

Research Insight

Please note this will be the last issue of Research Insight for 2009. The next issue will be released on Thursday, 14 January 2010.

Seasons Greetings from CommSec

Welcome to this week's edition of the CommSec Research Insight. Each week we share the unique insights of the CommSec Equities Research team based on the research we prepare for institutional clients (ie fund managers). We provide you with a quick wrap on the state of our share market, a few feature articles on the most interesting recent research reports we've issued and snippets on stocks and sectors that have been making the news.



Feature Article

Our feature article this week is:

- Cochlear Limited: Listen to more than the new products

The comments in the articles below are an abbreviated restatement of our analysts' reports.

A glossary of frequently used investment terms can be found at the end of this report

Feature Article

Cochlear Limited¹: Listen to more than the new products

Last traded: \$64.57

Sector: Health Care

Market cap: \$3,530M

REDUCE/ MARKET PERFORM

Valuation: \$29.94

Summary of previous report dated 7/12/09

Initiation of coverage

COH is a developer, manufacturer and marketer of bionic ear or cochlear implants (CI) for people suffering severe to profound hearing impairment.

CBA initiate coverage on Cochlear Limited (COH) with a REDUCE / MARKET PERFORM recommendation and a \$60.07 per share price target.

High quality business

COH deserves its premium status given its strong EPS growth profile, market position and balance sheet. Our bullish FX forecasts also suggest it will enjoy a sizeable FX hedging gain in FY10. However, at 25.6x FY10 PE and 7.3% EPS growth, we see better relative value elsewhere in the sector (namely RMD).

Upside already factored in and downside risk being discounted

We suggest investors approach the stock with some caution. Upside from COH's recent product launches is more than factored into the share price and the market is discounting the downside risk from modest unit sales growth, reimbursement constraints and rejuvenated competition.

Issue 140 10 December 2009 (4.30pm)

Market Wrap

Last week I reflected on the sharemarket's solid performance this year. And while the market has lost a little ground over the last week, it is still up 27% over the year after sliding by 40% in 2008.

No doubt 2009 will be best known for the global financial crisis. *But 2009 will also go down as the year of the rebound.*

We probably have to remind ourselves that the Aussie dollar was as low as US63 cents and now is above US90 cents. The oil price was at US\$34 a barrel, but now is closer to US\$70 a barrel. And gold was near US\$800 an ounce, but now is above US\$1100 an ounce.

The bottom line is that many analysts were too quick to write off the global economy. But just as they have done many times in the past, key advanced nations have bounced back. And on that positive note may I wish you all a happy Christmas and prosperous New Year.

Matt Comyn
General Manager

Stocks at a glance

Following is a summary of a selection of recent reports distributed by CommSec research.

Stocks by sector

Consumer staples

AWB'
10/12/09

Summary of
report dated
08/12/09

AWB Limited: Emergency measures over, growth is key

Last Traded: \$1.13 Market Cap: \$898M Sector: Staples
ACCUMULATE / MARKET PERFORM Valuation: \$1.57

AWB sells its rural loan and deposit books

AWB has sold its rural loan and deposit books to ANZ Bank for a loss of \$62m but released \$155m in capital and further de-risked the company in the process.

We still prefer GNC

We are more comfortable with AWB as an investment without the rural loans on its balance sheet but it has a number of areas of its business in structural decline. GNC has medium-term growth options in the form of increased malt capacity and increasing penetration in the export wheat market. We also believe the impact from the current El Niño event on GNC's FY10 earnings is overplayed.

We recommend BUY / MARKET PERFORM for GNC (PT: \$8.34) and have a more neutral ACCUMULATE / MARKET PERFORM recommendation on AWB (PT: \$1.39, down 6.1%).

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Financials

ASX'
03/12/09

Summary of
report dated
03/12/09

ASX Limited: Weakness continuing

Last Traded: \$33.38 Market Cap: \$5,730M Sector: Financials
ACCUMULATE / MARKET PERFORM Valuation: \$38.80

ASX's monthly trading report for November

In October 2008, the volume and value figures started their steep decline and the trend lasted six months; since then the figures have been heading back towards a recovery. Again, however, this year's October and November figures have shown a slowdown in the recovery.

Current share price is close to fair value

The ASX share price has remained flat for the last six months, in line with our PE re-rate view. This is due to the monopoly position under question and the minimal upside to earnings.

The share price did get ahead of itself following some strong August and September trading months; however, it has pulled back in the last month. We see the current share price as close to fair value for the stock.

We retain our \$38.80 valuation, \$35.33 price target and ACCUMULATE / MARKET PERFORM call.

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Industrials

AIO¹
10/12/09Summary of
report dated
09/12/09**Asciano Group: QR float to benefit AIO**

Last Traded: \$1.72

Market Cap: \$5,062M

Sector: Industrials

ACCUMULATE / MARKET PERFORM

Valuation: \$1.75

QR National to be sold via an IPO

The QLD Government has announced QR National will be sold via an IPO by the end of CY10. The Government will initially retain 25-40% of the company but will not be a long term holder. A 15% ownership cap will apply to any individual or company shareholdings.

AIO implications

The privatisation of QR will benefit both QR and AIO. QR is already becoming a more rational competitor with a focus on re-pricing its coal contracts to earn returns above its cost of capital. This is in line with AIO's strategy to re-price its contracts. Therefore returns for the rail industry overall are set to increase.

We retain our ACCUMULATE / MARKET PERFORM recommendation

The privatisation of QR will benefit both QR and AIO.

Happy investing!

Recommendation Definitions

SHORT TERM (over the next 6 months we expect the share price to):

BUY	Appreciate by >10%
ACCUMULATE	Increase between 2% and 10%
REDUCE	Increase by less than 2% or fall by up to 5%
SELL	Fall by >5%
REV	Company is under review - no recommendation available

LONG TERM (over the next 24 months we expect the total return to):

Outperform (O / P)	Exceed market return by >5%
Market Perform (M / P)	Be in line with market return, +/-5%
Under Perform (U / P)	Be less than market return by >5%
REV	Company is under review - no recommendation available

¹ Members of the Commonwealth Group hold: between 5 and 10% of Cochlear Limited and Asciano Group.

Glossary of frequently used investment terms

2P	proved plus probable	FUM	funds under management
3P	proved, probable and possible	GEP	gross earned premiums
ABARE	Australian Bureau of Agricultural and Resource Economics	GJ	gigajoule
ACCC	Australian Competition and Consumer Commission	GWP	gross written premiums
AGM	annual general meeting	JV	joint venture
APRA	Australian Prudential Regulation Authority	LNG	liquefied natural gas
ARTC	Australian Rail Track Corporation Ltd	L-R	long run
ATO	Australian Taxation Office	MAT	moving annual total
bbl	billions of barrels	Mboe	thousands of barrels of oil equivalent
bbls	barrels	mom	month on month
bp	basis points	MOU	Memorandum of understanding
CAGR	compounded annual growth rate	MRET	mandatory renewable energy target
CCGT	combined-cycle gas turbine	NAV	net asset value
CEO	chief executive officer	NPAT	net profit after tax
COGS	cost of goods sold	NPV	net present value
cps	cents per share	NTA	net asset backing per share
cpu	cost per unit	OCGT	open-cycle gas turbine
CSG	coal seam gas	OIP	oil in place
CSM	coal seam methane	OTC	over the counter
DCF	discounted cash flow	P/E	price-earnings ratio
D&A	depreciation and amortisation	pcp	prior comparable period
DRP	dividend reinvestment plan	ppt	percentage point
EBIT	earnings before interest and tax	PSI	offering into pipelines
EBITDA	earnings before interest, tax, depreciations, amortisation	SOTP	sum of the parts
EPCM	Engineer Procure Construct Manage	TEUs	twenty equivalent units
EPS	earnings per share	VWAP	volume-weighted average price
ETS	emissions trading scheme	WACC	weighted average cost of capital
EV	enterprise value	WIH	work in hand
FTA	free to air	y-o-y	year on year

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More information on our research methodology, organisation structure, summary documenting frequency and recommendations can be obtained at research.commsec.com.au

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End of Report