowing entity APT Pipelines Ltd will raise at least $475m via an ASX-listed security issue, APA Group Subordinated Notes (AQHHA). AQHHA are long-dated, unsecured, subordinated debt securities, which rank above APA stapled securities and below other APA debt. The notes mature in 60 years unless the issuer exercises an option to redeem at the first call date in March 2018, on any subsequent interest payment date or following a trigger event. The notes pay quarterly interest based on the 90-day BBSW rate plus a 4.50% p.a. margin. If the notes are not redeemed on the March 2038 step-up date the margin steps up once by 1.00% p.a. Interest payments are cumulative and deferrable but there are no mandatory deferral conditions. Being interest payments they are not franked.

We recommend investors Subscribe and suggest a small portfolio allocation. We remind investors to seek independent professional advice before making an investment decision. AQHHA is similar to the subordinated note issues (CTXHA, ORGHA and AGKHA) of Caltex Australia, Origin Energy and AGL Energy. It is closest to ORGHA given its long dated term and similar first call and step-up terms. We think AQHHA has a similar risk profile to ORGHA and AGKHA but lower than CTXHA. The 4.50% margin looks attractive and is above our fair margin of 4.00%. On a risk-adjusted basis this compares favourably to the margins being paid by CTXHA (4.50%), ORGHA (4.00%) and AGKHA (3.80%).

Apart from the margin, we like AQHHA as it is a pure debt issue with no conversion into equity or mandatory deferral of interest payments. From a risk perspective we would prefer a higher ranking security with mandatory interest payments, a shorter term and a step-up in the margin at the first call date, but this would be offset by a lower margin being offered. Given the treatment of 50% of this issue as equity by some rating agencies, some of our preferred terms may not have been viable. APA is using the proceeds to fund investments in infrastructure assets and the cash component of the proposed acquisition of Hastings Diversified Utilities Fund, if it proceeds.

Potential investors need to appreciate AQHHA is an unsecured, subordinated investment, which ranks just above ordinary equity and is therefore riskier than a bank deposit. Investors should also be aware AQHHA is a floating rate note which reprices quarterly, so interest rate changes will affect interest payments.

APA owns Australia's largest natural gas infrastructure network, constituting mainly gas transmission and distribution, mostly servicing power generation, industrial, and commercial customers. APA has a relatively high degree of secure and stable revenues. It owns significant monopoly-type assets with a large portion of revenues being generated from regulated or contracted assets. On a pro forma basis, in FY11 around 45% of revenues were derived from regulated assets, though some revenues from these assets such as storage, operate under contracts and are not regulated. Around 54% of revenues came from sources subject to light or no regulation. Regulated assets effectively provide APA a guaranteed rate of return on those assets. In the contracted space, 80% of contracts are take or pay. This means clients pay for access to capacity, rather than paying for volume throughput. Take-or-pay contracts provide more earnings stability than volume based contracts. APA has exposure to a growth sector, gas. There are large and increasing gas reserves in Australia and more supply is coming on stream. Demand for gas, both domestic and offshore, is also growing. APA is expanding capacity to capture this growth. APA's reliable and stable revenue stream suits debt investors. As a debt investor, it is preferable for the debt issuer to have cashflows that exhibit a high degree of certainty and stability.

The business carries a large amount of debt, but offsetting this are the relatively stable earnings secured by major monopoly-type assets. The current capital structure is reasonable and sustainable. Leverage is broadly in line with other energy infrastructure owners and should remain fairly stable with the distribution reinvestment plan and retained earnings contributing meaningfully to capex. The capital structure could be too aggressive if another major credit crisis eventuates but APA rode out the last global financial crisis with slightly higher leverage than it has now, though it was helped by asset sales.

Analyst: Ravi Reddy

Commonwealth Bank CBA | $56.05

Banks | Australian and New Zealand Bank

Recommendation **Hold**

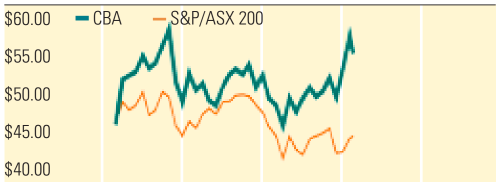
Buy	Accumulate	Hold	Reduce	Sell
$	48.00	56.00	64.00	75.00

Business Risk	**Low**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	60.00
Morningstar Style Box	
Mkt Cap ($ Mil)	89,240
Last Review	12/07/12 (YMW26)
Ann. Share Turnover (%)	69.6
ROE-FY12 (%)	18.6
Net Interest Cover (x)	na
52 Week Hi/Low ($)	58.05/42.30
Ex-Dividend	20/08/2012
Payable	05/10/2012

Compound Growth	5Yr	10Yr
EPS %	8.4	8.5
DPS %	7.4	8.9

Investment Rating

CBA is one of Australia's four major banks providing a wide-range of banking and financial services in Australia, New Zealand and Asia. It has a powerful retail and business banking franchise in the first two. Modern technology, an extensive branch network and a universally recognised brand are significant competitive advantages but interest margins remain vulnerable to price competition. The loan book is mostly conservatively managed. Current management is top-rated, and impressive new CEO, Ian Narev, is quickly building a strong reputation in banking. The bank has consistently grown shareholder wealth in favourable economies and is suitable for lower-risk investors seeking long-term income and growth.



	6/10(a)	6/11(a)	6/12(a)	6/13(e)	6/14(e)
NPAT ($m)	5964.0	6793.0	7071.0	7415.0	7923.0
EPS (c)	390.6	438.8	449.5	463.1	485.2
EPS % Chg	29.2	12.3	2.4	3.0	4.8
DPS (c)	290.0	320.0	334.0	343.0	359.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	5.6	6.3	6.8	6.1	6.4
P/E	13.2	11.7	10.9	12.1	11.6

FY12 Result: Earnings inline but higher dividend surprises

Above/Below Expectations ← Fair Value Up/Down ←

The record result contained no major surprises and we retain our positive view on the narrow moat bank. The painless transition to new CEO Ian Narev is a real standout and bodes well for the future. FY12 cash NPAT of $7.1bn (after $42m in hybrid distributions) is up 4% on FY11 and inline with our forecast. Cash EPS of $4.49 increased at a slower 2% due to the 1.7% increase in share count. The $1.97ps fully franked final dividend surprised and is above our $1.90ps estimate. Full year dividend is a record $3.34ps fully franked representing a 75% pay out. Earnings are supported by moderate loan growth (up 5%), strong customer deposit growth (up 8%), better than expected bad debts (down 15%) and solid cost control (up 3%). Divisional composition was strong with all divisions except Wealth Management increasing earnings. Business Banking, Institutional Banking and Bankwest all delivered impressive results.

The stock price continues to outperform major bank peers and is close to recent share price highs. We retain our $60 fair value and at prices above $56 we retain our Hold recommendation. Despite the strong increase in share price CBA remains our preferred major bank, due to its lower risk profile and steady consistent earnings profile. We trim our FY13 NPAT forecasts, but increase our dividend due to an increase in the forecast payout from 71% to 74%. Our FY13 dividend increases from $3.38 to $3.43 per share representing a one year forward dividend yield of 6.1% fully franked.

Negatives are lower net interest margins (down 3bps) due to increased funding pressure. Return on equity (ROE) eased 90bps from 19.5% to 18.6% due to the expanding capital base. CBA's bad debt expense to total loans is sector leading at a low 21bps with a $1.1bn bad debt charge in FY12. The $202m decline in the economic overlay provision assisted the bad debt performance and the remaining provision stands at $847m at June 2012. Lower than expected home loan arrears dispel concerns of an impending blow-out in bad debts. Housing bears will have to remain in hibernation a little longer, waiting in vain for the long anticipated collapse in house prices. CBA again demonstrates the strength of its $350bn mortgage book and at this stage there are no material signs of mortgage stress for Australia's biggest mortgage lender. Mortgage quality continue to improve. The bank remains well placed to transition to new Basel III capital regime in January 2013.

Net interest margins fell 3bp over the year from 2.12% to 2.09% due to higher wholesale and deposit funding costs and extra liquid asset holdings. This was partly offset by an improvement in loan book profitability due changes in the mix. Deposit funding jumped from 61% to a new high of 62% of total funding reducing reliance on wholesale funding. The growth in customer deposits did not deliver additional margin due to the higher relative rates paid to depositors despite the falling interest rate environment.

Capital is under control even allowing for the soon to start tougher Basel III regulatory changes. The downside of increasing capital levels is pressure on ROE's and we saw CBA's sector leading ROE suffer from a 90bp fall to 18.6%. High absolute profitability, moderate loan growth and DRP take-up combine to boost capital levels enabling an increase in the dividend payout from 73% to 75%. Our long argued thesis of increasing dividends is unfolding and will continue across the sector absent a major economic slowdown in Australia. Assuming a steady economic environment and ongoing moderate profit growth, the major banks will actively pursue capital management strategies, and we argue increased fully franked dividends are most attractive for their predominately domestic retail shareholder base. M

Analyst: David Ellis

National Aust. Bank NAB | $24.26

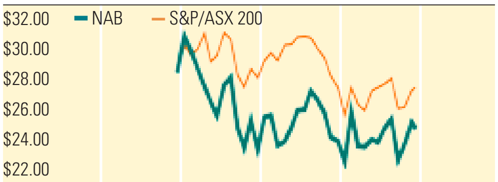
Banks | International Banks

Recommendation **Accumulate**

Buy	**Accumulate**	Hold	Reduce	Sell
$	22.00	28.00	34.00	42.00

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	31.00
Morningstar Style Box	
Mkt Cap ($ Mil)	55,147
Last Review	09/08/12 (YMW30)
Ann. Share Turnover (%)	73.4
ROE-FY11 (%)	15.2
Net Interest Cover (x)	na
52 Week Hi/Low ($)	26.56/20.92
Ex-Dividend	31/05/2012
Payable	16/07/2012

Compound Growth	5Yr	10Yr
EPS %	-0.7	0.7
DPS %	0.6	1.8



	09/09(a)	09/10(a)	09/11(a)	09/12(e)	09/13(e)
NPAT ($m)	3841.0	4581.0	5460.0	5701.0	6207.0
EPS (c)	199.8	211.1	245.1	250.3	286.6
EPS % Chg	-27.7	5.7	16.1	2.1	14.5
DPS (c)	146.0	152.0	172.0	180.0	191.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	6.6	5.8	7.0	7.4	7.9
P/E	11.1	12.5	10.1	9.7	8.5

Investment Rating

NAB is one of Australia's four major banks. At long last, the bank is stringing together consistently improving and quality results as senior management erase the disappointments of the past. NAB embraced a wide range of strategic initiatives to deliver above-system revenue and volume growth, a sustainable cost base and a focus on ROE with disciplined capital management. The final exit from the off-balance sheet conduit credit exposures is a relief and reduces the risk profile of the bank. Re-established management credibility is rebuilding investor confidence and increasing the likelihood the share price will recover from the long period of relative underperformance. The traditional focus is business banking and the group is well placed to leverage its strong market position and client relationships to take advantage of the pent-up demand for business credit.

Softer than expected 3Q12 Trading update reduces earnings forecast

Above/Below Expectations ↓ Fair Value Up/Down ↓

Unaudited 3Q12 earnings of $1.4bn are 6% below our $1.5bn expectation. Quarterly profits are in line with 3Q11, but 1% lower than 2Q12 despite solid loan and deposit growth in the Australian franchise. No reference was made to specific group net interest margins, but higher funding costs hurt UK margins. Markets income was lower along with a decline in Specialised Group Assets (SGA) revenue, while Personal Banking revenue increased strongly. Importantly, bad debts of $524m for the quarter are inline with our expectations and we see no need to adjust our full-year FY12 bad debt forecast of $2.2bn.

Personal Banking and Business Banking in Australia continue to build momentum, but again the underperforming UK banking operations weigh on the group result. Asset quality is stable and core Tier 1 capital ratios are effectively unchanged. Limited detail in the trading update makes it difficult to fully gauge underlying performance but key earnings drivers point to solid future earnings growth.

Our net interest margin forecast for FY12 of 2.20% looks too aggressive and we reduce our target to 2.15%. Our full year bad debt expense to total loans forecast of 44bps remains intact. We reduce our FY12 NPAT forecast from $5.85bn to $5.70bn and cut our fair value estimate from $32 to $31. We argue NAB is an attractive investment, despite higher risks. We see positive momentum on a series of key earnings drivers across the group – leverage to increasing business credit growth, strong retail banking performance, increasing customer satisfaction levels and the cheapest valuation of major bank peers. Our forecast FY13 fully franked dividend yield is 7.9%, a price to book ratio of 1.2x and price to earnings ratio of 8.5x. The UK banking operations are the most significant risk item for earnings and asset quality, but appear manageable.

The medium term outlook for earnings growth and improved operating efficiency underscores the competitive strengths and despite volatile quarterly performance we retain our positive view. We argue management is successfully executing strategy and dividends will grow due to high profitability and an increasingly strong capital position. NAB's outlook commentary highlighted challenging global banking conditions – no surprises here, but we anticipate a reasonably positive outcome for NAB's Australian businesses. Due to its high exposure to the business lending, NAB provides a good leading indicator to where our economy is heading, and we see strong grounds for steady and moderate economic growth. Demand for business credit is slowly picking up, but it is still too early to call "all clear" after several false starts.

The trading update outlines solid progress on strategic objectives, but delivered lower than expected top line revenue growth. Despite the negative stock price reaction the underlying performance remains robust, after adjusting for prior period SGA mark-to-market gains and higher comparatives on volatile Markets income. Loan growth, solid credit quality and cost control support our strong medium term growth outlook. Cost control again is very good with our FY12 forecast of a 43% cost to income ratio very achievable. NAB will still rank behind sector leader WBC at 41%. Volume growth is good with market share gains in both loans and deposits.

Customer net interest margins are flat compared to 2Q12, but group margins are down slightly. Strong growth in lower margin mortgages in Personal Banking continues to affect the loan mix, exerting pressure on margins. Asset re-pricing is lagging higher funding costs, but the recent out of cycle repricing to one third of the business loan book will produce a positive $60m benefit in 4Q12 and roll through into FY13. We forecast a medium to longer term dividend payout of 71%, so there is potential upside to our dividend forecasts.

Analyst: David Ellis

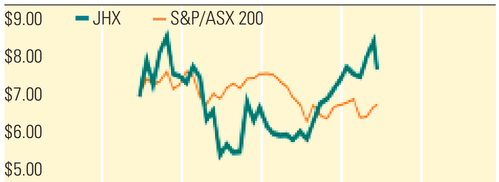
James Hardie JHX | $7.72

Blue Chip Industrial | International Building Materials

Recommendation **Hold**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	8.00
Morningstar Style Box	
Mkt Cap ($ Mil)	3,381
Last Review	24/05/12 (YMW19)
Ann. Share Turnover (%)	104.9
ROE-FY12 (%)	21.7
Net Interest Cover (x)	25.1
52 Week Hi/Low ($)	8.60/5.17
Ex-Dividend	25/06/2012
Payable	23/07/2012

Compound Growth	5Yr	10Yr
EPS %	-3.8	3.5
DPS %	na	na



	03/10(a)	03/11(a)	03/12(a)	03/13(e)	03/14(e)
NPAT ($m)	156.3	122.8	133.7	184.2	217.9
EPS (c)	36.1	28.1	30.5	38.0	50.7
EPS % Chg	28.5	-22.2	8.5	24.6	33.4
DPS (c)	0.0	0.0	40.0	15.0	21.0
Franking%	0.0	0.0	0.0	0.0	0.0
Div Yield%	na	na	6.4	1.9	2.7
P/E	17.9	22.6	20.5	20.3	15.2

Investment Rating

JHX has an excellent business model and a clear technology advantage over its competitors. This combination drives strong relative out performance compared with its peer group. The US market share continues to grow - although the current housing contraction impacts near term demand - as JHX products penetrate existing and emerging markets with traditional exterior products and increase market share in interior products. An increasing range of higher value-added differentiated products sets JHX apart from its competitors. Fundamentally JHX is an attractive investment proposition. The issues related to future asbestos-related claims and their long term funding are recognised in our valuation and price trigger levels.

The full version of this article is available at www.morningstar.com.au

FY13 guidance disappoints – Better times on horizon

Above/Below Expectations | Fair Value Up/Down

Despite an 11% lift in 1Q13 NPAT excluding asbestos, ASIC expenses and tax adjustments from US$39.4m to US$43.8m the composition and full year guidance disappointed. The 4% depreciation of the A$ hurt the group NPAT by US$0.7m on translation of Asia Pacific earnings. Management tends to be conservative, looking to over deliver but despite improving signs in the US housing market guidance is restrained. The result included a US$5.5m foreign exchange gain related to the repayment of an A$ intercompany loan.

FY13 NPAT guidance is US$140–160m based on a US$/A$ average exchange rate of 1.01. This is well below our US$175m estimate. We trim to US$164m, still confident of over delivery. But we lift the US$/A$ exchange rate from 0.95 to parity which sees A$ NPAT fall from A$184.2m to A$164m. Our FY14 forecast trims from US$224m to US$207 and in A$ from A$235.8m to A$217.9m. Fair value in unchanged at A$8.00. Our thesis and narrow moat are unchanged.

US & Europe Fibre Cement

Net sales jumped 15% from US$219.8m to US$252.0m driven by a 17% lift in volumes from 332.4 to 388.1million square feet (mmsf) offset marginally by a 2% fall in average net sales price from US$661 to US$649 per thousand square feet (msf). The fall in average price reflects negative product mix – a larger proportion of sales (Cemplank) made to the higher volume price sensitive multi-family, starter home and move-up single family segments. 1Q13 average sales price was a 3% increase on 4Q12. For FY13 management sees average price movement plus/minus 2%. Despite a 23% jump in single family starts from the June 2011 quarter the US housing market is still tentative. Once total housing starts climb above 800,000 and inventory levels reduce more robust pricing should return with positive action on margin. EBIT increased 5% from US$48.0m to US$50.3m with the margin contracting from 21.8% to 20.0%. Higher volumes and lower input prices – mainly pulp – and lower freight costs were partially offset by lower average prices and higher fixed manufacturing and organisational costs. Increases in organisational costs were flagged at the FY12 presentation to support strategic market and business initiatives aimed to getting capacity ahead of demand. This is an insurance policy, the associated costs the premium.

Asia Pacific Fibre Cement

Australian new housing approvals fell 11% in the June quarter against June quarter 2011. Despite this the Australian business delivered a "solid operating performance". New Zealand is not great and the Philippines contribution was solid. Net sales fell 7% from US$93.8m to US$87.7m reflecting a 5% unfavourable currency movement. In A$ net sales fell 2% due to a 3% decline in volumes from 97.8 to 95.1mmsf offset by a 1% lift in average sales price from A$903 to A$913 per msf. EBIT fell 16% from US$21.1m to US$17.7m and down 12% in A$ affected by lower volumes and associated higher fixed unit costs, an unfavourable geographic mix and higher expenses related to feasibility studies for anticipated capacity expansion. Margin contracted from 22.5% to 20.3% and is a good result in the circumstances. No competitor in the building materials space can currently boast an EBIT margin anywhere near 20%.

Financial comments

R & D spend increased 20% to US$8.4m – US$5.5m absorbed at the group level and US$2.9m at the business unit level. Capex increased 24% from US$12.0m to US$14.9m. Net operating cash flow lifted sharply from US$22.0m to US$49.6m with 1Q12 affected by a one-off payment. 1Q13 cash flow will be affected by the 2 July US$45.4m contribution to AICF. Net cash at 30 June was US$297.6m with no debt. Since balance date this has reduced to US$85m following a US$166.4m dividend and a US$45.4m payment to AIFC. A new share buyback program to acquire up to 5% of issued capital is in place. We suspect a share price nearer $7.50 will see it activated.

Analyst: Peter Warnes

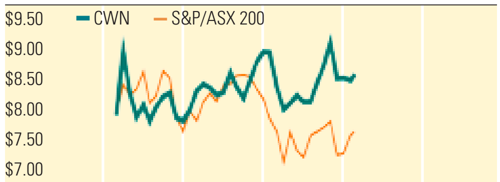
Crown CWN | $8.60

Blue Chip Industrial | Blue Chip Industrial

Recommendation **Accumulate**

Business Risk	**High**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	10.50
Morningstar Style Box	
Mkt Cap ($ Mil)	6,264
Last Review	08/03/12 (YMW09)
Ann. Share Turnover (%)	62.6
ROE-FY12 (%)	9.0
Net Interest Cover (x)	5.8
52 Week Hi/Low ($)	9.29/7.47
Ex-Dividend	24/09/2012
Payable	12/10/2012

Compound Growth	5Yr	10Yr
EPS %	na	na
DPS %	na	na



	6/10A	6/11a	6/12a	6/13E	6/14e
NPAT ($m)	287.8	340.5	414.9	438.9	506.6
EPS (c)	38.0	44.9	56.4	60.3	69.6
EPS % Chg	85.8	18.3	25.7	6.8	15.4
DPS (c)	37.0	37.0	37.0	37.0	37.0
Franking%	60.0	55.0	50.0	50.0	50.0
Div Yield%	4.3	4.3	4.3	4.3	4.3
P/E	22.7	19.2	15.2	14.3	12.4

Investment Rating

Crown Ltd has robust cash flows from the core Australian casinos. CWN has invested over $1bn in the 33% JV with Melco-Crown (MPEL) developing Macau casinos, which give longer-term but volatile upside. Other overseas investments failed and are largely written off. The balance sheet is clean and under-geared after the March 2009 $340m capital raising. The higher risk profile means more conservative investors may prefer alternative investments. Competitive advantages include local gaming management expertise and near monopolies in Perth and Melbourne.

Solid result with more spending ahead

Above/Below Expectations ← Fair Value Up/Down ←

FY12 NPAT was solid and in line with expectations. Normalised, or luck adjusted NPAT increased 22% to $415 million. Softness in VIP revenue at Crown Melbourne in 2H was offset by stronger contribution from Burswood. VIP gaming at both venues benefited from favourable win rates. VIP win rates at Melbourne and Burswood were 1.5% and 1.84% respectively, compared to a theoretical win rate of 1.35%. As such, actual EBITDA for the group increased 25.8% to $801.3 million while normalised EBITDA grew at a slower pace, lifting 8.6% to $722 million. Normalised margins dipped 100 bps to 28% on higher gaming taxes and costs at Melbourne. We expect costs to fall as refurbishments complete and operations at recently reopened gaming floors ramp up. Final dividend of 19cps takes total FY12 dividends to 37cps, in line with last year. Franking was slightly lower than expected at 50%.

No change to fair value of $10.50. Recommendation is downgraded from Buy to Accumulate as our price triggers are aligned to the high business risk rating. Our FY13 EPS is revised 5.8% lower on higher interest costs. No guidance was provided but management noted the first five weeks of FY13 were in line with expectations. Refurbishments at both properties will continue with $1 billion of capital expenditure expected over the next three years. This includes the recently announced Crown Tower hotel project at Burswood. For VIP gaming, management remains positive on the facilities and offerings against casinos in Singapore and Macau. Crown aims to source players willing to stay for a short period. Crown's properties are not immune to a slow-down in the Chinese economy. Further pullback in the Chinese economy could hurt gaming revenue, as seen in Singapore and Macau.

VIP gaming at Melbourne benefited from a favourable win rate with EBITDA increasing 10.4% to $564.2 million. Normalised EBITDA grew 1% $510.6 million. VIP volume fell 5.2% in 2H attributable to the slowdown in the Chinese economy. On a full year basis, VIP volume grew 15% to $35.6 billion. Management also cited some softening on the main floor gaming and non-gaming operations in 2H. Non-gaming revenue increased 1.9% to $372.1 million and was affected by refurbishment activity. Main gaming floor revenue remains supportive, increasing 6.6% to $991.9 million. We expect growth to continue as renovations on the main gaming floor are completed over the next year.

Revenue at Burswood grew 12.1% to $785.1m. VIP gaming exceeded our expectations with volume increasing 32.1% to $11.4 billion and revenue growing 32.1% to $154.3 million. This was partly attributable to new accommodation facilities opened in January this year. Non-gaming revenue was the other highlight, benefitting from favourable trading at the hotel and theatre. Main gaming floor revenue was strong in2H, increasing 8% compared to 5.1% in 1H. We expect growth to gather momentum through FY13, as new gaming products are rolled out from September.

Melco-Crown MPEL 2Q results was weaker than expected, mainly due to the VIP business. Mass gaming remains supportive with revenue growth of 30.3%. Our valuation already assumes a slowdown in 2012.

The balance sheet is in reasonable shape. Net debt to EBITDA increased from 1.6x to 2.3x and is expected to stay at elevated levels over the next three years. Bank debt stands at $800 million with $350 million to be refinanced in FY14/15. Positively, Crown issued $300 million in medium term notes which will contribute to the refinancing. It is also in the process of issuing $400m of subordinated notes.

Analyst: Michael Wu

Wesfarmers WES | $32.49

Blue Chip Industrial | Diversified Industrial Group

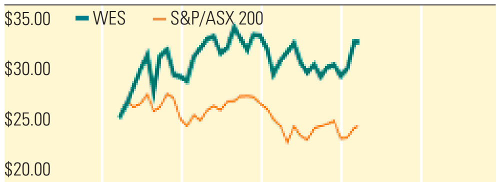
Recommendation **Hold**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	35.00
Morningstar Style Box	
Mkt Cap ($ Mil)	32,702
Last Review	26/07/12 (YMW28)
Ann. Share Turnover (%)	56.1
ROE-FY12 (%)	8.3
Net Interest Cover (x)	7.0
52 Week Hi/Low ($)	33.38/28.25
Ex-Dividend	21/08/2012
Payable	28/09/2012

Compound Growth	5Yr	10Yr
EPS %	-2.0	8.2
DPS %	-3.3	5.5

Investment Rating

WES is one of the major Australian corporate success stories. From a collection of basically unrelated operations WES created an efficient cash generating machine. The global financial crisis and the unrelenting focus on debt levels significantly impacted the market capitalisation. In more normal times a premium multiple was accorded due to the combination of strong cash flow generation, solid NPAT growth and a focus on the creation of shareholder wealth over the long term. The acquisition of Coles Group has the potential to underwrite solid earnings growth over the next decade. WES is for patient long-term growth and income investors.



	6/10(a)	6/11(e)	6/12(e)	6/13(e)	6/14(e)
NPAT ($m)	1702.0	1922.0	2126.0	2470.0	2728.0
EPS (c)	147.4	166.1	183.8	213.5	235.8
EPS % Chg	-13.6	12.7	10.7	16.2	10.4
DPS (c)	125.0	150.0	165.0	190.0	210.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	4.4	4.6	5.1	5.8	6.5
P/E	19.2	19.6	17.7	15.2	13.8

Conservative FY12 profit – Growth outlook promising

Above/Below Expectations ↓ Fair Value Up/Down ←

FY12 reported NPAT of $2.126bn is shy of our $2.172bn estimate. It is a conservative number as it includes a $40m restructuring provision in Target and is after a $108m increase in reserves in the Insurance division for the February Christchurch earthquake. Divisional composition did not vary meaningfully from our expectations with the exception of a better result from Kmart and Chemicals, Energy & Fertilisers. Bunnings was slightly lower as 2H margins eased. A 10.6% lift in a 'conservative' NPAT is testament to the management of this highly successful conglomerate which provides a great deal of comfort to shareholders. WES is about creating value for all stakeholders. Solid strategic plans are in place across the group to ensure continued earnings and dividend growth. Our investment thesis is unchanged and narrow moat rating is reinforced.

Final dividend of 95¢ per share fully franked was as expected – an 11.8% lift on 2H11 and driving a 10% increase in full year dividend to $1.65 per share. The DRP is in operation with no discount. Shares issued under the DRP will be purchased on-market ensuring no dilution to EPS. EPS increased 10.6% to 183.8¢ with the payout ratio at 90%. An excellent balance sheet and strong cash flow generation should allow a payout ratio between 85–90% in future years. Operating cash flow increased 25% to $3.6bn and free cash flow jumped 41% to $1.47bn. Capex – the investment in the future – increased $500m to $2.67bn with $1.22bn at Coles, $587m Bunnings and $392m in Resources. Net capex including asset disposals was $2.35bn. Gearing stands at a conservative 17% despite net debt increasing $393m.

The challenge is to lift the return on equity (ROE) which improved from 7.6% to 8.3% to firstly 10% and then to a longer term target of at least 15%. The inflated equity base is a legacy issue after two substantial equity issues post the GFC relating to the funding of the Coles acquisition.

Retail operations anchor the group. Total retail sales increased 4.7% to $50.05bn while EBIT rose 10.3% to $2.794bn. They represented 86% of group sales and 79% of group EBIT. These percentages will ease in FY13 as revenue and EBIT from the Resources division lift at an expected faster rate.

The outlook statement is quite upbeat despite the expectation subdued retail conditions will continue through FY13. The retail businesses are well placed to capture an increasing share of the consumer dollar. Significant investment in supermarkets and home improvement to expand store networks and upgrade via refurbishment continues to be rewarded by increasing foot traffic, basket size and customer satisfaction. This drives volume growth which is leveraged by an increasingly efficient supply chain from sourcing to shelf, resulting in margin expansion. Momentum at Coles is expected to be continue albeit slowing as the sales base lifts. Margin improvement should continue after breaking new ground above 5% in 2H. Similarly Kmart should enjoy another positive year while Target progresses through the transformation plan. Bunnings strong performance is expected to continue despite the expansion of Masters. Insurance contribution should lift substantially in the absence of catastrophes. Higher production at Curragh and Bengalla should drive higher earnings despite lower export coal prices and the high A$. Industrial& Safety and Chemicals, Energy & Fertilisers are both expected to benefit from higher demand from their respective diversified customer bases.

We retain our FY13 NPAT estimate of $2.47bn and anticipate a continuation of double digit earnings growth in FY14. Retail operations will provide a solid platform for growth as the consumer becomes more active following extended deleveraging. Coles will anchor retail while a transformed target will complement the resurgent Kmart operations. Bunnings position is not expected to be affected by Masters with further good growth anticipated. Resources performance will depend on production rates and export coal prices which we believe will be supportive to moderately improved earnings. Industrial & Safety and Chemicals, Energy & Fertilisers are an excellent barometer of the health of the Australian industrial and resources sectors. We anticipate both divisions will achieve better results. Insurance operations should benefit from increasing premium income and hopefully fewer catastrophes. Our FY14 NPAT forecast is $2.73bn with EPS of 235.8¢ and DPS of 210¢. Fair value is unchanged at $35.00.

Analyst: Peter Warnes

The full version of this article is available at www.morningstar.com.au

Goodman Group GMG | $3.93

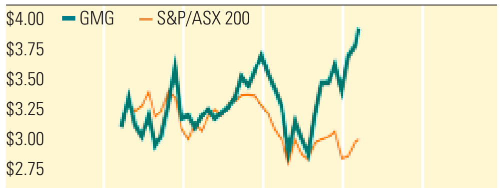
Property | Global Diversified Property Group

Recommendation **Hold**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	3.85
Morningstar Style Box	
Mkt Cap ($ Mil)	6,308
Last Review	28/06/12 (YMW24)
Ann. Share Turnover (%)	97.4

Investment Rating

GMG is a stapled security comprising a unit in the trust and a share in the management company. GMG has three inter-linked property businesses – ownership, development and management. Each is based on industrial, warehouse and business park property, with assets in Australia, New Zealand, Europe and Asia. GMG is an active recycler of capital, developing buildings for its ownership or management, generating fees at each stage of the recycling process. Earnings are well-grounded in relatively safe, annuity-style, steady growth revenue from investment property and funds management. GMG should only be considered by income investors willing to bear medium capital risk in the short-term.



	6/10(a)	6/11(a)	6/12(a)	6/13(e)	6/14(e)
NPAT	310.0	383.9	463.4	530.8	558.5
EPS	27.5	28.9	28.6	32.7	34.4
EPS % Chg	-62.0	5.1	-1.0	14.3	5.2
DPS	17.0	17.5	18.0	19.0	20.0
Franking%	0.0	0.0	0.0	0.0	0.0
Div Yield%	5.7	5.2	5.5	4.8	5.1
P/E	10.9	11.6	11.4	12.0	11.4

Strong outlook statement surprises to the upside

Above/Below Expectations Fair Value Up/Down

FY12 operating profit was up by 21% to $463m and in line with recent guidance. Reported profit was up 4.2% to $408.3m, reflecting mark-to-market of derivatives and $89m in impairment losses, predominantly related to the UK. The highlight was guidance for 13% growth in FY13 operating profit to $524m, which is ahead of our forecast of $509m. The strong outlook statement is underpinned by 12% growth in assets under management (AUM) to $16.1bn and a new development business to replace the Interlink project which completed in early 2012.

We upgrade our FY13 forecast operating earnings from $509m to $531m. We also upgrade our outer-year earnings based on higher growth trajectory in development activity and faster growth in AUM. Fair value estimate increases modestly to $3.85 and retain our Hold recommendation to $4.20.

The performance of the core investment portfolio was solid, with occupancy maintained at 96%, average lease term of 5.2 years. Like-for-like rental growth was respectable at 2.8%, but not outstanding. We expect rental growth to average 2.5–2.8% over the medium term, with soft conditions in Europe a dampener. GMG is planning to sell down much of its UK exposure to fund $490m equity contributions over the next four to five years, representing GMG's 55% share in the newly established Goodman North American Partnership. Given the weak state of the UK market, it is likely GMG will be reluctant to offload assets in the depressed UK market and will utilise alternate equity sources.

GMG guided for development work in progress (WIP) to remain around $1.9bn for FY13, but expects this to grow in the medium term to approximately $2.5bn. Understandably, GMG's core markets of UK and Europe are likely to remain weak for the foreseeable future. In this context, GMG's expansion in newer markets of USA and China will provide much of the upside to development. The group is also working on establishing a foothold in the Brazilian market, which would open up a new revenue channel.

GMG has established relationships with at least five major institutional investors and we expect management to leverage these relationships in future. With an expanding global platform and strong reputation, GMG is well positioned to use third party equity to fund its development pipeline and grow assets under management.

Analyst: Tony Sherlock

BWP Trust BWP | $1.93

Property | Bulky Goods AREIT

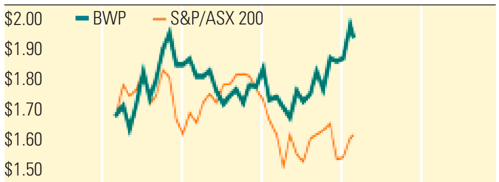
Recommendation **Hold**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	1.90
Morningstar Style Box	
Mkt Cap ($ Mil)	1,011
Last Review	12/04/12 (YMW13)
Ann. Share Turnover (%)	38.0
ROE-FY12 (%)	7.2
Net Interest Cover (x)	4.4
52 Week Hi/Low ($)	1.62/1.56
Ex-Dividend	25/06/2012
Payable	29/08/2012

Compound Growth	5Yr	10Yr
EPS %	na	na
DPS %	na	na

Investment Rating

BWP is the only A-REIT to offer exposure solely to the Australian bulky goods retail sector. Income is secured by long leases to Bunnings and other tenants. Income grows through annual inflation-linked, fixed and open market rent reviews. Capitalisation rates look to be stabilising, allowing moderate capital growth in coming years as rents rise. Portfolio balancing acquisitions in NSW and Queensland may add to growth. BWP is recommended for risk-averse investors seeking income with modest capital growth. Wesfarmers has a 23.3% stake.



	06/10(a)	06/11(a)	06/12(a)	06/13(e)	06/14(e)
NPAT ($m)	50.4	56.2	70.5	74.5	77.1
EPS (c)	11.9	12.4	13.5	14.1	14.4
EPS % Chg	-6.3	4.2	8.9	4.4	2.1
DPS (c)	34.0	12.0	13.5	14.1	14.4
Franking%	0.0	0.0	0.0	0.0	0.0
Div Yield%	19.2	6.7	7.7	7.3	7.5
P/E	14.9	14.4	13.1	13.7	13.4

Good FY12, slowing growth

Above/Below Expectations   Fair Value Up/Down

Another solid performance in FY12 with underlying distributable profit increasing 26% to $70.5m, slightly ahead of expectations. Full year distributions were 13.5cpu plus a 1.17cpu special distribution relating to a property sale. Revenue increased 20% to $102.1m mainly on acquisitions and property upgrades. Robust like-for-like rental income growth of 3.7% also helped. While interest expense rose due to debt-funded acquisitions, average interest rate fell, boosting profit growth.

Rent growth was solid thanks to an average 3.4% increase on CPI-linked leases, which cover most assets, contributing 75% of FY12 rental income. Fixed increases averaged 3.1%, impacting leases contributing 16% of income, and market reviews over 9% of income achieved an average rental increase of 6.7%. Most leases increase by CPI each year then have market rent reviews every fifth year. As such, market rent reviews can be relatively large as rents catch up to market rates.

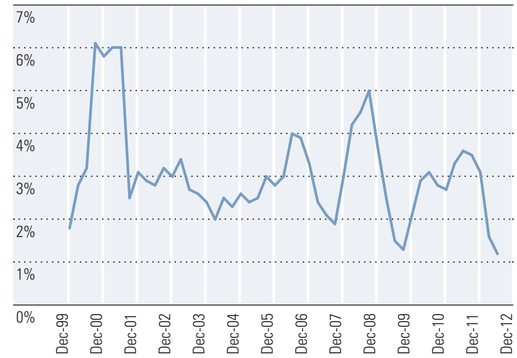
Recent acquisitions increase exposure to fixed rent reviews which should contribute around 21% of FY13 rental income. CPI-linked leases remain the largest contributors at 67% of income and, unfortunately, the recent slowing of CPI to just 1.2% in the June quarter 2012 will impede near-term rental growth though recent acquisitions and developments are positive for FY13. Further acquisitions are likely with BWP seeking Bunnings Warehouses or other bulky goods stores meeting its criteria. Focus is also on upgrading existing properties. No earnings guidance was given, in line with BWP's standard practice. Near-term forecasts adjust but our fair value estimate is unchanged. We continue to like BWP's defensive earnings and reasonable longer term growth prospects.

Net tangible asset (NTA) backing was $1.85, down 2 cents from December due to the special distribution and losses on hedges caused by falling interest rates. Around 66% of debt is hedged with average maturity of 4.05 years. Property values were flat over the year with higher rent offsetting higher cap rates. Cap rates increased to 7.91% from 7.65% last June, relating to more conservative valuation assumptions after vacancy risk emerged with Bunnings likely to vacate two properties when leases expire in coming years. We think vacancy risk remains low. Occupancy is 100% and weighted average lease expiry is 7.7 years. Almost 95% of income comes from the highly successful Bunnings chain.

Balance sheet is in good shape with conservative gearing of 21.6%, up marginally but still towards the bottom of the 20–30% target. Covenant gearing increased to 22.8%, well below the 45% covenant limit. Debt maturity profile is good after the recent refinancing with a 3.8 year average tenor. The next debt maturity is January 2014. Other facilities mature December 2016/January 2017 and have ample undrawn capacity to refinance this debt or make acquisitions. Focus is on capital management with BWP hoping to diversify its debt funding mix by issuing longer-term notes. Currently all debt is sourced from banks. M

Analyst: Adrian Atkins

Australian Quarterly CPI



Source: ABS/Morningstar Analysts

GPT Group GPT | $3.52

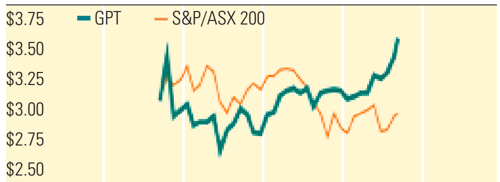
Property | Global Diversified REIT

Recommendation **Hold**

Buy	Accumulate	Hold	Reduce	Sell
$ 2.45	3.15	3.85	4.70	

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	3.50
Morningstar Style Box	
Mkt Cap ($ Mil)	6,219
Last Review	08/09/11 (YMW34)
Ann. Share Turnover (%)	88.6
ROE-FY11 (%)	6.4
Net Interest Cover (x)	4.9
52 Week Hi/Low ($)	3.57/2.88
Ex-Dividend	18/08/2012
Payable	07/09/2012

Compound Growth	5Yr	10Yr
EPS %	na	na
DPS %	na	na



	12/09(a)	12/10(a)	12/11(a)	12/12(e)	12/13(e)
NPAT ($m)	276.9	410.0	438.8	452.2	473.4
EPS (c)	22.1	23.8	26.2	27.5	28.6
EPS % Chg	6.4	7.7	10.1	5.0	4.0
DPS (c)	22.5	13.8	17.8	20.0	21.5
Franking%	0.0	0.0	0.0	0.0	0.0
Div Yield%	8.4	4.8	5.8	5.7	6.1
P/E	12.1	12.1	11.7	12.8	12.3

Investment Rating

GPT is one of Australia´s oldest A-REITs, a stapled security comprising a unit in the trust and a share in the management company. Following catastrophic collapse and massive capital raisings, GPT is a focused on the active management of Australian retail, office and industrial property with supporting development and funds management businesses facilitating capital recycling. Earnings are grounded in relatively safe and steady growth revenue from the Australian investment property portfolio with development and funds management offering medium term upside. Short-term capital performance could be expected to be volatile. GPT should only be considered by income investors willing to bear some capital risk in the short term.

1H12 Result: Positive signal from guidance upgrade

Above/Below Expectations Fair Value Up/Down

1H12 realised operating income (ROI) of $227.2m was 2.6% up on 1H11. Commentary was resoundingly upbeat with FY12 guidance for growth in ROI per security upgraded to 'at least 7%', as compared to February guidance for growth 'in excess of CPI plus 1%'. The upgraded guidance is underpinned by growth of 5.6% in comparable income from the office portfolio, which benefitted from higher average occupancy. The EPS growth is boosted by the buy-back.

Other aspects of the updated guidance were of lower quality, including lower borrowing costs to 5.7% and reduced overheads. GPT includes the benefit for these in its ROI metric, but has not included the associated costs, which it has classified as non-recurring items. Closing out unfavourable financial derivative contracts cost $50m and redundancy costs were $6.6m. We believe these costs are not one-off and adjust our valuation to reflect the position. Notwithstanding, we view the headcount reductions as a positive and should boost ROI by $10m from FY13 and beyond.

Reflecting the positive effects of lower borrowing costs, higher office occupancy and lower overheads, our forecast FY12 realised operating income increases by 2%. Our fair value increases from $3.35 to $3.50, being a 4% discount to net tangible assets of $3.65. Our Hold recommendation is unchanged at current levels.

Occupancy rates for the retail portfolio declined slightly from 99.4% to 99.1%m, with only 40 of 3,700 specialty retail stores vacant. Revenue growth is expected to remain strong, with lease agreements supporting average annual increases of 4.5%, with 86% of leases containing fixed annual escalations. A slight concern is the decline in new lease rents of approximately 6%, being the blended outcome from the 400 new leases signed during the half (roughly half were new and half renewals). Approximately 15% of specialty leases are renegotiated each year and the effects of negative rent growth will not materially impact portfolio rents. Nonetheless, we believe retailers will face moderating sales growth due to household deleveraging and loss of sales to online channels. Accordingly, we have trimmed our long-term growth trajectory for retail rents.

The strong 5.6% growth in comparable income for the office portfolio was attributable to a higher average occupancy rate and structured rental growth. The office portfolio has 83% of tenants on fixed annual escalations, with the average increase across the portfolio of 4.0%. Despite GPT increasing occupancy, we see some risks ahead, with a number of major tenants moving to new premises, the most significant being the law firm, Freehills, which is vacating multiple floors of the MLC Centre in December 2013. GPT expressed confidence in filling this soon-to-be-vacated space, but we are more cautious, trimming our medium term rental growth forecast.

The logistics assets performed solidly, with occupancy increasing slightly to 99%, and the weighted average lease expiry stable, just above 6 years. With little new uncommitted supply in the industrial sector we expect stable rental growth of 3.4% over the medium-term, consistent with the contracted average rental increase of 3.4%.

The funds management business has sound growth prospects, with institutional investor demand strong for higher quality property assets with quality tenants and long lease terms. With property offering substantial yield premiums over bonds, we expect GPT to benefit from inflows to the wholesale funds management platform.

GPT's balance sheet remains sound with balance sheet gearing falling to 20.2% and gearing on a look-through basis at 23.1%. Interest cover was high at 4.7 times and weighted average debt tenor long at five years. Refinancing risk is relatively low, with the next major debt expiry of $375m not until the first half of 2014.

Analyst: Tony Sherlock

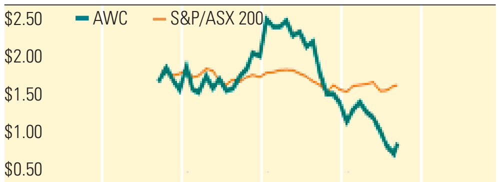
Alumina AWC | $0.79

Blue Chip Resource | Alumina Refiner

Recommendation **Buy**

Business Risk	**High**
Price Risk	High
Moat Rating	None
Fair Value ($)	3.10
Morningstar Style Box	
Mkt Cap ($ Mil)	1,916
Last Review	12/07/12 (YMW26)
Ann. Share Turnover (%)	190.2
ROE-FY12 (%)	4.3
Net Interest Cover (x)	5.3
52 Week Hi/Low ($)	1.98 / 0.63
Ex-Dividend	01/02/2012
Payable	15/03/2012

Compound Growth	5Yr	10Yr
EPS %	-34.5	na
DPS %	-20.2	na



	12/09(a)	12/10(a)	12/11(a)	12/12(e)	12/13(e)
NPAT ($m)	37.8	91.1	118.9	-28.7	139.7
EPS (c)	1.4	3.6	4.8	-1.2	5.6
EPS % Chg	-89.9	157.1	33.3	-125.0	-566.7
DPS (c)	2.0	6.5	5.8	2.9	8.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	1.4	3.6	2.9	3.7	10.2
P/E	103.4	49.7	41.4	na	14.0

Note: Historical EPS and DPS are diluted for any bonus element in entitlement issues

Investment Rating

AWC has a 40% interest in Alcoa World Alumina and Chemicals (AWAC), the world's largest alumina producer. AWC's profit is an equity share of AWAC profit, less head office and interest expenses. First class investments include substantial global bauxite reserves and alumina refining operations. Aluminium smelting forms a much smaller part of the business. AWAC is ungeared and AWC is modestly geared at 23% net debt to equity. A potential price floor is takeover appeal to Alcoa although Alcoa is struggling more than AWC at present. AWAC expanded at the expense of AWC's near term dividend. AWAC flags potential for an additional 30% or 5Mtpa of equity alumina capacity. Production rose following a pull-back dictated by the credit crisis.

Mettle tested as prices squeeze 1H12

Above/Below Expectations ↓ Fair Value Up/Down ←

Alumina Limited's adjusted 1H12 loss of US$40 million is down from a 1H11 profit of US$78 million and below expectations. Two important considerations in assessing Alumina's financials are that a) they reflect a 40% share of the Alocoa World Alumina and Chemical (AWAC) result less head office expenses and interest; and b) earnings industry wide are at historical lows. The latter means large percentage profit swings are caused by even small changes in inputs. Our 1H12 profit forecast was too high by US$36m or 600%. But Alumina Limited reported half year profits over US$200 million as recently as 2006/2007.

The soft result reflects weaker AWAC revenue, down 14% to US$2.9 billion mirroring the decline in aluminium and alumina prices, though higher input costs also feature. Costs were as expected, a rise in caustic soda, labour and bauxite impacting negatively. But revenue was lower than anticipated. Some was due to reduced alumina shipments after storms caused loading delays in June – these tonnes will be recovered in 2H12. But some also reflects over-estimation of price achievement after Alcoa reported inflated second quarter alumina division earnings in July. Alcoa's numbers are a good proxy for headline AWAC profit but don't disclose significant items. These fattened the number by more than US$100 million, including US$70 million in Brazilian deferred tax credits, which are stripped from underlying profit.

First half AWAC alumina and aluminium volumes were steady at 7.8 million tonnes and 178,000 tonnes respectively. Alumina volumes are at 90% nameplate with reduced production from the Jamaican, Suriname and San Ciprian refineries to align output with Alcoa's smelter curtailments and challenging market conditions. The lower cost Australian and Brazil refineries operated at or above capacity.

AWAC underlying EBITDA fell two thirds to US$222 million, the margin just 8% versus 18% in 1H11. Net operating cash flow fell 90% to US$38 million, worsened by inventory build. AWAC is ungeared after US$184 million in capital expenditure and US$177 million in dividends paid to partners (Alumina Limited's share US$70 million) was offset by cash flows and US$277 million in capital contributions from partners (Alumina's share US$110 million).

That dynamic necessitated a 28% increase on December 2011 Alumina Limited net debt to US$602 million, gearing rising from 17% to 23%. EBIT cover based on the 40% share of AWAC EBIT remains positive, but only by two times, the slimmest of margins. No interim dividend was declared to conserve cash and AWAC growth capex will be modest in 2H12.

We remain positive on the longer term outlook for alumina and Alumina Limited but sometimes there is near term risk to negotiate. We expect improvement in 2H12 with aluminium prices unsustainably low. Important also is AWAC's alumina refineries remain in profit. It's the two Australian aluminium smelters that are loss making. The worst performing at Point Henry will remain open until at least mid-2014 following efforts from the work force and financial support from Commonwealth and Victorian governments. But if push came to shove, smelters could be jettisoned. Refineries sit at the low 25th percentile on the global cash cost curve and can weather storms. We don't factor requirement for an equity raising but if conditions remain at these atrocious levels, passing round the hat is almost inevitable.

We retain our Buy recommendation, fair value little changed at A$3.10 per share. A worse than expected 1H12 sees our FY12 earnings forecast decline to negative A$1¢ per share from positive A$5¢ per share. Our FY13 earnings forecast halves to A$6¢ per share. Importantly operating cash flows remain positive at a time when it's hard to see things getting worse.

Analyst: Mark Taylor

Newcrest Mining NCM | $24.38

Blue Chip Resource | Gold Miner

Recommendation **Accumulate**

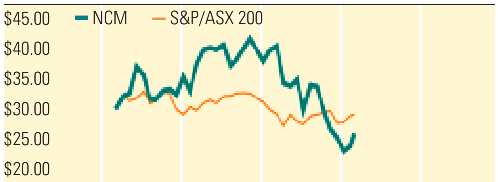
Business Risk	**High**
Price Risk	High
Moat Rating	None
Fair Value ($)	38.00

Morningstar Style Box	
Mkt Cap ($ Mil)	18,651
Last Review	02/08/12 (YMW29)
Ann. Share Turnover (%)	123.6
ROE-FY12 (%)	7.5
Net Interest Cover (x)	47.5
52 Week Hi/Low ($)	41.20/20.89
Ex-Dividend	24/09/2012
Payable	19/10/2012

Compound Growth	5Yr	10Yr
EPS %	22.6	35.1
DPS %	50.0	22.5

Investment Rating

NCM is a high quality gold producer with cash costs near the industry average. Previous managing director Ian Smith broadened the pure exploration and development growth strategy to include advanced project acquisitions which cleverly enhance the range of opportunities. Wafi-Golpu is a direct result. Nearly half the assets are Australian with low sovereign risk. The 2010 Lihir merger increases exposure to Papua New Guinea and West Africa but raises the proportion of revenue from gold. Indications since the merger are that NCM overpaid, particularly given a series of production issues. It was a disappointing departure from the historically successful exploration driven approach to value generation. At the right price, NCM is a cornerstone gold exposure for a balanced portfolio. The company typically trades at a premium to fair value, as do offshore gold peers.



	6/10(a)	6/11(a)*	6/12(a)*	6/13(e)*	6/14(e)*
NPAT ($m)	763.3	1058.0	1084.0	810.2	781.9
EPS (c)	157.4	147.1	141.5	105.8	102.1
EPS % Chg	52.8	-6.5	-3.8	-25.2	-3.5
DPS (c)	25.0	50.0	35.0	35.0	35.0
Franking%	0.0	0.0	9.9	50.0	100.0
Div Yield%	0.8	2.1	1.4	1.4	1.4
P/E	21.2	16.6	17.2	23.0	23.9

* Includes Lihir from August 30, 2010

Weak result bodes well for gold price

Above/Below Expectations ↓ Fair Value Up/Down ↓

The FY12 result was slightly weaker than expected with adjusted net profit of $1,084 million versus our $1,128 million forecast. The primary difference was costs, particularly administration which increased 50% to $140 million. The result was almost in line, but our FY12 number had been lowered considerably due to rising costs and operational issues throughout the year. It was only slightly ahead of FY11 adjusted net profit of $1,058 million despite an additional two months contribution from Lihir. The higher weighted number of shares on issue – with a full year's contribution from Lihir – meant EPS fell slightly from $1.47 to $1.41. The total dividend also declined from 50¢ to 35¢ with NCM electing not to pay a further special dividend as it did last year to the tune of 20¢.

Cost guidance for FY13 disappoints but management looks to be lowballing expectations. NCM expects cash costs in the A$600–650 per ounce range compared to A$603 in FY12. Production guidance of 2.3–2.5 million ounces of gold and 75–85,000 tonnes of copper is 4% below previous expectations and coupled with higher costs sees our EPS forecast decline from $1.48 to $1.06 with FY14 similar at $1.02. Commodity forecasts are A$1,560 per ounce gold and A$3.90 per pound copper in FY13 and A$1,490 per ounce gold and A$3.60 per pound copper in FY14.

Our fair value estimate declines from $41 to $38 per share due to higher cost and lower production estimates as per guidance. Long term assumptions remain A$1,100 per ounce gold, A$3.13 per pound copper and a 10% discount rate. We continue to apply a 1.6x gold sector premium to our net present value estimate. We consider future cost assumptions reflecting recent cost pressures are now conservative and an argument can be madethe long term gold price will need to rise to compensate. NCM estimates industry cash costs have risen about 10% a year since 2008 but our long term gold assumption has not kept pace. At $25.40 per share, our recommendation downgrades from Buy to Accumulate with the lower fair value estimate and 22% rise in the share price from the $20.89 low in late July.

Somewhat counter intuitively, the weak result may be a positive for the gold price. NCM scaled back growth plans with Wafi-Golpu, Namosi and O'Callaghans notably absent from five year production guidance, along with potential mill expansions at Lihir, Cadia, Bonikro and Hidden Valley. The company aims to produce 3.1–3.5 million ounces of gold and 100–110,000 tonnes of copper by FY17 but we think this leaves plenty of upside. Over the five year forecast period, NCM expects cash costs to decline from just over A$600 per ounce towards A$500 per ounce by FY17 pushing cash costs to the bottom quartile of the cost curve from near average now. NCM assumed a copper price of A$3.95 per pound versus our A$3.13 per pound long term forecast. Further cash cost improvement is expected with the start of Wafi-Golpu towards the end of the decade.

NCM is taking a more frugal approach to capital expenditure, a logical and prudent step considering the ridiculous capital cost inflation of the last five years. And this reduction in capital expenditure comes despite owning some of best assets in the gold industry. With elevated capital costs, expect the industry to follow NCM's lead – withholding capital expenditure and reducing gold supply until costs fall or prices rise sufficiently. If Wafi-Golpu is postponed, it will say more about the difficulty in building new copper/gold mines under current constraints than of Wafi's long term viability. We have little doubt it will make a world class, low cost mine. Long term, cost pressures are positive for gold and copper prices – two commodities where discoveries are increasingly rare, lower grade and at depth. A geological scarcity argument can be made for these two metals.

Analyst: Mathew Hodge

Ansell ANN | $14.71

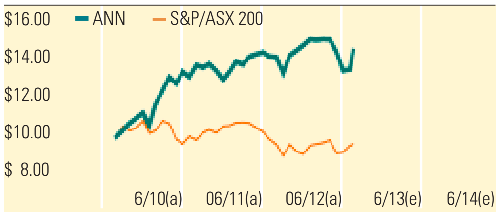
Second Line Industrial | Healthcare Products

Recommendation **Hold**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	None
Fair Value ($)	14.40
Morningstar Style Box	
Mkt Cap ($ Mil)	1,922
Last Review	09/08/12 (YMW30)
Ann. Share Turnover (%)	121.7
ROE-FY12 (%)	19.0
Net Interest Cover (x)	12.7
52 Week Hi/Low ($)	15.36/12.44
Ex-Dividend	27/08/2012
Payable	21/09/2012

Compound Growth	5Yr	10Yr
EPS %	6.4	19.7
DPS %	8.1	na

Investment Rating
ANN is a global leader in protective health and safety protection solutions. Operations spread across four business segments covering industrial and medical gloves, and condoms. Products are predominantly made of natural and synthetic latex, exposing ANN to price fluctuations in rubber and latex concentrates. Low levels of debt offer prospects for further capital initiatives or acquisitions. No franking credits means free cashflow is distributed predominantly through share buybacks.



	6/10(a)	06/11(a)	06/12(a)	6/13(e)	6/14(e)
NPAT ($m)	106.1	108.9	119.6	137.3	152.8
EPS (c)	78.9	81.9	91.0	105.0	117.0
EPS % Chg	8.9	3.8	11.1	15.4	11.4
DPS (c)	28.0	33.0	35.5	42.0	46.5
Franking%	0.0	0.0	0.0	0.0	0.0
Div Yield%	2.6	2.5	2.5	2.9	3.2
P/E	13.7	16.4	15.6	14.0	12.6

* FY13 and FY14 assume AUD/USD exchange rate of 1.05

Sexual wellness underpins firm result. FY13 promises solid growth

Above/Below Expectations ← Fair Value Up/Down ↑

(Currency is USD unless otherwise stated)
Despite several challenges the FY12 result was characteristically strong, and in line with our expectations. Revenue growth of 4% (2.5% organic) was moderate, but new, higher margin product raised average gross margins and helped drive EBIT and EPS 10% and 15% higher respectively. EPS growth of 11% in A$ terms was dampened by the strength of the local currency. Full year DPS rose 8% to AUD35.5c, unfranked. Return on invested capital was again solid at 16% benefiting from the company's low capital intensity. A feature of the result was the broadening diversity of business.

Guidance is for FY13 EBIT to grow at a low double-digit rate, and EPS at mid-single to low double-digit or in the range of US107¢ to US112¢. This is before taking into account the expected positive contribution from the recently announced acquisition of Comasec in Europe, which we estimate will add around 2c to FY13 EPS and 5c to FY14 EPS, and before the impact of potentially lower raw material prices. This positive outlook, despite a harsh global macroeconomic backdrop, reflects the resilience of demand for ANN's products, effective innovation and product promotion, and expanding demand in emerging markets.

FY13 will also benefit from better functioning management information systems in the Americas where the implementation of a new system in 1H12 caused considerable management headache.

After funding the $125m acquisition of Comasec announced in August 2012 – expected to close in October – net debt to equity is only 20%. FY12 EBIT covered net interest a very comfortable 12.7 times. The balance sheet retains ample firepower for further acquisitions, the fragmented European market providing a number of obvious targets. During the financial year ANN made three acquisitions at a total cost of $45m. These contributed $18m in sales and despite $1.2m in acquisition and one-off integration costs were EPS neutral in aggregate. The company expects their impact to be solidly EPS accretive in FY13.

Our fair value lifts from $A14.00 to $A14.40 assuming an A$/US$ exchange rate of 1.05. As with any company generating the majority of earnings offshore, currency adds materially to valuation uncertainty.

The Result

	FY11 ($m)	FY12 ($m)	% Chg
Sales	1,206.9	1,255.3	+4.0
EBIT	136.9	153.2	+11.9
NPAT	121.7	133.0	+9.3
EPS (c)	81.3	93.7	+15.3
DPS (AUDc)	33.0	35.5	+7.6

Sexual Wellbeing delivered the strongest divisional performance with EBIT jumping 50% to $33.2m. The EBIT margin expanded from 10.9% to 15.3%. The sharp lift in profitability reflects successful product innovation and a major global promotional program. New product introductions will accelerate even further in FY13.

The Industrial division grew EBIT 2% to $83.7m on 7% higher sales. The lower margin was a function of higher raw materials costs and product mix, which together offset restructuring positives.

Specialty grew EBIT 188% off a low base, while Medical's EBIT rose only 1% to $39.5m, with the small Sandel acquisition and product mix offsetting raw material price rises. M
Analyst: James Cooper

Carsales.com CRZ | $7.10

Second Line Industrial | Online Classifieds

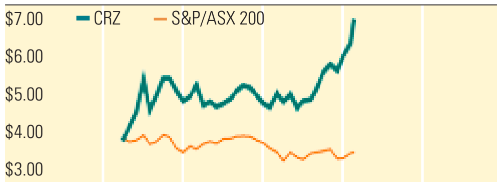
Recommendation **Hold**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	None
Fair Value ($)	6.50
Morningstar Style Box	
Mkt Cap ($ Mil)	1,690
Last Review	16/02/12 (YMW06)
Ann. Share Turnover (%)	98.6
ROE-FY12 (%)	55.8
Net Interest Cover (x)	na
52 Week Hi/Low ($)	7.28/4.43
Ex-Dividend	05/09/2012
Payable	25/09/2012

Compound Growth	5Yr	10Yr
EPS %	na	na
DPS %	na	na

Investment Rating

CRZ is Australia's leading online classified aggregator for cars, boats and motorbikes. Market dominance from first-mover advantage is built into brand recognition representing a barrier to entry for any would-be competitor. This is reflected in industry data, which shows 75% of time spent online browsing automotive classifieds is carried out via a CRZ-owned site. With CRZ charging only $60 for a private listing, there remains scope to drive greater returns from a unique market position.



	6/10(a)	6/11(a)	6/12(a)	6/13(e)	6/14(e)
NPAT ($m)	43.2	58.2	71.7	84.0	96.9
EPS (c)	18.2	24.4	30.6	35.8	41.3
EPS % Chg	37.4	34.1	25.4	17.0	15.4
DPS (c)	14.9	19.9	30.5	28.6	33.1
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	3.1	4.1	6.0	4.0	4.6
P/E	26.2	20.0	16.5	20.2	17.5

Firing on all cylinders, result beats expectations

Above/Below Expectations ↑ Fair Value Up/Down ↑

FY12 result delivers strong growth with revenue up 21% to $184m and NPAT up 23% from $58.3m to $71.6m. This betters our forecast of $68.6m. A final dividend of 13.2cps and a special of 6cps, both fully franked will be paid on 25 September. This does not indicate acquisitions are off the agenda as cash and surplus franking credits were accumulating, so the decision was made to make a one off distribution. We adjust our forecasts and upgrade our fair value estimate from $6.10 to $6.50. Looking forward we expect EBITDA margins to remain in the mid 50's and revenue growth which slowed from 24% to 21% in FY12 to grow by 17.5% in FY13 and then gradually decline to 10% by FY17.

Car dealer revenues make up the largest contributions at 45%, growing 16% from $71.5m to $83.2m. The relaunch of Carsguide through a joint venture between News Corporation and a handful of large industry dealers added potential risk to revenue. CRZ recognised the concerns some dealers expressed at what they viewed was price gouging and took action. A restructure of the sales teams focused on working in partnership with the dealers to demonstrate the value they could bring rather than trying to sell advertising. Transparency is a key consideration. CRZ collects large amount of transactional data and this is used to provide dealers with easy to view returns on their investments. If a dealer is not making a required rate of return then CRZ works to advise what action can be taken to improve the ratio of enquiries to sales, such as improving response times.

Private classified which accounts for 18% of revenues grew 3% from $32.2m to $33.3m. Recognising competitive threats CRZ kept pricing unchanged and simplified the structure between standard and premium listings. Price Assist, enables consumers to access information to calculate the market value of a particular vehicle. Car Facts, checks the validity of vehicle data, such as the chronometer readings compared to the previous sale date. Dealer Direct, enables private sellers to offer their car directly to a dealer network and accept or decline a bid. These services offer added layers of information and services to the client leveraging the CRZ database to further differentiate and widen its market dominance.

Display increased by 47% from $29.8m to $43.7m and now represents 24% of group revenue. Industry data indicates advertising agencies are redirecting a larger share of what is a smaller budget to online entities. CRZ is favoured by car companies because the expenditure is focussed on car buyers rather than the scattered approach of print or television. We expect the migration of advertising dollars from print to online to continue with estimates suggesting 20% of expenditure is going online and is expected to reach 40% over the next three years. CRZ say this is not a yield or volume business but rather about providing a solution to drive a particular result for a client. Categorising searches under different car types enables car manufacturers to display their latest new car offerings to consumers who may not have considered their particular model.

Dealer Data Services, which represents 13% of group revenue, increased 26% from $19m to $24m. A key focus for the group is to deliver easy to use functionality to access data. Industry consolidation amongst the dealer channel is leading to a need for tracking and benchmarking dealer activity. CRZ can provide a platform to measure, analysis and compare the performance of a dealer channel whilst also offering essential pricing information to ensure stock is purchased at a rate where the dealer can achieve a required rate of return. We expect the system to provide sticky annuity type revenues once the dealer institutes the software into their business process.

Analyst: Tim Montague-Jones

Downer EDI DOW | $3.66

Second Line Industrial | Engineering & Commercial Services, Rail

Recommendation **Hold**

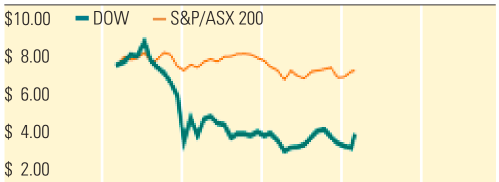
Buy	Accumulate	Hold	Reduce	Sell
$ 3.30	3.60	4.70	5.15	

Business Risk	**High**
Price Risk	High
Moat Rating	None
Fair Value ($)	4.10
Morningstar Style Box	
Mkt Cap ($ Mil)	1,571
Last Review	08/03/12 (YMW09)
Ann. Share Turnover (%)	113.8
ROE-FY12 (%)	11.4
Net Interest Cover (x)	4.2
52 Week Hi/Low ($)	4.11/2.71
Ex-Dividend	25/08/2010
Payable	01/10/2010

Compound Growth	5Yr	10Yr
EPS %	-2.2	7.2
DPS %	na	na

Investment Rating

DOW provides engineering and management services to companies in the rail, mining and infrastructure. sectors across the Asia-Pacific region. Historically, success is mixed, with strong results in certain business units usually offset by large write-downs elsewhere. Several management changes over the past decade haven't solved the problem of mispricing risk. The macro environment has been supportive, with large infrastructure spending in key energy and minerals markets. The legacy of mispricing essential NSW rail infrastructure continues to weigh on earnings and sentiment.



	06/10(a)	06/11(a)	06/12(a)	06/13(e)	06/14(e)
NPAT ($m)	189.9	167.4	184.2	199.9	195.3
EPS (c)	52.0	45.8	42.9	46.6	45.5
EPS % Chg	na	-11.9	-6.3	8.6	-2.4
DPS (c)	29.1	0.0	0.0	20.0	20.0
Franking%	0.0	0.0	0.0	100.0	100.0
Div Yield%	4.2	na	na	5.5	5.5
P/E	13.4	8.8	8.0	7.9	8.0

NPAT after payment of ROADS preference share dividends

FY12 result: Transforming

Above/Below Expectations Fair Value Up/Down

The FY12 result was solid but messy. Operating revenue was up 23% to $7.9bn, underlying NPAT up 17% to $195.3m (pre ROADS preference share dividend) and reported NPAT of $107.5m (pre ROADS) after a reported loss of $46.3m in FY11. As with FY11 no dividend was paid. With an increasing level of uncertainty surrounding domestic infrastructure spending the outlook is cautious. DOW is forecasting FY13 EBIT of $370m (including equity accounted profits) and NPAT of $210m (pre ROADS).

Our FY13 NPAT forecast is $213m (pre-ROADS), just marginally above the conservative company estimate. But we have cautiously incorporated only limited growth from FY14 as falling expenditure on mining, energy and associated infrastructure projects by the major mining companies significantly reduces the tender pipeline. Fair value eases from $4.15 to $4.10 on lower growth assumptions.

Reported NPAT of $107.5m incorporates the impact of an exhausting list of legacy items in a year of restructuring and transformation. The transformation helped DOW achieve underlying NPAT growth of 17%, as the mining, rail and infrastructure businesses focused on winning new contracts, lowering costs and generating solid cash flows.

The Australian infrastructure business achieved revenue growth of 14% to $3.7bn and strong EBIT growth of 38% to $150.7m, despite the underperforming Curragh Coal Plant contract and adverse weather conditions. Growth was due to the start of significant new contracts. We expect FY13 revenue growth of 8.1% due to $5.7bn of work-in-hand and EBIT margins of 4.0%. Despite challenging economic conditions, DOW's New Zealand infrastructure business increased revenue by 5% to $913.1m and EBIT by a massive 178% to $29.6m. It has $2.8bn of work-in-hand and further work rebuilding of Christchurch's earthquake damaged essential infrastructure is expected.

The mining business increased revenue by 68% to $2.5bn (including joint ventures) and increased EBIT by 45% to $173.5m. Revenue growth was predominantly due to expanded open cut mining contract work. We anticipate FY13 revenue growth of 8.5% and EBIT margin of 7.5%, based on $6.5bn of mining work-in-hand and recent contract wins.

The troubled rail business achieved revenue growth of 14% to $1.3bn and EBIT growth of 2% to $76.4m. The result was impacted by fewer locomotive orders, lower positive rail project close-outs and increased margin pressure. Customers demanding lower prices and the increased threat of competition from China combined to create a turbulent and challenging market. Future revenue growth will be limited and margins will remain under pressure. The logical strategy is to exit the low margin locomotive manufacturing operations and focus on sales, repairs and maintenance. The Waratah Train Project still has significant issues and total provision of $440m has already been made. Twelve trains have been delivered and received a certificate of Practical Completion and the Changchun (China) manufacturing plant is consistently meeting quality standards. But under the revised schedule 23 trains will need to be delivered and be available for passenger service by 31 December 2012. The 78th and final train will need to be delivered by 30 June 2014. Forecast cost-to-completion of the Project is $2.1bn, up 2% from the prior year, against forecast revenue of $1.7bn.

Net operating cash flow was up a strong 96% to $364.5m, due to robust EBITDA growth and higher cash conversion. At the end of FY12 net debt was $322.2m and net debt to equity a moderate 20%. FY12 capital expenditure was $374m, with FY13 forecasts of $400m, of which 75% will be spent on mining equipment.

Analyst: Ross MacMillan

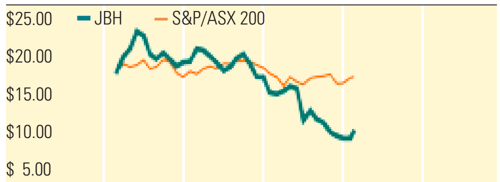
JB Hi-Fi JBH | $9.78

Second Line Industrial | Discretionary Retailing

Recommendation **Hold**

Business Risk	**High**
Price Risk	High
Moat Rating	None
Fair Value ($)	9.40
Morningstar Style Box	
Mkt Cap ($ Mil)	967
Last Review	03/05/12 (YMW16)
Ann. Share Turnover (%)	195.7
ROE-FY12 (%)	56.7
Net Interest Cover (x)	12.4
52 Week Hi/Low ($)	16.82/7.83
Ex-Dividend	20/08/2012
Payable	07/09/2012

Compound Growth	5Yr	10Yr
EPS %	22.7	na
DPS %	42.7	na



	6/10(a)	6/11(a)	6/12(a)	6/13(e)	6/14(e)
NPAT ($m)	118.7	134.4	104.6	101.6	110.4
EPS (c)	108.4	123.9	105.9	102.8	111.7
EPS % Chg	20.9	14.3	-14.5	-2.9	8.7
DPS (c)	66.0	77.0	65.0	62.0	67.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	3.4	4.0	5.1	6.3	6.9
P/E	18.1	15.4	12.0	9.5	8.8

Investment Rating

JBH operates over 168 branded electrical stores across Australia and New Zealand and is rapidly growing via an aggressive store rollout program. The business has proven to be very resilient, trading strongly throughout the financial crisis as the younger target demographic continued to spend on entertainment. The industry constantly develops new gadgets and products, which drives organic growth. New stores will continue to drive earnings growth over the next few years, with many national locations still underrepresented. What growth opportunities lie beyond the 214 long-term store target remains unclear. Investment risk is high as uncertainty surrounds the pace of structural change to the retail industry as consumers increasingly purchase products online. The stock doesn't suit conservative investors.

Profit in line with expectations, expect retail conditions to remain tough

Above/Below Expectations ← Fair Value Up/Down ←

FY12 NPAT of $104.6m is in line with guidance and compares to our estimate of $102.7m. The surge in share price up nearly 8% on the day reflects a short squeeze, as hedge funds which sold forward over 21% of the issued shares and expected a deterioration of trading conditions were disappointed. Australian 1H like-for-like sales fell 3% but were flat in 2H indicating a possible bottoming. In FY13 the comparatives will not be as onerous making it easier to report flat or mild growth in revenues. With 16 stores opening in FY13, as the company moves toward the 214 store target, we expect group total revenue will rise. The company expects FY13 revenues to reach $3.3bil, a 5.5% increase on FY12 with like-for-like revenue growth at negative 1%. This is largely inline with our forecasts and after making adjustments there is no change to our fair value estimate of $9.40.

The household assistance package started in May followed by tax cuts in July with ongoing assistance commencing from March 2013. Quantifying the impact of these payments on the discretionary retail sector is difficult to gauge as it enters the mix with many other variables but we are noticing a number of retailers reporting better than expected 2H sales data. We view government stimulus like a short term sugar hit, causing a spike in sales activity to be followed by a fall. Household debt remains at elevated levels and consumers remain in a deleverage mode, which brings with it frugality. We expect the longer term spending conditions to remain weak especially within the discretionary retail segment.

JBH provides some data sourced from Morgan Stanley comparing the cost of doing business (CODB) of 14.9% which compares with troubled US electronics retail company Best Buys at 20.4% and Amazon at 20.6%. This competitive advantage is JBH's often stated reasoning why others within the retail industry will fail first and it will emerge through market consolidation as the most dominant retailer. This does sound like an appealing argument. The internet changes this market dynamic: today JBH is making a slim 5% EBIT margin on a large $3billlion of sales. Should sales decline the operating leverage is a lot higher in a multiple store network compared to a wholesale online operation, closing stores becomes hindered by landlord agreements and explains why bricks and mortar stores can quickly get into financial trouble when revenue falls below a critical level.

JBH views structural changes to retail as providing an opportunity to leverage the brand online and sell a greater range of products which are not suited by the limitations of a retail store. With a new online site in development, JBH aims to offer ease of use through a variety of technology platforms to view and shop for products. JBH wins the prize for mathematical distortion reporting a headline grabbing 77% increase in online sales. Online represents only 1.6% of total sales. We remain concerned consumers continue to view bricks and mortar brands as offering unfavourable pricing and expect many will bypass them when they seek value online.

Shrinkage, which is commonly referred to as inventory loss through shop lifting was $4m. JBH say despite this being unacceptably high as a percentage of sales it is within industry norms. This also reflects the growing trend of reducing sales staff to reduce costs. The award wage increases by 3.2% from July and JBH plans to reduce head count during quite trading times to offset the extra cost. So don't expect the shrinkage level to decline as the stores are likely to have even fewer staff keeping tabs on stock.

Analyst: Tim Montague-Jones

Primary Health Care PRY | $3.46

Second Line Industrial | Pathology, Radiology and Medical Centres

Recommendation **Hold**

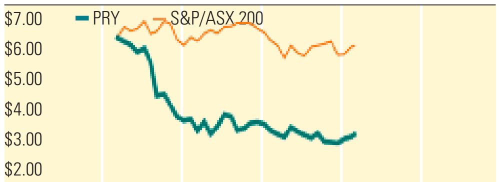
Buy	Accumulate	Hold	Reduce	Sell
$	1.80	2.60	3.50	4.70

Business Risk	**High**
Price Risk	High
Moat Rating	None
Fair Value ($)	3.00
Morningstar Style Box	
Mkt Cap ($ Mil)	1,736
Last Review	01/12/11 (YMW46)
Ann. Share Turnover (%)	85.5
ROE-FY12 (%)	4.6
Net Interest Cover (x)	2.7
52 Week Hi/Low ($)	3.53/2.62
Ex-Dividend	17/09/2012
Payable	08/10/2012

Compound Growth	5Yr	10Yr
EPS %	-6.0	16.1
DPS %	-24.6	3.9

Investment Rating

Managing director Edmund Bateman is PRY's principal founder and is responsible for delivering phenomenal returns through the development of 24-hour medical centres. The acquisition of Symbion Healthcare in 2008 transformed the asset pool. The merged group is the largest domestic pathology provider. Earnings are: Medical Centres 43%, Pathology 36%, Radiology 16% and Health Technology 5%. Pathology funding cuts and collection centre deregulation adds some industry uncertainty as market entrants adapt to the new regime.



	6/10(a)	6/11(a)	6/12(a)	6/13(e)	6/14(e)
NPAT ($m)	132.0	117.1	116.8	138.6	151.1
EPS (c)	27.7	23.6	23.4	27.7	30.2
EPS % Chg	-3.1	-14.8	-0.8	18.4	9.0
DPS (c)	25.0	8.0	11.0	11.0	12.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	4.8	2.3	3.6	3.2	3.5
P/E	18.9	14.5	13.0	12.5	11.5

FY13 outlook for 20–25% EPS growth comes as a surprise

Above/Below Expectations ↓ Fair Value Up/Down ↑

FY12 NPAT on a normalised basis is marginally down from $117.1m to $116.8m, with revenue growth of 5% to $1.4bil and EBITDA up 10% to $351m. The $116.8m compares to our NPAT forecast of $124m. The surprise is FY13 guidance. CEO, Bateman and his team set what we think is a high bar with 20–25% EPS growth and EBITDA of $370m–$380m. On reported FY12 EPS of 23.3c this implies FY13 EPS of 28c to 29c compared to our 25c estimate. We view this as a stretch with a high risk of disappointing. Our FY13 EPS forecast is revised to 27.7c which translates to EPS growth of 18.7%. The upgrade sees our fair value estimate increase from $2.60 to $3.00. We continue to award a high risk and uncertainty rating to PRY due to the large relative amount of debt, with interest cover of 3.5x and on concerns over possible government funding cuts as pathology industry revenues exceed agreed spending limits.

Bateman is confident of the outlook with trends in testing volumes for July meeting internal expectations. Cost controls ensure PRY can generate greater operating leverage through scale as processing volumes increase. Excess capacity within the medical centre portfolio enables back filling through the acquisition of doctors to increase productivity at each centre driving long term returns. The consolidation of the Symbion medical centre portfolio is now complete and the larger market foot print enables the combined group to utilise scale to renegotiate favourable supplier terms.

EBITDA margins for all the divisions rose strongly in the 2H. PRY view this as a rebasing of the business after a period of taking costs out and restructuring. To hit the stated FY13 EBITDA forecast we assume PRY will need revenue growth of at least 7.4% with margins from the medical centres, which were 55.8% in 2H, to average 56% for the year and pathology to average margins of 17.5%. The seasonality of the business makes this a difficult ask.

Medical centre revenue grew 5.6% to $290m with EBITDA up 6.5% to $160m. Isolating the 57 larger centres, revenue is up 12% and EBITDA up 15%. Management suggests the immaturity of the portfolio provides capacity to add sustainable earnings growth from the current portfolio without the need to spend large sums to add new centres. One new centre is planned for FY13. Bateman says a medical centre takes 10 years before optimum patient admission levels are reached. The process of back filling continues with 105 doctors added to the network in FY12 and a target to lift this to anywhere from 110 to 130 for FY13. Adding doctors increases the utilisation of the fixed medical centre asset so improving operating margins. Through Medicare the government is the biggest supporter of medical centres and may view 56% operating margin excessive and cut spending. Such action would encourage more doctors to join the consolidators such as PRY but in the long term it's questionable if these excess returns can be sustained.

Pathology revenue is up 6% to $785.4m, EBITDA up 11.5% with margins up 90bps from 16% to 16.9%. We view the margin lift as significant with 1H12 at 16% and 2H12 at 17.7%. This is associated with an increase in processing volume after a period of comparable industry weakness. The government will also review this information and there could be a case to cut funding for the industry. Bateman disagrees and says the higher volumes are associated with government initiative to transfer volumes out of public hospitals. Bateman says if the government does cut funding then it will respond quickly by cutting staff numbers to ensure it makes an acceptable return.

Analyst: Tim Montague-Jones

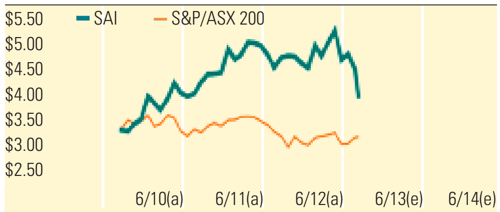
SAI Global SAI | $3.94

Second Line Industrial | Business Publishing, Compliance, Training

Recommendation **Accumulate**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	None
Fair Value ($)	4.40
Morningstar Style Box	
Mkt Cap ($ Mil)	805
Last Review	10/05/12 (YMW17)
Ann. Share Turnover (%)	53.8
ROE-FY12 (%)	na
Net Interest Cover (x)	5.0
52 Week Hi/Low ($)	5.29/3.83
Ex-Dividend	21/08/2012
Payable	21/09/2012

Compound Growth	5Yr	10Yr
EPS %	5.5	na
DPS %	6.8	na



	6/10(a)	6/11(a)	6/12(a)	6/13(e)	6/14(e)
NPAT ($m)	33.7	44.8	42.5	45.6	54.9
EPS (c)	21.5	23.0	20.9	22.3	26.9
EPS % Chg	24.3	7.0	-9.1	6.7	20.6
DPS (c)	12.8	14.3	15.0	16.0	18.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	3.6	3.1	3.2	4.1	4.6
P/E	16.4	19.8	22.6	17.7	14.6

NPAT and EPS are after intangible amortisation. From FY11 onwards this amounts to approximately $8m or 4cps.

Investment Rating

SAI has an exclusive license to publish and distribute Australian Standards and other materials in Australia for a 15 year period from 2003, with an option to renew for a further five year term. Close to 70% of the S&P/ASX 200 companies are customers of SAI Global. Around this quasi-monopoly SAI has built a number of complementary businesses including compliance and quality assurance consulting and training. SAI is rapidly replicating this model offshore. The Compliance Division established a global leadership position in the ethics training segment. The business requires low levels of capital expenditure enabling a relatively high payout ratio of 60%.

The full version of this article is available at www.morningstar.com.au

Profit weakens as growth investment ramps up

Above/Below Expectations ↓ Fair Value Up/Down ↓

Despite FY12 sales revenue rising 6% to $452m, NPAT fell 5.4% to $42.4m. On an underlying basis, which excludes significant charges associated with acquiring and integrating new businesses and any significant restructuring costs, NPAT fell 7% to $44.7m. A lower effective tax rate that fell from 25.5% to 23.8% assisted the bottom line. Underlying EPS fell 10.9% to 22.0c. On the same adjusted basis EBITDA fell 2% to $99m, only marginally below guidance provided in May 2012. Final DPS is up 2.5% to 8.2c bringing total FY12 DPS to 15c fully franked, 4.9% above the pcp.

A more economically meaningful measure of EPS adds back a significant component of intangible amortisation, near 4¢ a share.

Net operating cash flow was solid, rising 5.4% to $60m. The balance sheet remains sound with net debt to equity at 57%, while EBIT covered net interest five times. An 11.5% return on invested capital was a little above cost of capital at 9%.

We are comfortable with management's assertion that the 9% rise in indirect/overhead costs – well above the 6% rise in revenue – contained a range of non-recurring "investment" type expenses that will boost future growth and profitability. So we are not overly concerned by the resultant profit hiccup. As a serial acquirer of businesses and dependent on the smooth functioning of multiple IT platforms, SAI needs periodically to consolidate and refine. We are more worried by the group's exposure to the weak western economies. Relative earnings resilience over the initial GFC period gave us some confidence in this regard. Compliance with regulatory edicts is after all not discretionary.

We forecast moderate 6% revenue growth in FY13 followed by 10% growth in FY14, before falling back to 5%–6% for several years. Valuation falls to $4.40. Our modelling has EBIT margins rising from 15.4% in FY12 to 17.3% in FY17, and return on invested capital strengthening to a respectable 15.2% in FY17.

Information Services – Sales up 4% to $201.3m, EBITDA up 1.6% to $49.7m

The Standards business achieved constant currency revenue and EBITDA growth of 0.2% and 2.0% respectively. A lack of new standards constrained Australian and offshore sales, while the latter was also impacted by the subdued economic environment. The Property business posted solid revenue and EBITDA growth of 6.6% and 8.0% respectively, reflecting successful operational efficiency initiatives and strong growth in the banking workflow business, the latter set to continue in FY13.

Compliance Services – Sales up 5% to $84.1m, EBITDA down 19% to $27.8m

Compliance had a soft year after recording strong organic growth of 14% in FY11. In FY12, investment in resources more than offset acquisition-driven constant currency growth of 7.1%, resulting in EBITDA falling 19% to $28m. After a solid 1H, sales weakened sharply due to lower sales on discontinued legacy products and longer than expected lead times in converting new business pipelines. A rationalised and improved product offering should deliver revenue and profit growth in FY13. Management said "Pipelines continue to strengthen in response to the new product introductions…we have commenced contract negotiations with a number of significant clients."

Assurance Services – Sales up 5% to $84.1m, EBITDA down 19% to $27.8m

The Assurance division performed well with revenue growing 9.5% on a constant currency basis. Organic growth was strong at 7.0%. The result in particular reflects strong performances across the Asian and global food businesses. SAI continues to grow share of the global retail agri-food assurance market, most significantly in the Americas and Europe.

Analyst: James Cooper

UGL UGL | $11.00

Second Line Industrial | Engineering and Commercial Services

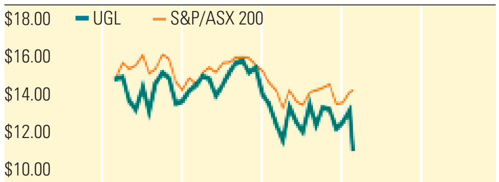
Recommendation **Accumulate**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	None
Fair Value ($)	12.00
Morningstar Style Box	
Mkt Cap ($ Mil)	1,829
Last Review	17/05/12 (YMW18)
Ann. Share Turnover (%)	93.8
ROE-FY12 (%)	14.5
Net Interest Cover (x)	7.5
52 Week Hi/Low ($)	13.90/10.85
Ex-Dividend	20/08/2012
Payable	07/09/2012

Compound Growth	5Yr	10Yr
EPS %	17.5	5.0
DPS %	7.8	12.6

Investment Rating

UGL is a diversified group providing specialised engineering and maintenance and facilities management services in the areas of mining, water, power, rail and other essential infrastructure. In December 2011, UGL acquired DTZ to expand the company's global, tenant-focused property services division. UGL's exposure by sector is 37% property services, 24% rail, 21% infrastructure and 18% mining and energy. Management has lowered the earnings risk profile through diversification and building the proportion of long-term recurring maintenance style work. Financial management is sound with cash flow strong, and moderate gearing levels. There are few barriers to entry to UGL´s businesses other than scale and brand.



	06/10(a)	06/11(a)	06/12(a)	06/13(e)	06/14(e)
NPAT ($m)	144.6	158.5	168.5	169.3	164.5
EPS (c)	87.3	95.3	101.3	101.8	99.0
EPS % Chg	0.0	9.2	6.3	0.5	-2.8
DPS (c)	64.0	70.0	70.0	70.0	70.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	4.7	4.7	5.5	6.4	6.4
P/E	15.7	15.6	12.5	10.8	11.1

FY12 result: Solid but uncertainty ahead

Above/Below Expectations ↓ Fair Value Up/Down ↓

FY12 operating revenue grew 4% to $4.6bn, underlying NPAT lifted 6% to $168.5m and reported NPAT fell 15% to $134.3m. A final dividend of 36 cps, fully franked was declared, down 5% on the prior year. Underlying NPAT excludes $34m of non-recurring items. The underlying result was 2% below our conservative forecast of $172.5m, with the services, rail and resources businesses delivering a solid earnings result but the infrastructure business earnings disappointed due to higher labour costs and lower productivity.

FY13 guidance is for a similar earnings outcome as FY12. We forecast FY13 NPAT of $169.3m, just $0.8m higher than FY12 underlying NPAT but 8% lower than our previous forecast. Our average annual revenue growth forecast beyond FY13 is lowered to 2.5%, due to the uncertain economic conditions and potential for delay and deferments of mining, energy and infrastructure projects. Our fair value reduces from $13.30 to $12.00 on lower growth and margin assumptions.

The services business achieved a strong result, with revenue increasing by 21% to $1.6bn and EBIT increasing by 25% to $95.4m. The robust growth was mainly due to the acquisition of DTZ in December 2011 and the expansion of property services operations. The services order book of $3.6bn grew by 25%, supported by a significant increase in the conversion rate. In the June quarter, UGL won more than $350m in new global property service contracts including a three year contract for a major retail grocery firm to provide facilities management services for 750 stores in North America and a three year contract with ICON Clinical Research to provide global real estate transaction management services. We anticipate 9% revenue growth and EBIT margin steady at 5.9% during FY13.

FY12 infrastructure revenue increased by 9% to $1.2bn but EBIT declined by 30% to $58.0m, with higher labour costs, lower productivity and poor contract execution impacting project work in Western Australia and Queensland. UGL's infrastructure order book grew by 4% to $1.7bn, due to contract wins in the power, communications and defence sectors. We anticipate 2% revenue growth and EBIT margin remaining steady at 5% in FY13.

The rail business saw a 4% decline in revenue to $1.2bn and marginally higher EBIT at $85.1m. The solid result reflected continuing demand for freight locomotives and stable operating performance on the NSW and Victorian passenger train maintenance contracts, but there was a fall in wagon sales, The rail order book grew by 28% to $3.6bn, reflecting the renewal of the key Railcorp maintenance and logistics contract. We anticipate FY13 revenue growth of 2.5% and EBIT margin falling from 7.1% to 6.9% as pricing pressure impacts the domestic locomotive and wagon market.

Resources revenue fell by 11% to $856.5m but EBIT increased by 2% to $45m. The decline in revenue was due to projects reaching completion and a reluctance by UGL to chase high risk fixed cost contracts from the mining and energy sector. UGL's ability to maintain margins during periods of falling revenue reflects the high proportion of recurring earnings generated from maintenance style contracts. The resources order book fell by 16% to $800m. In July, UGL secured an important new contract from the mining sector, with BHP Billiton awarding it a $99.5m contract for structural, mechanical and piping works at the Jimlebar iron ore mine. We anticipate a further decline in revenue of 4% and EBIT margin falling from 5.3% to 5.2% in FY13.

Net operating cash flow fell by 26% to $111m, due to prior period advance payments impacting cash receipts. Net debt increased by $257.2m to $435.4m, due to the acquisition of DTZ. Net debt to equity stands at 37%, with debt levels to be reduced during FY13.

Analyst: Ross MacMillan

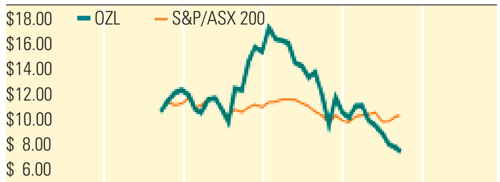
OZ Minerals OZL | $7.37

Second Line Resource | Copper/Gold Miner

Recommendation **Accumulate**

Business Risk	**High**
Price Risk	High
Moat Rating	None
Fair Value ($)	10.00
Morningstar Style Box	
Mkt Cap ($ Mil)	2,237
Last Review	26/07/12 (YMW28)
Ann. Share Turnover (%)	112.2
ROE-FY11 (%)	10.6
Net Interest Cover (x)	na
52 Week Hi/Low ($)	12.44/7.21
Ex-Dividend	05/09/2012
Payable	25/09/2012

Compound Growth	5Yr	10Yr
EPS %	na	na
DPS %	na	na



	12/09(a)	12/10(a)	12/11(a)	12/12(e)	12/13(e)
NPAT ($m)	168.6	398.2	322.7	209.1	199.9
EPS (c)	54.1	122.8	100.5	68.0	65.6
EPS % Chg	22.7	127.0	-18.2	-32.3	-3.5
DPS (c)	0.0	70.0	60.0	30.0	30.0
Franking%	0.0	0.0	0.0	0.0	100.0
Div Yield%	na	5.5	4.5	4.1	4.1
P/E	16.9	10.4	13.3	10.8	11.2

* Includes 1.1 million performance rights and options. Assumes completion of buyback due end June 2012.

Investment Rating

OZL's sole operating mine is Prominent Hill in South Australia producing over 100,000 tonnes of copper and nearly 150,000 ounces of gold a year. Cash costs in 2012 of USD 1.10-1.20 per pound after substantial gold credits are near the industry average, rising with the start of a new underground orebody in 2012. Life is relatively short at just under 10 years but exploration and expansion upside attract. Acquisition of the Carrapateena project in May 2011 brings potential for a second mine of similar size to start late in the decade. A better than average quality mid-cap miner but single commodity and mine risk mean OZL is not for conservative investors. Short life means the company has no moat though development of Carrapateena late in the decade may improve the competitive position.

Result in line but more costs to come

Above/Below Expectations Fair Value Up/Down

Profit of $119.5 million in 1H12 was in line with our $117 million forecast but well down on the 1H11 adjusted result of $189 million. Key drivers were a 2% decline in copper output to 52,700 tonnes and an 11% reduction in the average copper price to US$3.67 per pound. Net operating cash flow of $127 million was lower than expected due to an inventory build of over $100 million which should unwind in 2H12. The interim dividend was cut from 30¢ to 10¢ unfranked with management citing a desire to preserve $750 million in excess cash earmarked for acquisitions. Cash at end June of $651 million was less than expected due to working capital moves but the balance sheet remains strong with no debt. Franking is possible for the final dividend and likely in 2013. Dividend policy is unchanged with a target payout ratio of 30–60% with the second half payout to generally exceed the first.

No change to 2012 production guidance of 100–110,000 tonnes of copper and 130–150,000 ounces of gold. Cash cost guidance worsens from US$1.00–1.10 to US$1.10–1.20 per pound with the company citing adverse weather, increased mining activity, higher labour costs and continued A$/US$ strength. OZL says industry labour costs are increasing around 10–15% a year. But if BHP's Olympic Dam expansion is postponed as we expect, significant pressure will come off labour, consumables and construction costs in South Australia. A slight reduction in our copper production forecasts and higher costs sees forecast 2012 earnings per share (EPS) decline from $0.78 to $0.68. Similarly for 2013 EPS falls from $0.76 to $0.66. Assumptions are A$3.69 per pound copper and A$1,560 per ounce gold in 2012 and A$3.75 per pound copper and A$1,525 per ounce gold in 2013.

Higher costs see the fair value estimate decline from $11 to $10 per share. Long term assumptions remain A$3.13 per pound copper, A$1,100 per ounce gold and an 11% discount rate. We maintain our Accumulate recommendation. Gold and copper are attractive markets with long term supply pressure from a lack of new discoveries and capital cost inflation. Some of the management rhetoric around costs is disappointing though we feel the worst of the cost pressures are probably now behind. Managing Director Terry Burgess talks about a cost focus in 2013 which is appropriate. Longer term the potential to develop Carrapateena could lift production and improve the competitive position but it's early days. It won't be known if low cost, bulk mining methods can be used until the recently approved exploration decline is completed in 2016.

The 1H12 result includes an $18.8 million profit on the sale of Cambodian gold assets which we treat as part of underlying earnings. OZL is conservative on exploration expenditure and typically writes off the vast majority so including countervailing gains is fair. Exploration write-off of $47.7 million is large relative to the $119.5 million profit and continues a trend. M

Analyst: Mathew Hodge

1H 2012 Result	1H 2011	2H 2011	1H 2012	% Chg*
Revenue (A$ millions)	633.6	488.9	543.0	-14.3
EBITDA (A$ millions)	331.2	253.3	226.4	-31.6
EBIT (A$ millions)	247.9	172.4	152.3	-38.6
Pre-Tax Profit (A$ millions)	268.6	186.9	163.7	-39.1
Adjusted NPAT (A$ millions)	189.1	133.6	119.5	-36.8
Headline NPAT (A$ millions)	113.9	160.6	119.5	+4.9
Net Op. Cash Flow (A$ millions)	388.3	258.8	126.6	-67.4
EBITDA Margin (%)	52.3%	51.8%	41.7%	-20.2
EBIT Margin (%)	39.1%	35.3%	28.0%	-28.3
Adjusted EPS (¢)	58.5	41.9	38.5	-34.2
DPS (¢)	30.0	30.0	10.0	-66.7
Net Cash (A$ millions)	905.6	886.1	651.1	-28.1
ROE (%)	12.3%	9.5%	8.6%	-29.8
ROA (%)	10.4%	7.8%	7.2%	-30.8
ROIC (%)	16.5%	11.5%	10.0%	-39.0

* 1H 2012/1H 2011

Domino's Pizza Ent. DMP | $9.70

Small Cap Industrial | Pizza Chain Operator

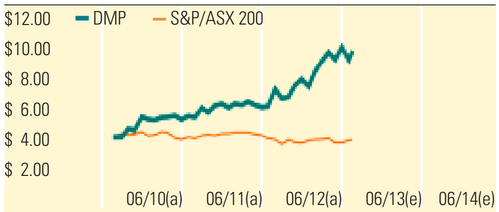
Recommendation **Reduce**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	None
Fair Value ($)	8.00
Morningstar Style Box	
Mkt Cap ($ Mil)	678
Last Review	31/05/12 (YMW20)
Ann. Share Turnover (%)	23.7
ROE-FY12 (%)	23.0
Net Interest Cover (x)	na
52 Week Hi/Low ($)	10.40/6.00
Ex-Dividend	22/08/2012
Payable	14/09/2012

Compound Growth	5Yr	10Yr
EPS %	21.2	na
DPS %	20.0	na

Investment Rating

DMP is the master licence holder for the Domino's Pizza brand in Australia, New Zealand, France, Belgium and The Netherlands. Australia is the third-largest market for Domino's outside the US, slightly behind the UK and Mexico. The stock suits investors seeking exposure to the food and beverage sector. Australia can still increase its store base by a third over the next few years. European growth is much more substantial, with the potential to increase the existing store base by more than three times to over 1000 outlets over the next decade. Management is active, importing marketing strategies from the US and applying them to local trends in individual markets. As a franchisor, DMP's capital requirements are limited, which means royalty payments it receives in the future should continue to be paid as franked dividends.



	06/10(a)	06/11(a)	06/12(a)	06/13(e)	06/14(e)
NPAT ($m)	17.8	21.4	26.9	31.3	35.2
EPS (c)	25.9	30.9	38.4	44.8	50.3
EPS % Chg	15.1	19.3	24.3	16.7	12.3
DPS (c)	17.8	21.9	27.1	31.0	35.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	3.8	3.7	3.5	3.2	3.6
P/E	18.2	19.4	20.3	21.7	19.3

Strong full year result: Powering ahead with growth initiatives

Above/Below Expectations ← Fair Value Up/Down ↑

DMP is yet to feel the ill effects of softer economic conditions as it powers ahead with growth initiatives. We anticipated impressive results and weren't disappointed. Network sales increased 8%, EPS grew 24.3% and free cash flow improved 5% to $25.7m. Underlying NPAT climbed 25.7% to $26.9m, beating our $25.6m forecast. Growth is the top priority and good progress was made locally (Australia and New Zealand) and in Europe. EBITDA margins grew 290bp in ANZ and 210bps in Europe, both better than expected. A fully franked final dividend of 14.1cps pushes FY12 dividend to 27.1cps, an increase of 23.7% on FY11.

Assisted by 70–80 new stores management expects FY13 NPAT growth in the region of 15%. Our revised FY13 and FY14 estimates reflect NPAT growth of 16.6% and 12.4%, respectively – slightly higher than our previous forecasts. We assume compound annual NPAT growth of around 13% over the next five years. Given the potential benefits of economies of scale as store numbers increase across ANZ and Europe, this may prove to be conservative. Our valuation increases from $7.15 to $8.00, which reflects a FY13 PER of 17.9x. We believe the high PER is warranted as DMP has sizable international appeal and is still a relatively young business with significant growth opportunities. At current prices around $9.70, DMP trades at an FY13 PER of 22x. We retain our Reduce recommendation on valuation grounds.

Measure	FY12 Actual	FY 13 Guidance
Same store sales	6.5%	3–5%
New store openings	62	70–80
EBITDA growth	23.1%	~15%
NPAT growth	25.7%	~15%
Net capex	$12.0m	$15–20m

In the highly competitive space of Quick Service Restaurants (QSRs), complacency is the biggest danger. Management, headed by CEO Don Meij, has certainly been integral to the success of Dominos. DMP's digital platforms remain the market standard, with expected online sales estimated to be 55–60% of total Australian sales by June 2013. The launch of an iPad app as well as ordering through Facebook, should drive further online revenue growth. Capex guidance is for $15–20m, mostly attributed to digital expenses as well as corporate store growth. DMP is in a strong financial position, with a net cash position of $12.3m.

Australia and New Zealand

DMPs substantial growth in ANZ is driven by product innovation, improved ingredient quality, investment in online platforms and cross-selling of additional food products. DMP is the market leader in product innovation. Recent innovation like 97% fat free pizzas, low carb crusts and lower fat ingredients clearly indicates management is not standing still. FY12 results impressed. Revenue increased 4.6% to $168.5m and EBITDA margin widened to 24.8%. EBITDA for the segment was up 18.3% to $41.8m, representing 87% of group EBITDA. Further store rollouts and price inflation will be key growth drivers over the medium term. We expect further margin improvements as price efficiencies are gained through a larger store network. Store numbers are estimated to expand from current 559 stores to around 750 in five years.

Europe

Europe was also better than expected, particularly in the Netherlands. EBITDA margins improved 210bp and revenue was up 12.7% to $96.4m. The Europe division, still in its formative years, continues to show encouraging signs. Store numbers grew 10% finishing the year at 349 stores. Corporate stores outgrew those of the franchise model, mostly due to higher returns in the Netherlands as well as credit availability for franchisees. The earnings potential for the division is significant. EBITDA margins of 6.5% are dwarfed in comparison to ANZ's 24.8% but it is early days. Management maintains cost efficiencies can be gained through vertical integration, mainly logistics and transportation.

Analyst: Michael Higgins

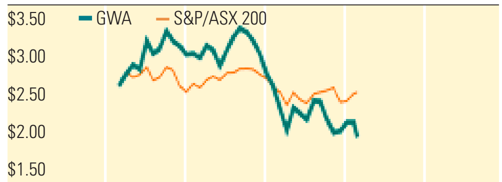
GWA Group GWA | $1.93

Second Line Industrial | Building Fittings

Recommendation **Accumulate**

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	Narrow
Fair Value ($)	2.30
Morningstar Style Box	
Mkt Cap ($ Mil)	581
Last Review	21/06/12 (YMW23)
Ann. Share Turnover (%)	55.8
ROE-FY12 (%)	10.7
Net Interest Cover (x)	5.3
52 Week Hi/Low ($)	2.59/1.84
Ex-Dividend	10/09/2012
Payable	04/10/2012

Compound Growth	5Yr	10Yr
EPS %	-7.2	0.1
DPS %	-1.0	0.6



	6/10(a)	6/11(a)	6/12(e)	6/13(e)	6/14(e)
NPAT ($m)	48.5	63.4	45.6	42.0	48.6
EPS (c)	16.1	20.9	15.1	13.9	16.0
EPS % Chg	-9.3	29.8	-27.8	-7.9	15.1
DPS (c)	18.0	18.0	18.0	12.5	14.5
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	6.1	5.8	9.4	6.5	7.5
P/E	18.5	14.8	12.7	13.8	12.0

Investment Rating

GWA is a leading manufacturer and distributor of building and household fittings. The company is solid and well-managed, with strong brands and positions in not overly competitive markets. Established distribution channels, scale and an emphasis on product development make it difficult for others to enter the market. This reliable cash generator has healthy margins and limited capital expenditure requirements, though earnings are buffeted by residential and commercial building cycles. Additional pressure could come from a simultaneous downturn in renovation and replacement activity, and higher imports.

Weak housing market equals weak FY12 result

Above/Below Expectations Fair Value Up/Down

The FY12 result failed to excite, the 25% EBIT decline is in line with April's downgrade. All GWA's divisions are leveraged to the Australian building sector, all feeling the pressure in a year where dwelling starts declined 13%. Sales declined 6% to $602m, but excluding the acquisition of Gliderol, underlying sales fell 12%. GWA credited 4% of the decline to a fall in new housing starts, 2% due to lower renovation spend and 6% due to the cessation of government solar rebates and stimulus spending.

1H13 NPAT is expected to be below 1H12 NPAT of $27m, but management expects a recovery in housing approvals to flow through in 2H13. Given approvals for detached housing declined 10% over FY12, we do not anticipate any meaningful recovery in starts until FY14. Our $2.30 valuation is unchanged. We trim our FY13 forecasts from $46.4m to $42m – the lagged effect of depressed housing starts delaying an earnings recovery. Despite falling revenue we look for a small EBIT margin improvement as cost cuts take effect, including factory upgrades and transitioning of local manufacturing offshore. We expect revenue growth to resume in FY14, averaging 4–5% pa over FY14–17 with slightly better margins as unit costs decline.

	Revenue	change	EBIT	change	Margin	change
Bathrooms & Kitchens	297.8	-10%	61.0	-23%	20.5%	-320bps
Heating & Cooling	165.8	-15%	13.3	-23%	8.0%	-80bps
Door & Access Systems	138.6	22%	14.1	-18%	10.2%	-490bps
Group (inc corporate costs)	602.1	-6%	75.4	-25%	12.5%	-300bps

The business should perform well when the housing market turns. Concerns about house prices and consumer deleveraging are all discouraging people from buying new houses or renovating. Over the medium term we expect demand for new houses to be supported by population growth, low unemployment and a tight rental market. A reduction in government regulation and fees would also provide a tailwind.

The Bathroom and Kitchen division contributes nearly 70% of earnings and was hurt by reduced government spending. Increases in public housing programs, stamp duty concessions/rebates and first home owner grants all help support demand for GWA products. FY11 heating and cooling earnings were assisted by government rebates on environmental water heaters. Their cessation from February 2012 makes a rebound in FY13 unlikely. Excluding Gliderol, revenue from the Door and Access systems division was down 10%. Margins are expected to improve next year, benefiting from plant closures and new offshore supply agreements.

The fully franked final dividend of 8.5cps takes full year dividends to 18cps as in FY11. Management used 18cps as a floor over the last three years, but this is now unsustainable given the uncertain outlook and a payout ratio around 120% of FY12 EPS. In line with our expectations and call for greater conservatism, the new dividend policy will represent an earnings per share payout ratio of 80–95%, we expect a payout ratio of 90% going forward.

Strong operating cash flows and proceeds from the sale of Sebel commercial furniture and Caroma North America went towards reducing net debt by $24m to $174.5m. Over the last three years divestments have yielded $80m in cash. Net debt to equity is 41% and EBIT/Interest cover is 5.3x. We are quite comfortable with GWA's financial position given the current lull in construction activity, but a depressed market presents acquisition opportunities. We estimate using undrawn facilities and cash GWA could spend around $120m on acquisitions. The DRP was reactivated at a 2.5% discount to bolster its financial fire power, we assume a 10% take up.

Analyst: Nathan Zaia

SMS Mgmt and Tech SMX | $6.10

Small Cap Industrial | IT and Business Management Services

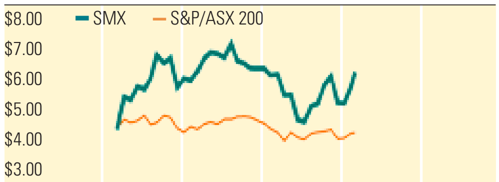
Recommendation **Accumulate**

Buy	Accumulate	Hold	Reduce	Sell
$ 4.60	6.30	7.70	9.40	

Business Risk	**Medium**
Price Risk	Medium
Moat Rating	None
Fair Value ($)	7.00

Morningstar Style Box	
Mkt Cap ($ Mil)	418
Last Review	07/06/12 (YMW21)
Ann. Share Turnover (%)	57.8
ROE-FY12 (%)	27.2
Net Interest Cover (x)	na
52 Week Hi/Low ($)	6.25/4.32
Ex-Dividend	01/10/2012
Payable	26/10/2012

Compound Growth	5Yr	10Yr
EPS %	9.8	20.0
DPS %	7.8	na



	06/10(a)	06/11(a)	06/12(a)	06/13(e)	06/14(e)
NPAT ($m)	27.9	29.8	30.6	32.3	35.2
EPS (c)	40.7	42.7	43.4	45.7	49.9
EPS % Chg	13.7	4.9	1.6	5.3	9.2
DPS (c)	29.0	30.0	30.5	32.0	34.0
Franking%	100.0	100.0	100.0	100.0	100.0
Div Yield%	5.2	4.6	5.7	5.2	5.6
P/E	13.8	15.2	12.4	13.3	12.2

Investment Rating

SMX is a well-established IT services and business management company. It provides a range of consulting services to a diversified portfolio of government and private-sector clients. It operates in a growing industry and experienced strong revenue and earnings growth since 2004, following recovery from the IT sector crash in the early 2000s. We expect the growth trend to continue and also expect further consolidation in what is still a fragmented industry. The balance sheet is strong with no debt, so the company is well placed to make acquisitions. We consider SMX to be a well-run business and an attractive exposure to a growth industry. This is a cyclical industry and staff retention is a key issue, particularly in periods of strong demand. Investors should understand and be comfortable with these risks.

FY12 slightly better than expected and strong pipeline bodes well for FY13

Above/Below Expectations   Fair Value Up/Down

FY12 NPAT rose 3% to $30.6m, marginally better than our forecast for a flat result. While disappointing that revenue growth of 10% did not convert into stronger earnings growth, this was still a good result given project deferrals across a number of sectors. New contract signings were strong, maintaining a good pipeline into FY13, and strong cash flow lead to an increase in cash balances. We continue to view SMX as an attractive business and it remains our preferred exposure in the small IT services sector. It has a very sticky client base, plenty of growth opportunities, a healthy balance sheet and pays an attractive fully franked dividend yield. Our forecasts are for a slight pick up in growth in FY13 and this still seems reasonable. Our valuation increases from $6.50 to $7.00 due to the time value of money since our last update. Our recommendation changes from Hold to Accumulate as a result of our fair value change.

While the short-term outlook remains uncertain we believe SMX is well placed to achieve solid medium-term growth. With margins stabilising we forecast 5% EPS growth in FY13 given the strong sales pipeline. The risk is further project deferrals will see staff utilisation fall and margins decline significantly. Our base case is for a slight drop in margin. FY13 will also benefit from a further $1.5m in cost savings flowing from the $2m overhead reduction program.

SMS occupies an attractive market segment in strategy implementation, project delivery and systems integration. It has a loyal customer base providing a steady flow of work. There are also plenty of growth opportunities by contesting other segments of the Australian IT market, growing share of existing markets by taking advantage of the national practice structure, increasing its Asian presence and expansion into new areas such as cloud computing. Potential acquisitions that strengthen its existing position and expand its capabilities or geographic reach are of interest – the strategy is sound.

SMS Consulting (93% of EBITDA) performed well with a 7.4% increase in EBITDA reflecting strong revenue growth of 11% partly offset by some margin contraction – EBITDA margin down from 20.6% to 19.9%. M & T Resources (the recruitment and contract labour business) reported a 14% decline in EBITDA due to the loss of a significant client, lower demand for permanent recruitment and contractor margin pressure.

The group EBITDA margin declined affected by M & T Resources and the cost of servicing new Asian operations with Australian personnel. Staff utilisation improved from 87% in 1H12 to 89% in 2H12 with the average of 88% in line with the prior year. This contributed to an increase in EBITDA margin from 12.9% in 1H12 to 13.4% in 2H12. The improvement in utilisation reflected a strong focus on staffing levels with selective recruitment. Utilisation remains below the targeted 90% level but we expect a marginal increase in FY13. The pipeline remains strong with new contract signings of $392m, up 12% on FY11, representing a sales to billing ratio of 1.17x. This implies further solid revenue growth in FY13, consistent with our forecasts.

Cash flow was again a positive feature with operating cash flow increasing from $20m to $35.4m. Operating cash flow before interest and tax represents an EBITDA conversion ratio of 109%. Cash balances increased from $24.9m to $30m leaving SMX well placed to fund bolt-on acquisitions. The strong cash position saw the dividend payout policy maintained at 65–70%. The final dividend was increased from 16.5cps to 17cps fully franked taking the full year dividend fro 30cps to 30.5cps fully franked. This represents a payout ratio of 70%.

Analyst: Peter Rae