Research Insight

CommSec

News from CommSec research

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.

Issue 145 **18 February 2010 (4.30pm)**

Feature Article

Our feature articles this week are:

- **Mirvac Group: 1H10 result**
- **OneSteel Limited: 1H10 result**
- **Newcrest Mining: 1H10 result**

The comments in the article 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

Mirvac Group[1]: 1H10 result

Last traded: $1.465	Sector: Financials	Market cap: $4,418M
Buy		Price target: $1.77

Summary of previous report dated 16/0210

Clearing the decks for FY11

Mirvac Group reported a 1H10 result ahead of our estimates at the core NPAT level ($129.4m vs $123.9m). Subsequently we have made minor earnings changes to reflect the 1H10 result and a softer 2H10 skew than what we had previously forecast.

Our valuation and price target have been directly impacted by our earnings changes, and as such our valuation has declined to $1.66 (was $1.70) and price target to $1.77 (was $1.82).

No change to our Buy recommendation following MGR's 1H10 result

Despite a poor operating performance from the development division, which in our view was to be expected given the quantum of impaired inventory, there were elements to the result that gave us confidence in the residential recovery.

MGR is well placed to benefit from a residential recovery which should be supported by: 1) a low interest rate environment; 2) increased affordability; 3) increasing rents; 4) an undersupply of housing; and 5) government incentives. In addition, we believe current levels to be an attractive entry point given: 1) a 13.0x FY11 P/E; 2) 10.7% three-year PER CAGR; and 3) a -11.5% discount to NTA.

Market Wrap

There is an old adage – if it ain't broke, don't fix it. And that seems to be what the Reserve Bank is telling the International Monetary Fund at present. The IMF has proposed that central banks revisit their inflation targets, suggesting that a target of 4% may work just as well as a lower target band, such as the 2-3% band employed by the Reserve Bank.

In a general sense the IMF believes that central banks should re-assess the way that monetary policy is employed in light of the challenges posed by the US financial crisis. And that means central banks shouldn't just re-visit inflation targets, they should also determine if other monetary policy tools should be employed other than changing interest rates – tools such as liquidity ratios and loan to valuation ratios.

Given that the Reserve Bank has guided the economy to 18 straight years of growth, understandably officials have indicated that they are happy with current monetary policy settings

Feature Article

OneSteel Limited[1]: 1H10 result

Last traded: $3.44 Sector: Materials Market cap: $4,548M

Buy Price target: $3.90

Summary of previous report dated 16/02/10

Iron ore underpins solid result

OneSteel reported an underlying 1H10 NPAT of $119m. This was well above our expectation of $75m and consensus expectations of $70–100m. On a reported basis NPAT was $117m.

Operationally we have made some small changes effectively reducing our earnings contributions from the Manufacturing and Distribution (Australia and International) businesses. This has been broadly mitigated by inclusion of the revised CBA iron ore forecasts and benefits from iron ore volumes sold at spot during FY10. We also incorporate CBA's revised currency forecasts.

Solid medium-term earnings

While our OST price target offers reasonable upside, with solid medium-term earnings supported by improving domestic steel demand and higher steel and iron ore forecasts, benefits from improving iron ore fundamentals in our view have been largely factored into the share price.

Although our preferred stock in the steel sector remains BSL given its significant leverage to improving steel markets we believe OST offers lower risk exposure to improving fundamentals across the steel industry particularly while steel margins for non-integrated producers remain under pressure.

Feature Article

Newcrest Mining[3]: 1H10 result

Last traded: $32.91 Sector: Materials Market cap: $16,289M

Buy Price target: $38.20

Summary of previous report dated 12/02/10

Set for stronger second half

NCM reported underlying NPAT of A$266.6m for 1H10 and declared a 5cps interim dividend (unfranked). The result represents a 10.3% improvement on 1H09. Sales revenue was down 8% on the corresponding period with the increased profit being driven by gains in costs.

We have upgraded our forecast based on revised commodity and foreign exchange forecasts and adjusted our cost lines to reflect current levels. This has resulted in minor changes to our valuation to $19.10 (-1.5%) and price target to $38.20 (-1.5%).

No change to our Buy recommendation

Guidance for the second half remains unchanged and should see a continuation of profitability underpinned by strong cost performance.

Stocks at a glance

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

Stocks by sector

GICs sector

AWB'
18/02/10

Summary of report dated 15/02/10

AWB Limited: Four down, one to go

Last Traded: $1.07 | Market Cap: $851M | Sector: Staples
Hold | Price target: $1.21

Agreement to settle Watson class action reached

Following AWB's agreement to settle the Watson (shareholder) class action for $39.5m (subject to Federal Court approval) we have increased our forecast FY10 significant expenses to $110.9m - we have not changed our normalised earnings forecasts for AWB.

We have also removed the 12cps discount to our price target now that the Watson case has been settled and revert to our price target of 10.5x FY10–11 average normalised EPS ($1.21 per share).

Long-term growth profile is now the focus

AWB is trading on an undemanding multiple. However, we maintain our Hold recommendation as we are concerned about the lack of earnings growth to come from a mature Landmark business, and AWB's position in wheat marketing (both pool and cash marketing), which is likely to deteriorate without significant grain export infrastructure.

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Healthcare

HSP
18/02/10

Summary of report dated 15/02/10

Healthscope Limited: 1H10 result

Last Traded: $4.40 | Market Cap: $1,370M | Sector: Healthcare
Buy | Price target: $5.02

In the comfort zone with hospital developments

1H10 result was slightly below expectations. HSP had revenue growth (ex prosthetics) of 10.2% to $806.9m and NPAT growth (ex one-offs) of 16% to $46.7m.

We have increased our NPAT slightly in FY11/FY12 after incorporating the North Park and Cotham projects, a lower tax rate and lower interest expense. However, our EPS is down with higher shares outstanding to fully reflect the share purchase plan. Our price target also decreased 6% to $5.02 per share.

Some caution required

HSP is trading on an undemanding forward PE of 12.3x given EPS growth of 6.8% in FY11 and 10.7% in FY12. In saying that, we caution investors about HSP pursing growth opportunities outside its 'low risk' hospital development projects and the possibility of another capital raising. We maintain our Buy recommendation at this point

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CSL[1]
18/02/10

Summary of report dated 17/02/10

CSL Limited:1H10 result

Last Traded: $34.00	Market Cap: $20,283M	Sector: Healthcare
Hold		Price target: $37.36

H1N1 steals the plasma show

CSL reported 1H10 NPAT of $617.4m. This was significantly above CBA ($504.4m) and consensus ($578.5m) forecasts.

We have factored in the higher profitability on the H1N1 vaccine. In addition, we have slightly increased our IVIG and haemophilia volume assumptions, increased the take-up rate of vivaglobin and decreased Gardasil sales in Australia. We have also incorporated CBA's revised FX forecasts and updated shares outstanding to reflect the impact of the buyback. We have increased our price target 5% to $37.36.

We retain our HOLD on CSL

On forward PE of 16.3x with 10% EPS growth, we think its quality is priced in. In terms of catalysts for the stock, we adopt conservative IVIG price and volume assumptions and conversion/take up rates for privigen and vivaglobin and take a cautious view on its Gardasil and seasonal flu vaccine royalty streams. Upside surprises could be higher Ig volumes, FX and a second buyback program.

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Materials

BSL[1,]
18/02/10

Summary of report dated 15/02/10

BlueScope Steel: 1H10 result

Last Traded: $2.55	Market Cap: $4,532M	Sector: Materials
Buy		Price target: $3.60

Guidance below expectations

BlueScope Steel (BSL) reported a 1H10 underlying loss of $53m. This was below our expectation of -$39m and consensus of around -$30m to -$40m. On a reported basis BSL's profit improved sequentially through 1Q and 2Q ($61m loss 1Q10 and $33m profit 2Q10) totalling -$28m during 1H10.

Share price weakness presents a buying opportunity

Our Buy recommendation is a function of the following factors: BSL’s significant leverage to an improving steel market as forecast by CBA, its solid balance sheet position, abundant available growth opportunities and its recent underperformance relative to its domestic steel peers and the broader Australian market.

Our new price target is $3.60 (previously $3.80) which is based on a 12-month outlook offers significant upside. That said, there are likely to be periods of share price weakness given short-term pressure on steel margins. We believe share price weakness represents a buying opportunity for investors.

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Property

WDC[1,]
18/02/10

Summary of report dated 17/02/10

Westfield Group: FY09 result

Last Traded: $11.64 | Market Cap: $24,880M | Sector: Financials
Hold | Price target: $12.50

Guidance fails to please

Westfield Group's FY09 result was in line with our expectations and at the bottom end of guidance. Operational earnings were $2,109.0m vs CBA's $2,124.5m, or 94.0cps vs CBA's 94.5cps compared to the guidance range of 94-97cps.

We have made downward earnings revisions to reflect a weaker-than-expected outlook, which is forecast to be driven by: 1) flat to negative comp NOI in the US portfolio; and 2) softer Australian comp NOI due to an expected lower inflationary period. Our price target has reduced to $12.50 (from $13.81).

Retain our Hold recommendation

We have retained our Hold recommendation post WDC's FY09 result given our positive total return expectations. While the result was in line with our expectations, FY10 guidance was disappointing, signalling a tougher-than-anticipated operating environment particularly in the US. We see little reason to pursue the stock at current levels

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DXS[1,2]
18/02/10

Summary of report dated 17/02/10

Dexus Property Group: 1H10 result

Last Traded: $0.835 | Market Cap: $3,855M | Sector: Financials
Hold | Price target: $0.94

Downgraded to Hold

We have downgraded our recommendation to Hold (from Buy) following DXS' 1H10 result.

We have made minor earnings changes to reflect the 1H10 result and a longer than previously forecast trough in the US industrial market. Our valuation and price target have declined in response to the reduced NTA and our revised earnings outlook. Our valuation is now $0.89 (was $0.91) and price target is $0.94 (was $0.96).

Our recommendation change was driven by: eroding valuation support

At current levels DXS is trading approximately in line with its five-year P/E average (11.8x v 12.4x); at a 13.7% discount to NTA (versus CPA -16.7%, GPT -16.9%); and on a 5.9% yield versus our coverage universe of 5.9%. a protracted slowdown across the poorly performing US industrial portfolio

Furthermore a slower-than-anticipated domestic office recovery will, in our view, result in minimal near-term EPS momentum (three-year EPS CAGR 1.1%).

We have made minor earnings changes to reflect the 1H10 result and a longer than previously forecast trough in the US industrial market

Utilities

TCL' 18/02/10	**Transurban Group: 1H10 result**

Summary of report dated 17/02//10

Last Traded: $5.27 | Market Cap: $6,579M | Sector: Utilities

Buy | Price target: $6.00

Value apparent

TCL reported a stronger-than-expected 1H10 result with underlying proportionate EBITDA at $334.2m versus $309.2m. We have made the following changes to EBITDA forecasts. Our valuation lifts to $5.75 (+15cps); price target remains $6.00.

1H10 result showed TCL's ability to extract additional value for shareholders

TCL's 1H10 result was stronger than expected and again showed the ability of TCL management to continually extract additional value for shareholders. We remain of the view that the Canadian pension funds will return with a higher bid at ~$6.00 per share – the prize is too great to walk away without a further bite. TCL's stronger-than-expected result reinforced this.

While there may be some weakness in the event the Canadians did walk, the downside from current prices is not considered significant given the current share price is below our DCF and the bid did make many stand up and realise the fundamental value within the TCL business. We remain comfortable with our Buy recommendation.

While there may be some weakness in the event the Canadians did walk, the downside from current prices is not considered significant given the current share price is below our DCF and the bid did make many stand up and realise the fundamental value within the TCL business

Happy investing!

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Recommendation definitions

CBA Institutional Equities Investment recommendations are determined by the covering analyst and reflect the analyst's assessment of a stock's expected total shareholder return (TSR). TSR is calculated as the difference between the analyst's 12-month price target and the current share price plus the forecast dividend yield.

Buy: Stocks with a Buy recommendation represent the most attractive stocks under the analyst's coverage. They are forecast to generate significantly positive expected total shareholder returns.

Hold: Stocks with a Hold recommendation are less attractive than Buy rated stocks. They are forecast to generate flat to slightly positive expected total shareholder returns.

Sell: Stocks with a Sell recommendation are the least attractive stocks. They are forecast to generate flat or negative expected total shareholder returns.

[1] Members of the Commonwealth Group hold between 5 and 10% of WDC, DXS, MGR and OST.

[2] Members of the Commonwealth Group have received fees within the previous 2 years from DXS.
[3] Members of the Commonwealth Group hold more than 10% of NCM.

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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End of Report