

NEXT Daily – Friday 23rd April 2010

Overseas

The **Dow Jones** rose 9 pts or 0.08% to 11,134.29 (YTD 6.71%), **S&P 500** rose 2 pts or 0.23% to 1,208.67 (YTD 8.30%) and the **NASDAQ** rose 14 pts or 0.58% to 2,519.07 (YTD 10.86%)

The **FTSE** fell 58 pts or 1.02% to 5,665.33 (YTD 4.75%), **Nikkei** fell 140 pts or 1.27% to 10,949.09 (YTD 3.93%) and the **Hang Seng** fell 55 pts or 0.26% to 21,454.94 (YTD - 1.89%)

Oil rose \$0.18 to \$83.56 a barrel.

Gold fell \$4.30 to \$1,141.70 an ounce.

Base metals were mixed with Copper down 0.9% to \$347.00, Nickel rose 0.4% to \$1,226.00, Zinc was flat at \$108.00 and Aluminium fell 1.3% to \$104.00.

BHP ADR's trading at \$42.21 vs the Aussie close of \$42.35.

SPI 200 Futures closed up 4 pts at 4,911.

Ideas

U.S. stocks turned higher Thursday as upbeat housing data led to a rally in the home builders and with technology rebounding from earlier weakness ahead of results from online retailer Amazon.com Inc. and software giant Microsoft Corp. The market has climbed in a near-straight line up since early February, prompting even the most bullish of observers to say stocks had gotten ahead of themselves and a correction is in order. After falling more than 100 points, the Dow Jones Industrial Average finished up 9.37 points, or 0.1%, at 11,134.29. It was the fourth straight session of gains for the blue-chip average. The major stock indexes began to step back from session lows as President Barack Obama pitched financial reform to avert a repeat of the latest banking crisis in a speech in New York. In a high-profile speech delivered not all that far from Wall Street, Obama urged bankers and investment managers to support efforts to reform the financial system, saying if nothing is done, Americans remain vulnerable to future crisis.

Newcrest Mining (NCM) released their 1Q10 production numbers yesterday, which were generally behind consensus. Royal Bank of Scotland (RBS) highlighted that gold production for 1Q10 was down 6% qoq to 416koz, and 4% below their forecasts. Net cash costs remained in line with 4Q09 levels at A\$310/oz and broadly in line with their estimates. Following delays to the Hidden Valley ramp-up, NCM advised that FY10 production will be at the lower end of the 1.81-1.91Moz guidance. However RBS had already factored in production at the low end, so they have made minimal adjustments to their gold output numbers. NCM expects significant production uplift in 2Q10 on 1Q10 levels. **RBS believes the possible takeover of LGL remains the biggest near-term share-price driver for NCM.** RBS said on their modelling, the acquisition would be both NPV and EPS dilutive. However, they believe the market would largely overlook the metrics and the stock could re-rate to a higher P/NPV multiple in line with global peers of a similar size given greater liquidity and relevance to domestic and global investors. Regardless of whether the takeover occurs, RBS believe NCM is well positioned, with significant expansion potential in existing operations and many greenfield projects underway. If the bid were to fail they wouldn't expect NCM to derate. In the short term, they expect the share price to be influenced by both the volatility in the gold price and news flow related to the potential LGL acquisition.

Wesfarmers announced its inaugural Q3 retail sales results yesterday which was broadly in line with expectations. Deutsche Bank (DB) believes the growth in Food and Liquor was robust, Kmart growth was encouraging but it's likely the market were expecting stronger Target and Bunnings sales. Given the pcp was stimulus affected, DB believe these results were also robust, albeit below market expectations. Despite this DB continue to rate Wesfarmers a Buy given ~40% upside to valuation. Following yesterday's sales report DB have reduced their Target and Kmart margins, with a slight increase to Kmart sales a slight offset. They believe management comments around a strong sales growth in Fresh were positive, given margins in this business are typically high and continue to think the "step up" in Coles margins will take place in FY11 when EBIT margins are expected to increase from 3.8% in FY10 to 4.5% in FY11. DB analysis shows the current sum of the parts for the Wesfarmers business is \$37.20/share which implies ~20% upside to the current share price. Further, they note the implied Coles PE in FY11 is ~4% below Woolworths.

Research

Wesfarmers Limited (\$30.35) – With WES reporting mixed sales result for 3Q10, Deutsche and GSJB Were have retained their BUY whilst Citigroup, UBS, Macquarie and JP Morgan maintain a HOLD. Credit Suisse has reiterated their SELL with Deutsche providing a price target of \$42.92.

Newcrest Mining Limited (\$33.88) – Following a softer than expected MarQ10 production report, Citigroup, Deutsche, Credit Suisse, GSJB Were, JP Morgan and RBS have all retained their BUY whilst UBS maintains their HOLD. Deutsche has a price target of \$42.50.

Santos Limited (\$13.96) – Following flooding and rains in central Australia resulting in STO's quarterly production and revenue below forecast, Macquarie, Deutsche, GSJB Were and JP Morgan have all retained their BUY whilst UBS have maintained a HOLD and Credit Suisse reiterates their SELL. Deutsche has a price target of \$18.15.

Paladin Energy Limited (\$3.91) – Following the release of their 1Q10 production in line with expectations, Citigroup and Macquarie have maintained a BUY whilst UBS and JP Morgan retained a HOLD. RBS have **downgraded** to a HOLD whilst Deutsche and GSJB Were reiterate a SELL.

Iluka Resources Limited (\$4.83) – With the release of their 1Q10 production report, UBS, GSJB Were, Citigroup and JP Morgan have maintained a BUY whilst Deutsche and RBS have retained a HOLD. Macquarie maintains their SELL while UBS have a price target of \$5.70.

PanAust Limited (\$0.55) – Following PNA's recent share price performance, Deutsche, UBS and GSJB Were have retained a BUY whilst Credit Suisse have **downgraded** to a HOLD. GSJB Were has a price target of \$0.80.

Austar United Communications Limited (\$1.15) – With recent challenges that Pay TV are experience in adding subscribers, Macquarie, Deutsche, Credit Suisse and UBS have retained a BUY whilst Citigroup and JP Morgan maintained their HOLD and GSJB Were has **downgraded** to a HOLD. UBS has a price target of \$1.65.

Caltex Australia Limited (\$11.85) – CTX have announced a stronger than expected 1Q10 NPAT leading Macquarie and Deutsche to maintain their BUY recommendations whilst UBS have **upgraded** to a HOLD. Macquarie has a price target of \$14.00.