NEXT Daily – Thursday 1st April 2010

Overseas

The **Dow Jones** fell 50 pts or 0.47% to 10,856.63 (YTD 4.11%), **S&P 500** fell 3 pts or 0.33% to 1,169.43 (YTD 4.87%) and the **NASDAQ** fell 12 pts or 0.53% to 2,397.96 (YTD 5.68%)
The **FTSE** rose 7 pts or 0.13% to 5,679.64 (YTD 4.93%), **Nikkei** fell 7 pts or 0.06% to 11,089.94 (YTD 5.15%) and the **Hang Seng** fell 135 pts or 0.63% to 21,239.35 (YTD -2.89%)
Oil rose $1.39 to $83.76 a barrel.
Gold rose $9.50 to $1113.10 an ounce.
Base metals were mixed with Copper down 0.71% to $351.95, Nickel rose 2.64% to $1,132.17, Zinc was down 0.10% to $106.36 and Aluminium rose 1.39% to $104.03.
BHP ADR's trading at $43.76 vs the Aussie close of $43.59.
SPI 200 Futures closed up 13 pts at 4,892.

Ideas

U.S. stocks closed out the quarter slightly lower as a weak employment report triggered fears that Friday's government jobs data may not be as strong as expected. U.S. business activity continued to expand in March, but at a slower pace than the previous month, according to a survey of Chicago area purchasing managers. The Dow's financial components were also strong in early action but pared gains with broader market in the afternoon. J.P. Morgan Chase (+0.4%) and Bank of America (+0.5%) had found support after Republican Sen. Bob Corker said he "absolutely cannot support" a bill written by Senate Democrats to overhaul financial regulations unless changes are made, clouding the outlook for a bipartisan measure. Concerns over Greece's widening debt spreads continued to weigh on sentiment ahead of the Easter break. The limited success Greece had Tuesday when it returned to the debt market with a 12-year bond drove home the problems the country still faces despite the emergency-funding program announced last Thursday by the EU and the IMF.

Lihir Gold (LGL) says it has rejected a A$9.2 billion share/cash takeover offer from rival gold miner Newcrest Mining (NCM). There has long been talk of an offshore gold company bidding for one or the other of the miners, but the Newcrest bid for Lihir has been kept under wraps and comes as a surprise. Lihir Chairman Ross Garnaut says the offer undervalues the miner and doesn't include a sufficient premium for control. New Lihir CEO Graeme Hunt, former uranium boss at BHP Billiton (BHP), walks straight into a major corporate battle between Australia's two biggest gold producers. The Newcrest bid reinforces that M&A activity in the mining sector is heating up again, with the Peabody (BTU) bid for Macarthur Coal (MCC) revealed yesterday, and this theme could support share prices across mining stocks.

Yesterday, the Minister for Financial Services, Superannuation and Corporate Law, Chris Bowen MP, announced the government's support for competition between markets for trading in listed shares in Australia. JPM said while discussions comparing ASX's expected future trading multiple to offshore exchanges where multiple trading venues are in operation will persist, we believe ASX's business differs significantly, making this direct comparison erroneous for the following reasons:

1) Cash market trading makes up a significantly lower percentage of overall group revenue at only ~10%,
2) ASX is an integrated exchange, benefiting from any expected uplift in trading volumes across the cash market in the clearing and settlement functions, and
3) By the time competing trading venues begin operating; ASX will have a first-class technology offering with multiple trading platforms.

While the government's announcement focused on the implementation of a recommendation from the "Johnson Report," JPM also highlight the same report recommends a number of changes which would be positives for the ASX, particularly the development of a domestic bond market. As such, they see the government's position to implement these recommendations as a medium-term positive for the company. JPM expect negative sentiment surrounding competition to continue to plague the stock without working through the impact to underlying earnings of the business and see it as a good buying opportunity. As such JPM retain an Overweight recommendation and 31 December 2010 price target of $41.16 based on our DCF valuation. The main risks to our price target include: 1) Sustained weakness in investment markets, 2) Changes to pricing, 3) Competition in trade execution, 4) Introduction of new products, and 5) Regulatory change.

JP Morgan reported that STO/ORG have missed out on Tokyo Gas contract. The report said:

> BG and Tokyo Gas have signed what appears to be a non-binding heads of agreement for equity and 1.2mtpa of LNG from BG's QCLNG project over 20 years from 2015. This was a bit of a surprise as BG already looked to have signed up a significant amount of the gas from its planned 2 train LNG development. However, the customer agreements are for supply of gas from the QCLNG development as well as their wider LNG portfolio. This 'portfolio' of gas may have given BG the edge when locking in customers over some of the competing projects, for example, STO's GLNG and ORG's APLNG. We thought the ORG/Conoco project had a reasonable chance at locking in Tokyo Gas given they had worked with Conoco on other projects. The 1.2mtpa is not a massive contract so there is a chance that Tokyo gas signs up with another project but JPM thinks this is more likely to be with Inpex's Ichthys project.
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> **STO**: To miss out on another external customer contract is disappointing for Santos. There is (albeit a reducing) possibility that they can sign up with an external customer to underwrite their 2 train LNG project. Otherwise, Santos may look to sign up more gas with Petronas. The market has been skeptical about the first contract signed up with Petronas given they are investors in their project but according to our contacts, it was done at commercial prices so we believe the concern is overdone. Santos are also in need of funding for its 1 train and 2 train LNG projects. JPM believes the source of this funding will be from farming down equity in the project, potentially to a 3rd party customer and a significant capital raising ($2bn for 1 train and ~$4bn for 2 trains). We value STO at $15.91 for a 1 train LNG project and $19.66 for a 2 train project.
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> **ORG**: is still aiming to sign up a customer for APLNG by Q210 and FID by the end of 2010. We expect 1st gas from the 1st train at APLNG in 4Q14 and from first gas from the 2nd train in 1Q16 so the fact that BG signed Tokyo Gas ahead of ORG does not surprise mgmt or rule out another deal with ORG. Grace values ORG including a 2 train LNG development at $26.45 however, if ORG don't proceed with APLNG, we have some comfort in the fact that ORG can sell their gas into the domestic market. Under this scenario, ORG is still worth ~$18 assuming 2000MW of gas fired generation.

Research

<u>Goodman Fielder Limited ($1.43)</u> – Following the ACCC announcement that it will oppose divestment of GFF's Commerical Fats & Oils business (CF&O) to Cargill, Deutsche and Credit Suisse have maintained a BUY whilst UBS, GSJB Were and JP Morgan retain a HOLD. Credit Suisse has a price target of $1.90.

<u>Ten Network Holdings Limited ($1.90)</u> – With the delivery of their 1H NPAT below forecast and management being upbeat about the outlook for TV revenue growth, GSJB Were and

Macquarie have maintained their BUY whilst RBS, JP Morgan, UBS, Credit Suisse and Deutsche have retained a HOLD. GSJB Were has a price target of $2.40.

Sigma Pharmaceuticals Limited ($0.46) – With margins in their core business negatively affected by increasing discounting by competitors and a delayed product launch, Credit Suisse, UBS, Macquarie and GSJB Were have all maintained their SELL. GSJB Were has a price target of $0.71.

ASX Limited ($33.94) – With the Minister for Financial Services, Superannuation and Corporate Law, Chris Bowen MP, announcing the government's support for competition between markets for trading in listed shares in Australia, JP Morgan and UBS have retained a BUY whilst GSJB Were maintain their HOLD. JP Morgan has a price target of $41.16.

MacArthur Coal Limited ($14.05) – Following the Board seeing Peabody Energy's offer as not in the shareholders best interests and instead proceeding with the Gloucester transaction, Macquarie have retained a BUY, Credit Suisse have maintained a HOLD whilst Deutsche has **downgraded** to a SELL. Credit Suisse has a price target of $11.50.

Woodside Petroleum Limited ($46.90) – With WPL continuing to drill in Carnarvon Basin without giving any concrete guidance on how much gas it has found to date, RBS have **downgraded** to a HOLD with a price target of $50.00.

Rivercity Motorway Group ($0.15) – With Clem7 now open to traffic with an average of 66,765 vehicles over the first 6 toll free days, RBS has **downgraded** to a HOLD with a price target of $0.25.

Washington H Soul Pattinson & Company Limited ($14.35) – Following their announcement of solid results in line with expectations, RBS has **upgraded** to a BUY with a price target of $17.02.

Crane Group Limited ($8.85) – Following their recent share price performance, GSJB Were has **downgraded** to a HOLD with a price target of $10.95.

Iluka Resources Limited ($4.46) – With their iron ore royalty agreement with BHP from Mining Area C in Pilbara, GSJB Were has **upgraded** to a BUY with a price target of $5.50.

Abacus Property Group ($0.39) – With ABP's approaching debt expiries, JP Morgan has **upgraded** to a HOLD with a price target of $0.44.

Regards,

Zac Leman

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