MONTHLY STRATEGIC OUTLOOK

PATERSONS
THE AUSTRALIAN STOCKBROKER

AUGUST 2011

Shattering the glass debt ceiling

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SHATTERING THE GLASS DEBT CEILING

We maintain a Neutral/Bearish view on the market though would move to a fully Bearish view on a sustained break of All Ordinaries (XAO) 4200, signalling a failure of the 24 months established primary trading range.

There is one major date for stock traders to note in their diaries; US politicians just told traders, and anyone else who cared to listen, that the country will face another debt crisis period in 1QTR 2013. This has been told to the market at the same time as US economic numbers are deteriorating, and debt pressures continue to influence the EU, China and Japan. In Australia there has been a deterioration in confidence based on RBA interest rate settings and government management.

US proposed government spending cuts look weak and implemented over a long period. They do not start significantly till 2013, this "lack of a clear plan to deficit control" is likely to restrain confidence and US economic growth. It is possible the US will have a new government and be back in recession by 2013 making it more difficult to cut spending, or lift taxes.

The US will soon be pushing gross debt to GDP to around 110-115%. However, this is likely to still be sustainable, provided any economic slowdown is not too severe. A US ratings downgrade from AAA will not make much difference to the Bond market given limited alternative liquid AAA options.

Larger structural risk factors probably reside in Japan, the EU, and possibly China, from an Australian perspective, although scope to address problems look more achievable in China. Macro strength to move the stock market still obviously resides in the US, though the US has a highly liquid Bond market and its reserve currency status will see it receive support from multiple parties allowing debt risk levels to be pushed further than many other countries in the world. This is evidenced by the movement of funds into US Bonds during the current stressed period.

Multiple external macro and domestic risk factors are apparent warranting an ongoing conservative stance towards the Australian stock market.

Let's recap

Back in 2007/2008 a downturn in the US property market, leveraged by derivatives, resulted in a freezing of the interbank market and near collapse of the global economy. Central bank intervention, acting to guarantee the interbank market saved the economic system from meltdown. The shock to the global economy crashed stock markets, and private sector demand. Governments raced interest rates to base levels and spent trillions of dollars, much raised through the sovereign Bond markets and thus deficit spending, to replace the drop in private demand. Governments assumed these fiscal and monetary initiatives would be sufficient to stimulate demand for a period, before private sector demand recovered sufficiently for expenditure to be reduced. This effect we saw from 2009 to 2011. However, the anticipated recovery in private sector demand has not occurred.

Absent a recovery in private sector demand, many governments now find themselves saddled with very high debt to GDP levels with little room to move on either the fiscal or monetary sides. Following Bond market collapse in Greece, Ireland and Portugal; Spain, France and Italy are also seeing enhanced risks. A self-reinforced Bond yield spiral remains a primary risk for many countries and the global economy.

To counter this risk central banks in the US, EU and Japan have implemented quantitative easing (QE), government purchases of Bonds to support demand and hold yields down. As stimulatory effects from governments abate global economic growth is declining. Structural risk has partly been shifted from the private financial sector to the sovereigns.

While parts of the vanilla (base) market, such as US stocks and their earnings, have bounced substantially, the underlying financial and debt market structures of the global economy are in a severely stressed state. Multiple risk factors in the vanilla markets are compounded by linked derivatives, or the synthetic markets, adding both risk and complexity.

What are the key structural risk factors?

- **Bank solvency –** if the value of assets against debt held was accurately marked to the market many banks (outside Australia) would be insolvent.
- **Sovereign solvency –** high debt to GDP levels in many countries risks a Bond market collapse.
- **OTC Derivatives –** factor up the risks if vanilla markets experience excess stress.

What are the key structural risk points to watch?

- **A Bond yield expansion not contained by QE efforts, relative to GDP growth –** By buying their own Bonds governments can hold Bond yields down. However, there is a likely point where QE becomes ineffective and the market moves to adjust yields to reflect true debt servicing risks, or the risk of default. Yields moving higher if economic growth improves are not a problem. Thus sovereign Bond market yields and CDS movements are fundamental structural risk factors to watch. The most vulnerable markets to watch are Japanese, Spanish, Italian, French and US Bonds and CDS (For more detail see Weekly Market Wrap 16 February 2011 – Bond yield tipping points you need to know).
- **Economic growth slowing –** The global economy is at a stretched point of risk due to a heavy debt load. A slowdown in global growth could reduce tax receipts and add to debt servicing difficulties.

The biggest deficit is the confidence deficit

The trouble with the world today is that there is extreme oversight; of the wrong people. Lurching from one economic crisis to the next is like shouting at a child for doing something wrong, and then wondering why the child fails to show initiative. Metaphorically, governments and politicians can shout all they like, and the US Treasury, Federal Reserve, European Central Bank, Reserve Bank of Australia, and Bank of Japan do what they may, but until they instil confidence back into the people, the people are not going to show initiative, they are going to play it safe, and playing it safe is both a recipe for stagnation and mediocrity, if it is driven by fear.

The primary business of government is confidence

There is in the end only one role for governments and that is to instil justified confidence in the minds of the people. Unfortunately, that is not happening in Australia, the US, Japan, or the EU. Debt negotiations in the US have highlighted two things. Firstly, that the system is a shambles, and secondly the focus for US default has simply shifted from 2nd August 2011, to 1QTR 2013.

There are two basic measures the US should implement immediately. Firstly, they should do away with having an arbitrary debt ceiling point, and secondly rather than instigating a QE3 the Fed should simply state, "The Federal Reserve maintains its authority to enter the US Bond market when it believes such activity is warranted."

The US debt ceiling is just a point put in place by Congress. There is no reason to have a debt ceiling, especially if it risks periodic default. By having set and defined US QE programs the success and scale of these is measured by the market. Both debt ceiling and QE initiatives in their current form allow quantifiable risk points to be determined and this adds unnecessary stress to global markets.

The US government will increase its debt ceiling limit by US$2.1 trillion, initially reduce spending by US$1 trillion over 10 years, and an additional US$1.5 to US$1.2 trillion by 2021. At least that is the theory. The reality is that the deal does not look very aggressive on the spending cut side and post the 6 November 2012 election much of these potential cuts will be up for debate alongside spending increases.

The spending cuts, if they occur also appear to be pushed out over a long period, and take place on the assumption solid growth will return to the US economy sufficient to deal with cut backs in spending. The reason most cuts have been delayed till past 2013 is the US Government deems the economy to be too weak currently to manage cuts. So there is an assumption that in the future the economy will improve sufficiently to implement spending cuts over a longer period. Certainly a reduction in military expenditure, all going well in Afghanistan and Iraq should assist the deficit situation, however the US deficit will be pushing US$16.4 trillion in the near future.

In the short term the US will be in the market for another US$2.1 trillion. The total US gross national debt is made up of "debt held by the public" valued at approximately US$9.6 trillion and "intra-governmental debt" valued at US$4.6 trillion. Given that a reasonable portion of the debt is owned to itself the US has scope to push debt to GDP levels further. In fact, it could be wise to keep a closer eye on the EU and Japanese debt situations than the US debt situation.

The EU and Japan

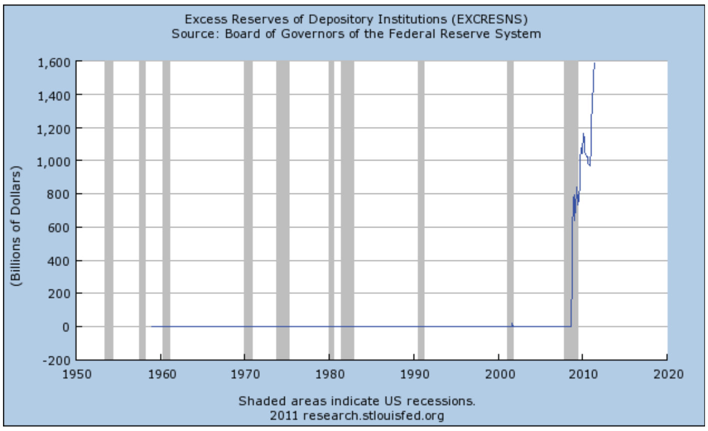
In the EU post the latest "patch up the economy initiatives", the situation is again deteriorating. Spanish and Italian 10Y Bond yields have moved above 6%. There is potential both of these large economies could require a bailout if yields on the 10Y move above 7%.

Looking at selected debt to GDP levels we see the following: Greece 130%, Italy 118.1%, Ireland 94.2%, **France 83.5%**, Portugal 83.2%, **Germany 78.8%**, UK 76.5% and Australia 22%. The key point here is that the two major powers in the EU, Germany and France are not actually that well positioned to be picking up increased exposure risks to the EU periphery. If they have to bailout Spain or Italy they will likely place their own economies at risk. The market has woken up to this fact and has pushed French, Spanish and Italian CDS spreads to new highs, with German CDS spreads also rising in recent weeks.

However, while the US and EU situation gains most of the press the real risk could come from Japan. Japanese debt to GDP now stands at 225.8%. If this keeps rising at its current rate it is only a matter of time before the Japanese economy meets major problems. Because of the structure of the Japanese Bond market a lift in yields could occur almost without warning and be very rapid. The country does have a strong trade position, however running debt to GDP levels this high means yields do not have to lift greatly to present servicing difficulties. The Japanese 10Y Bond yield is, at the time of writing 1.02%. This is extremely low for the risk Bond holders are taking.

US banks – "Do as I do, not as I say"

Arguably, the major US banks are best positioned to assess the financial situation and so it is important to watch what they do, rather than what they say. The major US commercial banks are consistent in one area; they continue to rapidly lift Excess Reserves with the Federal Reserve banks, these recently nearing US$1.6 trillion.



It is hard to believe these actions are a vote of confidence in the future, given this money earns 0.25% per annum and the normal level of Excess Reserves is zero.

It is evident that there is very little confidence within the US banking system, and few places where banks feel confident enough to operate and believe they can receive a return greater than 0.25% per annum.

Forewarned is forearmed

While the above may sound foreboding it is important to understand "nothing is written." We remind clients that risk is defined by position size in the market relative to the whole portfolio and across the full asset base. It is very important in these types of markets to assess the level of portfolio exposure to the market and to be holding appropriate levels of cash reflective of background risks.

Our role is not to shy away from what we see as the economic truth, but to tell that truth without bias so that when investing a client is doing so with the full facts, be they palatable or not. It is about informed decision making and sometimes this makes it necessary to focus on the downside risks, because we know the upside can take care of itself. Adjust portfolios for more difficult times ahead, and to take advantage of opportunities as they are presented in what is set to continue to be a challenging future.

The ASX market is at trading range base lows around XAO 4200. We are currently Neutral/Bearish on the market. However, would move fully Bearish on a clear break below 4200, as this would represent a failure of the 24 month established trading range.

We hold a view to lighten on any bounce in the intermediate downtrend until Italian (10Y 6.18%) and Spanish (10Y 6.25%) Bond yields reduce below 6%. If yields move into the 7% range this will increase the probability the world will enter GFC2.

At the moment the stock market is factoring in a deterioration in background sovereign risks, and a decline in US economic numbers. Also confidence has been damaged by the poor performance of politicians to manage the problems. However, the US will get its additional debt money, and at this stage we do not have a structural failure in the credit markets that cannot be at least held back for a while longer. However, this could change in future, hence our close watching of US, EU and Japanese Bonds and CDS. Thus, the situation is still vanilla and not fully structural, just yet.

Terms used	
Bonds	A method of raising debt capital. As Bond prices rise, yields fall and vice versa.
Credit Default Swaps	A derivative designed to "insure" against Bond default.
Derivative	A financial product deriving its value from a base asset.
OTC Derivative	A derivative product traded in the Over the Counter market, rather than through a central clearing house, and thus facing counterparty risk.
Reserves	Federal Reserve required minimum bank holdings for risk control and monetary policy adjustment.
Synthetic	A product derived from another eg. CDS
Vanilla	A plain structure, such as seen in base assets eg. Bonds.

MARKET STRATEGY:

August 2011: Market – Neutral/Bearish. The All Ordinaries (XAO) is testing 4200 base support. We would move to fully Bearish on a clear break of 4200, a sign the 24 month trading range has failed to the downside. The global economy is slowing, and sovereign debt and credit market risks are rising. The Australian economy is slowing on flood, interest rate, government performance, and dollar pressures. The pace of US economic growth, US/Japanese/EU Bond risk, and Chinese liquidity/inflation are focus issues. The US economy is slowing down, with a recent increase in unemployment to 9.2%, housing entering a double dip, and manufacturing slowing. Excess Reserves continue to rise rapidly, and the credit markets, particularly in real estate, remain very weak. Structural sovereign and financial risks remain in the global economy. US, EU, UK and Japanese monetary policy is set at very stimulatory levels in an effort to lift demand and reduce deflationary expectations. Deflation risk is abating, with inflation pressures in some countries pressuring interest rates against a reasonably slow growth environment. The stock market is currently an interplay between central bank reflation efforts in developed countries, inflation pressures in emerging countries flowing over to some developed countries, mixed economic data, background structural debt risk, currency dynamics, and cashed up companies. Despite recent bailout and support efforts, EU CDS spreads remain high, suggesting stress in the EU sovereign Bond markets. We see the probability of a second US technical recession (defined by two quarters of negative growth) at 50% in 2012. A recession could be avoided by periodic, additional or extended fiscal stimulus and monetary measures. Pressures such as high sovereign debt levels, high Crude oil prices and rising inflation increase the probability of a stagflation scenario. The financial structural risks of 2007/08 are partly reduced by implicit government guarantees. However, sovereign financial risks, particularly related to sovereign Bond markets remain very high. The market is likely to be significantly influenced by ongoing central bank activity. We see the market as prone to both sharp falls and short lived sharp upside corrections. The twelve month technical target is 4900.

Key theme	12-Month view	Primary risks	Technical (XAO 4200)	
The market is likely to long term range trade suggesting the need to recycle dividends, time, and trade positions. A specific stock focus is recommended. The market is testing range lows.	Neutral/Bearish	Sovereign credit risk and financial structural pressures	Support	Resistance
		Bond Yield/Interest rate increases relative to growth rate	Near: 4200	Near: 4300
	1- Month view	US employment and housing pressures	Medium: 4000	Medium: 4400
	Neutral/Bearish	Rising inflation/stagflation	Base: 3080	Primary: 4500/5200
		Neutral capital gains in a cyclical ranging market		

SECTOR	WEIGHTING	COMMENT
Consumer Discretionary	Under weight	Successive interest rate lifts and a weaker housing outlook have started to take some of the edge off the sector outlook. We are Index weight on a view successive interest rate rises and background global economic risks increase the probability of margin pressures and consumers becoming less inclined to spend. Technically the sector has broken downside support.
Consumer Staples	Index weight	More defensive than the Consumer Discretionary sector. Technically the sector is trading on base support.
Energy	Index weight	The longer-term outlook for energy remains positive. The oil price continues to be heavily influenced by OPEC, however is partly trading in line with the S&P500 reflecting the global growth outlook. Middle East and Northern African risk is oil price supportive. Technically the sector has broken below base support.
Financials	Under weight	Tight credit markets, margin contraction and loan book risks are negatives for the sector. However, a rising interest rate environment coupled with enhanced market share for the big four are sector positives in the medium term. Margin pressure, combined with a slight cooling in the Australian property sector are primary influencing factors in the market at the moment. Technically the sector has broken below base support.
Healthcare	Index weight	Expected to benefit long-term by the aging population and government support. The sector has broken below base support..
Industrials	Index weight	A stronger Australian dollar will hamper exports for some companies. Slower offshore demand will also drag. The sector is trading towards base support.
Information Technology	Index weight	The Information Technology Index is stock specific. Technically the sector is trading just below its base having broken support.
Materials	Index weight	China is continuing to significantly drive metal demand. However, the country is currently trying to slow its economy due to rising inflation and property price risks. Chinese efforts to slow its economy remains the primary short term risk. Technically the sector has broken below support.

SECTOR	WEIGHTING	COMMENT
Property Trusts	Index weight	We believe the worst for the sector is behind us and the majority of ASX 200 REITs are in good health and well set for the next upturn. Outside the ASX 200 investors still need to be cautious and selective, given many of these trusts have not recapitalised. We like the sector as a long term four year play for recovery with a good yield in the interim. The sector is trading below long term range support.
Telecommunications	Index weight	The sector has regulatory, competitive and technological change pressures. Difficulty predicting forward earnings adds sector risk. Technically the sector is trading lower off resistance.
Utilities	Index weight	Many stocks in the Utilities sector are moving to more vanilla models and so the sector is in the midst of structural change. This is adding sector risk. Avoid stocks with excess leverage and refinancing risk. Technically the sector has bounced down strongly from resistance and is now mid range.

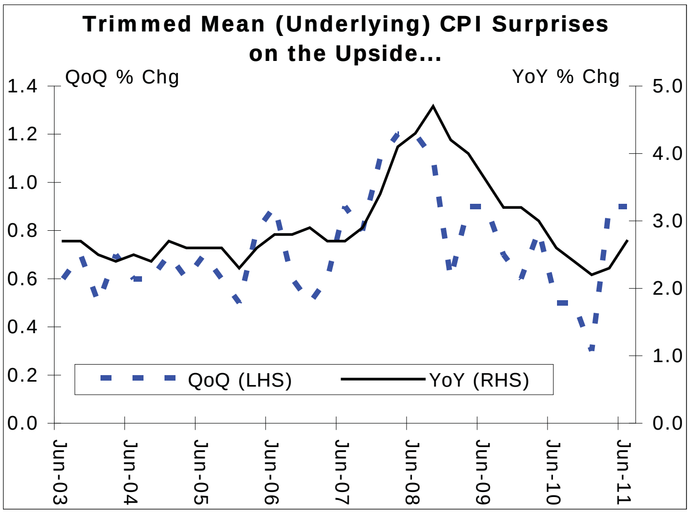
Tony Farnham - Economist

COST PRESSURES APPARENT, BUT RBA SITS PAT, TRIMS GDP GROWTH EXPECTATIONS

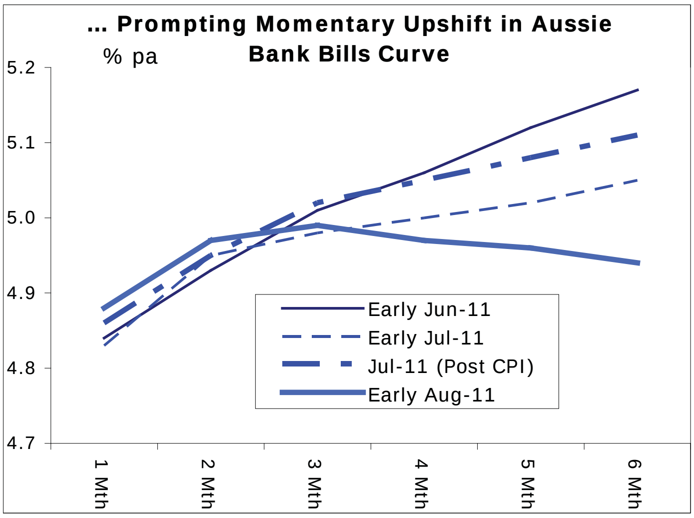
Higher than expected June 2011 quarter CPI disperses interest rate doves for a time

The June 2011 quarter CPI was above expectations, with the quarterly increase, 0.9% on both a headline and underlying basis, up on consensus forecasts of 0.7%. The gain was broad-based with nine of the CPI's 11 groupings advancing in the quarter. The annual (that is, June-on-June) increase in the headline number was 3.6%, while from an underlying perspective, both the Trimmed Mean and Trimmed Median measures rose by 2.7%. Key drivers behind the second quarter increment were fruit (+26.9% - A seasonal/weather-driven spike that will pass), auto fuel (+4.0%) and hospital/medical (+3.4%). There was however a drop in the audio/visual segment, helped by currency effects and softer retailer conditions. All up though, those hoping for a material offset in price pressures due to the rising A$ would be a little disappointed by the latest CPI release. The electricity component was lower, but realistically this retreat is unlikely to be long-lived!

Clearly talk of near-term rate reductions by some economists looks to be overdone at this stage. Indeed, some economists argued that with inflationary expectations trending higher (helped by stronger wage outcomes in "hot" sectors and rising commodity prices) the RBA was becoming concerned about cost pressures. To this must be added the potential for price increases out of policy initiatives like the carbon trading scheme. On the latter issue, we remain sceptical that the assumption that any shift in prices linked to our planned emissions trading scheme will be one-off in nature. Concern over price pressures lessened during the early part of August as several lower than expected economic indicators, including retail sales and building approvals, got some investors thinking cuts again. RBA happy to sit pat for now – and for a time down the track



Source: ABS, Patersons Research



Source: Bloomberg, Patersons Research

The RBA's benchmark interest rate was left unchanged at 4.75% at the August RBA board meeting. The bank was at pains to point out that it was appropriate at the current time for monetary policy to exert a degree of restraint. At the same time though it conceded that a myriad of uncertainties in global financial markets over recent weeks had put the kibosh on any rate hike at the August gathering. This has left us in a holding pattern, with the bank continuing to "assess carefully the evolving outlook for growth and inflation".

The bank gave due regard to the bearishness pervading the global economy at the current time. It conceded that global growth had slowed over the middle part of calendar 2011, helped by worsening fiscal-related dramas in both the US and Europe. The supply dislocations flowing from Japan's Great Eastern earthquake earlier in the year lingered. While there was some evidence that the latter growth impediment was at last abating, any recovery in the Japanese economy is still expected to be a gradual affair.

On the upside though, the all-important Chinese economy has to date only experienced a mild slow-down, despite concerted efforts by authorities there to take the hurt out of cost pressures. This task has been ably assisted by some reductions in commodity prices. Largely on the back of this robust growth in emerging Asia – India is also still powering ahead – the RBA still expects world GDP growth to be at or above its long-term average over the next couple of years.

Despite the abovementioned modest falls in commodity prices, Australia's terms of trade remain high, to the benefit of our external sector performance. This has in turn fuelled (1) a good uplift in resources-oriented business investment levels and (2) ongoing growth in Australia's national income. The ramp up in coal production in the aftermath of the Queensland floods continues – a point highlighted in the recently released June ABS trade data - but any return to more normal levels is now not expected until early next year.

But other parts of the domestic economy remain, in relative terms, subdued. The crucial households sector continues to ultra cautious while the high A$ has provided a drag to profitability in sectors subject to import competition. In the financial sector, bank credit growth has softened over recent months and is very subdued by historical standards, even with evidence of greater willingness to lend – which goes to prove that you can lead a horse to water but you can not make it drink! Most asset prices, including housing-related ones, have also softened over recent months, a view reinforced by the June quarter ABS house price series.

This consumer cautiousness has occurred despite still reasonable growth in employment that has kept the Australian jobless rate around 5%. Some skills shortages are discernible, although these are still confined to the resources and related sectors. At the same time, wages growth has returned to levels seen prior to our Global Financial Crisis-related economic slowdown, while our productivity performance remains sub-optimal.

With regard to cost pressures, the RBA warned that price measures that give a better indication of the trend in inflation have begun to rise over the past six months, after declining for the previous two years. While these measures have, to date, remained consistent with the 2–3% target on a year-ended basis, the RBA is clearly concerned about the medium-term outlook for inflation – this is an unambiguous warning for the Gillard Federal government, the gatekeeper of fiscal and wages policy, to keep these two policy arms under appropriate control!

The RBA downgrades its medium-term GDP growth forecasts

RBA-compiled medium-term growth projections contained in the recently released August 2011 Statement on Monetary Policy were shy of those accompanying the May release. This reflects recognition by RBA economists that the increased frugality of Australian consumers and economic uncertainty created by tax measures and the high A$ have clipped prior growth dynamics. As the table below shows, real GDP growth in calendar 2011 is now forecast to be around trend (the year average figure is projected to be below trend at around 2.0%). In the out-years though, our economic growth rate is still expected to be at trend or higher, on the caveat of continued respectable global growth.

From a costs perspective, the underlying CPI rate is forecast to push above 3.0% in late calendar 2011. This projection explains the RBA's current cautious stance on monetary policy despite the near-term downside to our growth prospects. The second uptick in underlying CPI in FY13 is explained by the planned introduction of the Gillard government carbon tax/emissions trading scheme, the price effects of which are assumed to be temporary (this could be a brave call!)

Shifts in RBA Statement on Monetary Policy Economic Forecasts

GDP (% change over year ended)

	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	Dec-13
August 2011 S on MP	2.70	1.25	3.25	4.50	3.75	3.75	3.75
May 2011 S on MP	2.70	2.50	4.25	4.25	3.75	3.75	3.75
Change	0.00	-1.25	-1.00	0.25	0.00	0.00	0.00

Underlying Inflation (% change over year ended)

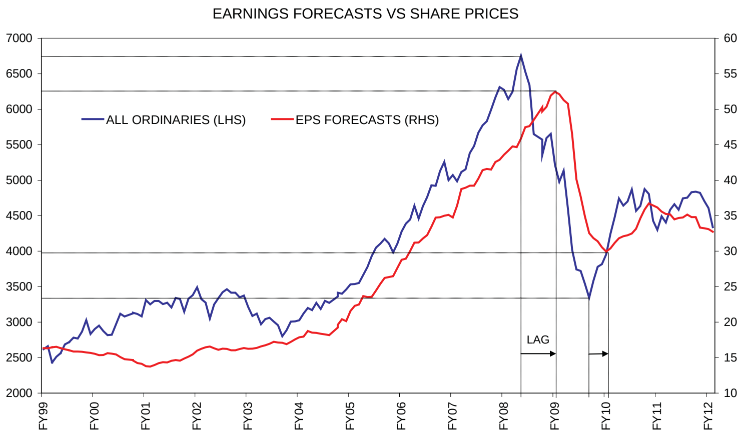
	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12	Jun-13	Dec-13
August 2011 S on MP	2.25	2.75	3.25	3.00	3.25	3.25	3.25
May 2011 S on MP	2.25	2.50	3.00	3.00	3.00	3.00	3.25
Change	0.00	0.25	0.25	0.00	0.25	0.25	0.00

Source: August 2011 and May 2011 RBA Statements on Monetary Policy

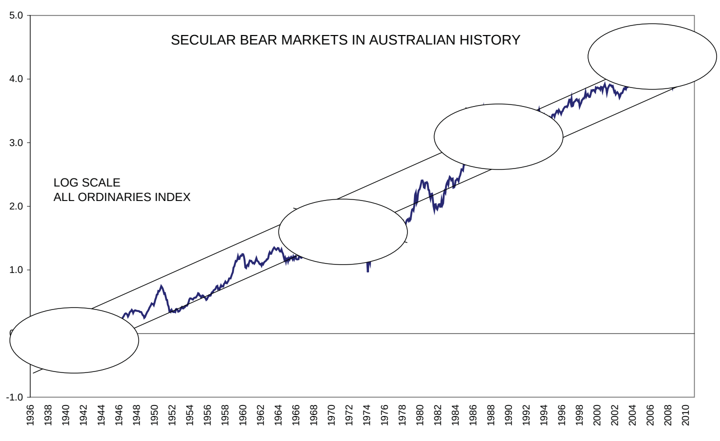
Kien Trinh - Quantitative Analyst

HIGH EARNINGS RISK PRESENT OVER REPORTING SEASON

During the 2011 financial year, the Australian sharemarket has significantly underperformed its US counterpart, returning -2.6% compared to the S&P500 Index return of 28%. There are a number of reasons for this. First and foremost, earnings forecasts for Australian companies have been in decline over the year. In fact, 2011 forecasts have been revised down by 15%, while earnings have being trending upward in the US. Other reasons include quantitative easing in the US (which has artificially inflated prices), the introduction of flawed government policies such as the carbon tax, rising interest rates (in an effort to control inflation caused by rising global commodity and energy prices), and weak consumer and business sentiment. Unfortunately restrictive monetary policies, designed to slow down the booming resources sector, also affect the struggling industrials which have also been victims of the high AUD. Economic conditions have deteriorated. Inflation has come in above expectations. NAB business surveys show a trend in weakening profitability. Building approvals fell 3.5% in June. Car sales dropped by 1.7% in July. Unemployment has risen among the non-mining sectors. Over the financial year, retail spending grew by 2.6%, the weakest growth since the early 1960s. Evidence of the two speed nature of the economy emerged with recent trade figures. Consumer imports fell 0.6% while imports of capital goods such as mining equipment rose 7.3%. These macroeconomic developments point to further earnings downgrades in the industrials sector for the 2012 financial year. The following chart compares the trend in earnings against stock prices since 1999. The deterioration in earnings over the last 16 months points to an environment of rising cost pressures without the corresponding increase in top line revenue. This environment is commonly known as a secular bear market – a very long period of flat or falling equity markets punctuated by a series of bull/ bear market cycles. It is now very likely that we have entered a bear market cycle (beginning in April 2011) within the secular bear market which can last up to 6 years. Markets will need to fully digest the consequences of what initiated the secular bear in the first place – the liquidity crunch and ramifications of short term remedies via quantitative easing and fiscal policies (raising of the US debt ceiling, Greece bailouts). The chart below also shows that a turnaround in earnings forecasts can lag the market reversal by up to 6 months.



To understand where we are in the market cycle, let us take a look at the All Ordinaries Index on a much longer time horizon. The chart below displays the Index on a log scale so that recent market movements can be compared with those in history. Since 1936, the average capital gain on the share market is 5.8% per annum. There have been 3 significant bear markets lasting four or more years over this time period. Although secular bear markets may appear daunting at first glance, investors should not avoid the market during this extended period otherwise they will miss out on opportunities presented by aggressive bull markets within the secular trend (as witnessed from 2009 to 2010).



Given the difficult macroeconomic backdrop, it is not surprising that the historical trend in positive earnings surprises has been coming down. In the 1H11 reporting season, positive surprises were on par with negative surprises at 24%. The sectors that are predominantly affected by negative surprises in this environment include media, retailing, steel, transportation, insurance, diversified financials, and building materials. On the other hand, sectors that are most likely to surprise on the upside are telecoms, banks, mining, mining services, packaging, property and healthcare. Company executives have learned over time that if they provide modest earnings guidance, then beat or meet expectations, their management and company performance looks much better. Hence, there is an increasing trend for companies to revise their earnings guidance prior to reporting season. Companies that have provided downgrades to guidance recently include OGC, MQG, WES, MBN, MCC, PNA, HVN, RSG, DJS, MRE, KZL, QAN, ABC, BKW, MMX, PPX, TPI, QAN, GUD, APN, WOR, PPT, TAH and TEN. Those that have inferred upgrades to earnings guidance are LEI, KMD, SBM, WHC, ORI, OSH, STO, NCM, WOW, WSA, OZL, FLT, FMG, ILU, NUF, ERA, BKN, MAH, SDL, FWD, and SGM

A key theme this reporting season is the effect of the strong AUD on companies with overseas earnings. Investors should pay attention to the translation effect of the currency on companies that are negatively impacted. These include PPX, BSL, OST, IPL, ALL, JHX, QBE, CTX, CSR, SGM, RMD, ANN, CSL, COH, NWS, WOR, BBG, and BLD. Resource companies that are most at risk from diverging movements between commodity prices and the AUD are GBG, MGX, ERA, PAN, OZL, WSA, FMG, AGO, GCL, MCC, AQA, and ILU.

A significant amount of earnings risk appears to have been factored into the share prices. Companies that are able to report a stabilisation in earnings in the second half and provide upbeat guidance for 2012 will be strong outperformers. Rebuilding efforts from the QLD floods and Japan natural disasters is expected to assist near term profit growth, especially for contractors and coal companies. Stocks to look out for are TLS, BOQ, GWA, FWD, IPL, BKN, MAH, TRS, DOW, MGR, DXS, GPT, SGP, CHC, JBH, WTF, CPU, COH, CSL, RMD, UGL, CTX, ORG, STO, TOL, AGK, PRY, SMX, WOR and ALL.

Our quant team has identified companies with a history of positive earnings surprises and price reactions post result announcements. Stocks that have strong track records of meeting expectations or positively surprising the market over the reporting season are ORI, FXJ, CCL, MGR, RHC, CSL, GPT, UGL, MND, WOW, CGF, NCM, TRS, FWD, SEK, JBH, ANN, BLD, BKN and SAI. Industrial stocks which have a history of disappointing the market over the reporting season include IAG, APN, PRY, GFF, BSL, QBE, AUN, COF, SWM, HST, VBA, TPI, SUN, BBG, NUF and ELD.

POSITIVE EARNINGS SURPRISE						
No	Code	Earnings Surprise (%)	Earnings Delivery (%)	Earnings Uncert. (%)	Price Reaction	3-Mth Earnings Revision
1	ORI	75.0	100.0	3.5	1.00	-1.4
2	FXJ	61.5	100.0	5.9	0.90	-11.4
3	CCL	34.3	100.0	1.4	0.81	-1.8
4	WBC	42.2	97.8	5.8	0.52	0.3
5	CSL	58.2	96.7	7.0	0.48	-2.8
6	MAH	38.2	96.4	24.4	0.62	2.2
7	LLC	39.6	95.6	8.8	0.38	0.7
8	NAB	93.3	95.6	3.9	0.29	1.3
9	MGR	42.5	94.8	1.8	0.71	-0.6
10	RHC	50.9	94.2	6.1	0.67	0.9
11	ALL	49.5	93.3	5.4	0.67	-15.1
12	GPT	50.3	92.4	1.6	0.86	-0.3
13	CTX	49.5	92.3	23.4	0.76	-14.8
14	UGL	53.8	92.3	3.1	0.71	-0.4
15	MND	70.9	90.9	3.2	0.67	-0.8
16	WOW	24.2	90.1	1.1	0.86	-0.9
17	CGF	27.3	89.1	8.6	0.71	-0.5
18	DJS	21.0	88.6	3.1	0.62	-14.8
19	NCM	50.9	87.1	5.9	0.71	-10.5
20	MQG	33.3	86.7	8.1	0.81	-15.4

NEGATIVE EARNINGS SURPRISE						
No	Code	Earnings Surprise (%)	Earnings Delivery (%)	Earnings Uncert. (%)	Price Reaction	3-Mth Earnings Revision
1	AWE	12.4	13.3	196.3	0.33	-38.8
2	GBG	0.0	20.0	91.0	0.38	-17.8
3	IAG	1.1	26.4	14.9	0.48	-2.2
4	ROC	27.6	27.6	104.5	0.33	13.4
5	APN	1.1	28.6	11.4	0.29	-13.4
6	AWC	19.8	29.7	27.6	0.19	-13.0
7	MMX	30.0	30.0	60.4	0.28	-38.0
8	PRY	22.8	30.1	10.2	0.10	0.0
9	GFF	10.9	30.9	7.4	0.38	-2.4
10	TAP	14.3	33.3	395.9	0.25	-38.5
11	BSL	26.4	34.1	23.5	0.52	-31.3
12	QBE	9.5	34.3	9.8	0.38	-3.4
13	PBG	15.4	34.6	72.3	0.24	-9.3
14	PDN	15.6	35.6	127.3	0.14	-29.0
15	KZL	22.2	36.1	45.3	0.29	-25.8
16	KCN	37.8	37.8	33.4	0.36	-13.7
17	AUN	39.6	41.8	21.5	0.43	-0.9
18	SFH	25.5	41.8	5.3	0.39	-32.0
19	COF	17.9	42.9	26.2	0.33	-2.8
20	ERA	43.4	50.7	261.6	0.71	-72.0

Source: Patersons Quant: NB: Price Reaction is the probability of a price rise after a result announcement.

PATERSONS
THE AUSTRALIAN STOCKBROKER

Tony Farnham - Economist

THE END-JUNE BANK SECTOR REPORTING CYCLE BECKONS

All of the Big-4 Australian banks are soon to provide profit and/or trading updates

The next bank reporting cycle is close at hand, with Commonwealth Bank of Australia (CBA), Bendigo & Adelaide Bank (BEN) and Suncorp Group (SUN) all set to announce year ended June results over August. The remaining three major Australian banks will issue fiscal third quarter trading updates.

The following table shows key dates for Australian banks reporting over the month of August.

Upcoming Bank Reporting Dates

	Result	Announced	Ex-Div	Record Date	Payable
BEN	FY11	8-Aug	29-Aug	2-Sep	30-Sep
CBA	FY11	10-Aug	15-Aug	19-Aug	6-Oct
SUN	FY11	24-Aug	29-Aug	2-Sep	3-Oct
Upcoming Bank Trading Updates					
NAB	3Q11	9-Aug	na	na	na
WBC	3Q11	16-Aug	na	na	na
ANZ	3Q11	19-Aug	na	na	na

Source: Various bank announcements/websites

What are the broad themes expected in these results?

Muted growth in loan books will be a key thematic of the profit/trading update announcements to be released over August. This reflects (1) consumer cautiousness, which has been a definitive growth impediment in the personal and housing market segments and (2) a raft of domestic and global uncertainties that are currently impacting demand for funds by our ex-mining corporate sector. This drag on net interest income levels has seen a discernible nudging down in bank analysts' projections for CBA, BEN and SUN FY11 cash earnings – the following table provides a pointer to the cash profits and DPS levels likely to be delivered by these three financial institutions over their 2011 fiscal years.

Upcoming Bank Results - Cash Earnings & DPS Projections

	Cash Profit	DPS	
	Full Year, $B	2H11, cents	FY11, cents
BEN	0.33	31.0	61.0
CBA	6.877	182.0	314.0
SUN	0.614	16.0	31.0

Source: Bloomberg, various brokers

We anticipate that bad debt expense will be wound back on a FY11-on-FY10 basis. We do however anticipate that bad debt levels will trend higher between 1H11 and 2H11, as the adverse impact of the early 2011 floods, a distinctly two-speed economy (which should boost SME bad and doubtful debts) and a more recent uptick in mortgage arrears have an effect. This said, banks should remain comfortable with the overall level of credit quality. At the same time, reduced heat in the domestic deposit market – helped by a retreat to deposits by cautious investors and the reduced growth in loan books since the RBA wheeled out a series of rate hikes – should be of benefit to net interest margin performance. The latter has partially offset the NIM drag provided by increased price competition in lending markets (particularly the mortgage segment).

Looking to FY12 – muted credit growth but no material blow out in funding costs or bad debt expense

Looking to the following six months or so, the general expectation is that the usually scant trading environment statements will talk down any chance of a pick up in lending growth, as current nervousness – both here and abroad - persists. The resolution of the US debt impasse (albeit temporary!) and signs that Chinese economic growth remains robust should help bolster lending growth, but this recovery process will be a gradual affair.

On the assumption that Australia's FY12 sees economic growth is around 3.0% plus annual CPI growth of around 2.5-3.0%, private sector credit growth of 5-6% looks likely. The stronger than expected September quarter CPI has thrown a spanner in the works, although talk of another monetary policy tightening before 2011 is out remains unlikely. Were rate hike expectations to rise, personal and housing loan activity would remain subdued. At this stage, we would be surprised if the RBA adjusts one way or another before the November board meeting (the first after the release of the September 2011 quarter CPI). Either way, we anticipate that National Bank (NAB) will continue to be an outperformer from a loan book growth perspective, thanks to its price leadership strategy which is bequeathing them increased market share.

Some recovery in the NZ operations of our Big-4 Australian banks looks likely – a point reinforced by a relatively upbeat NZ trading update recently issued by Westpac (WBC). Signs are already apparent that private sector credit growth in the Kiwi economy is on the rise, helped by the relatively low interest rates currently in place. Aligning with this view, the RBNZ in June hinted that it could soon tighten monetary policy settings as the economy regained its composure post the early 2011 Christchurch earthquake.

More generally we anticipate that the banks will become more attentive to cost structures, with cost to income ratios to be gradually wound back over the coming few years.

CBA to get a new CEO in November

CBA recently announced that its long-time CEO Ralph Norris would retire at the end of November. This was perhaps a little earlier than expected, but nothing to get overly fussed about. The successful BankWest acquisition and a definite improvement in consumer satisfaction levels have been delivered during the incumbent's watch. Norris is to be replaced by Ian Narev, who has been with the CBA since May 2007 and is currently head of the bank's Business & Private Banking arm. While the CEO-elect is well-credentialed, he has not held a leadership role in the CBA's all-important Retail Banking operation. The market will be watching closely for evidence that the current boss of the Retail arm, Ross McEwan (who is well-regarded and was considered another potential internal candidate for the CEO role) is happy with being passed over. Were he to leave soon (it is a reasonable assumption that he will be fielding calls from head-hunters for a time!), the CBA share price could experience some momentary weakness.

Banks now look cheap; CBA and WBC are still our preferred bank exposures

We expect a continuation of the current RBA rates pause. At the same time, the stock market is valuing our banks on the assumption of modest single-digit expansions in bank loan books and limited scope for a blow out in bad debt experience. This clear evidence that Australian banks are definitely not priced for perfection – forward PEs for our banks now approximate those seen in the GFC, while prospective FY12 dividend yields are around 6% fully franked – means definite value exists. This is especially so for the Big-4, which have clear advantages over the regionals.

This being the case, increased attention should be paid to which bank can best deliver on cost reductions and/or other competitive advantages. On the latter front, investors will look more closely at points of difference between our Major-4 banks, inclusive of ANZ's Asian push, WBC's multi brand and Strategic Investment Priorities (SIP) initiatives and the potential first mover advantage provided by the CBA's substantial IT program.

We remain unconvinced that NAB's price leadership strategy, which will likely have NIM (inclusive of funding) ramifications over the medium to longer term. We will be closely monitoring its performance for evidence of any slippage in credit quality and/or increased stresses on the funding front.

We continue to prefer WBC and CBA We beg to differ with the Buy NAB, Sell WBC skew still evident in bank analyst reports and consider now a good opportunity to switch from NAB into WBC.

HIGHLIGHTED STOCKS

SECTOR WEIGHTING	Under Weight	
COMPANY	RECOMMENDATION	COMMENT
Westpac Banking Corporation (WBC)	BUY	Cash NPAT of $3.2bn for 1H11 was 7% higher than 1H10 and in line with our expectations. The jump in profits was primarily due to the 47% reduction in bad debts from $0.9bn to $0.5bn. Operating revenue declined 1% on pcp, but was up a modest 2% on pp. The key retail banking operations of Westpac and St George underpinned group performance, generating 48% of 1H11 cash NPAT. 1H11 net interest margins improved 4bps on 2H10 to 2.21%, but were 5bps lower than 1H10. Statutory NPAT was up 38% to $4.0bn.
Commonwealth Bank of Australia (CBA)	ACCUM	CBA reported 3Q11 cash NPAT of $1.7bn. CBA's outlook continues to grow a little brighter with each result. While operating conditions remain challenging, management's commentary and tone were more relaxed than at the interim result, which itself had a less cautious outlook statement than the FY10 result.

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COAL

Andrew Harrington - Resources Analyst, coal and specialty metals
Matthew Trivett - Resources Analyst, coal, fertilisers and specialty metals

COAL AND CARBON

On 10 July, the Federal Government announced details of the proposed carbon price mechanism as agreed by the Multi Party Committee on Climate Change. The mechanism proposes a fixed price carbon tax commencing on 1 July 2012 to operate for 3 years before transitioning to a cap and trade emissions trading scheme. The fixed price will commence at $23 per tonne of CO2 equivalent, indexed at 2.5% in real terms.

There is still a level of uncertainty around the scheme however we can assume Australian coal companies will be charged with 3 additional costs (direct and indirect).

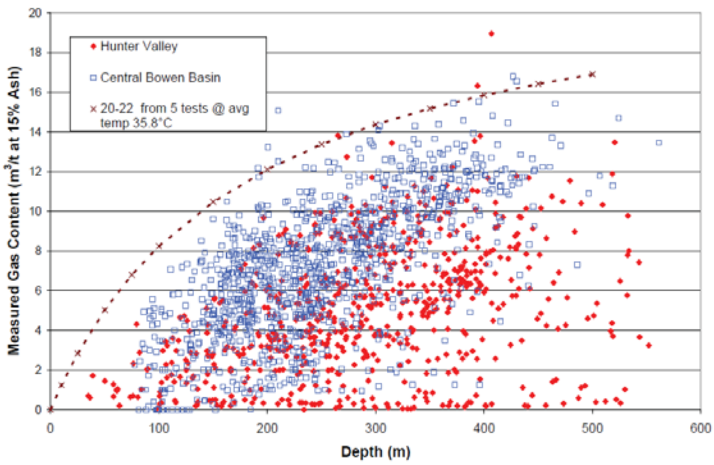
1. Fugitive methane emissions

2. A proposed 6 cent per litre reduction in the diesel fuel excise rebate.

3. Pass through costs on electricity, port and rail charges.

Points 2 & 3 will be borne by the whole mining industry while the first point will be a coal related expense. There has been some work in quantifying fugitive gas emissions generated from black coal as a by-product of the mining process in recent years. In 2006 a study by the CSIRO estimated that coal mining and handling contributed 3% of Australia's net greenhouse gas emissions and this will increase significantly with the estimated increase in coal production.

Methane is produced when coal is being formed underground but only a fraction is retained in the coal which is then released in the mining process. The fraction retained depends on permeability on the coal, the sealing nature of the overlying rocks, and the pressure of the rocks and fluids in the overburden. There is an assumption that gas content will increase with depth because the gas adsorption capacity of a given rank of coal will increase with increasing pore pressure. However, evidence shows there is a high level variability to this relationship. The chart below, collated and plotted by Esterle et al (2006), shows the variability in coal seam gas content as a function of depth across the Hunter valley and Bowen Basins. It indicates that some very deep mines have small gas content while some shallow mines have relatively high gas contents



There are 3 methods available for the calculation of fugitive methane emissions for open cut mines using State, basin or coalfield estimates. State wide assumptions have all open cut coal mines in Queensland emitting 0.017 tonnes of CO2 equivalent per tonne of coal produced, regardless of the actual quantity of emissions produced. All open cut coal mines in New South Wales are treated as emitting 0.045 tonnes of CO2 equivalent per tonne of coal produced, regardless of the actual emissions produced. The other two methods are based on actual in-situ gas contents and they will be mine specific.

A single method of calculation is used for underground mines. It involves direct measurement of methane emissions in the exhaust ventilation of the mine which is considerably easier than quantifying open cut emissions. For proposed mines not yet operating direct measurement cannot yet be undertaken, but an estimate can be made based on the in-situ gas content of the coal as measured during exploration. It will be up to each individual company to analyse, evaluate and report carbon emissions. They will also have to implement energy efficiency opportunities and manage methane emissions.

The carbon tax will make Australia's coal industry less competitive in international terms; however the carbon tax imposed on fugitive emissions will create competitive advantages within the Australian industry. Open cut Queensland producers and developers will be the least impacted such as Cockatoo Coal (COK) and Bandana (BND) while offshore developers such as ZYL Limited (ZYL) and Coalspur Mines (CPL) could benefit once the carbon tax is legislated.

HIGHLIGHTED STOCKS

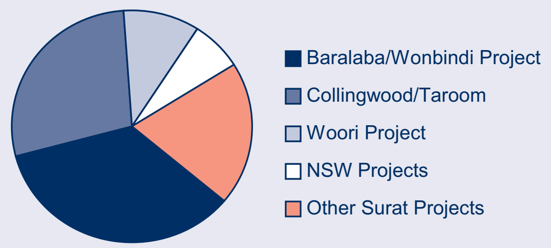
SECTOR WEIGHTING	Index Weight	
COMPANY	RECOMMENDATION	COMMENT
Cockatoo Coal Ltd (COK)	BUY	Mine in production at Baralaba and many other thermal and coking projects in QLD and NSW. COK has raised capital already and shareholders and JV partners that are very large coal consumers from Korea and Japan. .
ZYL Ltd (ZYL)	BUY	ZYL is developing an open cut anthracite project in South Africa. It is fully funded to production in late 2012 or early 2013. ZYL is lead by a strong management team and it is only 100km from port with infrastructure available.

Cockatoo Coal Limited $0.46

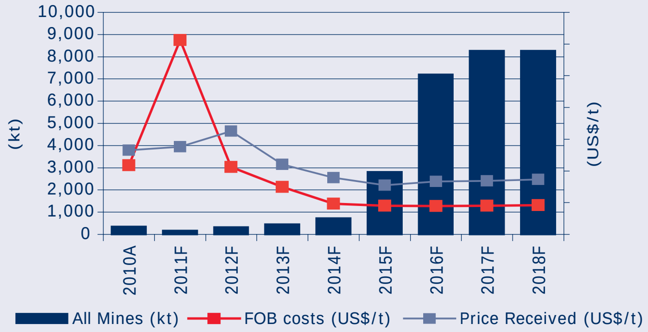
Year End June 30

Valuation	A$m	A$/sh
Baralaba/Wonbindi Project	292.9	0.29
Collingwood/Taroom	235.6	0.23
Woori Project	84.6	0.08
NSW Projects	59.3	0.06
Other Surat Projects	168.0	0.16
Cougar Energy Shares	0.3	0.00
Corporate	(56.4)	(0.06)
Unpaid Capital	0.0	0.00
Ambre+ATEC Investments	5.5	0.01
Cash	48.8	0.05
Debt	(16.3)	(0.02)
NPV	**822.2**	**0.81**
Price Target		**0.80**

Valuation Summary of Coal Assets



Coal Production Summary



Resources & Reserves (Mt)			
Wonbindi (PCI/Thermal)			**Total**
Resouces - Meas+Ind. - Inf. - Tot.	44.7	19.4	64.1
Reserves - Prov -Prob - Tot	0.0	25.8	25.8
Baralaba (PCI/Thermal)			
Resources	25.4	75.6	101.0
Reserves	0.0	7.7	7.7
North Surat JV (Thermal)			
Resources	274.2	245.0	519.2
Reserves	0.0	40.6	40.6
Surat Projects (Thermal Resources)	236.1	324.0	560.1
Kingaroy (Thermal Resources)	163.8	114.0	277.8
Hume & Bylong (Coking & Thermal)	265.0	273.0	538.0
Group Total	1009.2	1051.0	2060.2

Directors

Norman Seckold	Executive Chairman
Mark Lochtenberg	Managing Director
Peter Nightingale	CFO and Company Secretary
SM Woo	Non-Exec Independent Director
Paul Chappell	Non-Exec Independent Director
Gillis Broinowski	Non-Exec Independent Director
Lindsay Flint, Robert Yeates	Non-Exec Independent Director
Hak Hee Lee, Scott Thompson	Non-Executive Director
Joo-Ok chang	Non-Executive Director

Substantial Shareholders	**Shares (m)**	**%**
Posco Aust	88.7	8.7
SK Australia Pty Ltd	55.4	5.5
Kepco/Kewepo	49.9	4.9
UBS	48.7	4.8
Harum Energy Aust.	41.7	4.1
Kores	41.4	4.1

Commodity Assump.	2010A	2011F	2012F	2013F
US$/A$	0.8939	0.9869	1.0225	0.9750
Hard Coking Coal (US$/t)	151.00	248.75	302.50	211.25
Semi-soft Coking Coal (US$/t)	111.25	182.50	227.50	152.50
PCI Coal (US$/t)	202.40	232.50	232.50	157.50
Thermal Coal (US$/t)	110.00	122.92	122.50	97.50
Domestic Thermal Coal	44.85	45.39	48.72	49.87

Production Summary	2010A	2011F	2012F	2013F
Attributable Saleable Coal Production				
Baralaba/Wonbindi (kt)	353	164	326	450
FOB costs (US$/t)	128.71	326.42	126.14	94.65
Price Received (US$/t)	152.54	158.21	182.86	130.48
Taroom/Collingwood (kt)	0	0	0	0
FOB costs (US$/t)	0.00	0.00	91.56	79.22
Price Received (US$/t)	0.00	0.00	193.84	136.47
Woori (kt)	0	0	0	0
FOB costs (US$/t)	0.00	0.00	58.73	54.66
Price Received (US$/t)	0.00	0.00	122.44	97.54
Surat (kt)	0	0	0	0
FOB costs (US$/t)	0.0	0.0	0.0	0.0
Price Received (US$/t)	0.0	0.0	0.0	0.0
All Mines (kt)	353	164	326	450
FOB costs (US$/t)	128.7	326.4	126.1	94.7
Price Received (US$/t)	152.5	158.2	182.9	130.5

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	62.4	29.6	58.3	60.2
Other Income	1.5	3.7	2.6	3.7
Operating Costs	50.8	33.7	40.2	43.7
Exploration Exp.	0.0	0.0	0.0	0.0
Corporate/Admin	8.8	28.8	11.5	11.8
EBITDA	**4.3**	**(29.2)**	**9.2**	**8.5**
Depn & Amort	0.1	0.4	1.3	1.8
EBIT	**4.2**	**(29.6)**	**7.9**	**6.7**
Interest	0.7	0.2	1.9	5.1
Operating Profit	**3.5**	**(29.8)**	**6.0**	**1.6**
Tax expense	0.0	0.0	0.0	1.6
Abnormals & Minorities	0.0	(4.9)	0.0	0.0
NPAT	**3.5**	**(34.7)**	**6.0**	**(0.0)**
Normalised NPAT	**2.5**	**(20.9)**	**4.2**	**1.1**

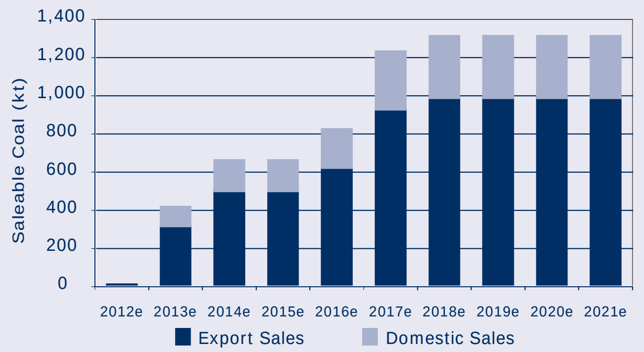
Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	3.5	(34.7)	6.0	(0.0)
+ Interest/Tax/Expl Exp	0.7	0.2	1.9	6.7
- Interest/Tax/Expl Inc	6.7	9.5	11.9	17.0
+ Depn/Amort	0.1	0.4	1.3	1.8
+/- Other (Associates)	7.3	3.0	0.0	0.0
Operating Cashflow	**5.0**	**(40.6)**	**(2.8)**	**(8.5)**
- Capex (+asset sales)	12.9	131.1	(34.7)	77.2
- Working Capital Increase	5.3	0.0	0.0	0.0
Free Cashflow	**(13.2)**	**(171.7)**	**32.0**	**(85.7)**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	42.8	145.7	0.0	0.0
+ Debt drawdown (repaid)	(7.5)	5.5	42.5	57.2
Net Change in Cash	**22.1**	**(20.5)**	**74.5**	**(28.5)**
Cash at End Period	32.2	11.6	86.1	57.6
Net Cash/(Debt)	27.2	(4.0)	27.9	(57.8)

Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	32.2	11.6	86.1	57.6
Total Assets	136.0	271.5	318.3	376.6
Total Debt	5.0	15.7	58.2	115.4
Total Liabilities	22.7	33.4	75.9	133.1
Shareholders Funds	113.3	238.2	242.4	243.5
Ratios				
Net Debt/Equity (%)	na	1.7%	na	23.7%
Interest Cover (x)	5.8	(131.2)	4.2	1.3
Return on Equity (%)	3.1%	na	2.5%	na

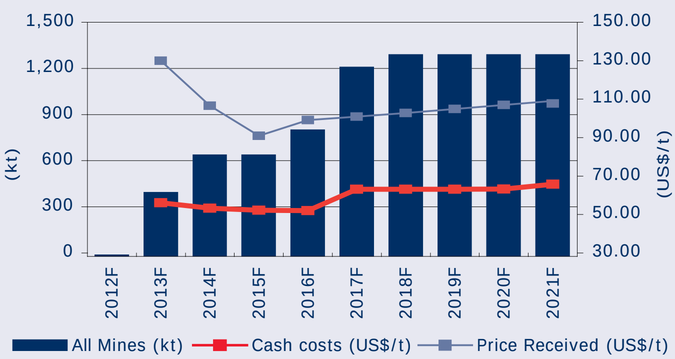
ZYL Limited	$0.230	Year End June 30

Valuation	A$m	A$/sh
Kangwane	265.0	0.54
Coal Resources	0.0	0.00
FX Hedging	0.0	0.00
Corporate	(7.1)	(0.01)
Unpaid Capital	0.5	0.00
Cash	33.0	0.07
Debt	(1.0)	(0.00)
NPV	**290.4**	**0.59**
Price Target		**0.60**

Coal Sales (equity basis) by coal type



Coal Prodcution Summary



Resources 100% Basis (Mt)

Mine		Total
Kangwane Resources		
Measured	21.4	**21.4**
Indicated	25.5	**25.5**
Inferred	67.2	**67.2**
Total Resources		**114.1**

Directors

Name	Position
Bevan Tarratt	Chairman
Dr Eric Lilford	Managing Director
Mzwandile Nombewu	Director of Siyanda Resources
David Greenwood	Non-Executive Director
Nicholas Ong	Company Secretary
Ian Benning	Country Director

Significant Shareholders	Shares (m)	%
Macquarie Bank	39.7	8.2
Sing-Tang	23.9	5.0
Mighty River International	21.8	4.5

Commodity Assumptions	2011F	2012F	2013F
US$/A$	0.9869	1.0225	0.9750
Hard Coking Coal	248.75	302.50	211.25
Semi-soft Coking Coal	182.50	227.50	152.50
PCI	195.00	232.50	157.50
Export Thermal Coal	106.00	122.50	97.50
Domestic Thermal Coal (A$/t)	45.39	48.72	49.87

Production Summary	2011F	2012F	2013F
Attributable Saleable Coal Production			
Kangwane (kt)	1	1	408
FOB costs (US$/t)	60.91	63.77	56.11
Price Received (US$/t)	154.17	191.69	129.97
All Mines (Kt)	**1**	**1**	**408**
Cash costs (US$/t)			56.11
Price Received (US$/t)			129.97

Profit & Loss (A$m)	2011F	2012F	2013F
Sales Revenue	**0.2**	**0.2**	**54.3**
Other Income	0.5	1.2	1.0
Operating Costs	0.1	0.1	23.5
Exploration Exp.	0.0	0.0	0.0
Corporate/Admin	1.0	1.2	1.2
EBITDA	**(0.4)**	**0.2**	**30.6**
Depn & Amort	0.0	0.0	0.6
EBIT	**(0.4)**	**0.2**	**30.0**
Interest	0.1	0.1	0.1
Operating Profit	**(0.4)**	**0.1**	**29.9**
Tax expense	0.0	0.0	9.0
Abnormals + Minorities	0.0	0.0	0.0
NPAT	**(0.5)**	**0.1**	**20.9**
Normalised NPAT	**(0.4)**	**0.1**	**20.9**

Cash Flow (A$m)	2011F	2012F	2013F
Adjusted Net Profit	(0.5)	0.1	20.9
+ Interest/Tax/Expl Exp	0.1	0.1	9.1
- Interest/Tax/Expl Inc	0.5	0.5	9.5
+ Depn/Amort	0.0	0.0	0.6
+/- Other (Associates)	0.0	0.0	0.0
Operating Cashflow	**(0.9)**	**(0.3)**	**21.1**
- Capex (+asset sales)	5.2	11.3	2.2
- Working Capital Increase	1.0	0.0	0.0
Free Cashflow	**(7.1)**	**(11.6)**	**18.9**
- Dividends (ords & pref)	0.0	0.0	0.0
+ Equity raised	32.8	0.0	0.0
+ Debt drawdown (repaid)	1.0	0.0	0.0
Net Change in Cash	**26.7**	**(11.6)**	**18.9**
Cash at End Period	27.9	16.3	35.2
Net Cash/(Debt)	26.9	15.3	34.2

Balance Sheet (A$m)	2011F	2012F	2013F
Cash	27.9	16.3	35.2
Total Assets	34.4	34.6	73.3
Total Debt	1.0	1.0	1.0
Total Liabilities	1.1	1.1	19.0
Shareholders Funds	33.3	33.4	54.4
Ratios			
Net Debt/Equity (%)	na	na	
Interest Cover (x)	na	3.3	510.8
Return on Equity (%)	na	0.4%	38.5%

OIL AND GAS

Scott Simpson - Senior Oil and Gas Analyst

EARLY STAGE AUSTRALIAN SHALE APPRAISAL COULD PROVE A KEY GROWTH SECTOR

2011 is proving a very eventful year for early stage Australian shale appraisal, with a number of definitive programs getting underway and increasing interest in our projects from North American companies & investors. Upcoming shale and tight gas appraisal programs include activities in the Perth Basin, Nappamerri Trough, Canning Basin and activities in a number of basins in Central Australia. The increased activity is in light of the explosion of successful shale appraisal in the USA and a roll out of exploration globally to secure and appraise prospective shale plays. Up until 2011, work had consisted of technical/geological studies based on core and logging data, however 2011 has seen the commencement of a series of planned drill, frac and flow test activities, targeting shale formations. The first of these was BPT/ADE's recent test of the Holdfast-1 well in the Nappamerri trough which provided some very encouraging initial flow results. However one of the most significant programs in 2011 is set to commence, with TSX listed PetroFrontier's planned appraisal program getting underway in the southern Georgian Basin. This will initially include the drilling of two full horizontal appraisal wells drilled into the Arthur Creek shale horizon followed by multistage fracture stimulation - a first for shale exploration in Australia. CTP holds 6 million acres in the basin and is therefore highly leveraged to any encouraging results from the planned program. The activity is reflective of a growing interest in Australia's non-conventional resources from Nth American interests which understand the upside from securing early stage non-conventional resource plays and are willing to carry the early risk capital. This interest includes the entry of PetroFrontier into the southern Georgina Basin, the Hess farm-in to the Beetaloo Basin, Rodinia's activities in the Officer Basin and the recent ConocoPhillips farm-in to the Canning Basin.

In this space we cover CTP which is highly leveraged to the upcoming PetroFrontier program, ADE which has provided some promising initial test results from the Cooper Basin and AWE which is set to commence its first frac and flow test in the Sep Q in the Perth Basin. While Australia is at a very early stage of appraisal we believe that several juniors are leveraged to significant potential upside with early catalysts including the farmout of interest in large acreage positions to significant parties and the results of initial testing programs. In China we also closely follow SEH's highly prospective tight gas appraisal project.

Oil was supported at +$95/bbl through the majority of June, with WTI finishing the month lower at $US93/bbl. However recent US and European debt issues together with a fears of slowing economy has sent WTI crude prices lower in early August. The current market price is inline with our long term oil price assumption of US$95/bbl.The Brent oil premium continues to Siden, with a 2nd August Brent Oil price of US$116.46 representing a $23/bbl premium.

Our long term view on the oil and gas sector remains unchanged with a focus on profitable oil and gas producers with a solid growth engine and portfolio of near-term and funded catalysts. We also have a strong focus on quality junior oil and gas explorers which are likely to generate significant organic growth from the early stage technical work-up and farm-out of prospective acreage in emerging plays.

HIGHLIGHTED STOCKS

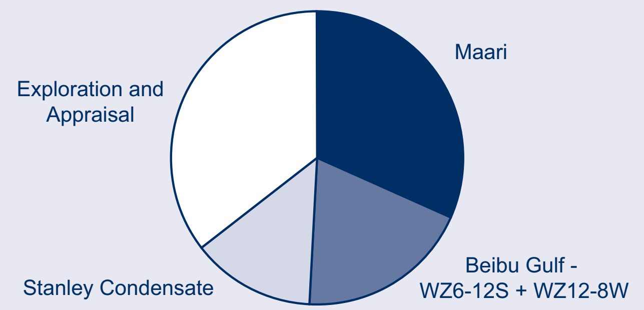
SECTOR WEIGHTING	Index Weight	
COMPANY	RECOMMENDATION	COMMENT
Horizon Oil Ltd (HZN)	BUY	HZN remains our key mid-cap oil producer with a unique portfolio of growth projects. Recent appraisal results in PNG look likely to yield a material increase in recoverable volumes, with maiden reserves estimates due in the coming months. Underpinned by production from its 10% interest in the Maari oilfield, HZN is progressing a number of projects which include the Beibu Gulf development, the Stanley Condensate project and further exploration and development of its NZ interests.
Neon Energy Ltd (NEN)	BUY	With a substantial increase in production at NSA, NEN is funded to benefit from a number of exploration and appraisal opportunities in the USA and in its prospective acreage in Vietnam. Upcoming steam production trials of the 100mmbbls of oil in place at Paris Valley could yield significant value, even at low recoveries. In Vietnam NEN recently completed independent resource assessments across its 2 x blocks by mid-2011 and plans to drill 3 x wells in Q2 2012, subject to ongoing farmout.
Oil Search Ltd (OSH)	BUY	OSH remains our preferred large-cap oil exposure with upside to be driven by the potential for 2011 Hides development drilling and a targeted farmout of its Papua Gulf area permits to allow for drilling of key targets in 2012. While trains 1 and 2 underpin the current share price, upside is contingent on a 3rd train expansion. OSH plans a "two-pronged strategy" to grow its business which includes exploration and appraisal in the highland region and exploration of resources in the Papua Gulf area. Key catalysts will be the farmout of its Gulf Area and appraisal drilling set to commence in the Highlands in late 2011.
Tap Oil Ltd (TAP)	BUY	With TAP's cash generating assets set to deliver a steady cash-flow, it is underpinned to meet committed expenditure and targeted growth. The company appears clear in its strategy to become more commercially driven (as evidenced by the successful re-sale of a 25% stake in WA-351) and will focus on Thailand, the Carnarvon Basin and Ghana for growth. Catalysts include 3rd party verification of the volumetrics at Zola-1 and any further news on potential development/commercialisation; exploration drilling in Thailand; further work-up of prospects and potential farmout in Ghana; drilling in WA-351 in early 2012 and a 2011 targetd FID for the Finucane discovery.

Horizon Oil Limited $0.33 Year End June 30

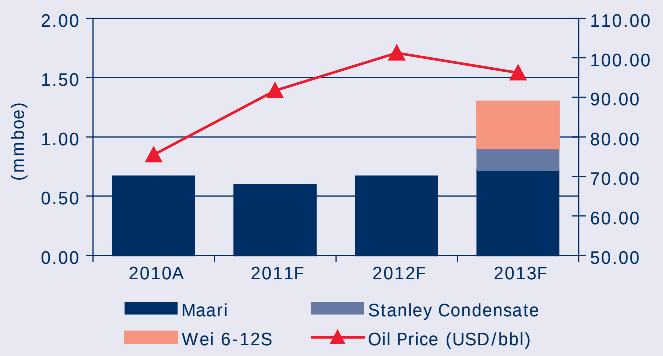
Valuation	A$m	A$/sh
Maari	178	0.16
Beibu Gulf - WZ6-12S + WZ12-8W	122	0.11
Stanley Condensate	85	0.08
Exploration & Appraisal	223	0.20
Corporate	(25)	(0.02)
Cash - as at March Q	61	0.05
Debt as at June Q plus additional $40m	(115)	(0.10)
Total @ 10% Discount Rate	**529**	**0.47**
Price Target		**0.47**

Valuation Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A$/sh)	0.43	0.47	0.51
Exchange Rate Sensitivity (A$/sh)	0.49	0.47	0.45

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Net Reserves - Sep 2010	**Oil/Cond (mmbbl)**	**Gas (bcf)**	**Total (mboe)**
2P Reserves			
Maari	6	0	6
Block 22/12 Wei 6-12+12-8W	6	0	6
Block 22/12 Wei 12-8E	5	0	5
Total Group	**17**	**0**	**17**

Directors

Name	**Position**
Fraser Ainsworth	Chariman
Brent Emmett	Managing Director & CEO
Michael Sheridan	Company Secretary & CFO
John Humphrey	Non-Executive Director
Robert Laws	Non-Executive Director
Gerrit J de Nys	Non-Executive Director

Substantial Shareholders	**Shares (m)**	**%**
Acorn Capital Ltd	96.0	8.5
CBA	72.1	7.4

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.89	0.99	1.02	0.98
Crude Oil - WTI (USD/bbl)	75.43	91.72	101.25	96.18

Production Summary	2010A	2011F	2012F	2013F
Maari				
Oil/Condensate (mmbl)	0.7	0.6	0.7	0.7
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mmboe)	0.7	0.6	0.7	0.7
Wei 6-12S				
Oil/Condensate (mmbl)	0.0	0.0	0.0	0.4
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mmboe)	0.0	0.0	0.0	0.4
Stanley Condensate				
Oil/Condensate (mmbl)	0.0	0.0	0.0	0.2
Gas (PJ)	0.0	0.0	0.0	0.0
Total (mmboe)	0.0	0.0	0.0	0.2
Total (mmboe)	**0.7**	**0.6**	**0.7**	**1.3**
Total (mboepd)	**1.92**	**1.60**	**1.83**	**3.46**

Profit & Loss (US$m)	2010A	2011F	2012F	2013F
Sales Revenue	**48.0**	**59.4**	**67.5**	**117.0**
Other Income	0.2	23.3	2.2	0.3
Operating Costs	2.8	9.4	3.4	13.4
Royalties	0.1	1.5	0.0	1.9
Exploration Exp.	0.2	0.0	0.0	0.0
Corporate/Admin	5.7	6.3	5.7	5.8
EBITDA	**39.4**	**65.4**	**60.6**	**96.2**
Depn & Amort	12.1	11.0	13.5	26.9
EBIT	**27.3**	**54.4**	**47.2**	**69.2**
Financing Cost	3.2	2.5	5.1	8.4
Operating Profit	**24.1**	**51.9**	**42.1**	**60.9**
Abnormals - Pre Tax	(32.6)	(7.3)	0.0	0.0
Tax expense	4.3	17.7	18.6	29.4
Minorites	0.0	0.0	0.0	0.0
Abnormals - Post Tax	0.0	0.0	1.0	1.0
NPAT	**52.3**	**26.8**	**24.5**	**32.5**
Normalised NPAT	**19.7**	**34.2**	**23.5**	**31.5**

Unit Revenue / Costs	2010A	2011F	2012F	2013F
Sales Revenue / boe ($/boe)	68.5	101.5	101.1	92.5
Cash OPEX / boe ($/boe)	14.4	28.6	16.0	16.4
Non-cash OPEX / boe ($/boe)	15.3	19.8	17.7	21.6
EBIT / boe ($/boe)	39.0	93.0	70.7	54.8
NPAT / boe ($/boe)	74.9	58.4	35.3	24.9

Cash Flow (US$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	19.9	34.2	23.5	31.5
+ Interest/Tax/Expl Exp	7.7	20.3	23.6	37.8
- Interest/Tax/Expl Inc	17.8	24.6	52.9	41.8
+ Depn/Amort	12.1	11.0	13.5	26.9
+/- Other	0.8	9.2	(7.3)	(7.3)
Operating Cashflow	**22.7**	**50.1**	**0.5**	**47.1**
- Capex (+asset sales)	7.8	16.1	109.0	46.7
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**14.9**	**34.0**	**(108.5)**	**0.4**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.2	0.5	0.0	0.0
+ Debt drawdown (repaid)	(28.8)	55.6	45.0	35.0
+ Other	29.6	(52.2)	0.0	0.0
Net Change in Cash	**16.0**	**37.9**	**(63.5)**	**35.4**
Cash at End Period	26.5	64.5	0.9	36.3
Net Cash/(Debt)	4.5	(15.5)	(124.1)	(123.7)

Balance Sheet (US$m)	2010A	2011F	2012F	2013F
Cash	26.5	64.5	0.9	36.3
Total Assets	171.6	240.0	311.2	375.3
Total Debt	40.5	80.0	127.6	156.4
Total Liabilities	57.3	97.8	145.4	178.1
Shareholders Funds	114.4	142.2	165.8	197.2
Ratios				
Net Debt/Equity (%)	na	10.9	74.8	62.7
Interest Cover (x)	8.5	22.0	9.3	8.3
Return on Equity (%)	45.8	18.9	14.8	16.5

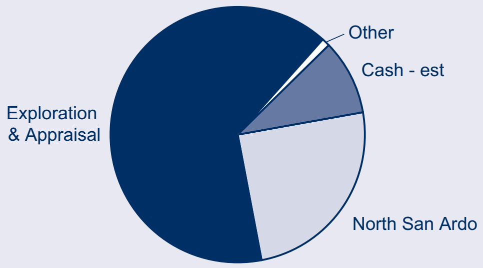
Neon Energy Limited $0.41

Year End June 30

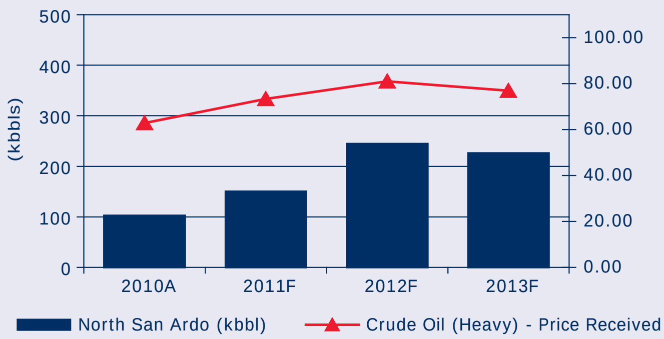
Valuation	A$m	A$/sh
North San Ardo	69	0.15
Exploration & Appraisal	225	0.49
Other	7	0.02
Cash -est	26	0.06
Corporate	(9)	(0.02)
Debt	0	0.00
Total @ 10% Discount Rate	**318**	**0.69**
Price Target		**0.69**

Valuation Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A$/sh)	0.66	0.69	0.72
Exchange Rate Sensitivity (A$/sh)	0.71	0.69	0.68

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Reserves - Net NEN as at June 2010	**Oil/Cond (mmbbl)**	**Gas (bcf)**	**Total (mboe)**
2P Reserves			
North San Ardo	3.8	0.0	3.8
Paris Valley	9.1		9.1
Total Group	**13.0**	**0.0**	**13.0**

Directors

Name	**Position**
Alan Stein	Non-Executive Chairman
Ken Charsinsky	Managing Director
John Lander	Non-Executive Director

Substantial Shareholders	**Shares (m)**	**%**
BlueGold Global Fund	28.9	15.0

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.89	0.99	1.05	1.00
Crude Oil - WTI (USD/bbl)	75.43	91.72	101.25	96.18
Crude Oil (Heavy) - Price Received	62.81	73.37	81.00	76.95

Production Summary	2010A	2011F	2012F	2013F
North San Ardo (kbbl)	103	158	245	226
Other				
Total (kbbl)	103	158	245	226
North San Ardo (bbl/day)	281.29	431.88	670.25	620.01
Other				
Total (bbl/day)	**281**	**432**	**670**	**620**

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	**7.4**	**13.6**	**18.8**	**17.4**
Other Income	0.2	0.0	0.0	0.0
Operating Costs	2.6	2.5	3.5	3.5
Exploration Exp.	0.0	0.3	0.0	0.0
Corporate/Admin	4.3	4.5	3.2	3.3
Royalty	1.5	3.0	4.1	3.8
EBITDA	**(0.9)**	**3.3**	**7.9**	**6.8**
Depn & Amort	1.4	1.9	3.0	2.9
EBIT	**(2.3)**	**1.4**	**5.0**	**3.9**
Interest	0.0	0.0	0.0	0.0
Operating Profit	**(2.3)**	**1.4**	**5.0**	**3.9**
Tax expense	0.0	0.0	0.0	0.0
Minorites	0.0	0.0	0.0	0.0
FX Adjustment	(1.7)	(4.7)	0.0	0.0
NPAT	**(4.0)**	**(3.3)**	**5.0**	**3.9**
Normalised NPAT	**(4.0)**	**(3.3)**	**5.0**	**3.9**

Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	(1.5)	1.4	5.0	3.9
+ Interest/Tax/Expl Exp	0.0	0.3	0.0	0.0
- Interest/Tax/Expl Inc	1.3	4.9	3.4	0.0
+ Depn/Amort	1.4	1.9	3.0	2.9
+/- Other	(1.4)	(1.1)	0.0	0.0
Operating Cashflow	**(2.8)**	**(2.4)**	**4.5**	**6.8**
- Capex (+asset sales)	2.5	3.9	4.9	2.1
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(5.3)**	**(6.3)**	**(0.3)**	**4.7**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	5.3	24.7	0.0	0.0
+ Debt drawdown (repaid)	(0.1)	0.0	0.0	0.0
+ Other	(1.5)	5.6	0.0	0.0
Net Change in Cash	**(1.6)**	**24.1**	**(0.3)**	**4.7**
Cash at End Period	1.8	25.8	25.5	30.2
Net Cash/(Debt)	1.8	25.3	25.5	30.2

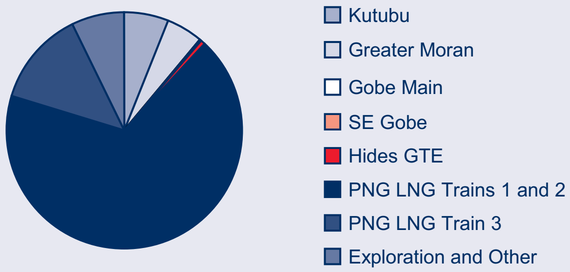
Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	1.8	25.8	25.5	30.2
Total Assets	46.8	68.8	73.7	77.6
Total Debt	0.0	0.5	0.0	0.0
Total Liabilities	5.2	5.5	5.5	5.4
Shareholders Funds	41.6	63.3	68.2	72.2
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
Return on Equity (%)	na	na	7.3	5.4

Oil Search Limited $6.93 Year End December 31

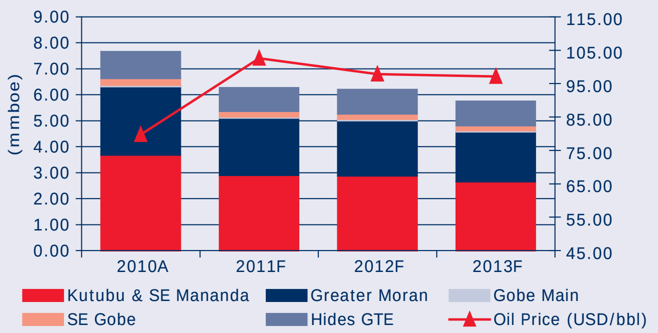
Valuation	A$m	A$/sh
Kutubu	634	0.48
Greater Moran	583	0.44
Gobe Main	4	0.00
SE Gobe	18	0.01
Hides GTE	50	0.04
PNG LNG Trains 1 and 2	7925	5.98
PNG LNG Train 3	1456	1.10
Exploration and Other	818	0.62
Other Costs	(299)	(0.23)
Corporate	(150)	(0.11)
Debt	(1242)	(0.94)
Cash	1144	0.86
Total @ 10% Discount Rate	**10941**	**8.25**
Price Target		**8.25**

Price Target Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A$/sh)	7.30	8.25	9.19
Exchange Rate Sensitivity (A$/sh)	9.12	8.25	7.55

Valuation Summary of Operating Assets



Production Summary



Reserves

2P Reserves - Net OSH Dec 2010	Totals at (mmboe)
Kutubu	19.4
SE Mananda	0.6
Greater Moran	21.5
Gobe Main	0.3
SE Gobe	0.8
Hides	11.3
PNG LNG Project	505.4
Total Group	**559.3**

Management

Name	Position
Peter Botten	Managing Director
Brian Horwood	Chairman
Agu Kantsler	Non-Executive Director
Zygmunt Switkowski	Non-Executive Director
Martin Kriewaldt	Non-Executive Director
Gerea Aopi	Non-Executive Director
John Stitt	Non-Executive Director
Robert Igara	Non-Executive Director
Kostas Constantinou	Non-Executive Director

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.89	0.99	1.02	0.98
Oil Price	79.74	102.56	97.85	97.14

Production Summary (mmboe)	2010A	2011F	2012F	2013F
Kutubu & SE Mananda	3.7	2.9	2.9	2.7
Greater Moran	2.63	2.23	2.16	1.96
Gobe Main	0.06	0.04	0.04	0.04
SE Gobe	0.25	0.20	0.19	0.17
Hides GTE	1.03	0.93	0.93	0.93
Total	**7.7**	**6.3**	**6.3**	**5.8**

Profit & Loss (US$m)	2010A	2011F	2012F	2013F
Sales Revenue	**557.0**	**675.2**	**542.2**	**494.0**
Other Income	33.4	0.0	0.0	0.0
Opex	87.5	108.4	106.6	98.7
Royalty	9.8	9.4	8.2	7.5
Corporate/Admin	16.6	19.0	18.8	17.4
EBITDAX	**476.5**	**538.4**	**408.6**	**370.4**
Exploration Exp.	131.2	94.4	112.2	0.0
EBITDA	**345.3**	**444.0**	**296.4**	**370.4**
Depn & Amort	44.7	60.2	59.2	49.6
EBIT	**284.9**	**383.8**	**237.2**	**320.8**
Interest	7.7	5.0	5.0	5.0
Operating Profit	**277.2**	**378.8**	**232.2**	**315.8**
Tax expense	91.6	189.4	116.1	157.9
Minorities	0.0	0.0	0.0	0.0
-FX Adjustment	(0.8)	0.0	0.0	0.0
NPAT	**184.8**	**189.4**	**116.1**	**157.9**
Normalised NPAT	**144.1**	**189.4**	**116.1**	**157.9**

Cash Flow (US$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	185.6	189.4	116.1	157.9
+ Interest/Tax/Expl Exp	246.3	288.8	233.3	162.9
- Interest/Tax/Expl Inc	518.1	371.2	350.1	248.9
+ Depn/Amort	44.7	60.2	59.2	49.6
+/- Other	46.3	118.9	0.0	0.0
Operating Cashflow	**4.6**	**286.1**	**58.5**	**121.5**
- Capex (+asset sales)	908.7	1311.9	955.1	641.0
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(904.1)**	**(1025.8)**	**(896.6)**	**(519.6)**
- Dividends (ords & pref)	33.8	0.0	0.0	0.0
+ Equity raised	3.9	0.0	0.0	0.0
+ Debt drawdown (repaid)	931.2	817.6	619.2	430.8
+ Other	(55.7)	0.0	0.0	0.0
+ Dividend Reinvestment Plan	33.9	0.0	0.0	0.0
Net Change in Cash	**(24.5)**	**(208.2)**	**(277.4)**	**(88.7)**
Cash at End Period	1263.6	1055.4	778.0	689.3
Net Cash/(Debt)	1263.6	(691.9)	(1588.5)	(2108.0)

Balance Sheet (US$m)	2010A	2011F	2012F	2013F
Cash	1,263.6	1,055.4	778.0	689.3
Total Assets	4,288.7	5,461.3	6,236.6	6,736.1
Total Debt	929.7	1,747.3	2,366.5	2,797.3
Total Liabilities	1,490.2	2,449.2	3,072.6	3,384.4
Shareholders Funds	2,798.5	3,012.2	3,164.0	3,351.7
Ratios				
Net Debt/Equity (%)	na	23.0	50.2	62.9
Interest Cover (x)	37.1	76.8	47.4	64.2
Return on Equity (%)	6.6	6.3	3.7	4.7

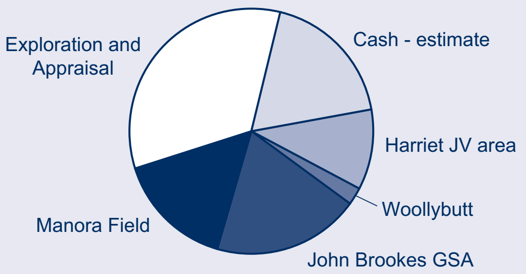
Substantial Shareholders	Shares (m)	%
Independent Public Business Corporation	196.6	14.9%
The Capital Group Companies, Inc.	164.28	12.4%

Tap Oil Limited $0.85 Year End December 31

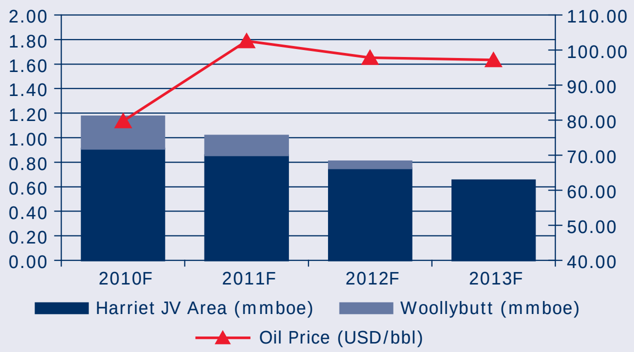
Valuation	A$m	A$/sh
Harriet JV area	32	0.13
Woollybutt	7	0.03
John Brookes GSA	66	0.27
Manora Field	51	0.21
Exploration and Appraisal	122	0.51
Cash - estimate	53	0.22
Corporate	(33)	(0.14)
Other	40	0.17
Total @ 10% Discount Rate	**339**	**1.40**
Price Target		**1.40**

Price Target Sensitivity	-10%	0%	+10%
Oil Price Sensitivity (A$/sh)	1.38	1.40	1.42
Exchange Rate Sensitivity (A$/sh)	1.42	1.40	1.38

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources

Reserves - as at Dec 2010	Oil/Cond (mmbbl)	Gas (bcf)	Total (mboe)
2P Reserves			
Harriet JV (est.)	1.1	9.1	2.6
Woollybutt	0.2	0.0	0.2
Total Group	**1.3**	**9.1**	**2.8**
John Brookes GSA Resource (est.)	0.0	22.0	3.7

Directors

Name	Position
Neale Taylor	Chariman / Non Exec Director
Troy Hayden	MD and CEO
Peter Lane	Non Executive Director
Mike Sandy	Non Executive Director
Douglas Bailey	Non Executive Director

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.93	1.03	1.01	0.94
Crude Oil - WTI (USD/bbl)	79.74	102.56	97.85	97.14
Gas Price - contracted ($/GJ)	1.80	1.81	1.84	1.88

Production Summary	2010A	2011F	2012F	2013F
Harriet JV Area (mmboe)	0.91	0.82	0.71	0.62
Woollybutt (mmboe)	0.26	0.15	0.05	0.00
Total (mmboe)	**1.12**	**0.97**	**0.76**	**0.62**
Harriet JV Area (kboepd)	2.49	2.24	1.94	1.69
Woollybutt (kboepd)	0.72	0.40	0.15	0.00
Total (kboepd)	**3.08**	**2.65**	**2.08**	**1.69**

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	**71.4**	**66.8**	**61.9**	**55.8**
Other Income	5.5	17.9	4.5	3.4
Operating Costs	30.0	19.2	18.3	15.0
Exploration Exp.	70.5	7.9	18.7	15.0
Rolayties	1.2	1.6	1.5	1.4
Corporate/Admin	13.4	7.4	7.6	7.7
EBITDA	**(38.2)**	**48.5**	**20.3**	**20.1**
Depn & Amort	27.8	16.8	13.1	10.6
EBIT	**(65.9)**	**31.8**	**7.2**	**9.4**
Interest	1.3	0.0	0.0	0.0
Operating Profit	**(67.3)**	**31.8**	**7.2**	**9.4**
Abnormals Pre-Tax	9.1	0.0	0.0	0.0
Tax expense	(15.0)	10.5	3.7	3.1
Minorites	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
NPAT	**(61.4)**	**21.2**	**3.5**	**6.3**
Normalised NPAT	**2.9**	**21.2**	**3.5**	**6.3**

Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	(61.4)	21.2	3.5	6.3
+ Interest/Tax/Expl Exp	56.9	18.4	22.4	18.1
- Interest/Tax/Expl Inc	48.7	40.4	41.0	33.1
+ Depn/Amort	27.8	16.8	13.1	10.6
+/- Other	13.3	(6.9)	0.0	0.0
Operating Cashflow	**(12.2)**	**9.1**	**(2.0)**	**2.0**
- Capex (+asset sales)	2.2	2.8	4.7	1.7
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(14.4)**	**6.3**	**(6.7)**	**0.3**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	55.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	0.0	0.0	0.0
+ Other	0.4	(15.7)	(20.8)	0.0
Net Change in Cash	**41.0**	**(9.4)**	**(27.5)**	**0.3**
Exchange rate effects	(1.3)	0.0	0.0	0.0
Cash at End Period	99.1	89.8	62.3	62.6
Net Cash/(Debt)	99.1	89.8	62.3	62.6

Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	98.9	89.8	62.3	62.6
Total Assets	325.1	324.0	326.6	332.9
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	94.6	72.2	71.3	71.3
Shareholders Funds	230.5	251.8	255.3	261.6
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
Return on Equity (%)	na	8.4	1.4	2.4

Substantial Shareholders	Shares (m)	%
M&G Investment Management	37.5	15.6%
Northern Gulf Petroleum Holdings Ltd	13.4	5.6%

RESOURCE SERVICES

David Gibson - Industrial Analyst

REPORTING SEASON PREVIEW

August reporting season is almost upon us and it is always worth taking some time to examine potential outperformers and underachievers from earnings results.

With the period for confessions now largely behind us the market is likely to be shifting attention towards those companies that are best placed to exceed consensus forecasts.

Stocks that have consistently outperformed market expectations in the resource services sector include ASL, MND and RQL. While other companies that we believe are well poised to post strong results relative to market expectations also include: MLD, TOX, RCR and UGL.

As ever guidance statements from management will drive share prices immediately following the initial reaction to results with some companies being more adept than others at providing a clear picture of the near and medium term outlook.

With global uncertainty affecting sentiment and sector earnings multiples the prevailing investment themes we are following over the short term embrace quality and well-priced growth.

For exposure to oil and gas services, which has a longer investment cycle (can be viewed as less cyclical than mining-related services), we prefer Mermaid Marine Australia Ltd (MRM).

The sector remains generally well capitalised and some companies have begun making bolt-on acquisitions however we believe larger deals are being hampered by valuation and a low appetite for integration risk.

Stocks currently offering relatively high dividend yields in the sector include BKN (5.3% ff), FWD (6.1% ff), MND (5.3% ff) and UGL (6.2% ff).

HIGHLIGHTED STOCKS

SECTOR WEIGHTING	Index Weight	
COMPANY	RECOMMENDATION	COMMENT
Ausdrill Ltd (ASL)	BUY	Earnings linked to producing gold and iron ore mines offering strong size-adjusted earnings growth.
MACA Ltd (MLD)	BUY	High margin contract miner with strong return on assets leveraged to production volume growth.
Monadelphous Group Ltd (MND)	BUY below $18.00/sh	Seasoned performer with strong track record of beating market earnings expectations.
Mermaid Marine Australia Ltd (MRM)	BUY	Preferred exposure to WA oil and gas investment. Currently cheap historically.
RCR Tomlinson Ltd (RCR)	BUY	Strong order book with above average growth anticipated in FY12 driven by improving margins and cheap acquisitive earnings.
Resource Equipment Ltd (RQL)	BUY	Track record of beating expectations, high growth niche offering leveraged to dewatering.
Tox Free Solutions Ltd (TOX)	BUY	Leveraged to resources waste treatment. Looking to overcome mixed interim result.
UGL Ltd (UGL)	BUY	Improving earnings momentum with clear funding headroom and a well-proven business model.

Ausdrill Limited $3.28 Year End June 30

Valuation	$m	$/sh
DCF Valuation		
Present value of free cashflows	1,462	4.78
Present value of franking credits	42.2	0.14
Net cash/(debt)	(123.8)	(0.40)
Options proceeds	13.8	0.05
NPV (WACC 10.7%)	**1,394**	**$4.55**

12-month Price Target	2011F	2012F
Capitalisation of future maintainable earnings		
EBIT($m)	112.7	144.1
EBIT multiple (x)	9.0	9.0
Net Debt (Cash) ($m)	(6.9)	(24.7)
Implied Valuation ($m)	1,021.5	1,321.4
$/sh	**$3.76**	**$4.34**

Divisional ($m)	2010A	2011F	2012F	2013F
Revenue				
Supply & Logistics	30.9	52.8	55.4	58.2
Manufacturing	22.4	48.4	56.1	63.3
Australian Contract Mining	362.1	510.6	569.6	596.2
African Contract Mining	216.6	258.9	311.0	429.4
Other	22.3	19.4	19.4	21.9
EBITDA				
Supply & Logistics	0.2	2.9	3.0	3.1
Manufacturing	7.3	15.5	18.5	20.9
Australian Contract Mining	104.6	129.3	154.3	161.5
African Contract Mining	51.8	67.4	86.9	120.7
Other	2.9	0.1	2.5	2.8
Unallocated	(14.6)	(20.4)	(23.3)	(26.9)
Group EBITDA	**152.1**	**194.7**	**241.9**	**282.1**

Assumptions	2011F	2012F	2013F
A$:US$	0.9869	1.0225	0.9750

Sensitivity (PT)	-10%	0%	10%
A$:US$	4.47	4.45	4.38

Directors & Substantial Shareholder

Name	Position
Terence O'Connor	Non Executive Chairman
Ronald Sayers	Managing Director
James Askew	Non Executive Director
Terrence Strapp	Non Executive Director
Mason Hills	Non Executive Director
Wal King	Non Executive Director

Substantial Shareholders	No. Shares (m)	%
Ronald Sayers	36.8	12.2
Bremerton Pty Ltd	16.8	5.6
AMP Ltd	15.7	5.2
Top 20 Shareholders	**180.6**	**59.9**

Company Background

The Ausdrill Group provides a range of specialist services that include, Drill and blast operations; Grade Control drilling; Exploration drilling; Open pit mining; Telecommunications and Supply and Logistics Services. ASL currently operates around 80 drill & blast rigs and 45 exploration rigs in Australia and internationally. African Mining Services was a JV with HWE before becoming 100% owned by ASL in February 2005 and is a specialist contract mining company operating mainly in Ghana. Diamond Communications performs work for telecommunications carriers and Supply Direct specialises in the procurement and delivery of supplies to the exploration and mining industries.

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Sales Revenue	**654.3**	**890.1**	**1,012**	**1,169**
EBITDA	**152.1**	**194.8**	**241.9**	**282.1**
Depreciation & amortisation	(69.8)	(82.1)	(97.8)	(111.9)
EBIT	**82.3**	**112.7**	**144.1**	**170.2**
Net Interest	(16.3)	(12.4)	(4.2)	(3.0)
Pre-tax Profit	**66.0**	**100.3**	**139.9**	**167.2**
Tax expense	(16.1)	(26.1)	(42.0)	(50.2)
Significant items (pre-tax)	(1.6)	(4.9)	0.0	0.0
Reported NPAT	**48.2**	**69.3**	**97.9**	**117.0**
Normalised NPAT	**49.8**	**72.9**	**97.9**	**117.0**

Cash Flow ($m)	2010A	2011F	2012F	2013F
EBITDA	**152.1**	**194.8**	**241.9**	**282.1**
Working capital change	(7.1)	(13.5)	(18.5)	(23.9)
Net interest	(15.1)	(12.0)	(4.2)	(3.0)
Income tax paid	(21.1)	(20.6)	(33.3)	(46.1)
Other capital	14.2	(5.8)	0.0	0.0
Operating Cashflow	**123.0**	**142.8**	**185.9**	**209.2**
Capital expenditure	(78.3)	(156.5)	(140.0)	(140.0)
Free Cashflow	**44.7**	**(13.7)**	**45.9**	**69.2**
Acquisitions & Investments	(6.5)	(39.0)	0.0	0.0
Disposals	18.2	2.3	0.0	0.0
Increase (Repay) Debt	(38.3)	(38.5)	(25.0)	(15.0)
Equity Raised	99.1	154.5	7.0	0.0
Dividends paid	(16.9)	(28.7)	(35.1)	(42.6)
Other	(0.6)	(2.9)	0.0	0.0
Net Change in Cash	**99.7**	**34.0**	**(7.2)**	**11.6**
Closing Cash Balance	**144.4**	**178.4**	**171.2**	**182.8**

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	144.4	178.4	171.2	182.8
Receivables	134.9	145.7	165.4	190.8
Inventories	104.8	109.0	123.9	143.2
Investments	15.5	21.2	21.2	21.2
Fixed Assets	449.8	503.8	546.0	574.1
Goodwill	35.9	36.1	36.1	36.1
Other Assets	0.3	0.7	0.7	0.7
Total Assets	**885.5**	**995**	**1,065**	**1,149**
Creditors	115.8	117.9	134.0	154.9
Current Borrowings	95.6	81.8	31.8	16.8
Non-current Borrowings	147.3	89.6	114.6	114.6
Other Liabilities	25.3	27.6	36.2	40.3
Total Liabilities	**384.0**	**316.9**	**316.7**	**326.6**
Shareholders Funds	**501.5**	**678.0**	**747.9**	**822.3**

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	29.4	36.0	13.7	15.5
EBITDA Margin (%)	23.2	21.9	23.9	24.1
EBIT Margin (%)	12.6	12.7	14.2	14.6
Effective Tax Rate (%)	24.5	26.0	30.0	30.0
ROA (%)	9.3	11.3	13.5	14.8
ROE (%)	9.6	10.2	13.1	14.2
ROFE (%)	9.3	11.6	14.8	16.5
ROIC (%)	9.9	11.9	13.3	14.7
Payout Ratio (%)	46.8	47.0	45.0	44.2
EV/EBIT (x)	9.4	7.8	6.8	5.6
Balance Sheet				
Net Debt (Cash) ($m)	98.5	(6.9)	(24.7)	(51.3)
Net Debt/Equity (%)	19.6	(1.0)	(3.3)	(6.2)
Interest Cover (x)	5.0	9.1	34.1	56.5
NTA ($/sh)	2.27	2.37	2.34	2.56
Price/NTA (x)	1.4	1.4	1.4	1.3
EFPOWA (m)	205.1	271.3	304.1	306.5

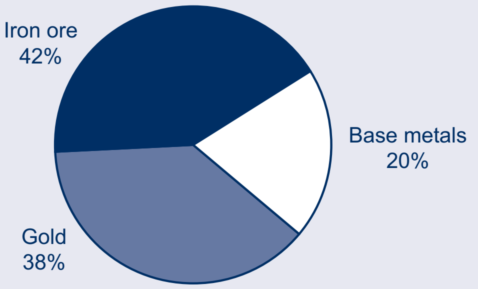
MACA Limited $2.54

Year End June 30

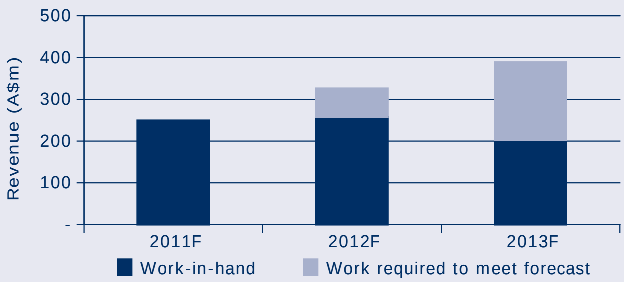
Valuation	$m	$/sh
DCF Valuation		
Present value of free cashflows	476.8	3.18
Present value of franking credits	14.1	0.09
Net cash/(debt)	9.6	0.06
Options proceeds	0.0	0.00
NPV (WACC 12.5%)	**500.5**	**$3.34**

12-month Price Target	2011F	2012F
Capitalisation of future maintainable earnings		
EBIT($m)	43.5	56.7
EBIT multiple (x)	9.0	9.0
Net Debt (Cash) ($m)	20.8	13.5
Implied Valuation ($m)	370.2	496.9
$/sh	**$2.47**	**$3.31**

Commodity Profile (2010A Revenue)



Order Book Run-Off



Directors & Substantial Shareholders

Name	**Position**
Andrew Edwards	Non Executive Chairman
Chris Tuckwell	Managing Director
Ross Williams	Executive Director
Geoff Baker	Executive Director
Joseph Sweet	Non Executive Director

Substantial Shareholders	**No. Shares (m)**	**%**
David Edwards	21.0	14.0
Geoff Baker	21.0	14.0
James & Julia Moore	19.0	12.7
Francis & Sharon Maher	19.0	12.7
Ross Williams	9.0	6.0
Top 20 Shareholders	**127.7**	**85.1**

Company Background

MACA Ltd is an open pit contract miner operating a fleet of mining equipment in WA for mid-tier iron ore, gold and base metals mining clients. MLD specialises in the provision of load & haul, drill & blast and crushing & screening services. Contracts are generally structured on a rates basis with rise and fall provisions. The company also operates a small civil infrastructure business. Earnings are primarily influenced by mine production volumes which are a function of prevailing commodity prices. Key risks include competition for contract mining services, contractual disputes and litigation as well as reliance on key personnel. The current order book includes contracts at the following WA mining projects: Jack Hills iron ore, Magellan lead, Duketon gold, Pardoo iron ore, Plutonic gold, Koolanooka iron ore, Laverton gold and Spotted Quoll nickel.

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Sales Revenue	**150.1**	**249.1**	**326.3**	**388.3**
EBITDA	**37.5**	**65.0**	**86.8**	**104.1**
Depreciation & amortisation	(13.4)	(21.5)	(30.1)	(35.9)
EBIT	**24.1**	**43.5**	**56.7**	**68.2**
Net Interest	(1.4)	(1.3)	(2.0)	(1.8)
Pre-tax Profit	22.8	42.2	54.7	66.4
Tax expense	(6.3)	(12.6)	(16.4)	(19.9)
Significant items (pre-tax)	0.0	(0.2)	0.0	0.0
Reported NPAT	**16.4**	**29.4**	**38.3**	**46.5**
Normalised NPAT	**16.4**	**29.7**	**38.3**	**46.5**

Cash Flow ($m)	2010A	2011F	2012F	2013F
EBITDA	**37.5**	**65.0**	**86.8**	**104.1**
Working capital change	(9.3)	(11.5)	10.9	(2.5)
Net interest	(1.4)	(1.3)	(2.0)	(1.8)
Income tax paid	(7.2)	(13.1)	(14.4)	(18.2)
Other capital	4.6	(2.8)	0.0	0.0
Operating Cashflow	**24.2**	**36.3**	**81.3**	**81.6**
Capital expenditure	(19.7)	(34.0)	(65.0)	(25.0)
Free Cashflow	**4.5**	**2.3**	**16.3**	**56.6**
Acquisitions & Investments	(0.5)	0.0	0.0	0.0
Disposals	0.9	0.9	0.0	0.0
Increase (Repay) Debt	(8.0)	(8.7)	0.0	0.0
Equity Raised	0.0	33.4	0.0	0.0
Dividends paid	(5.0)	(11.0)	(9.0)	(16.5)
Other	0.2	1.0	0.0	0.0
Net Change in Cash	**(8.0)**	**17.9**	**7.3**	**40.1**
Closing Cash Balance	**6.0**	**23.8**	**31.1**	**71.2**

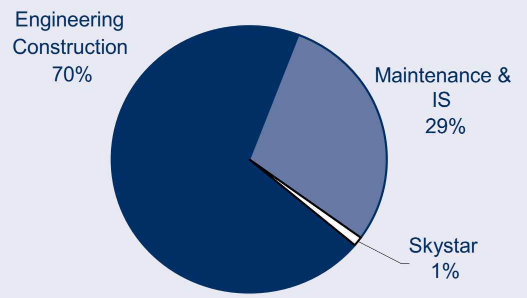
Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	6.0	23.8	31.1	71.2
Receivables	35.3	62.1	80.2	94.8
Inventories	2.9	5.0	6.5	7.7
Investments	0.0	0.0	0.0	0.0
Fixed Assets	58.7	84.7	119.6	108.7
Goodwill	0.0	0.0	0.0	0.0
Other Assets	0.5	5.3	5.3	5.3
Total Assets	**103.4**	**180.9**	**242.8**	**287.8**
Creditors	25.2	42.6	73.2	86.5
Current Borrowings	15.2	18.2	18.2	18.2
Non-current Borrowings	23.2	26.4	26.4	26.4
Other Liabilities	4.1	4.4	6.5	8.2
Total Liabilities	**67.7**	**91.7**	**124.2**	**139.3**
Shareholders Funds	**35.7**	**89.3**	**118.5**	**148.5**

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	90.7	66.0	31.0	19.0
EBITDA Margin (%)	25.0	26.1	26.6	26.8
EBIT Margin (%)	16.1	17.4	17.4	17.6
Effective Tax Rate (%)	27.8	29.9	30.0	30.0
ROE (%)	46.1	32.9	32.3	31.3
ROA (%)	23.4	24.0	23.4	23.7
Payout Ratio (%)	nm	30.7	35.3	38.7
EV/EBIT (x)	17.1	9.2	7.0	5.2
Balance Sheet				
Net Debt (Cash) ($m)	32.4	20.8	13.5	(26.6)
Net Debt/Equity (%)	90.9	23.3	11.4	nm
Interest Cover (x)	17.4	33.5	28.1	37.5
NTA ($/sh)	0.24	0.60	0.79	0.99
Price/NTA (x)	10.7	4.3	3.2	2.6
EFPOWA (m)	150.0	150.0	150.0	150.0

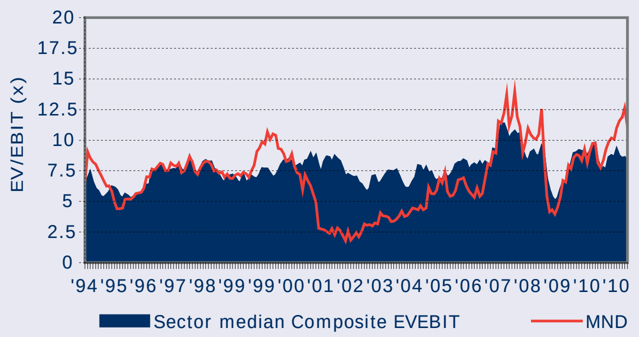
Valuation	$m	$/sh
DCF Valuation		
PV of cash flows	1698.1	$18.74
PV of Franking Credits	132.8	$1.47
Net cash/(debt)	129.1	$1.43
Investment in NFK	25.2	$0.28
Options proceeds	40.4	$0.45
NPV (WACC 10.2%)	**2,026**	**$22.36**

12-month Price Target	2011F	2012F
Capitalisation of future maintainable earnings		
EBIT ($m)	126.4	141.1
EBIT multiple (x)	12.1	12.1
Net Debt (Cash) ($m)	(141.8)	(157.1)
Investment in NFK	25.2	25.2
Options proceeds	40.4	40.4
Implied Valuation ($m)	1,737	1,930
$/sh	**$18.98**	**$21.09**

Divisional Revenue Summary (2010A)



Historical EV/EBIT (12 month forward)



Board of Directors & Substantial Shareholders

Name	Position
Giovanni Rubino	Executive Chairman
Robert Velletri	Managing Director
Irwin Tollman	Non-Executive Director
Peter Dempsey	Non-Executive Director
Christopher Michelmore	Non-Executive Director

Substantial Shareholders	No. shares (m)	%
Top 20 Shareholders	**34.1**	**38.9**

Company Background

Monadelphous is an established engineering group providing extensive project management, construction, asset management and maintenance services to the resources, energy and infrastructure industry sectors. Monadelphous has a decentralised network of operations, strategically located near mining and energy related resource precincts around Australia. The Group's competitive advantages arise from attributes including a superior safety performance, an impeccable industrial relations record, an excellent delivery record, a flat corporate structure and a workforce of over 4,000 personnel.

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Sales Revenue	**1,275.4**	**1,399.9**	**1,530.5**	**1,683.5**
EBITDA	**129.4**	**147.7**	**164.1**	**182.2**
Depreciation	(16.8)	(21.2)	(23.0)	(23.5)
Amortisation	0.0	0.0	0.0	0.0
EBIT	**112.6**	**126.4**	**141.1**	**158.6**
Net Interest	2.5	2.3	3.1	3.6
Operating Profit	**115.1**	**128.7**	**144.2**	**162.2**
Tax expense	(31.9)	(37.3)	(41.8)	(47.0)
Significant Items (net)	0.0	0.0	0.0	0.0
Reported NPAT	**83.2**	**91.4**	**102.4**	**115.2**
Normalised NPAT	**83.2**	**91.4**	**102.4**	**115.2**

Cash Flow ($m)	2010A	2011F	2012F	2013F
EBITDA	**129.4**	**147.7**	**164.1**	**182.2**
Net interest	2.4	2.4	3.1	3.6
Income tax paid	(32.8)	(37.4)	(39.7)	(44.4)
Working capital change	(21.3)	2.2	2.4	10.8
Other capital	18.2	15.6	0.0	0.0
Operating Cashflow	**96.0**	**130.5**	**129.9**	**152.1**
Capital expenditure	(17.1)	(16.8)	(12.0)	(12.4)
Free Cashflow	**78.9**	**113.8**	**117.9**	**139.7**
Acquisitions & Investments	(4.3)	(7.2)	0.0	0.0
Disposals	1.7	10.8	0.0	0.0
Increase (Repay) Debt	(0.6)	(0.0)	0.0	0.0
Equity Raised	1.1	10.6	0.0	0.0
Dividends paid	(67.9)	(86.7)	(89.3)	(94.6)
Other	(12.0)	(15.8)	(13.3)	(13.3)
Net Change in Cash	**(3.0)**	**25.4**	**15.3**	**31.9**
Closing Cash Balance	**149.2**	**174.6**	**189.9**	**221.8**

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	149.2	174.6	189.9	221.8
Receivables	121.4	133.2	145.7	160.2
Inventories	23.5	25.8	28.3	23.1
Investments	16.9	0.0	0.0	0.0
Fixed Assets	91.2	98.8	101.1	103.1
Intangibles	2.6	5.9	5.9	5.9
Other Assets	16.0	46.5	46.5	46.5
Total Assets	**420.7**	**484.9**	**517.3**	**560.6**
Creditors	168.0	184.4	201.6	221.7
Current Borrowings	11.5	12.2	12.2	12.2
Non-current Borrowings	21.1	20.6	20.6	20.6
Other Liabilities	75.9	88.7	90.9	93.5
Total Liabilities	276.4	305.9	325.2	348.0
Shareholders Funds	**144.3**	**179.0**	**192.1**	**212.7**

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	13.6	9.8	9.3	10.0
EBITDA Margin (%)	10.1	10.5	10.7	10.8
EBIT Margin (%)	8.8	9.0	9.2	9.4
Effective Tax Rate (%)	27.7	29.0	29.0	29.0
ROE (%)	57.7	51.1	53.3	54.2
ROA (%)	26.8	26.1	27.3	28.3
Payout Ratio (%)	86.9	86.9	86.9	86.9
EV/EBIT (x)	12.2	11.3	10.0	8.7
Balance Sheet				
Net Debt (Cash) ($m)	(116.6)	(141.8)	(157.1)	(189.0)
Net Debt / Equity (%)	nm	nm	nm	nm
Interest Cover (x)	(44.9)	(55.1)	(45.6)	(44.2)
NTA ($/share)	1.63	1.89	2.03	2.26
Price/NTA (x)	11.0	9.5	8.8	7.9
EFPOWA (m)	87.2	91.5	91.5	91.5

Mermaid Marine Australia Limited $3.06

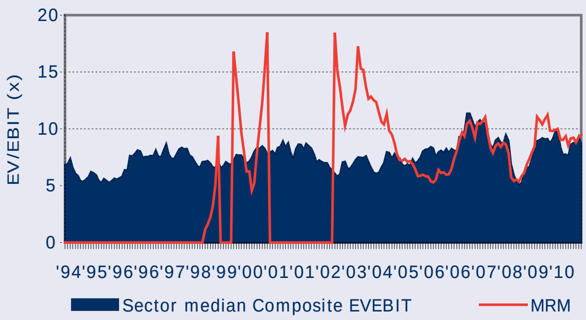
Year End June 30

Valuation	$m	$/sh
DCF Valuation		
PV of cash flows	1021.6	$4.77
PV of Franking Credits	30.4	$0.14
Net cash/(debt)	(131.4)	-$0.61
Options proceeds	6.9	$0.03
NPV (WACC 8.8%)	**927.5**	**$4.33**

12-month Price Target	2011F	2012F
Capitalisation of future maintainable earnings		
EBIT ($m)	67.2	81.2
EBIT multiple (x)	11.0	11.0
Net Debt (Cash) ($m)	100.3	81.0
Implied Valuation ($m)	638.6	811.8
$/sh	**$3.37**	**$3.84**

Divisional ($m)	2010A	2011F	2012F	2013F
Revenue				
Vessels	149.9	209.0	248.0	265.9
Supply Base	38.7	54.2	63.0	70.6
Slipway	5.4	16.3	17.9	18.8
EBITDA				
Vessels	47.5	59.5	70.6	75.7
Supply Base	23.4	33.8	39.5	44.3
Slipway	1.4	2.6	2.9	3.0
Toll JV	1.1	(0.0)	1.2	1.4
Unallocated	(7.6)	(10.2)	(10.2)	(10.2)

Historical EV/EBIT (12 month forward)



Directors & Substantial Shareholders

Name	Position
Tony Howarth	Chairman
Jeff Weber	Managing Director
Mark Bradley	Non-Executive Director
James Carver	Non-Executive Director
Andrew Edwards	Non-Executive Director

Substantial Shareholders	No. shares (m)	%
Acorn Capital	11.6	5.4
Top 20 Shareholders	**115.6**	**54.1**

Company Background

Mermaid Marine Australia Ltd (MRM) provides a diverse range of marine related services to major oil and gas exploration and production companies on the North West Shelf. MRM operates an extensive charter vessel fleet including tugs, pipe laying platforms, supply vessels and diver support vessels. MRM also provides slipway and onshore support facilities. Revenues reflect asset utilisation levels and day rates, which are a function of industry demand and supply forces. MRM's Dampier Supply Base is underpinned by a five year Sublease agreement with Chevron for the Gorgon Project.

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Sales Revenue	**194.0**	**280.3**	**329.7**	**356.1**
EBITDA	**64.6**	**85.7**	**104.0**	**114.2**
Depreciation & amortisation	(14.4)	(18.5)	(22.9)	(23.7)
EBIT	**50.1**	**67.2**	**81.2**	**90.5**
Net Interest	(9.0)	(8.4)	(7.9)	(6.4)
Pre-tax profit	**41.2**	**58.8**	**73.3**	**84.1**
Tax expense	(3.9)	(14.7)	(18.4)	(21.1)
Significant Items (net)	0.0	0.0	0.0	0.0
Reported NPAT	**37.2**	**44.1**	**54.9**	**63.0**
Normalised NPAT	**31.3**	**43.8**	**54.9**	**63.0**

Cash Flow ($m)	2010A	2011F	2012F	2013F
EBITDA	**64.6**	**84.5**	**102.7**	**112.8**
Net interest	(9.0)	(8.4)	(7.9)	(6.4)
Income tax paid	(5.2)	(9.4)	(17.2)	(18.4)
Working capital change	(6.1)	(4.0)	(5.8)	(3.1)
Other capital	7.4	7.1	0.0	0.0
Operating Cashflow	**51.7**	**69.7**	**71.7**	**84.9**
Capital expenditure	(97.1)	(95.2)	(40.0)	(40.0)
Free Cashflow	**(45.4)**	**(25.5)**	**31.7**	**44.9**
Acquisitions & Investments	0.0	0.0	0.0	0.0
Disposals	0.4	0.0	0.0	0.0
Increase (Repay) Debt	41.6	(8.9)	0.0	0.0
Equity Raised	0.8	67.9	8.8	0.0
Dividends paid	(9.3)	(11.6)	(21.9)	(20.5)
Other	0.4	(0.8)	0.0	0.0
Net Change in Cash	**(11.5)**	**21.1**	**18.7**	**24.4**
Closing Cash Balance	**26.8**	**47.9**	**66.6**	**92.1**

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	26.8	48.8	67.7	92.1
Receivables	42.8	60.2	70.8	76.4
Inventories	2.2	2.5	2.9	3.2
Investments	4.7	4.7	5.9	7.3
Fixed Assets	303.6	358.7	375.8	392.1
Intangibles	0.0	0.0	0.0	0.0
Other Assets	4.1	6.9	6.9	6.9
Total Assets	**384.2**	**481.8**	**530.0**	**578.1**
Creditors	16.2	29.9	35.2	38.0
Current Borrowings	26.9	26.6	26.6	26.6
Non-current Borrowings	131.4	122.8	122.8	122.8
Other Liabilities	12.7	22.2	23.4	26.1
Total Liabilities	**187.2**	**201.5**	**207.9**	**213.4**
Shareholders Funds	**197.1**	**280.2**	**322.1**	**364.6**

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	18.4	44.5	17.6	8.0
EBITDA Margin (%)	33.3	30.6	31.6	32.1
EBIT Margin (%)	25.8	24.0	24.6	25.4
Effective Tax Rate (%)	9.6	25.1	25.1	25.1
ROE (%)	18.9	15.7	17.1	17.3
ROA (%)	13.0	13.9	15.3	15.7
EV/EBIT (x)	14.2	11.1	9.8	8.5
Cash Flow				
Op Cashflow/EBITDA (%)	80.1	81.4	69.0	74.4
Capex/Depreciation (x)	6.7	5.2	1.7	1.7
Payout Ratio (%)	40.7	48.0	46.8	48.2
Balance Sheet				
Net Debt (Cash) ($m)	131.4	100.5	81.7	57.3
Net debt / equity (%)	66.7	35.9	25.4	15.7
Interest Cover (x)	5.6	8.0	10.3	14.0
NTA ($/share)	1.04	1.32	1.38	1.56
Price/NTA (x)	2.9	2.3	2.2	2.0
EFPOWA (m)	189.5	211.6	233.8	233.8

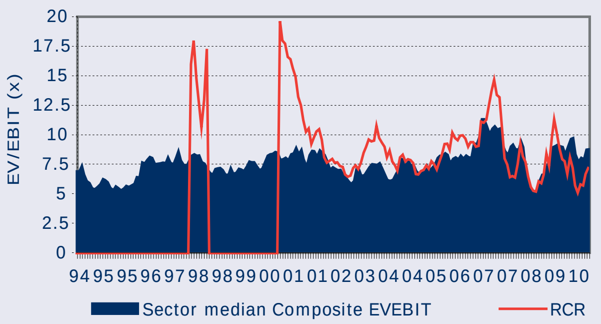
RCR Tomlinson Limited $1.74 | Year End June 30

Valuation	$m	$/sh
DCF Valuation		
Present value of free cashflows	318.7	2.26
Present value of franking credits	10.1	0.07
Net cash/(debt)	(21.5)	(0.15)
Options proceeds	4.7	0.03
NPV (WACC 12.3%)	**312.0**	**$2.21**

12-month Price Target	2011F	2012F
Capitalisation of future maintainable earnings		
Normalised EBIT ($m)	25.2	30.8
EBIT multiple (x)	9.5	9.5
Net Debt (Cash) ($m)	(3.6)	(12.6)
Implied Valuation ($m)	242.7	305.2
$/sh	**$1.72**	**$2.16**

Divisional ($m)	2010A	2011F	2012F	2013F
Revenue				
Mining	166.5	186.5	198.6	213.5
Energy	159.3	199.1	209.1	219.5
Resources	188.1	203.1	233.6	252.3
Power	74.7	74.7	82.1	84.6
Inter-segment eliminations	(42.9)	(48.4)	(52.8)	(56.2)
EBIT				
Mining	8.0	8.7	9.5	10.2
Energy	6.1	8.0	8.9	9.3
Resources	1.4	8.3	9.9	11.4
Power	0.0	2.6	3.4	4.2
Eliminations	(1.0)	(1.0)	(1.0)	(1.0)

Historical EV/EBIT (x) (12 month forward)



Directors & Substantial Shareholders

Name	Position
Roderick Brown	Non-Executive Chairman
Paul Dalgleish	CEO
Charles Birmingham	Non-Executive Director
Kevin Edwards	Non-Executive Director
Eva Skira	Non-Executive Director
David Dippie	Non-Executive Director

Substantial Shareholders	No. Shares (m)	%
Perpetual	13.2	10.0
Jeff Hogan	11.8	9.0
Hunter Hall	7.5	5.7
Celeste Funds Management	6.9	5.2
Invesco	6.7	5.1
Top 20 Shareholders	**82.8**	**62.8**

Company Background

RCR is a multi-disciplinary engineering company specialising in the design, manufacture and maintenance of heavy equipment and industrial boiler systems and site maintenance and construction. RCR is headquartered in Perth, Western Australia, with facilities in Queensland, New South Wales, Victoria and South Australia.

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Sales Revenue	**545.6**	**614.9**	**670.6**	**713.7**
EBITDA	**31.1**	**39.4**	**45.1**	**48.6**
Depreciation & amortisation	(16.7)	(14.3)	(14.3)	(14.4)
EBIT	**14.4**	**25.2**	**30.8**	**34.2**
Net Interest	(3.8)	(3.4)	(0.7)	(0.3)
Pre-tax Profit	**10.6**	**21.8**	**30.1**	**33.9**
Tax expense	6.9	(5.5)	(7.5)	(8.5)
Significant Items (pre-tax)	0.0	0.0	0.0	1.0
Reported NPAT	**17.5**	**16.3**	**22.6**	**26.4**
Normalised NPAT	**9.0**	**16.4**	**22.6**	**25.4**

Cash Flow ($m)	2010A	2011F	2012F	2013F
EBITDA	**31.1**	**39.4**	**45.1**	**48.6**
Working capital change	(4.3)	(4.4)	(6.6)	(5.1)
Net interest	(3.9)	(3.6)	(0.7)	(0.3)
Income tax paid	3.8	(1.6)	(7.6)	(7.5)
Other	(2.6)	3.9	0.0	0.0
Operating Cashflow	**24.2**	**33.7**	**30.2**	**35.7**
Capital expenditure	(8.5)	(11.2)	(14.0)	(14.2)
Free Cashflow	**15.7**	**22.5**	**16.2**	**21.5**
Acquisitions & Investments	0.0	0.0	0.0	0.0
Disposals	11.9	8.1	0.0	0.0
Increase (Repay) Debt	(6.5)	(16.2)	0.0	0.0
Equity Raised	1.0	0.0	0.0	0.0
Dividends paid	(2.3)	(4.0)	(7.3)	(10.6)
Other	0.0	0.1	0.0	0.0
Net Change in Cash	**19.8**	**10.6**	**9.0**	**10.9**
Closing Cash Balance	**30.0**	**40.6**	**49.6**	**60.5**

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	30.0	40.6	49.6	60.5
Receivables	112.7	122.7	133.8	142.4
Inventories	30.6	34.5	37.7	40.1
Investments	1.5	0.0	0.0	0.0
Fixed Assets	85.7	66.6	66.3	66.0
Intangibles	74.3	72.5	72.5	72.5
Other Assets	21.0	21.0	9.8	9.8
Total Assets	**355.8**	**357.9**	**369.6**	**391.3**
Creditors	74.7	84.2	91.8	97.7
Current Borrowings	2.7	1.7	1.7	1.7
Non-current Borrowings	50.4	35.2	35.2	35.2
Other Liabilities	23.4	23.0	23.0	23.9
Total Liabilities	**151.2**	**144.2**	**151.8**	**158.6**
Shareholders Funds	**204.6**	**202.5**	**217.9**	**232.7**

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	(7.4)	12.7	9.0	6.4
EBITDA Margin (%)	5.7	6.4	6.7	6.8
EBIT Margin (%)	2.6	4.1	4.6	4.8
Effective Tax Rate (%)	(64.8)	25.1	25.0	25.0
ROE (%)	8.5	8.1	10.4	11.3
ROA (%)	4.9	4.6	6.1	6.7
Payout Ratio (%)	22.6	28.3	29.2	31.1
EV/EBIT (x)	18.6	9.6	7.6	6.5
Balance Sheet				
Net Debt (Cash) ($m)	23.1	(3.6)	(12.6)	(23.5)
Net Debt/Equity (%)	11.3	(1.8)	(5.8)	(10.1)
Interest Cover (x)	3.8	7.5	46.1	122.2
NTA ($/sh)	0.92	0.92	1.03	1.13
Price/NTA (x)	1.9	1.9	1.7	1.5
EFPOWA (m)	141.0	141.3	141.3	141.3

Resource Equipment Limted — $0.73 — Year End June 30

Company Background

Resource Equipment Ltd commenced operations in 2003 and listed on the ASX in July 2009. The business supplies designed 'fit for purpose', high quality pumping and associated rental equipment to the Mining, Offshore, Oil & Gas and Heavy Engineering markets in Australia. The recent acquisition of Dewatering Services Australia diversifies RQL's offerings into specialist contracting for HDPE pipelines (polythene pipe) and related services.

Ratios

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	na	64.8	42.3	23.4
EBITDA Margin (%)	39.5	36.0	35.2	35.9
EBIT Margin (%)	30.1	27.0	27.3	28.6
Effective Tax Rate (%)	1.0	0.0	14.6	30.0
ROE (%)	33.0	20.4	18.2	16.4
ROA (%)	26.2	16.9	17.8	19.5
Payout Ratio (%)	0.0	0.0	0.0	0.0
EV/EBIT (x)	16.8	12.7	10.0	7.5

Balance Sheet

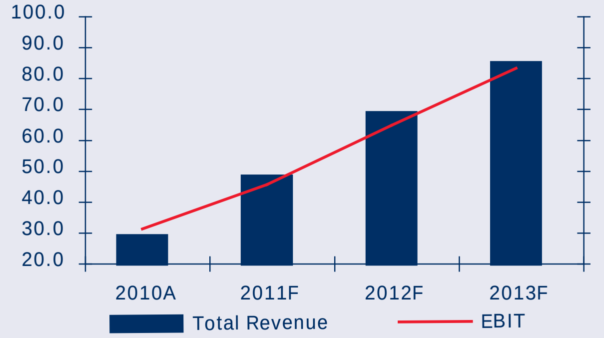
Balance Sheet	2010A	2011F	2012F	2013F
Net Debt (Cash) ($m)	8.0	14.6	12.7	6.5
Net Debt/Equity (%)	20.1	20.2	14.2	6.2
Interest Cover (x)	10.7	7.8	11.2	15.1
NTA ($/share)	0.15	0.28	0.31	0.37
Price/NTA (x)	4.8	2.6	2.4	2.0
EFPOWA fully diluted (m)	194.1	209.0	242.7	243.8

Board of Directors

Name	**Position**
John Saleeba	Non Executive Chairman
James Cullen	Chief Executive Officer
Anthony Ryder	Executive Director
Keith Lucas	Non Executive Director
William Ryan	Non Executive Director

Substantial Shareholders	**No. Shares**	**%**
Anthony Ryder	23.0	10.3
Keith Lucas	23.0	10.3
Mr WG Martin & Mrs M Martin	11.0	4.9
Hunter Hall IM Ltd	9.7	4.3
Top 20 Shareholders	**116.4**	**52.0**

EBIT / REVENUE



Profit & Loss ($m)

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Total Revenue	**29.6**	**48.8**	**69.4**	**85.6**
EBITDA	**11.7**	**17.5**	**24.4**	**30.8**
Depreciation & amortisation	(2.8)	(4.3)	(5.5)	(6.3)
EBIT	**8.9**	**13.2**	**18.9**	**24.5**
Net interest	(0.8)	(1.7)	(1.7)	(1.6)
Operating Profit	**8.1**	**11.5**	**17.2**	**22.9**
Tax expense"	(0.1)	0.0	(2.5)	(6.9)
Significant items	0.0	0.0	0.0	0.0
NPAT	**8.0**	**11.5**	**14.7**	**16.0**
Normalised NPAT	**5.6**	**8.0**	**12.1**	**16.0**

Cash Flow ($m)

Cash Flow ($m)	2010A	2011F	2012F	2013F
EBITDA	**11.7**	**17.5**	**24.4**	**30.8**
Net interest	(0.8)	(1.7)	(1.7)	(1.6)
Income tax paid	(0.8)	(0.0)	(1.3)	(4.7)
Working capital change	(0.9)	(1.4)	(0.3)	(0.7)
Other	1.2	0.0	0.0	0.0
Operating Cashflow	**10.4**	**14.4**	**21.1**	**23.7**
Capital expenditure	(17.7)	(28.5)	(21.5)	(17.5)
Free Cashflow	**(7.3)**	**(14.1)**	**(0.4)**	**6.2**
Acquisitions & investments	(4.3)	(7.5)	(1.5)	0.0
Disposals	0.9	0.1	0.0	0.0
Increase (repay) debt	0.6	4.1	0.0	0.0
Equity raised	8.2	17.6	3.8	0.0
Dividends paid	0.0	0.0	0.0	0.0
Other	(1.8)	(1.5)	0.0	0.0
Net Change in Cash	**(3.6)**	**(1.3)**	**1.9**	**6.2**
Closing Cash Balance	**3.0**	**1.8**	**3.7**	**9.9**

Balance Sheet ($m)

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	3.0	1.8	3.7	9.9
Receivables	4.6	10.6	10.9	13.4
Investments	0.0	0.0	0.0	0.0
Inventories	0.0	0.0	0.0	0.0
Fixed Assets	39.7	67.9	83.9	95.1
Intangibles	10.7	14.8	14.8	14.8
Other Assets	0.7	2.3	2.3	2.3
Total Assets	**58.8**	**97.4**	**115.6**	**135.6**
Creditors	3.4	7.9	7.9	9.7
Current Borrowings	4.9	6.1	6.1	6.1
Non-current Borrowings	6.2	10.3	10.3	10.3
Other Liabilities	4.3	0.4	1.7	3.9
Total Liabilities	**18.8**	**24.8**	**26.0**	**30.0**
Shareholders Funds	**40.0**	**72.6**	**89.6**	**105.6**

Valuation

Valuation	2010A	2011F	2012F	2013F
Normalised EBIT Multiple				
EBIT ($m)	8.9	13.2	18.9	24.5
EBIT (x)	10.0	10.0	10.0	10.0
Net Debt (Cash) ($m)	8.0	14.6	12.7	6.5
Implied Valuation ($m)	81	117	177	238
Per Share	**$0.42**	**$0.56**	**$0.73**	**$0.98**
Target PE Multiple				
EPS - normalised for tax	2.9	3.8	5.0	6.6
PE Target (x)	14.0	14.0	14.0	14.0
Per Share	**$0.41**	**$0.54**	**$0.70**	**$0.92**

Discounted Cash Flow

Cost of Equity	12.7%	WACC	11.5%
Cost of Debt	7.7%	Terminal Growth	3.0%
Target Equity/Debt	75/25	**DCF Valuation / Share**	**$0.90**

Current Share Price Discount (Premium) to DCF valuation **23.6%**

Tox Free Solutions Limited $2.01

Year End June 30

Profit & Loss ($m)	2010A	2011E	2012E	2013E
Total Income	**98.7**	**139.7**	**161.6**	**175.9**
Cost of sales	(56.3)	(89.0)	(102.8)	(115.0)
Other costs	(16.8)	(9.7)	(20.5)	(21.4)
EBITDA	**25.6**	**31.0**	**38.2**	**39.5**
Depreciation	(9.0)	(11.2)	(11.6)	(11.5)
EBIT	**16.6**	**19.7**	**26.6**	**28.0**
Net Interest	(2.3)	(1.5)	(1.9)	(2.1)
Share based expenses	(1.3)	(1.3)	(1.3)	(1.3)
Non recurring	(1.2)	(2.6)	0.0	0.0
Pretax	**11.8**	**14.4**	**23.4**	**24.6**
Tax expense	(3.9)	(4.3)	(7.0)	(7.4)
Reported NPAT	**8.0**	**10.1**	**16.4**	**17.2**
Recurrent NPAT	**8.8**	**11.9**	**16.4**	**17.2**

Cash Flow ($m)	2010A	2011E	2012E	2013E
Cash from customers	97.8	138.4	160.0	174.2
Cash to suppliers	(73.7)	(116.4)	(131.5)	(147.1)
Net Interest	(2.3)	(1.5)	(1.9)	(2.1)
Income tax paid	(4.2)	(4.3)	(7.0)	(7.4)
Other	0.0	0.0	0.0	0.0
Operating Cashflow	**17.6**	**16.1**	**19.6**	**17.7**
Capital expenditure	(21.8)	(21.0)	(16.0)	(12.0)
Free Cashflow	**(4.2)**	**(4.9)**	**3.6**	**5.7**
Net Acquisitions	(2.8)	0.0	(18.0)	0.0
Disposals	0.8	0.0	0.0	0.0
Increase (Repay) Debt	(6.4)	0.0	10.0	0.0
Equity Raised	25.9	0.0	8.0	0.0
Dividends paid	0.0	(1.7)	(2.0)	(3.3)
Other	0.0	0.0	0.0	0.0
Net Change in Cash	**13.3**	**(6.6)**	**1.6**	**2.4**
Closing Cash Balance	**17.9**	**11.3**	**12.9**	**15.3**

Balance Sheet ($m)	2010A	2011E	2012E	2013E
Cash	17.9	11.3	12.9	15.3
Receivables	25.2	35.7	41.3	44.9
Inventories	0.4	0.6	0.7	1.0
Fixed Assets	58.6	75.6	84.9	81.4
Intangibles	27.5	27.5	59.5	59.5
Deferred tax assets	0.79	0.88	1.44	1.51
Other Assets	1.3	1.9	4.4	18.0
Total Assets	**131.8**	**153.5**	**205.1**	**221.6**
Creditors	9.9	13.9	16.1	17.6
Current Borrowings	17.6	17.6	17.6	17.6
Non-current Borrowings	13.4	13.4	23.4	23.4
Other Liabilities	2.3	13.8	34.0	39.4
Total Liabilities	**43.2**	**58.8**	**91.2**	**98.0**
Net Assets	**88.5**	**94.7**	**114.0**	**123.7**
Shareholders Funds	**88.5**	**94.7**	**114.0**	**123.7**

Ratios	2010A	2011E	2012E	2013E
Profitability				
Revenue Growth (%)	11.9	41.5	15.7	8.9
EBITDA Margin (%)	25.9	22.2	23.6	22.4
EBIT Margin (%)	16.8	14.1	16.5	15.9
Effective Tax Rate (%)	32.7	30.0	30.0	30.0
Payout Ratio (%)	22%	20%	20%	20%
ROE (%)	11.2%	11.0%	15.7%	14.4%
ROA (%)	6.8%	7.1%	9.1%	8.1%
EPS	**10.1**	**12.5**	**16.6**	**17.4**
EPS Growth	(0.4%)	23.6%	33.0%	4.9%
PER	**19.9**	**16.1**	**12.1**	**11.6**
Dividend Yield	1.0%	1.1%	1.7%	1.8%
EV/EBITDA (x)	7.7	6.6	5.6	5.3
Balance Sheet				
Net Debt (Cash) ($m)	13.2	19.8	28.2	25.8
Net Debt/Equity (%)	14.9	20.9	24.7	20.8
Interest Cover (x)	7.3	13.3	14.0	13.3
Book ($/share)	0.97	1.02	1.18	1.29
Price/Book (x)	2.1	2.0	1.7	1.6
EFPOWA (m)	86.1	92.6	96.5	96.5

Divisional	2010A	2011E	2012E	2013E
Revenues				
Liquid Waste	10.5	12.1	13.0	13.9
Hazardous Waste	14.3	16.0	19.1	22.0
Solid Waste	21.1	40.3	50.8	55.9
Industrial Services	52.7	71.2	78.7	84.2
Total Revenues	**98.7**	**139.7**	**161.6**	**175.9**
EBIT				
Liquid Waste	3.8	4.2	4.5	4.8
Hazardous Waste	6.4	7.2	8.6	9.9
Solid Waste	6.1	9.7	14.2	13.4
Industrial Services	6.9	10.0	11.0	11.8
Corporate	-7.2	-11.3	-11.7	-11.9
Total	**16.1**	**19.7**	**26.6**	**28.0**

Valuation	2011E	2012E	2013E
Normalised EBITDA Multiple	**FY11e**	**FY12e**	**FY13e**
EBITDA ($m)	31.0	38.2	39.5
EV/EBITDA	7.5	7.5	7.5
Net Debt (Cash) ($m)	19.8	28.2	25.8
Implied Valuation ($m)	212.7	258.5	270.4
Per Share	**$2.30**	**$2.68**	**$2.80**
Target PE Multiple	**FY11e**	**FY12e**	**FY13e**
EPS (cents)	11.9	16.4	17.2
PE Target	18.0	18.0	18.0
Per Share	**$2.13**	**$2.95**	**$3.09**

UGL Limited $13.21 Year End June 30

Profit and Loss	2010A	2011F	2012F	2013F
Sales revenue	**4358.8**	**4747.5**	**5103.0**	**5446.7**
EBITDA	288.5	312.3	358.9	388.2
D&A	29.6	31.5	33.8	35.9
EBIT	**229.3**	**253.8**	**297.2**	**323.3**
Interest Expense	26.7	22.0	20.8	18.7
Pre-tax profit	196.3	231.8	276.3	304.6
Tax	52.3	67.2	80.1	88.3
NPAT (Reported)	**144.5**	**164.6**	**196.2**	**216.2**
Adjustments	7.0	0.0	0.0	0.0
Patersons NPAT (adj)	**151.6**	**164.6**	**196.2**	**216.2**

Cashflow	2010A	2011F	2012F	2013F
Reported pre-tax profit	**196.3**	**231.8**	**276.3**	**304.6**
Depn and amortisation	59.2	58.5	61.8	64.9
Tax paid	(56.0)	(67.2)	(80.1)	(88.3)
(inc)/dec in wk'g cap	77.8	(23.3)	(21.3)	(20.6)
Other	(47.9)	0.0	0.0	0.0
Operating cashflow	**229.4**	**199.8**	**236.6**	**260.6**
Capex	(38.8)	(48.0)	(49.4)	(50.9)
Acquisitions/investments	(3.3)	0.0	0.0	0.0
(inc)/Dec in intangibles	(11.6)	(10.0)	1.0	2.0
Investing cashflow	**(53.7)**	**(58.0)**	**(48.4)**	**(48.9)**
Equity raised	5.4	0.0	0.0	0.0
Dividends paid	(105.9)	(113.5)	(135.3)	(149.1)
Net change in borrowings	(23.4)	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Financing cashflow	**(124.0)**	**(113.5)**	**(135.3)**	**(149.1)**
Net change in cash	**44.5**	**28.3**	**52.9**	**62.5**

Balance sheet	2010A	2011F	2012F	2013F
Cash	297.8	326.1	379.1	441.6
Receivables	442.9	482.4	518.5	553.4
Inventories	342.5	373.1	401.0	428.0
Other	2.3	4.3	4.7	6.6
Current assets	**1085.6**	**1185.9**	**1303.3**	**1429.7**
PPE	161.4	218.8	234.5	249.4
Investments	12.7	12.7	12.7	12.7
Intangibles	1174.9	1170.3	1174.7	1177.1
Other	19.8	19.8	19.8	19.8
Non-current assets	**1419.6**	**1472.4**	**1492.5**	**1509.9**
Total assets	**2505.2**	**2658.3**	**2795.8**	**2939.5**
Current acc. Payable	524.1	570.8	613.5	654.9
current borrowings	2.2	2.2	2.2	2.2
other current liabilities	16.3	49.6	57.9	65.7
Total current liabilities	**748.8**	**828.8**	**879.9**	**929.0**
NC borrowings	529.2	524.1	524.1	524.1
other nc liabilities	16.9	44.1	69.7	97.2
Total nc. Liabilities	**597.2**	**619.3**	**644.9**	**672.4**
Total Liabilities	**1346.0**	**1448.1**	**1524.7**	**1601.4**
Net Assets	**1159.1**	**1210.2**	**1271.0**	**1338.2**
Ordinary share capital	904.9	904.9	904.9	904.9
Reserves	(1.1)	(1.1)	(1.1)	(1.1)
Retained profits	254.6	305.6	366.5	433.6
Total Shareholders Equity	**1159.1**	**1210.2**	**1271.1**	**1338.2**

Valuation data	2010A	2011F	2012F	2013F
Net profit adj ($m)	151.6	164.6	196.2	216.2
EPS (c)	91.6	99.3	118.3	130.4
EPS growth (%)	*(0.2)*	*8.4*	*19.2*	*10.2*
P/E ratio (x)	14.4	13.3	11.2	10.1
CFPS (c)	120.4	134.5	155.6	169.6
Price/CF (x)	11.0	9.8	8.5	7.8
DPS (c) ordinary	64.0	68.8	82.0	90.3
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	*4.8*	*5.2*	*6.2*	*6.8*
EV/EBITDA	8.4	7.6	6.5	5.8
EV/EBIT	10.5	9.4	7.8	7.0

Per share valuation		
DCF Valuation	**$m**	**$/share**
Present Value of free cashflow	2916.940509	17.6
Net debt/(cash)	233.6	1.4
NPV	**2683.385509**	**16.20**
(WACC)		11%
Rel PER (blended)		
Valuation Multiple (x)		15.5
Forward EPS (FY12 and FY13)		124.4
12 Mth PE Price Target ($)		**17.98**
Blended Valuation ($ per share)		**17.09**

Ratios	2010A	2011F	2012F	2013F
EBITDA/sales (%)	6.6	6.6	7.0	7.1
EBIT/sales (%)	**5.3**	**5.3**	**5.8**	**5.9**
Return on assets (%)	10.2	11.2	12.5	13.2
Return on equity (%)	12.7	13.9	15.8	16.6
Return on funds empl'd (%)	16.2	18.1	21.0	22.8
Dividend cover (x)	1.4	1.4	1.4	1.4
Effective tax rate (%)	29.0	29.0	29.0	29.0
Net debt/(cash) ($m)	233.6	200.1	147.2	84.7
Net debt/equity (%)	**20.1**	**16.5**	**11.6**	**6.3**
Net interest cover (x)	8.6	11.5	14.3	17.3

Segmentals	2010A	2011F	2012F	2013F
Revenue				
Infrastructure	1096.0	1024.4	1101.3	1183.9
Rail	1135.4	1414.7	1556.1	1672.8
Resources	785.9	924.5	923.4	992.6
Services	1361.9	1400.2	1540.1	1617.1
Total revenue	**4358.8**	**4747.5**	**5103.0**	**5103.0**
Underlying EBIT				
Infrastructure	78.9	79.4	81.5	87.6
Rail	55.2	84.9	93.4	100.4
Resources	59.4	52.5	78.5	89.3
Services	71.5	74.4	83.2	87.3
Corporate	(35.7)	(37.5)	(39.4)	(41.3)
Total EBIT	**229.3**	**253.8**	**297.2**	**323.3**

Company Profile

United Group (UGL) is a broad based infrastructure services company delivering industrial maintenance, manufacturing, engineering and business process outsourcing services for both public and private sector companies and the governments throughout Australia, NZ, parts of Asia and the US. UGL provides services through its four main operating divisions of Infrastructure, Rail, Resources and Services.

Alex Passmore - Head of Research
Simon Tonkin - Senior Resources Analyst

FLIGHT TO QUALITY WITH M&A ACTIVITY PENDING

INTRODUCTION

The recent Diggers and Dealers 2011 conference highlighted to us that the current market malaise is creating significant opportunities for companies in the sector. The conference held in Kalgoorlie, Western Australia was well attended with 38 companies presenting, 2400 attendees and 135 booth displays.

The buzz coming from the sidelines of the conference centered on the Federal Government's unpopular Carbon Tax and the Mineral Resources Rent Tax for iron ore and coal companies (concerns which are unnecessary negatives for a market which is currently risk averse and looking for reasons to sell rather than buy).

With the macro picture spooking the market (US debt ceiling negotiations recently concluded, ongoing fears over debt levels of Greek, Spanish and Italian governments) the ASX Small Resources index is down 21.5% to 5,500 points since the end of January 2011 and traded value per month (sum of the turnover for the 87 companies in the Small Resources Index) peaking at $8bn in February 2011 and now at $5bn per month leaving many companies with high margin, quality projects presenting very good value.

So with market volumes down, assets values lower and a difficult environment in which to raise exploration and development funding the time for deals is now! Companies that are cashed up and looking for growth will move to set themselves up for the next upswing in prices.

We recommend investors focus on well funded, companies with projects that can weather the downswing of the cycle yet may present attractive plays for more aggressive corporates looking for growth. Our highlighted stocks with this investment thesis in mind are outlined below.

HIGHLIGHTED STOCKS

SECTOR WEIGHTING	Index Weight	
COMPANY	RECOMMENDATION	COMMENT
Atlas Iron Ltd (AGO)	BUY	AGO has a short term plan of achieving 15Mtpa from existing operations (horizon 1). Horizon 2 is for increased production to 46Mtpa, and horizon 3 will involve the company exploring overseas options. David Flanagan mentioned that AGO is not a pilbara only company, and they will look at other international projects. AGO is satisfied that their model works, having shipped 60 vessels since commencing production, and believe increasing production from current levels will be easier than it has been achieving current production. David also added that the company is making $700 a minute. Going forward the company needs to look at rail options as road is not practical over 15Mtpa. As an option rail will be more appealing with >600Mt of resources. Retain our $4.80/sh
Altona Mining Ltd (AOH)	SPEC BUY	Altona Mining Ltd (AOH) was formed through the merger of Vulcan Resources Limited and Universal Resources Limited. AOH is a copper explorer and developer with a strategy to build production from its two 100% assets: Outokumpu in Finland and Roseby in Australia. AOH expects to commence production at Outokumpu from early 2012 at the rate of 8ktpa, with annual production building towards 35ktpa Cu and 15koz Au by 2014 when Roseby is expected to come online. The Outokumpu Project has low capital costs of A$46m, is fully funded, and has good potential to extend the planned 8 year mine life by inclusion of regional satellite deposits. A DFS update has commenced at the Roseby Project which will evaluate upgrading the processing capacity from 5Mtpa to 8Mtpa, and ongoing drilling is expected to substantially upgrade the current 900kt Cu and 250koz Au resource base. We see AOH becoming a mid-tier copper producer over the next 3 years and given the significant discount to its peers (A$50/t vs $150/t), we will continue to monitor its progress toward achieving its production targets which could see a signifi cant re-rating of the stock. We rate AOH as a Speculative BUY.

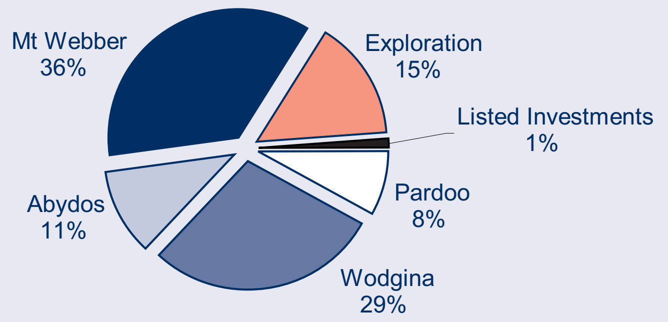
SECTOR WEIGHTING	Index Weight	
COMPANY	RECOMMENDATION	COMMENT
Alacer Gold Corp. (AQG)	BUY	The much anticipated merger between Avoca Resources (AVO) and TSX listed Anatolia Minerals (ANO) to create Alacer Gold (AQG) was completed on 18 February 2011 with overwhelming shareholder support. AQG has emerged as a leading intermediate gold producer with a diversifi ed asset portfolio in Australia and Turkey. Large, long mine life operations with strong inherent value enhance the company's growth prospects, with AQG forecasting production ramp up to 600koz Au by CY2013 then 800koz Au by CY2015. With the company looking to increase its inventory base in line with production depletion and has 5.7Moz Au in reserves and a resource position of 13Moz Au. April 1 2011 marked the beginning of commercial production from the Çöpler operation in Turkey with AQG targeting 135koz Au in 2011 at cash operating costs of US$460/oz. Long term viability of the Çöpler operation is underpinned by the development of its sulphide project which is currently in the detailed feasibility phase. Overall we see AQG as a robust mid-tier gold producer. BUY, Price target $9.75/sh.
Independence Group NL (IGO)	BUY	IGO won the Digger of the Year award for 2011. IGO's goal is to become the next mid-tier miner in Australia and they have an excellent development pipeline to achieve their goal. The long nickel mine continues to produce good cash flow with 2011 production expected to be between 8.8-9.2kt Ni. At Jaguar 2011 production is expected to be 8.5-9.5kt Cu, 15.5-16.5kt Zn and 0.4-0.5moz Ag. At Tropicana (IGO 30%) production is expected to begin in late 2013 and ramp up to 120kozpa (IGO's share). Other prospective projects include; Duketon (some +9% Ni hits), Orrbacden Ni project in Sweden, Kalawibda project near Newman 220koz Au resource. IGO has a couple of advantages to other companies they have an extensive diamond database as well as a powerful EM system to assist to locate mineralisation. IGO have $220m in cash and receivables. Catalysts: 1) Bentley mining in Q1 FY2012. 2) Reserve resource upgrades at Jaguar and extension of mine life. 3) Boston Shaker and Havana Deeps feasibility and pre-feasibility. 4) Successful integration of JML and IGO. Retain our $8.52/sh price target.
Lynas Corp. Ltd (LYC)	BUY	LYC is now the 65th largest stock on ASX and in the top ten by value of trading. (It traded more than Telstra by value recently) Rare Earth market is in structural deficit with production tightening in China as well as China restricting exports while modern technology needs more and more REO. LYC aims to supply over 20% of the market. They see the total supply of 150ktpa by 2015, of which China is 100kt, and the majority of the remainder is split between Lynas and Molycorp. This compares to estimated demand of 170ktpa. Curtis stated that he expects the longer term price to range between $90/kg and the current record prices of $220/kg well above PSL forecasts of $40/kg. Lynas recently held the official opening of the Mt Weld mine. Final commissioning is close to completion and concentrate grade has been as planned at 36% and recoveries well ahead of plan at 68.7%. The local opponents of the plant have managed to delay commissioning of the Malaysian plant by about 3 months and Lynas will now be in production before the end of 2011. The independent review has confirmed that the plant is fully compliant with international standards and the safety is at best practice. Recently signed a JV with Siemens for the manufacture of Neodymium magnets for gearless windmills. Progressing exploration and feasibility on Malawi REO project and expect that it could be as big as MtWeld in production capacity. We retain our $3.15/sh price target.
Troy Resources NL (TRY)	BUY	Troy has now closed its sandstone operations and is producing from Andorinhas (Brazil) and Casposo (Argentina). TRY is a dividend paying producer, the company paid out its 11th dividend this year. TRY is expecting to maintain production above 100kozpa additional exploration at the Casposo project. Drill results to date have returned the highest grades the company has seen. Cash costs at Casposo will be negative from 2013 due to significant silver credits and will be the lowest on the ASX. Also many of the results from its exploration program were done at a Au:Ag ratio of 70:1 but ratio is more like 50:1 so there is significant leverage to increase Au eq grade by around 33%. At Casposo I was very impressed with the exploration upside with a 9km structural corridor with the resources less than 1km in strike. Retain our $4.74/sh price target.

Atlas Iron Limited $3.67 Year End June 30

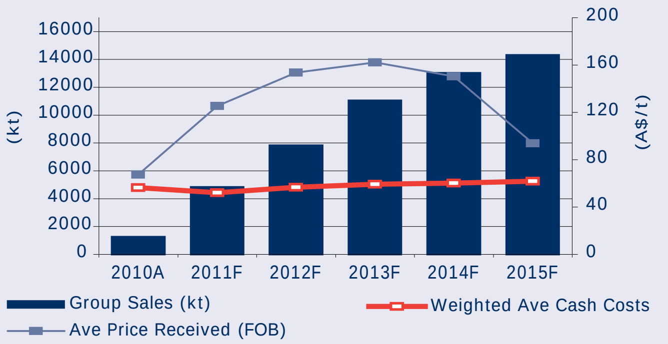
Valuation	A$m	A$/sh
Pardoo	290	0.34
Wodgina	1,051	1.24
Abydos	387	0.46
Mt Webber	1,308	1.54
Exploration	540	0.64
Listed Investments	41	0.05
Forwards	0	0.00
Corporate	-60	(0.07)
Unpaid Capital	47	0.06
Cash	365	0.43
Debt	0	0.00
NPV	**3,969**	**4.68**
Price Target (100% NPV)	**3,969**	**4.80**

Sensitivities to Iron Ore Price	-10%	0%	+10%
NPV	3.93	4.68	5.42

Valuation Summary of Operating Assets



Iron Ore Production Summary



Reserves & Resources (attributable)

Reserves	**Mt**	**% Fe**	**% Al+Si**	**% Phos**
Pilbara	53,691	57.7%	7.8%	0.8%

Resources	**Mt**	**% Fe**	**% Al+Si**	**% Phos**
North Pilbara	444	56.4%	9.2%	0.1%
Southeast Pilbara	158	56.7%	10.2%	0.1%
West Pilbara	38	53.6%	12.3%	0.0%
Midwest	12	60.1%	9.2%	0.1%

Directors

Name	**Position**
Geoff Clifford	Non Executive Chairman (retiring 31 July 11)
David Flanagan	Managing Director
David Hannon	Non Executive Director & Acting Chairman
Tai Sook Yee	Non Executive Director
David Smith	Non Executive Director

Substantial Shareholders	**Shares (m)**	**%**
IMC Group	66.7	8.1
Blackrock	41.2	5.0
Schroder	41.2	5.0

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.89	0.99	1.02	0.98
Iron Ore Fines (US$/t)	76.44	145.17	178.54	178.54
Iron Ore Lump (US$/t)	89.72	170.13	205.32	209.78

Production Summary	2010A	2011F	2012F	2013F
Pardoo - Fines	1,259	1,672	1,725	1,800
Turner River Hub:				
Wodgina - Fines	0	2,810	4,027	4,200
Abydos	0	0	0	2,000
Mt Webber	0	0	2,000	3,000
Group Production (kt)	**1,259**	**4,483**	**7,752**	**11,000**
Group Sales (kt)	**1,259**	**4,836**	**7,835**	**11,050**
Cost Summary (A$/t):				
Pardoo Cash Costs	56.48	60.63	57.72	58.88
Wodgina Cash Costs	0.00	47.57	56.22	57.61
Project C Cash Costs	0.00	0.00	0.00	63.36
Weighted Ave Cash Costs	**56.48**	**52.09**	**56.67**	**59.32**
Ave Price Received (FOB)	**67.35**	**125.40**	**153.64**	**162.28**

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	**84.8**	**606.5**	**896.6**	**1,306.3**
Other Income	7.0	12.4	21.2	0.0
Operating Costs	74.4	246.1	286.3	405.0
Exploration Exp.	24.2	21.2	24.3	24.8
Corporate/Admin	17.5	40.5	36.6	37.3
EBITDA	**(24.4)**	**311.1**	**570.6**	**839.2**
Depn & Amort	16.9	14.2	2.9	19.0
EBIT	**(41.3)**	**296.9**	**567.6**	**820.1**
Interest	0.0	3.9	0.0	0.0
Abnormals	0.4	(7.1)	0.0	0.0
Operating Profit	**(40.8)**	**285.8**	**567.6**	**820.1**
Tax expense	0.0	76.7	170.3	246.0
Minorities	0.0	0.0	0.0	0.0
NPAT	**(40.8)**	**209.1**	**397.4**	**574.1**
Normalised NPAT	**(28.6)**	**209.1**	**397.4**	**574.1**

Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	(40.8)	209.1	397.4	574.1
+ Interest/Tax/Expl Exp	24.2	98.0	194.6	270.8
- Interest/Tax/Expl Inc	70.5	78.2	87.6	111.1
+ Depn/Amort	16.9	14.2	2.9	19.0
- Deferred Waste	39.5	47.2	43.1	195.0
Operating Cashflow	**(109.8)**	**195.8**	**464.1**	**557.9**
- Capex (+asset sales)	31.8	47.1	34.0	143.1
- Working Capital Increase	-41.5	-64.2	0.0	0.0
Free Cashflow	**(100.1)**	**212.9**	**430.1**	**414.7**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	127.9	2.7	0.0	0.0
+ Debt drawdown (repaid)	(14.3)	(7.7)	0.0	0.0
Net Change in Cash	**30.6**	**210.1**	**430.1**	**414.7**
Cash at End Period	154.9	365.0	795.1	1209.8
Net Cash/(Debt)	154.9	365.0	795.1	1209.8

Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	154.9	365.0	795.1	1209.8
Total Assets	388.6	593.4	990.7	1564.8
Total Debt	0.0	0.0	0.0	0.0
Total Liabilities	29.6	22.6	22.6	22.6
Shareholders Funds	359.0	570.8	968.1	1542.2
Ratios				
Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	na	na
Return on Equity (%)	na	36.6	41.0	37.2

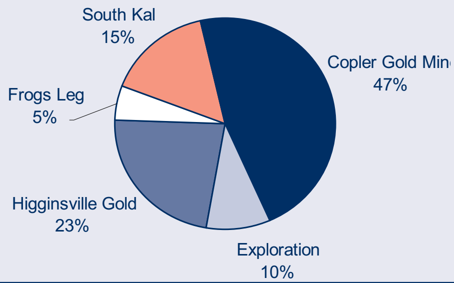
Alacer Gold Corp. $8.69

Year End June 30

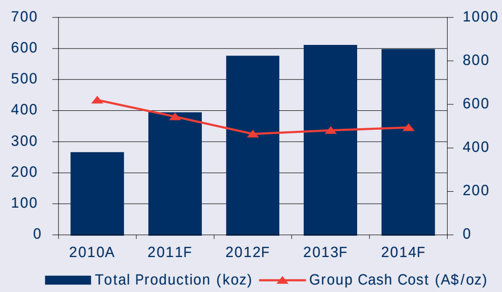
Valuation	A$m	A$/sh
Higginsville Gold	455.4	1.50
Frogs Leg	103.4	0.34
South Kal	306.8	1.01
Copler Gold Mine	934.4	3.08
Exploration	189.1	0.62
Unpaid Capital	31.6	0.10
Corporate	(3.2)	(0.01)
Forwards	0.0	0.00
Listed Investments	6.0	0.02
Cash est	137.0	0.45
Debt est	(48.3)	(0.16)
NAV	**2112**	**6.97**
(@ 8% Discount rate)		
Price Target (1.4 x NAV)		**9.75**

Hedging	koz	Strike	Cover
Put Options	287	A$830	to CY11

Valuation Summary of Operating Assets



Gold Production Summary



Reserves & Resources

Reserves	**Equity**	**Mt**	**Au g/t**	**Au koz**
Higginsville	100%	6.0	4.16	803
Frogs Leg	49%	5.0	5.06	399
South Kal	100%	2.0	1.63	106
Copler	100%	40.8	1.65	2,169
Total		6.0	4.12	3,477
Resources		**Mt**	**Au g/t**	**Au koz**
Higginsville	100%	14.3	3.42	1,572
Frogs Leg	49%	2.3	6.34	230
South Kal	100%	68.7	2.04	4,516
Copler	95%	125.0	1.50	5,739
Cevizlidere	100%	445.7	0.11	1,576
Karakartal	100%	31.6	0.38	386
Total		**687.6**	**0.66**	**14,019**

Directors

Name	Position
Robert Reynolds	Non-Executive Chairman
Ed Dowling	Managing Director
Rohan Williams	Chief Strategic Director
David Quinlivan	Non-Executive Director
Stephanie Unwin	Non-Executive Director
Jan Castro	Non-Executive Director
Timothy Haddon	Non-Executive Director
Richard Graff	Non-Executive Director
Jay Kellerman	Non-Executive Director

Substantial Shareholders	**Shares(m)**	**(%)**
Pala Investments AG	47.7	17.2

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.93	1.03	1.01	0.94
Gold (US$/oz)	1227	1481	1529	1550
Silver (US$/oz)	20.13	35.68	36.26	36.00
Gold (A$/oz)	1321	1433	1513	1649
Silver (A$/oz)	21.67	34.51	35.90	38.30

Sensitivity	-10%	0%	+10%	Delta+10%
FX (A$:US$)	9.77	9.76	9.76	0%
Gold Price	8.35	9.76	11.17	14%
Grade	9.29	9.76	10.23	5%
Operating Costs	9.99	9.76	9.52	-2%

Production Summary	2010A	2011F	2012F	2013F
Gold Production				
Higginsville Gold	168	157	159	181
Frogs Leg	52	28	28	28
South Kal	43	29	140	153
Copler Gold Mine	0	179	247	247
Total Production (koz)	**264**	**392**	**574**	**609**
Cost Summary				
H'ville Cash Cost (A$/oz)	496	544	569	580
Group Cash Cost (A$/oz)	621	543	464	481
Group Total Cost (A$/oz)	871	707	639	664
Price Received (A$/oz)	1,316	1,481	1,529	1,550

Profit & Loss (US$m)	2010A	2011F	2012F	2013F
Sales Revenue	**351.8**	**618.3**	**914.6**	**980.1**
Other Income	8.7	6.5	17.0	38.3
Operating Costs	173.3	228.5	289.0	320.1
Exploration Exp.	6.2	4.0	4.1	4.2
Corporate/Admin	0.2	2.0	2.0	2.1
EBITDA	**180.8**	**390.3**	**636.4**	**692.0**
Depn & Amort	81.9	69.8	96.3	103.3
EBIT	**98.9**	**320.5**	**540.2**	**588.7**
Interest	5.6	3.4	0.1	0.0
RSPT	0.0	0.0	0.0	0.0
Operating Profit	**93.3**	**317.1**	**540.1**	**588.7**
Significant Items	5.2	0.0	0.0	0.0
FX Adjustment	0.0	0.0	0.0	0.0
Tax expense	17.8	95.1	159.3	167.7
Reported NPAT	**80.7**	**222.0**	**380.8**	**421.0**
Normalised NPAT	**65.3**	**222.0**	**378.1**	**412.1**

Cash Flow (US$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	80.7	222.0	380.8	421.0
+ Interest/Tax/Expl Exp	29.6	102.5	163.4	171.9
- Interest/Tax/Expl Inc	25.8	125.8	178.7	184.4
+ Depn/Amort	81.9	69.8	96.3	103.3
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	**166.5**	**268.5**	**461.8**	**511.8**
- Capex (+asset sales)	36.3	44.2	89.9	23.9
- Working Capital Increase	43.8	66.1	0.0	0.0
Free Cashflow	**86.4**	**158.2**	**371.9**	**487.9**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	0.4	0.0	0.0	0.0
+ Debt drawdown (repaid)	(30.8)	(28.2)	(18.3)	0.0
Net Change in Cash	**26.4**	**130.0**	**353.6**	**487.9**
Cash at End Period	102.2	232.2	585.8	1073.7
Net Cash/(LT Debt)	55.7	213.9	585.8	1073.7

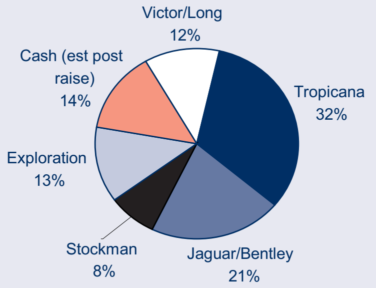
Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	102.2	232.2	585.8	1073.7
Total Assets	414.2	770.8	1139.5	1562.2
Total Debt	47.0	18.3	0.0	0.0
Total Liabilities	145.4	280.0	270.6	281.2
Shareholders Funds	268.9	490.8	868.9	1281.0
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	17.6	95.3	7944.3	na
Return on Equity (%)	30.0	45.2	43.8	32.9

Independence Group NL $5.63 Year End June 30

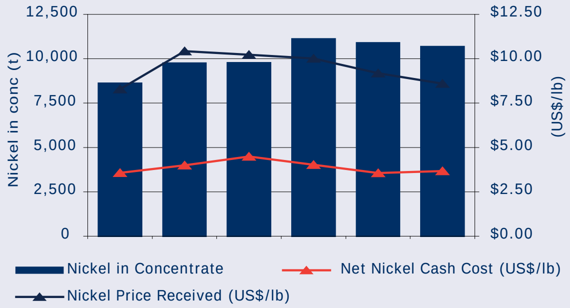
Valuation	A$m	A$/sh
Victor/Long	189	0.94
Tropicana	517	2.56
Jaguar/Bentley	336	1.66
Stockman	122	0.61
Forward Sales	0	0.00
Corporate	(28)	(0.14)
Exploration	201	1.00
Unpaid Capital	4	0.02
Cash (est post raise)	221	1.09
Debt est	0	0.00
DCF	**1561**	**7.75**
@ 8% Discount Rate		
Price Target	**1,717**	**8.52**
10% Premium to NPV		

Sensitivity Price Target	+10%	0%	-10%
Nickel Price	$8.80	$8.52	$8.27
Gold Price	$9.45	$8.52	$7.59
A$: $US	$6.96	$8.52	$10.45

Valuation Summary of Assets



Nickel Production Summary



Reserves & Resources as June 10		Mt	%	kt / Moz
Reserves				
Long	Ni	1.32	4.1	53.9
Tropicana (100%)	Au	45.00	2.3	3.33
IGO (30%)		13.50	2.30	1.00
Jaguar/Bentley	Zn	3.23	7.9	255.6
	Cu	3.2349	1.8	58.2
	Ag	3.2349	0.99	0.10
Resources				
Long	Ni	1.70	5.4	91.9
Tropicana (100%)	Au	75.3	2.07	5.01
IGO (30%)		22.59	2.07	1.50
Jaguar/Bentley	Zn	4.68	7.2	337.0
	Cu	4.68	2.1	98.3
	Ag	4.68	0.98	0.15
Stockman	Zn	12.50	4.4	550.0

Directors

Name	**Position**	
Rodney Marston	Non Executive Director	
Christopher Bonwick	Managing Director	
Kelly Ross	Executive Director	
John Christie	Non Executive Director	
Peter Bilbe	Non Executive Chairman	
Substantial Shareholders	**Shares(m)**	**%**
JCP Capital	19.1	10%
NAB	10.1	5%

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	$0.89	$0.99	$1.02	$0.98
Gold (US$/oz)	$1,093	$1,369	$1,523	$1,537
Copper (US$/lb)	$3.04	$3.95	$4.10	$4.02
Nickel (US$/lb)	$8.75	$10.89	$10.13	$10.03
Zinc(US$/lb)	$0.94	$1.02	$1.04	$1.05

Production Summary	2010A	2011F	2012F	2013F
Victor/Long				
Nickel Production (t)				
Nickel in Concentrate	8,615	9,753	9,766	11,116
Copper in Concentrate	643	684	720	840
Per Pound of Payable Nickel				
Net Nickel Cash Cost (A$/lb)	$4.00	$4.05	$4.39	$4.12
Nickel Total Cost (A$/lb)	$5.58	$5.88	$6.27	$5.98
Net Nickel Cash Cost (US$/lb)	$3.57	$4.00	$4.49	$4.02
Nickel Price Received (US$/lb)	$8.29	$10.43	$10.23	$10.01
Tropicana				
Gold Production (koz)				
Tropicana Gold Production (IGO)				
Gold Cash Costs (A$/oz)				
Gold Cash Costs (US$/oz)				
Gold Price Received (US$/oz)				
Jaguar/Bentley				
Zn in Concentrate (kt)	26.8	17.7	14.6	14.6
Cu in Concentrate (kt)	9.2	9.0	9.0	8.8
Silver in Cu Concentrate (moz)	0.6	0.7	0.8	0.8
Zn Cash Costs (US$/lb)**	$0.13	($0.47)	($0.87)	($0.88)
**(Net of copper and silver credits)				
Stockman				
Zn in Concentrate (kt)	0.0	0.0	0.0	7.5
Cu in Concentrate (kt)	0.0	0.0	0.0	10.0
Silver in Cu Concentrate (moz)	0.0	0.0	0.0	0.0
Zn Cash Costs (US$/lb)**	$-	$-	$-	-$4.18
**(Net of copper and silver credits)				

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	**111.1**	**161.8**	**281.2**	**311.2**
Other Income	5.6	11.3	10.2	7.5
Operating Costs	45.5	74.4	119.1	125.8
Exploration Exp.	7.3	9.9	13.9	14.1
Corporate/Admin	5.8	19.0	6.1	6.2
EBITDA	**58.2**	**69.8**	**152.3**	**172.6**
Depn & Amort	18.8	22.7	26.3	29.5
EBIT	**39.4**	**47.1**	**126.0**	**143.1**
Interest	0.0	0.0	2.3	2.2
Operating Profit	**39.4**	**47.1**	**123.7**	**140.9**
Tax expense	11.7	15.9	37.1	42.3
Abnormal Losses / Minorities	0.6	(1.1)	0.0	0.0
NPAT	**27.1**	**32.4**	**86.6**	**98.6**
Normalised NPAT	**27.8**	**31.3**	**86.6**	**98.6**

Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	27.7	31.3	86.6	98.6
+ Interest/Tax/Expl Exp	18.9	25.7	53.3	58.6
- Interest/Tax/Expl Inc	28.1	36.2	62.2	67.3
+ Depn/Amort	18.8	22.7	26.3	29.5
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	**37.4**	**43.5**	**104.0**	**119.5**
- Capex (+asset sales)	31.1	66.5	120.5	111.6
- Working Capital Increase	(15.6)	44.3	0.0	0.0
Free Cashflow	**21.9**	**(67.4)**	**(16.5)**	**7.9**
- Dividends (ords)	5.7	14.6	16.1	18.1
+ Equity raised	0.5	158.6	0.0	0.0
+ Debt drawdown (repaid)	0.0	0.0	(15.0)	(40.0)
Net Change in Cash	**16.7**	**76.6**	**(47.5)**	**(50.1)**
Cash at End Period	144.0	220.6	173.1	122.9
Net Cash/(LT Debt)	144.0	220.6	133.1	122.9

Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	144.0	220.6	173.1	122.9
Total Assets	273.5	448.7	571.2	614.8
Total Debt	0.0	0.0	40.0	0.0
Total Liabilities	58.8	58.6	110.6	73.6
Shareholders Funds	214.8	390.1	460.6	541.2
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	55.1	65.7
Return on Equity (%)	12.6	8.3	18.8	18.2

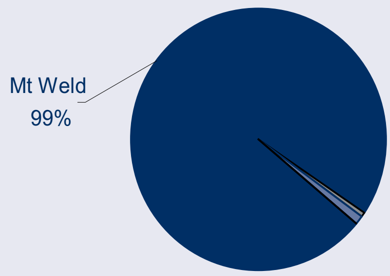
Lynas Corporation Limited $1.85

Year End June 30

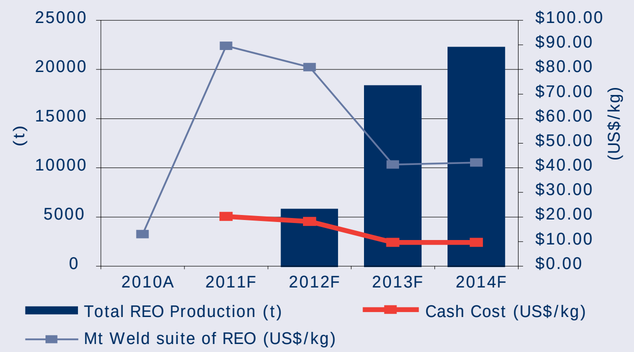
Valuation	A$m	A$/sh
Mt Weld	5431	$3.04
Crown Polymetallic	25	$0.01
Kangankunde- Malawi	56	$0.03
Exploration remainder of Mt Weld	0	$-
Exploration Crown poly-metallic	5	$0.00
Forwards	0	$-
Corporate	(191)	($0.11)
Unpaid Capital	68	$0.04
Cash	434	$0.24
Debt	(212)	($0.12)
DCF	**5,616**	**$3.15**
@ 10% Discount Rate		
Price Target	**5,616**	**$3.15**

Sensitivities	-10%	0%	+10%
Rare Earth Prices	$2.77	$3.15	$3.52
Neodymium Price	$3.01	$3.15	$3.29
A$: US$	$3.56	$3.15	$2.81

Valuation Summary of Operating Assets



Production Summary



Reserves & Resources			
Reserves	**Mt**	**Grade (%)**	**REO (kt)**
Mt Weld	2.08	15.5	322
Resources	**Mt**	**Grade (%)**	**REO (kt)**
Mt Weld - CLD	9.9	10.7	1,057
Mt Weld - Duncan	7.6	4.8	366
Kangankunde- Malawi	2.5	4.2	107
Crown Tantalum & Niobium Deposit	37.7	1.2	437
Total	**57.7**	**3.4**	**1,968**

Directors

Name	Position
Nick Curtis	Executive Chairman
David Davidson	Non Executive Director
Jacob Klein	Non Executive Director
Liam Forde	Non Executive Director

Substantial Shareholders	Shares (m)	%
Morgan Stanley	172.9	10.2%
Mistsubishi UFJ	170.1	10.0%
JP Morgan Chase	76.5	4.5%
JP Morgan Asset Mgmt	24.0	1.4%
Carmignac Gestion	22.0	1.3%
Van Eck Associates	17.6	1.0%
General Electric	16.9	1.0%

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	**0.89**	**0.99**	**1.02**	**0.98**
Mt Weld suite of REO (US$/t)	**12976**	**89625**	**80908**	**41318**
Mt Weld suite of REO (US$/kg)	**12.98**	**89.63**	**80.91**	**41.32**
Lanthanum (US$/kg)	6.62	71.76	69.88	26.51
Cerium (US$/kg)	5.39	72.87	67.06	13.25
Neodymium (US$/kg)	**24.84**	**130.89**	**110.76**	**82.46**
Praseodymium (US$/kg)	**24.64**	**118.18**	**107.43**	**82.46**
Samarium (US$/kg)	4.09	62.33	50.79	13.99
Dyprosium (US$/kg)	155.48	475.87	371.31	338.68
Europium (US$/kg)	503.75	936.46	733.24	1531.41
Terbium (US$/kg)	449.25	897.64	995.77	1767.01

Production Summary	2010A	2011F	2012F	2013
Lanthanum		0	1,468	4,672
Cerium		0	2,691	8,563
Neodymium		**0**	**1,065**	**3,389**
Praseodymium		0	306	975
Samarium		0	131	416
Dyprosium		0	7	23
Europium		0	26	81
Terbium		0	4	12
Total REO Production (t)		**0**	**5,758**	**18,320**
Cash Cost (US$/kg)		**$20.25**	**$18.19**	**$9.64**

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	**0.0**	**0.0**	**368.1**	**783.4**
Other Income	9.1	13.0	26.2	41.0
Operating Costs	16.4	0.0	77.5	164.0
Exploration Exp.	0.0	0.2	0.0	0.0
Corporate/Admin	9.2	37.6	28.4	28.9
EBITDA	**(16.5)**	**(24.8)**	**288.4**	**631.5**
Depn & Amort	1.2	0.0	5.8	18.3
EBIT	**(17.6)**	**(24.8)**	**282.7**	**613.2**
Interest	0.0	0.0	21.5	31.9
Operating Profit	**(17.6)**	**(24.8)**	**261.1**	**581.3**
Tax expense	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0
NPAT	**(17.6)**	**(24.8)**	**261.1**	**581.3**
Significant item gains / (losses)	(25.4)	0.0	0.0	0.0
Normalised NPAT	**(43.0)**	**(24.8)**	**261.1**	**581.3**

Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	(43.0)	(24.8)	261.1	581.3
+ Interest/Tax/Expl Exp	0.4	0.2	21.6	31.9
- Interest/Tax/Expl Inc	0.7	0.4	21.6	31.9
+ Depn/Amort	1.2	0.0	5.8	18.3
+/- Other	0.0	(8.4)	0.0	0.0
Operating Cashflow	**(42.2)**	**(33.4)**	**266.9**	**599.6**
- Capex (+asset sales)	36.0	218.3	152.8	256.2
- Working Capital Increase	(39.3)	0.0	0.0	0.0
Free Cashflow	**(38.8)**	**(251.7)**	**114.0**	**343.4**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	431.5	99.8	0.0	0.0
+ Debt drawdown (repaid)	0.0	212.4	152.8	(0.1)
Net Change in Cash	**388.5**	**28.7**	**266.9**	**343.4**
Cash at End Period	405.2	434.0	700.8	1044.2
Net Cash/(Debt)	405.2	221.6	335.6	679.1

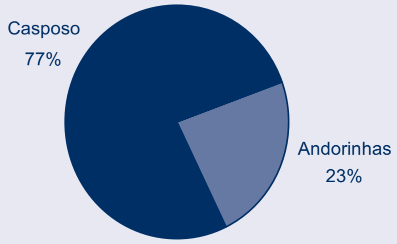
Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	405.2	434.0	700.8	1044.2
Total Assets	640.7	889.9	1349.5	2032.1
Total Debt	0.0	212.4	365.2	365.1
Total Liabilities	21.5	235.1	433.5	534.8
Shareholders Funds	619.1	654.8	916.0	1497.3
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	na	na	13.1	19.2
Return on Equity (%)	na	na	28.5	38.8
Gearing (%)	(9.2)	(189.5)	(51.1)	(57.8)

Troy Resources NL $3.80

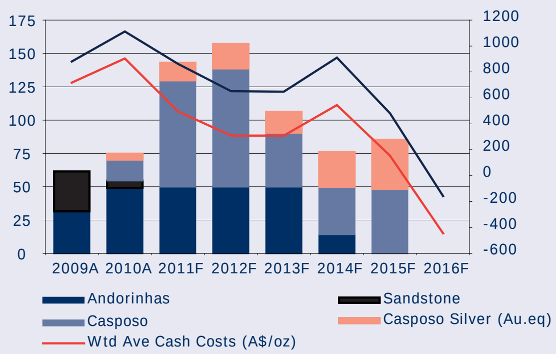
Year End June 30

Valuation	A$m	A$/sh
Sandstone	0.0	0.00
Andorinhas	73.8	0.80
Casposo	243.2	2.63
Listed Investments	0.0	0.00
Exploration	138.4	1.50
Unpaid Capital	11.1	0.12
Corporate	(13.0)	(0.14)
Cash (est.)	14.7	0.16
Debt	(30.0)	(0.32)
NAV	**438**	**4.74**
(@ 8% Discount Rate)		
Price Target		**4.74**

Valuation Summary of Operating Assets



Gold Production Summary



Reserves & Resources (as at 30 June 2010)

Reserves (Gold/Silver)	**Mt**	**Au (g/t)**	**Ag (g/t)**	**Au koz**
Andorinhas (Brazil)	1.0	7.00		224
Casposo (Argentina)	2.0	5.22	171	829
Sandstone (Australia)	0.7	1.70		36
Total	3.0	5.81	171	1,053
Resources (Gold/Silver)	**Mt**	**Au g/t**	**Ag (g/t)**	**Au koz**
Andorinhas (Brazil)	2.3	5.1		369
Casposo (Argentina)	2.6	5.22	189	1,139
Sandstone (Australia)	15.5	1.49		739
Total	**4.9**	**5.16**	**189**	**1,508**
Reserve (Iron Ore)	**Mt**	**Fe%**		**kt**
Andorinhas (Brazil)	2.8	64%		1.79
Total	2.8			1.79
Resources (Iron Ore)	Mt	Fe%		kt
Andorinhas (Brazil)	6.5	51%		3.30
Total	**6.5**			**3.30**

Directors

Name	**Position**
David Dix	Non-Executive Chairman
Paul Benson	CEO & MD
Ken Nilsson	Executive Director
Fred Grimwade	Non-Executive Director
Robin Parish	Non-Executive Director
John Jones	Non-Executive Director
Gordon Chambers	Non-Executive Director

Substantial Shareholders	Shares (m)	%
Warrigal Pty Ltd	6.0	9%
John Jones & Ass.	3.5	5%
Robin Parish	3.8	5%
Fidelity	3.5	5%
Top 20		34%

Commodity Assumptions	2010A	2011F	2012F	2013F
A$:US$	0.89	0.99	1.02	0.98
Gold (US$/oz)	1093	1369	1523	1537
Silver (US$/oz)	17.28	28.71	36.30	36.14
Gold (A$/oz)	1222	1387	1490	1577
Silver (A$/oz)	19.33	29.09	35.50	37.07

Sensitivity	+0%	+10%	Delta 10%
A$:US$	4.74	4.30	-9%
Gold Price	4.74	5.24	11%
Silver Price	4.74	4.84	2%
Operating Costs	4.74	4.60	-3%
Grade	4.74	5.16	9%

Production Summary	2010A	2011F	2012F	2013F
Gold production (koz)				
Sandstone	30	5	0	0
Andorinhas	32	49	50	50
Casposo	0	16	80	89
Total Production	**61**	**70**	**130**	**139**
Silver Production (koz)				
Casposo (Ag)	0	212	547	775
Casposo (Au.eq)	0	4	13	18
Total Production Au.eq (Koz)	**61**	**75**	**143**	**157**
Cost summary				
Wtd Ave Cash Costs (US$/oz)	808	489	316	302
Wtd Ave Cash Costs (A$/oz)	904	496	309	309
Wtd Ave Total Costs (A$/oz)	1,113	863	651	648
Realised price (A$/oz)	1,215	1,391	1,490	1,579

Profit & Loss (A$m)	2010A	2011F	2012F	2013F
Sales Revenue	**75.2**	**110.4**	**213.0**	**247.9**
Other Income	6.2	0.6	1.8	5.7
Operating Costs	60.1	45.2	59.6	71.7
Exploration Exp.	7.0	5.7	15.2	6.7
Corporate/Admin	13.3	9.7	9.1	9.3
EBITDA	**1.1**	**50.3**	**130.9**	**166.0**
Depn & Amort	7.9	21.4	44.4	47.0
EBIT	**(6.8)**	**28.9**	**86.5**	**119.0**
Interest	0.1	2.4	1.8	0.9
Operating Profit	**(6.9)**	**26.5**	**84.7**	**118.2**
Tax expense	(0.1)	7.2	28.2	39.4
Abnormals	0.0	0.0	0.0	0.0
Minorities	(0.1)	0.0	0.0	0.0
NPAT	**(6.9)**	**19.3**	**56.5**	**78.8**
Normalised NPAT	**(4.9)**	**18.5**	**59.3**	**82.7**

Cash Flow (A$m)	2010A	2011F	2012F	2013F
Adjusted Net Profit	(4.6)	17.7	56.5	78.8
+ Interest/Tax/Expl Exp	7.0	15.1	45.2	46.9
- Interest/Tax/Expl Inc	6.9	15.1	45.2	46.9
+ Depn/Amort	7.9	21.4	44.4	47.0
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	**3.4**	**39.0**	**100.9**	**125.7**
- Capex (+asset sales)	43.3	41.5	16.1	18.0
- Working Capital Increase	6.2	25.6	0.0	0.0
Free Cashflow	**(46.1)**	**(28.1)**	**84.8**	**107.8**
- Dividends (ords & pref)	4.4	5.2	7.0	7.0
+ Equity raised	26.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	4.3	28.7	(8.8)	(21.3)
Net Change in Cash	**(21.2)**	**(1.7)**	**69.0**	**79.5**
Cash at End Period	16.4	14.7	83.7	163.2
Net Cash/(LT Debt)	15.1	(15.3)	62.5	163.2

Balance Sheet (A$m)	2010A	2011F	2012F	2013F
Cash	16.4	14.7	83.7	163.2
Total Assets	150.8	191.0	231.7	276.9
Total Debt	1.3	30.0	21.3	0.0
Total Liabilities	21.6	49.6	40.8	14.0
Shareholders Funds	129.2	141.4	190.9	262.8
Ratios				
Net Debt/Equity (%)	na	10.8	na	na
Interest Cover (x)	na	11.9	49.4	135.9
Return on Equity (%)	na	13.6	29.6	30.0

PATERSONS
THE AUSTRALIAN STOCKBROKER

Jonathan Kriska - REIT Analyst

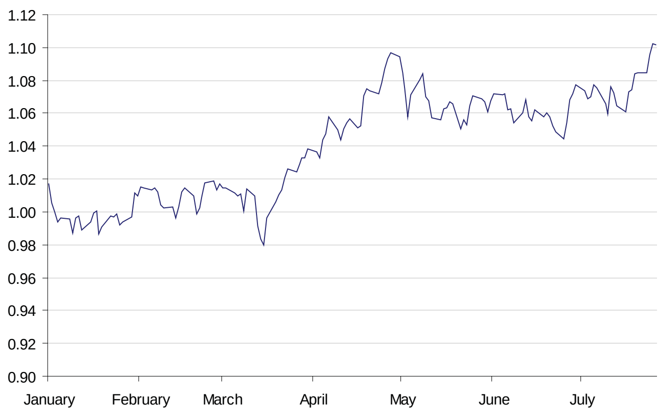
IS WESTFIELD'S CURRENT SHARE PRICE JUSTIFIED?

WDC's share price has been on a downward trajectory since January, having fallen roughly 20% from its $10.00 level. Previously we have been quite vocal about our view that WDC was expensive, however given the recent fall we now examine whether the current share price is justified.

The two main factors impacting WDC negatively at present are the rise in the AUD/USD and the deterioration in the domestic retail sector.

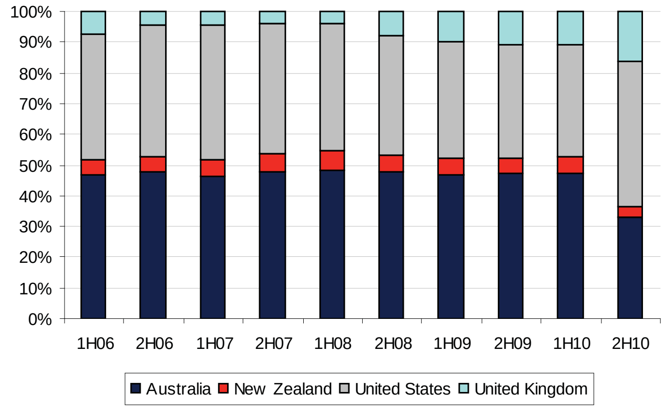
Since January the AUD has appreciated 10% versus the USD. WDC has roughly half of its assets in the US which means its earnings and NTA will be negatively impacted by a rise in the AUD/USD. This impact however will be lessened by US gearing and additional hedging. We estimate the recent rise in the AUD/USD will lead to a 1-2% drop in operating earnings and NTA, hardly a major worry.

Figure 1: AUD/USD



Source: Patersons

Figure 2: WDC Asset Value $bn (AUD Constant)



Source: Patersons

Of more concern is the rapid deterioration in the domestic retail sector, although the effect could have been worse if it weren't for the recent divestment into WRT.

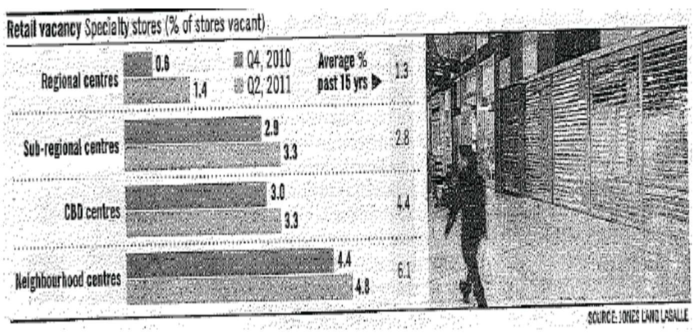
While a drop off in government stimulus and higher interest rates have been a major cause of retail sector deterioration, we also note the rapid increase in shoppers using online retail, particularly from offshore given the higher AUD/USD. Recent surveys have shown that 70% of shoppers are now shopping online and mostly from overseas retailers.

We believe the Australian retail sector is undergoing a structural shift which will lead to lower retail occupancy levels and retail growth, and ultimately lower demand for retail space. Recent data (Figure 4) shows an increase in vacancy rates to support this view, and the recent Productivity Commission Inquiry into the Retail Sector forecasts (Figures 5, 6) lower sales growth over the next five years.

Figure 3: Retail shopper sentiment

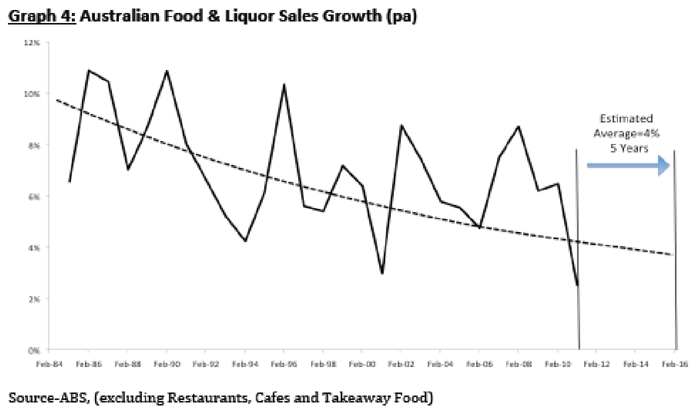
Source: SMH

Figure 4: Retail Vacancy Rates



Source: AFR 21 July 11

Figure 5: Australian Food & Liquor Sales Growth (pa)



Source: Productivity Commission Inquiry into the Retail Sector

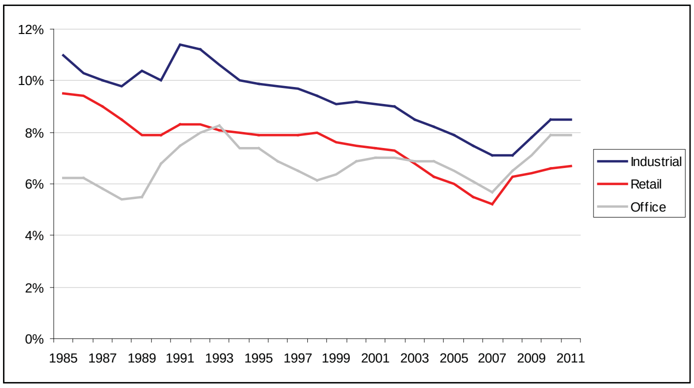
Figure 6: Australian Non-Food Sales Growth (pa)

Source: Productivity Commission Inquiry into the Retail Sector

So far WDC's domestic portfolio remains robust. The group reported an unchanged 99.5% occupancy in 1Q11, and the last reported rental growth numbers in December were 4.0%. However these numbers typically lag what goes on at the retailer level and so we expect deterioration in these numbers in future reporting seasons.

It's also fair to assume that if occupancy falls property values could also fall. For the past 10 years the retail sector has been the darling of the REIT sector. However we believe cap rates on Australian retail assets are too low given the current state of the retail sector, and it's therefore possible we will see slight falls in retail and WDC's assets in coming years.

Figure 7: Australian Commercial Property Cap Rates



Source: Patersons

At current levels WDC offers investors a 6.2% yield and trades at an 11% premium to its NTA. Fundamentally we see no reason for passive REITs like WDC to trade much beyond their NTA. Yes we acknowledge the fact that it's the largest REIT in the world and therefore is a proxy for Australian property for global fund managers, and Yes we appreciate that WDC can add value by its internal development (which goes some way to explaining why 10 of the 13 analysts covering the stock have a BUY recommendation with an average price target of $9.70). However let's examine what investors currently get. The yield is far from compelling, as is the pedestrian eps growth of 6%, and it trades at a premium to its NTA.

WDC's new strategy of divesting full stakes into joint venture arrangements, like it did with WRT, makes sense and may drive improved earnings growth into new markets like continental Europe. However this strategy has only been partly executed with the U.S. portfolio still to be sold down.

WDC's earnings yield of 8.8% also looks attractive and indicates it could provide a much better yield if it were to lift its payout ratio. However this looks unlikely given its expansion plans and desire to benchmark its payout ratio against U.S. peers.

Clearly an improvement in the US economy and appreciation of the USD would also be positive for WDC but recent economic data out of the US suggest things are getting worse, not better.

Therefore WDC looks set for a continuation of weak US occupancy and rental growth, with deteriorating domestic occupancy and rental growth, and possibly slight falls in the value of its domestic assets. As a result we believe the current share price is justified and see little reason for investors to either BUY or SELL the stock at present. We will be closely monitoring their August result portfolio data, AUD/USD, US economy, and domestic retail sentiment in determining our future view on the stock.

WRT

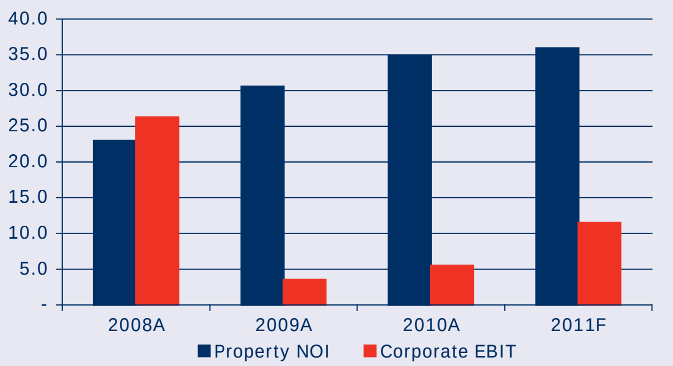
One quick word on WRT, which of course was formed in 2010 and has a 50% ownership of WDC's Australian and New Zealand assets. Clearly the AUD/USD has no impact but the state of domestic retail has more of an impact. While its plausible to expect a slight reduction in NTA going forward WRT's current 18% discount to NTA and better yield of 6.7% more than compensates investors at present. Accordingly we maintain our BUY recommendation on the stock.

HIGHLIGHTED STOCKS

SECTOR WEIGHTING	Index Weight	
COMPANY	RECOMMENDATION	COMMENT
Aspen Group (APZ)	BUY	APZ is ideal for total return investors with a more aggressive risk profile. The group derives circa 45% of its earnings from WA commercial property and so is a good play on the strength of the WA economy. There is also above average potential for earnings growth given the retail funds management platform. The group is in a sound debt position having been recapitalized. The stock is trading ~30% discount to its NTA and also provides a very attractive yield of ~10%.
BWP Trust (BWP)	BUY	With low gearing and long leases to Wesfarmers BWP has traditionally been one of the most defensive REITs. That certainly was the case during the last credit crisis. Late last year BWP made an acquisition that we and the market did not like, given it was slightly dilutive. However we believe the subsequent weakness in the share price provides a good entry position. Current yield of 7.7%, 10% discount to NTA.
Challenger Diversified Property Group (CDI)	BUY	CDI is ideal for defensive yield orientated investors. The balance sheet is in good shape post the recapitalization. Earnings are all based on rent and only 8% of the portfolio is exposed to offshore French assets. However these have already been written down by 25% and will be sold shortly. While FY11 guidance is lower due to some vacancy we expect upside to this given managements conservative estimates. The current yield of 7.8% and 20% discount to NTA are compelling.

Cash Flow ($m)	2010A	2011F	2012F	2013F
Operating Cashflow	**31.1**	**27.9**	**30.9**	**33.0**
Capex	(6.0)	(37.9)	(93.0)	(8.2)
Disposals	0.1	117.4	0.0	0.0
Acquisitions	(36.8)	(7.1)	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	**(42.7)**	**72.4**	**(93.0)**	**(8.2)**
Equity Raised	0.0	0.0	0.0	0.0
Increase (Repay) Debt	33.8	(53.7)	58.9	0.0
Distributions Paid	(23.3)	(19.5)	(24.8)	(26.3)
Other	0.9	5.2	0.0	0.0
Financing Cashflow	**11.3**	**(67.9)**	**34.1**	**(26.3)**
Net change in Cash Held	(0.2)	32.4	(28.0)	(1.5)
Closing Cash Balance	**4.4**	**36.8**	**8.8**	**7.2**
Op CF/Dividend (%)	75.0	69.9	80.3	79.8

Divisional EBIT ($m)



Board of Directors & Sub. Shareholders

Name	**Position**
Reginald Norman Gillard	Chairman
Gavin R Hawkins	Managing Director/CEO
Terry Budge	Non-Executive Director
Matthew McCann	Non-Executive Director
Frank Zipfinger	Non-Executive Director

Shareholder	**%**
Orbis	8.3%
CBA	3.6%
Paradice Investment	6.2%
Entrust	5.0%
Acorn	4.9%
Subtotal	**28.0%**

Valuation

NAV		**DCF**	
Current Cap rate	9.4%	Beta	0.9
Assumed Cap rate	9.4%	WACC	9.2%
Corporate EBIT	8x		
Valuation:	$0.74	Valuation:	$0.41

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Property NOI	34.9	35.9	34.1	35.4
Funds Management	22.3	28.6	33.3	35.1
Operating Expenses	(16.8)	(17.1)	(18.1)	(19.1)
EBITDA	**40.4**	**47.4**	**49.3**	**51.4**
Depn & Ammort	0.0	0.0	0.0	0.0
EBIT	**40.4**	**47.4**	**49.3**	**51.4**
Net Interest	(12.2)	(14.4)	(12.3)	(12.4)
Asset Sales	0.00	(0.12)	0.00	0.00
Unrealised gains	(12.1)	1.9	0.0	0.0
Profit Before Tax	**5.7**	**24.7**	**37.0**	**39.0**
Tax expense	6.8	2.3	(0.4)	(0.4)
Minority Interests	0.0	0.0	0.0	0.0
NPAT (Reported)	**12.6**	**27.0**	**36.6**	**38.6**
NPAT (Adjusted)	**33.6**	**35.7**	**36.6**	**38.6**

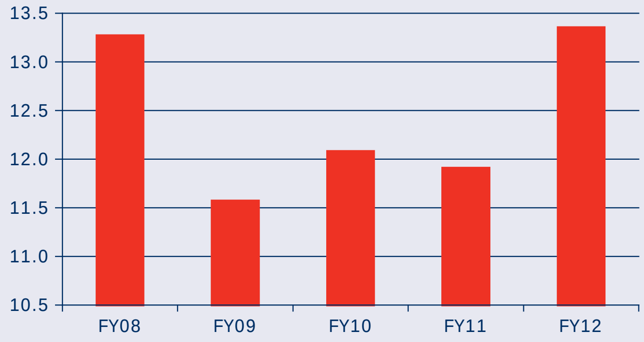
Balance Sheet ($m)	2010A	2011F	2012F	2013F
Cash	4.4	36.8	8.8	7.2
Derivatives	3.8	2.8	2.8	2.8
Fund Loans	76.5	94.1	94.1	94.1
Investment Properties	379.2	299.8	392.8	401.0
Investments	44.6	48.4	44.1	49.9
Associates	83.1	61.1	79.1	79.1
Intangibles	6.0	5.9	5.9	5.9
Other Assets	49.3	42.9	52.9	52.8
Total Assets	**646.9**	**591.8**	**680.5**	**692.8**
Interest Bearing Liabilities	225.3	171.6	230.5	230.5
Derivatives	3.8	2.8	2.8	2.8
Other liabilities	29.2	28.5	28.5	28.5
Total Liabilities	**258.3**	**202.9**	**261.8**	**261.8**
Minority Interests	0.0	0.0	0.0	0.0
Shareholders Funds	**388.6**	**388.9**	**418.7**	**431.0**

EPS/DPS	2010A	2011F	2012F	2013F
EPU (Reported)	2.3	4.7	6.4	6.8
EPU (Adjusted)	6.0	6.2	6.4	6.8
EPS growth (%)	(49.3)	3.4	2.5	5.5
DPS	4.2	4.2	4.5	4.7
AFFO	5.0	(0.4)	(9.9)	5.3
Payout Ratio (%)	69.5	67.2	70.0	70.0
DPS growth (%)	(53.3)	0.0	6.7	5.5
Distribution Yield (%)	9.7	9.7	10.3	10.9

Ratios	2010A	2011F	2012F	2013F
Profitability				
Revenue Growth (%)	(1.1)	12.8	4.4	4.6
NPAT Growth (%)	1.3	6.1	2.5	5.5
ROA (%)	5.2	6.0	5.4	5.6
ROE (%)	8.7	9.2	8.7	9.0
Tax Rate (%)	(20.4)	(6.6)	1.0	1.0
Valuation				
Price/Earnings (x)	7.2	7.0	6.8	6.4
EV/EBITDA (x)	11.7	8.1	9.5	9.2
Price/NTA (%)	(34.1)	(35.1)	(39.8)	(41.5)
Balance Sheet				
Net Debt/Equity (%)	56.8	34.7	53.0	51.8
Net Debt/Assets (%)	34.1	22.8	32.6	32.2
Interest Cover (x)	3.3	3.3	4.0	4.2
NTA ($/share)	0.66	0.67	0.72	0.74
Shares (m)	580.0	571.5	571.5	571.5

Cash Flow ($m)	2010A	2011F	2012F	2012F
Operating Cashflow	**48.3**	**58.2**	**70.0**	**74.7**
Capex	(5.8)	(3.4)	(1.4)	(1.4)
Disposals	0.0	7.4	0.0	0.0
Acquisitions	0.0	(267.1)	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	**(5.8)**	**(263.1)**	**(1.4)**	**(1.4)**
Equity Raised	0.0	150.0	0.0	0.0
Increase (Repay) Debt	(32.5)	91.1	0.0	0.0
Distributions Paid	(27.2)	(33.6)	(48.6)	(54.4)
Other	0.1	0.0	0.0	0.0
Financing Cashflow	**(59.6)**	**207.5**	**(48.6)**	**(54.4)**
Net change in Cash Held	(17.0)	2.6	20.0	18.8
Closing Cash Balance	**21.7**	**24.3**	**44.3**	**63.2**
Op CF/Dividend (%)	56.3	57.6	69.4	72.9

Dividends (Cents)



Valuation

NAV		DCF	
Current Cap rate	7.62%	Beta	0.70
Assumed Cap rate	7.62%	WACC	9.0%
Valuation:	$1.96	Valuation:	$1.75

Overview

Bunnings Warehouse Property Trust (BWP) is focused on bulky goods retailing properties, in particular, Bunnings Warehouses.

Board of Directors	
John Austin	Non-Executive Director
Peter Mansell	Non-Executive Director
Peter Johnston	Non-Executive Director
Richard Higgins	Non-Executive Director

Substantial Shareholders	**%**
Wesfarmers	23.1%
ING	5.3%
CBA	3.6%
Subtotal	**32.0%**

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Property NOI	**73.2**	**77.4**	**94.8**	**99.0**
EBITDA	**69.0**	**73.1**	**90.4**	**93.9**
Depn & Ammort	0.0	0.0	0.0	0.0
EBIT	**69.0**	**73.1**	**90.4**	**93.9**
Net Interest	(18.6)	(17.1)	(20.4)	(19.2)
Asset Sales	0.00	0.00	0.00	0.00
Unrealised gains	41.8	28.2	0.0	0.0
Profit Before Tax	**92.2**	**84.2**	**70.0**	**74.7**
Tax expense	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
NPAT (Reported)	**92.2**	**84.2**	**70.0**	**74.7**
NPAT (Adjusted)	**50.4**	**56.0**	**70.0**	**74.7**

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Assets				
Cash	21.7	24.3	44.3	63.2
Receivables	4.1	3.2	3.2	3.2
Inventories	0.0	0.0	0.0	0.0
Property, plant, equipment	0.0	0.0	0.0	0.0
Investment Properties	1000.1	1298.0	1299.4	1300.8
Derivatives	0.5	2.7	2.7	2.7
Equity Accounted Assets	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0
Other Assets	0.0	0.0	0.0	0.0
Total Assets	**1026.4**	**1328.2**	**1349.6**	**1369.8**
Liabilities				
Interest Bearing Liabilities	193.5	284.6	284.6	284.6
Other liabilities	40.1	46.0	46.0	46.0
Total Liabilities	**233.6**	**330.5**	**330.5**	**330.5**
Minority Interests	0.0	0.0	0.0	0.0
Shareholders Funds	**792.8**	**997.7**	**1019.1**	**1039.3**

EPS/DPS	2010A	2011F	2012F	2013F
EPU (Reported)	22.2	17.9	13.4	14.0
EPU (Adjusted)	12.1	11.9	13.4	14.0
EPS growth (%)	(6.3)	(1.8)	12.1	4.9
DPS	12.1	11.9	13.4	14.0
AFFO	10.2	11.6	13.1	13.7
Payout Ratio (%)	100.0	100.0	100.0	100.0
DPS growth (%)	4.4	(1.4)	12.1	4.9
Distribution Yield (%)	7.0	6.9	7.7	8.1

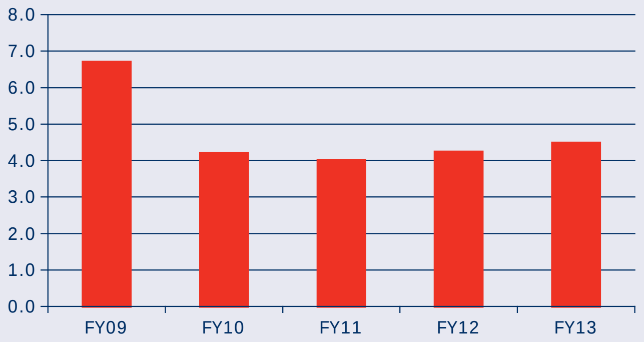
Ratios	2010A	2011F	2012F	2013F
Profitability				
NOI Growth (%)	6.6	5.7	22.6	4.4
NPAT Growth (%)	24.6	11.1	24.9	6.7
ROA (%)	4.9	4.2	5.2	5.5
ROE (%)	6.4	5.6	6.9	7.2
Tax Rate (%)	0.0	0.0	0.0	0.0
Valuation				
Price/Earnings (x)	14.3	14.6	13.0	12.4
EV/EBITDA (x)	13.1	15.9	12.8	12.3
Price/NTA (%)	(7.9)	(9.6)	(10.1)	(10.1)
Balance Sheet				
Net Debt/Equity (%)	21.7	26.1	23.6	21.3
Net Debt/Assets (%)	16.7	19.6	17.8	16.2
Interest Cover (x)	3.7	4.3	4.4	4.9
NTA ($/share)	1.88	1.92	1.93	1.93
Shares (m)	420.7	520.0	528.1	538.2

Challenger Diversified Property Group $0.54

Year End June 30

Cash Flow ($m)	2010A	2011F	2012F	2013F
Operating Cashflow	**45.6**	**43.3**	**47.2**	**50.0**
Capex	(6.3)	(8.8)	(3.0)	(2.0)
Disposals	14.3	24.1	11.6	0.0
Acquisitions	0.0	(81.0)	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	**8.0**	**(65.6)**	**8.6**	**(2.0)**
Equity Raised	126.2	0.0	0.0	0.0
Increase (Repay) Debt	(157.3)	64.1	0.0	0.0
Distributions Paid	(15.0)	(37.9)	(37.6)	(39.8)
Other	(7.8)	0.0	0.0	0.0
Financing Cashflow	**(53.8)**	**26.2**	**(37.6)**	**(39.8)**
Net change in Cash Held	(0.2)	3.9	18.2	8.1
Closing Cash Balance	**1.0**	**4.8**	**23.0**	**31.1**
Op CF/Dividend (%)	33.0	87.5	79.7	79.7

Dividends (Cents)



Valuation

NAV		DDM	
Cap rate Aust assets	8.3%	Beta	0.70
Cap rate French assets	7.7%	WACC	8.8%
Valuation:	$0.68	Valuation:	$0.65

Overview

Challenger Diversified Property Group (CDI) is an externally managed REIT which owns a portfolio of Australian (92%) and French (8%) assets.

Board of Directors

Brenda Shanahan	Chairman
Geoff McWilliam	Non-Executive Director
Ian Martens	Non-Executive Director
Michael Cole	Non-Executive Director
Ian Moore	Non-Executive Director
Brendan O'Connor	Executive Director
Robert Woods	Executive Director

Substantial Shareholders	**%**
Challenger Financial Services	50.0%
APN Property Group	11.1%
Subtotal	**61.1%**

Profit & Loss ($m)	2010A	2011F	2012F	2013F
Property NOI	**64.6**	**61.4**	**68.4**	**70.2**
Other Income	0.7	0.9	1.3	1.3
Expenses	(6.1)	(6.8)	(6.3)	(6.3)
EBITDA	**59.1**	**55.5**	**63.4**	**65.2**
Depn & Ammort	0.0	0.0	0.0	0.0
EBIT	**59.1**	**55.5**	**63.4**	**65.2**
Net Interest	(10.0)	(9.0)	(16.2)	(15.2)
Unrealised gains	(32.8)	4.6	0.0	0.0
Non-Operating Other	(1.0)	0.0	0.0	0.0
Profit Before Tax	**15.3**	**51.1**	**47.2**	**50.0**
Tax expense	0.2	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
NPAT (Reported)	**15.5**	**51.2**	**47.2**	**50.0**
NPAT (Adjusted)	**49.2**	**46.4**	**47.2**	**50.0**

Balance Sheet ($m)	2010A	2011F	2012F	2013F
Assets				
Cash	1.0	4.8	23.0	31.1
Receivables	1.0	1.2	1.2	1.2
Investment Properties	761.1	833.9	818.2	817.7
Development Properties	19.0	19.0	19.0	19.0
Associates	0.0	0.0	0.0	0.0
Derivatives	2.5	4.0	4.0	4.0
Other Assets	14.5	7.4	7.4	7.4
Total Assets	**799.2**	**870.3**	**872.8**	**880.5**
Liabilities				
Interest Bearing Liabilities	165.5	222.9	222.9	222.9
Derivatives	4.1	2.7	2.7	2.7
Other liabilities	29.2	29.7	29.7	29.7
Total Liabilities	**198.8**	**255.2**	**255.2**	**255.2**
Minority Interests	0.0	0.0	0.0	0.0
Shareholders Funds	**600.4**	**615.0**	**617.6**	**625.2**

EPS/DPS	2010A	2011F	2012F	2013F
EPU (Reported)	1.8	5.6	5.2	5.5
EPU (Adjusted)	5.7	5.1	5.2	5.5
EPS growth (%)	(27.0)	(10.6)	1.6	5.9
DPS	4.2	4.0	4.2	4.5
AFFO	4.5	3.8	4.8	5.2
Payout Ratio (%)	73.8	78.7	82.0	82.0
DPS growth (%)	(37.3)	(4.8)	5.9	5.9
Distribution Yield (%)	7.8	7.4	7.8	8.3

Ratios	2010A	2011F	2012F	2013F
Profitability				
NOI Growth (%)	(4.9)	(5.0)	11.4	2.7
NPAT Growth (%)	16.7	(5.6)	1.6	5.9
ROA (%)	6.2	5.3	5.4	5.7
ROE (%)	8.2	7.6	7.6	8.0
Tax Rate (%)	(1.2)	0.0	0.0	0.0
Market Performance				
Price/Earnings (x)	9.5	10.6	10.5	9.9
EV/EBITDA (x)	11.1	12.8	10.9	10.5
Price/NTA (%)	(17.9)	(19.8)	(20.1)	(21.1)
Balance Sheet				
Net Debt/Equity (%)	27.4	35.5	32.4	30.7
Net Debt/Assets (%)	20.6	25.1	22.9	21.8
Interest Cover (x)	5.1	5.1	3.5	3.7
NTA ($/share)	0.66	0.67	0.68	0.68
Shares (m)	913.4	913.4	913.4	913.4

PATERSONS THE AUSTRALIAN STOCKBROKER

Russell Wright - Retail Analyst

RETAILERS ARE THE FIRST TO EXPERIENCE...

... Both the upturns and downturns in any typical economic cycle.

In fact the category which is the first to show signs of improvement is the one known as "clubs, hotels and licensed premises". Intuitively, it makes sense, consumers experience greater disposable income from: new employment; wage increases; tax reductions; or increases in assets that can be leveraged; etc. So they celebrate first.

Then when the greater disposable income becomes a more permanent feature they increasingly purchase more durable goods, initially from department stores.

So department stores like to think of themselves of being the harbingers of both the upturns and downturns in typical economic cycles.

However, back in January 2011, MYR was at a loss to explain where 10% of its customers vanished.

Our previous analysis (reported subsequently in this report June 2011) highlighted that more consumers than ever before were flying away from Australia on holidays – 800,000 more passengers who typically spend $6,1117 per person, equivalent to AUD$4.9 billion.

Also, our previous analysis (subsequently reported in this report May 2011) highlighted the growth in on-line spending, especially to off-shore sites, equivalent to AUD$1.25 billion.

Department stores are at serious risk from both these phenomena plus the increase in the savings ratio.

We can also argue that these factors constitute secular, rather than cyclical, change.

On 13 July 2011, DJS advised that it had been experiencing a decline in sales of approximately 11% during the July quarter- with some days being down as much as 23% on last year. It also indicated it was equally fearful about these same sales conditions continuing into the first half 2012.

Under these retail conditions it would be inappropriate to own retail stocks unless there were compelling reasons otherwise to do so.

Only two stocks fit such criteria – both have stronger new store roll-outs than any potential organic sales declines: JBH and TRS.

JBH is also our only highlighted stock in the retail sector.

HIGHLIGHTED STOCKS

SECTOR WEIGHTING	Under Weight	
COMPANY	RECOMMENDATION	COMMENT
JB Hi-Fi Ltd (JBH)	BUY	Reported 16% NPAT growth for 1H11 despite a subdued and highly competitive retail environment. Capable of growing very strongly until 2015.

JB Hi-Fi Limted $15.30 Year June 30

Profit & Loss ($m)	1H/11A	2H/11E	1H/12E	2H/12E
Sales Revenue	**1682.6**	**1351.7**	**1980.8**	**1591.3**
EBITDA	**141.5**	**113.1**	**173.6**	**112.6**
Depreciation	(13.3)	(12.4)	(15.6)	(14.5)
Amortisation	0.0	(24.8)	0.0	0.0
EBIT	**128.2**	**75.9**	**158.0**	**98.0**
Interest	(2.6)	(2.3)	(3.1)	(12.7)
Operating Profit	**125.6**	**73.6**	**154.9**	**85.3**
Tax expense	(37.7)	(22.0)	(46.5)	(25.6)
NPAT	**87.9**	**51.5**	**108.4**	**59.7**
Normalised NPAT	**87.9**	**51.5**	**108.4**	**59.7**

Cash Flow ($m)	1H/11A	2H/11E	1H/12E	2H/12E
EBITDA	**141.5**	**113.1**	**173.6**	**112.6**
Net interest	(2.1)	(1.1)	(2.8)	(10.9)
Income tax paid	(22.4)	(37.3)	(46.5)	(25.6)
Working capital change	97.8	(109.9)	108.0	(129.4)
Other	3.8	(3.8)	0.0	0.0
Operating Cashflow	**218.5**	**(39.0)**	**232.2**	**(53.3)**
Capital expenditure	(27.7)	(35.0)	(40.4)	(31.6)
Free Cashflow	**190.9**	**(74.0)**	**191.8**	**(84.9)**
Acquisitions & Investments	0.0	0.0	0.0	0.0
Disposals	0.3	0.8	0.0	1.1
Increase (Repay) Debt	(35.0)	186.1	0.0	(20.0)
Equity Raised	7.9	(186.1)	0.0	8.0
Dividends paid	(35.9)	(44.0)	(47.7)	(50.4)
Other	0.0	0.0	0.0	0.0
Net Change in Cash	**128.1**	**(117.1)**	**144.2**	**(146.2)**
Closing Cash Balance	**180.0**	**62.9**	**207.0**	**60.8**

Balance Sheet ($m)	2010A	2011E	2012E	2013E
Cash	51.7	62.9	60.8	63.1
Receivables	63.5	70.5	83.0	96.8
Inventories	334.8	371.9	437.8	510.3
Investments	0.0	0.0	0.0	0.0
Fixed Assets	164.0	199.4	241.3	289.1
Intangibles	46.6	21.8	21.8	21.8
Other Assets	53.7	56.2	59.6	63.3
Total Assets	**714.3**	**782.8**	**904.4**	**1044.6**
Creditors	289.5	321.6	378.6	441.4
Current Borrowings	35.0	0.0	0.0	0.0
Non-current Borrowings	34.6	220.7	200.7	180.7
Other Liabilities	61.9	84.7	121.1	161.1
Total Liabilities	**421.0**	**627.1**	**700.5**	**783.2**
Minority Interests	0.0	0.0	0.0	0.0
Shareholders Funds	**293.3**	**155.7**	**203.9**	**261.4**

Board of Directors & Sub. Shareholders

Name	Position
Patrick Elliott	Non Executive Chairman
Richard Uechtritz	Managing Director/CEO
Gary Levin	Non Executive Director
Terry Smart	COO
Will Fraser	Non Executive Director
James King	Non Executive Director
Greg Richards	Non Executive Director

Shareholder	Shares (m)	%
Integrity Investment Management	10.2	10.4
NAB/MLC	11.5	11.6
UBS	7.2	7.3
Macquarie	6.3	6.4
BT	5.2	5.3
Top 20 Shareholders	**78.1**	**73.8**

Company Background

JB Hi-Fi Ltd is a specialty discount retailers of branded home entertainment products. The Group's products fall in into consumer electronics, car sound systems, and music and DVDs and white goods. JBH does not operate a warehouse; instead all stock is delivered directly to each store and largely stored on the shop floor. The Group's largest product is the mobile consumer electronics category. The emphasis is on high growth products including DVD players, digital still and video cameras, wide-screen and plasma televisions, home theatre systems, and mobile phones. The Group stocks music & DVDs and car sound systems. JBH acquired the remaining 30% of Clive Anthonys from its founder Clive Savage and has now fully integrated the business.

Profit & Loss ($m)	2010A	2011E	2012E	2013E
Sales Revenue	**2731.3**	**3034.4**	**3572.1**	**4164.0**
EBITDA	**198.4**	**254.6**	**286.1**	**346.3**
Depreciation	(23.3)	(25.7)	(30.1)	(35.0)
Amortisation	0.0	(24.8)	0.0	0.0
EBIT	**175.1**	**204.0**	**256.0**	**311.3**
Net Interest	(5.5)	(4.9)	(15.8)	(14.3)
Operating Profit	**169.6**	**199.1**	**240.2**	**297.0**
Tax expense	(50.9)	(59.7)	(72.1)	(89.1)
NPAT	**118.7**	**139.4**	**168.1**	**207.9**
Normalised NPAT	**121.0**	**139.4**	**168.1**	**207.9**

Cash Flow ($m)	2010A	2011E	2012E	2013E
EBITDA	**198.4**	**254.6**	**286.1**	**346.3**
Net interest	(5.0)	(3.2)	(13.7)	(11.7)
Income tax paid	(53.5)	(59.7)	(72.1)	(89.1)
Working capital change	2.1	(12.1)	(21.4)	(23.6)
Other	10.2	0.0	0.0	0.0
Operating Cashflow	**152.1**	**179.5**	**179.0**	**221.9**
Capital expenditure	(54.5)	(62.6)	(72.0)	(82.8)
Free Cashflow	**97.6**	**116.9**	**106.9**	**139.0**
Acquisitions & Investments	0.0	0.0	0.0	0.0
Disposals	1.1	1.1	1.1	0.0
Increase (Repay) Debt	(20.0)	151.1	(20.0)	(20.0)
Equity Raised	6.8	(178.2)	8.0	8.0
Dividends paid	(67.1)	(79.9)	(98.1)	(125.8)
Other	0.0	0.0	0.0	0.0
Net Change in Cash	**18.5**	**11.0**	**(2.1)**	**1.3**
Closing Cash Balance	**51.7**	**62.9**	**60.8**	**63.1**

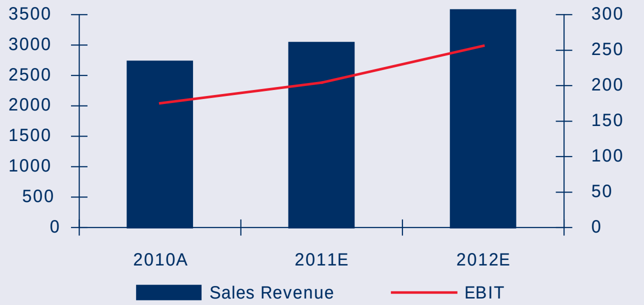
Ratios	2010A	2011E	2012E	2013E
Profitabilty				
Revenue Growth (%)	17.4	11.1	17.7	16.6
EBITDA Margin (%)	7.3	8.4	8.0	8.3
EBIT Margin (%)	6.4	6.7	7.2	7.5
Effective Tax Rate (%)	30.0	30.0	30.0	30.0
ROE (%)	40.5	89.5	82.4	79.5
ROA (%)	24.5	26.1	28.3	29.8
Payout Ratio (%)	59%	58%	60%	70%
EV/EBITA (x)	9.7	8.1	6.8	5.5
Balance Sheet				
Net Debt (Cash) ($m)	17.9	157.9	139.9	117.6
Net Debt/Equity (%)	6.1	101.4	68.6	45.0
Interest Cover (x)	31.8	41.6	16.2	21.8
NTA ($/share)	2.25	1.21	1.74	2.29
Price/NTA (x)	6.8	12.6	8.8	6.7
EFPOWA (m)	109.4	110.3	104.6	104.6

Valuation	2011E	2012E	2013E
Normalised EBIT Multiple			
EBITA ($m)	175.1	228.8	256.0
EBITA Multiple (x)	12.9	11.5	10.7
Net Debt (Cash) ($m)	17.9	157.9	139.9
Implied Valuation ($m)	2241	2474	2599
Per Share	**$20.48**	**$22.43**	**$24.85**
EPS (cents)	129.1	162.8	194.7
PE Target (x)	12.9	11.5	10.7
Per Share	**$16.65**	**$18.72**	**$20.84**

Discounted Cash Flow

Cost of Equity	9.8%	WACC	9.8%
Cost of Debt	7.5%	Terminal Growth Rate	0.5%
Target Equity/Debt	75/25	**Per Share**	**$36.71**

EBIT/REVENUE



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