

# 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 article this week is:

- OneSteel 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

### OneSteel Limited

Last traded: \$3.63

Sector: Materials

Market cap: \$4,760M

Buy

Price target: \$4.00

Summary of previous report dated 05/03/10

#### Iron ore underpins upside risks

Following the strong performance from the Iron Ore division at OST's interim result we have taken a closer look at the business highlighting areas which may represent some upside risks to our forecast earnings and valuation. Operationally we have made a number of changes within OST's Iron Ore business. Key changes include: incorporation of freight revenues and costs for both contract and spot volumes, increased contract volumes over the medium term to OST's targeted 70-80% band as well as changes to our cost assumptions.

Our new target price is \$4.00 (previously \$3.90). Our Buy rating remains unchanged reflecting solid medium-term earnings supported by higher steel and iron ore forecasts and improving domestic steel demand. 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.



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11 March 2010 (4.30pm)

### Market Wrap

The recent recovery in the sharemarket has prompted more investors to question how long it may take to get back to record highs. However the answer is not so straight forward. And it all gets back to how companies responded to the global financial crisis.

Back in 2009 when it became more difficult and more costly to borrow, listed companies decided instead to raise capital on the sharemarket. And while many were indeed successful in raising funds, the additional supply (issuance of shares) actually had the effect of keeping a lid on share prices.

So while the All Ordinaries index has lifted by around 54% from the lows of March last year, the actual capitalisation of the sharemarket (number of shares times the price) has lifted even higher, up 65% over the same period.

The interesting point is that the All Ordinaries still has some way to go to hit the highs of late 2007 – in fact over 40%. But the overall sharemarket is far closer to the previous highs – just over 20% away.

**Stephen Karpin**  
Managing Director

## Sector wraps

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

Property	A-REIT sector report		
	DXS <sup>1,2</sup> : Last Traded: \$0.81	Market Cap: \$3,808M	Sector: Financials
	GMG <sup>1,2</sup> : Last Traded: \$0.615	Market Cap: \$3,641M	Sector: Financials
	GPT <sup>1,2</sup> : Last Traded: \$0.575	Market Cap: \$4,920M	Sector: Financials
	MGR <sup>1</sup> : Last Traded: \$1.495	Market Cap: \$4,585M	Sector: Financials
	SGP <sup>1,2</sup> : Last Traded: \$4.03	Market Cap: \$9,699M	Sector: Financials
	WDC <sup>1</sup> : Last Traded: \$12.00	Market Cap: \$25,557M	Sector: Financials
	DXS <sup>1,2</sup> : Sell		Price target: \$0.77
	GMG <sup>1,2</sup> : Hold		Price target: \$0.63
	GPT <sup>1,2</sup> : Sell		Price target: \$0.59
	MGR <sup>1</sup> : Buy		Price target: \$1.89
	SGP <sup>1,2</sup> : Buy		Price target: \$4.73
	WDC: Hold		Price target: \$12.97
	<b>Next phase – searching for earnings growth</b>		
	<p>The key highlights from reporting season included: 1) confirmation that a residential recovery has begun and 2) domestic retail portfolios remain the best performing despite a challenging operating environment.</p>		
	<p>Following a review of reporting season we have made adjustments to our valuations, price targets and recommendations. Our post-reporting season review and change in price targets has resulted in the following recommendation changes:</p>		
	<ul style="list-style-type: none"> <li>■ Stockland upgraded to Buy (was Hold).</li> <li>■ Dexus Property Group downgraded to Sell (was Hold).</li> <li>■ GPT Group downgraded to Sell (was Hold).</li> </ul>		
	<p>The new adjustment in deriving price targets is driven by our view that EPS/DPS growth will be the key performance driver, and that the discount to NTA is unlikely to close for some A-REITs given current EPS/DPS forecasts do not justify share prices at NTA.</p>		
	<p>We favour A-REITs with active earnings streams and strong organic growth prospects that will be able to deliver above-trend EPS growth. For this reason we favour Stockland and Mirvac given their exposure to a recovering residential sector.</p>		

## Stocks at a glance

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

### Stocks by sector

#### Consumer discretionary

<p><b>IVC<sup>1</sup></b> 11/03/10</p> <p><b>Summary of report dated 10/03/10</b></p>	<p><b>InvoCare Limited</b></p> <p>Last Traded: \$6.13      Market Cap: \$617M      Sector: Consumer discretionary Buy      Price target: \$7.14</p> <p><b>Caring for the surplus</b></p> <p>Invocare Limited (IVC) owns and operates funeral homes, cemeteries and crematoria across Australia and Singapore with brands including Simplicity Funerals, Le Pine, White Lady Funerals and Singapore Casket Company.</p> <p>With a track record of consistently growing EPS and group returns along with a solid earnings outlook, we initiate coverage with a Buy recommendation and \$7.14 price target. Our positive view on the stock is supported by:</p> <ul style="list-style-type: none"> <li>■ solid returns while expanding EPS</li> <li>■ a defensive revenue profile</li> <li>■ healthy margin expansion</li> <li>■ direct exposure to Australian equities markets,</li> <li>■ positive short and long term outlook.</li> </ul>	<p>With a track record of consistently growing EPS and group returns along with a solid earnings outlook, we initiate coverage with a Buy recommendation.</p>
<p><b>REA</b> 11/03/10</p> <p><b>Summary of report dated 10/03/10</b></p>	<p><b>REA Group Limited</b></p> <p>Last Traded: \$10.90      Market Cap: \$1,390M      Sector: Consumer discretionary Buy      Price target: \$12.40</p> <p><b>Bidding prices up</b></p> <p>REA Group is a global online property classifieds business with market leading positions in Australia and Italy.</p> <p>With excellent forecast earnings momentum, balance sheet flexibility and a solid strategic outlook we initiate coverage with a Buy recommendation and \$12.40 price target, representing a ~18% premium to the share price just prior to publishing . Our positive view on the stock is supported by:</p> <ul style="list-style-type: none"> <li>■ REA generated 209% annualised NPATadj growth between FY04 and FY09</li> <li>■ REA has significant pricing power in the Australian market</li> <li>■ Material revenue upside</li> <li>■ REA has a very scalable business model</li> <li>■ Casa.it remains the potential blue sky in REA.</li> <li>■ Based on forecast earnings multiples REA trades at a discount to its listed peers – Wotif.com (WTF), Carsales.com (CRZ) and Seek (SEK).</li> </ul>	<p>With excellent forecast earnings momentum, balance sheet flexibility and a solid strategic outlook we initiate coverage with a Buy recommendation.</p>

WTF  
11/03/10Summary of  
report dated  
10/03/10**Wotif.com Holdings Limited**

Last Traded: \$7.64

Market Cap: \$876M

Sector: Consumer discretionary

Hold

Price target: \$7.96

**Flight upgrade**

Wotif.com is Australia's leading online accommodation booking services business with operations spanning the globe. It has branched out into flights and other online leisure based distribution with profits and returns growing rapidly.

WTF is one of Australia's premier businesses. While the company has strong growth prospects, a dominant market positioning, a stable management team, a robust balance sheet and ever growing returns, we believe this is reflected in the share price in the short term. Therefore in the context of our \$7.96 price target, we initiate coverage with a Hold recommendation.

While the company has strong growth prospects, a dominant market positioning, a stable management team, a robust balance sheet and ever growing returns, we believe this is reflected in the share price in the short term.

**Information technology**SMX  
11/03/10Summary of  
report dated  
10/03/10**SMS Management and Technology Limited**

Last Traded: \$7.00

Market Cap: \$474M

Sector: I.T.

Buy

Price target: \$7.42

**Managing the upturn**

SMX is well positioned to benefit from the upturn in IT expenditure across both the private and public sectors.

With solid growth prospects and a strong balance sheet, the company remains attractively priced with further earnings upside potential from both organic growth opportunities and/or acquisitions. We initiate coverage of SMS Management & Technology (SMX) with a Buy recommendation and \$7.42 per share price target. Our positive view is supported by:

- SMX sales proved somewhat resilient through the economic downturn
- diverse client base
- earnings growth to exceed revenue growth,
- forecasts ahead of market expectations.

With solid growth prospects and a strong balance sheet, the company remains attractively priced with further earnings upside potential from both organic growth opportunities and/or acquisitions.

**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.

<sup>1</sup> Members of the Commonwealth Group hold between 5 and 10% of IVC, DXS, GMG, GPT, MGR, SGP and WDC.

<sup>2</sup> Members of the Commonwealth Group have received fees within the previous 2 years from DXS, GMG, GPT and SGP.

## 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