

Research Insight

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.

Feature Article

Our feature articles this week are

- NIB Holdings Limited
- Perpetual Limited and Platinum Asset Management Limited

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

NIB Holdings Limited

Last traded: \$1.285

Sector: Financials

Market cap: \$637M

Hold

Price target: \$1.39

Summary of previous report dated 28/01/10

Likely to avoid serious illness

We have adjusted earnings for our quarterly mark to market update in addition to analysing the key earnings drivers and capital position for NHF.

Consequently we have increased our valuation by 5% to \$1.44. We have also increased our price target by 7% to \$1.39 as we have now stripped out our discount for the Medicare Levy Surcharge (MLS) impact during an economic downturn.

Maintain Hold recommendation

Despite our earnings and valuation changes we maintain our Hold recommendation on NHF. While we are more comfortable with earnings in the short term, we are not convinced that management yet has a solution to its lazy balance sheet issue.

Increased clarity surrounding capital management and the board's likelihood to cancel the unverified policyholder trust could lead us to have a more aggressive stance on the stock.



Issue 143

28 January 2010 (4.30pm)

Market Wrap

Almost every day there are a new set of forecasts for investors to react to. There are forecasts for the currency, sharemarket, house prices and the broader economy. And of course there are a gamut of institutions issuing the forecasts ranging from private firms to governments and international organisations like the International Monetary Fund (IMF).

It's always important to remember though that they are just forecasts – guesses (albeit, generally educated guesses) about the future. Unfortunately we don't always treat them as such.

Take the IMF. It has just released its latest forecasts for the global economy. It now expects the global economy to grow by almost 4% this year, whereas three months ago it was expecting growth of around 3%. Even last week the head of the IMF was warning of the risk of a 'double-dip' recession.

While it's important to know what some of the key organisations are thinking, we have to be careful not to treat forecasts as facts – even the IMF has had a poor track record with its recent projections...

Matt Comyn
General Manager

Feature Article

Perpetual Limited and Platinum Asset Management Limited²

PPT: Last traded: \$37.67	Sector: Financials	Market cap: \$1,537M
PTM: Last traded: \$5.50	Sector: Financials	Market cap: \$1,103M
PPT: Hold		Price target: \$37.52
PTM: Sell		Price target: \$4.66

Summary of previous report dated 27/01/10

The sidelines must be getting crowded

- On Wednesday 27 January PPT announced its FUM as at 31 December 2009. FUM were up 1.7% in the month, to \$29.3b, versus an All Ordinaries rise of 3.5%.
- It's not that PPT's FUM movements in the last six months have been disappointing, it is more a case that we have been waiting for the so called 'cash on the sidelines' to start entering the market.
- Unlike PPT, and despite underperformance in the recent quarter, it appears that PTM is experiencing inflows in addition to asset increases in its funds.

Price target revisions

- **PPT:** We have increased our PPT price target by 4% to \$37.52, rolling forward the earnings changes. No change to our Hold recommendation on PPT with the current share price trading in line with our price target.
- **PTM:** We have increased our PTM price target by 23% to \$4.66 following our earnings upgrade and roll forward to CY10. Despite our earnings and valuation increases, the PTM share price is still 15% above our price target and trading at a prospective PE of 22x. We maintain our Sell recommendation on PTM.

Sector wraps

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

Cons. disc.	Gaming sector report		
28/01/10 Summary of report dated 22/01/10	TAH ² : Last Traded: \$7.23	Market Cap: \$4,310M	Sector: Consumer discretionary
	CIL: Last Traded: \$1.50	Market Cap: \$131M	Sector: Consumer discretionary
	TTS ² : Last Traded: \$2.33	Market Cap: \$3,030M	Sector: Consumer discretionary
	ALL ¹ : Last Traded: \$4.02	Market Cap: \$1,722M	Sector: Consumer discretionary
	CWN ² : Last Traded: \$7.66	Market Cap: \$3,695M	Sector: Consumer discretionary
	TAH ² : Buy		Price target: \$8.20
	CIL: Buy		Price target: \$1.72
	TTS: Hold		Price target: \$2.60
	ALL ¹ : Hold		Price target: \$4.50
	CWN ² : Hold		Price target: \$8.20
	Sector view		
	<ul style="list-style-type: none"> ■ TAH is our preferred pick in the sector, with upside from Star City expected to be priced in sooner than anticipated, more than offsetting downside from wagering competition, plus M&A potential in 2010. Buy. ■ TTS is expected to underperform the broader market as the economy recovers given high comps and low growth businesses. We have downgraded our price target for TTS from \$2.75 to \$2.60. Hold. ■ CWN faces short-term negative sentiment around MPEL profitability, debt covenants and a declining share price. We see improved mass market drop and gaming floor yield at City of Dreams as key short-term catalysts for the CWN share price to get back to \$8.50–9.00 in the near term. Hold. ■ ALL faces short-term challenges and a lack of momentum. We would recommend waiting for signs of an improved environment in the US before increasing exposure, despite our bullish medium-term growth forecasts. Hold. ■ CIL has run hard on the back of M&A speculation, causing us to push our price target up to our DCF of \$1.72. M&A aside, we continue to see value in this business as corporate bookmakers continue to take share from the totes. Buy. 		

Property	Property sector report		
	DXS ^{1,2} : Last Traded: \$0.835	Market Cap: \$3,925M	Sector: Financials
	GMG ^{1,2} : Last Traded: \$0.61	Market Cap: \$3,375M	Sector: Financials
	GPT ^{1,2} : Last Traded: \$0.57	Market Cap: \$4,877M	Sector: Financials
	MGR ¹ : Last Traded: \$1.50	Market Cap: \$4,403M	Sector: Financials
	SGP ^{1,2} : Last Traded: \$3.82	Market Cap: \$9,032M	Sector: Financials
	WDC ¹ : Last Traded: \$12.71	Market Cap: \$25,854M	Sector: Financials
	DXS ^{1,2} : Buy		Price target: \$0.96
	GMG ^{1,2} : Hold		Price target: \$0.65
	GPT ^{1,2} : Hold		Price target: \$0.65
	MGR: Buy		Price target: \$1.82
	SGP ^{1,2} : Hold		Price target: \$4.11
	WDC: Hold		Price target: \$13.81
	Lack of near-term positive catalysts		
	<ul style="list-style-type: none"> ■ The recent pull back in the sector has again widened the discount to NTA for many A-REITs and has increased the sector yield to a more respectable 5.8%. While this looks to have created a buying opportunity our enthusiasm is tempered by a lack of near-term positive catalysts, with M&A and lower debt costs the likely catalysts to close the gap to NTA. ■ For this reason we continue to favour A-REITs with cyclical leverage, namely MGR, which should benefit from a residential recovery. ■ In addition, we continue to see evidence that asset values are stabilising and expect the devaluation cycle to end this upcoming reporting season. Hence, DXS remains appealing at current levels given its steep discount to NTA (19.8%), attractive yield versus our universe (6.3% versus 5.8%), and 11.5x forward P/E. 		

Happy investing!

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 ALL, DXS, GMG, GPT, GMG, MGR, SGP and WDC

² Members of the Commonwealth Group have received fees within the previous 2 years from TAH, TTS, CWN, DXS, GPT, GMG, SGP and PTM

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