

NEXT Daily – Tuesday 27th April 2010

Overseas

The **Dow Jones** was flat at 11,205.03 (YTD 7.45%), **S&P 500** fell 5 pts or 0.43% to 1,212.05 (YTD 8.69%) and the **NASDAQ** fell 7 pts or 0.28% to 2,522.95 (YTD 11.18%)
The **FTSE** rose 30 pts or 0.53% to 5,753.85 (YTD 6.30%), **Nikkei** rose 251 pts or 2.30% to 11,165.79 (YTD 5.87%) and the **Hang Seng** rose 342 pts or 1.61% to 21,587.06 (YTD -1.31%)

Oil fell \$0.93 to \$84.19 a barrel.

Gold fell \$5.10 to \$1,152.50 an ounce.

Base metals were mixed with Copper up 0.76% to \$352.55, Nickel rose 0.38% to \$1,228.87, Zinc was stronger by 1.52% at \$109.18 and Aluminium fell 0.84% to \$103.57.

BHP ADR's trading at \$42.25 vs the Aussie close of \$41.97.

SPI 200 Futures closed down 16 pts at 4,891.

Ideas

The Dow erased nearly all of its early gains overnight, dragged down by the financial sector. The Dow had been higher for much of the day amid a flurry of new M&A activity and an earnings beat from Caterpillar, but wound up finishing up less than one point. Good results from Caterpillar (+4.2%) and Whirlpool (+10%) boosted the industrial sector, but financial stocks were under pressure over regulatory reform, the threat of law suits by Goldman shareholders, and a slide in Citigroup as the Treasury took the first steps to unload its stake in the bailed-out bank. Ongoing concerns about the peripheral economies of Europe also weighed on sentiment. The renewed fears were driven by Germany's grudging attitude toward bailing Greece out. Investors registered concern over the apparent disagreement within Germany's coalition government over the process and speed of providing Greece with up to €8.4bln, Germany's share of the €30bln EU package. The IMF is to provide another €15bln. The money is needed so that Greece can repay a €8.5 billion 10-year bond that matures May 19. Investors now judge Greece to be at greater risk of default than Pakistan and Ukraine. Only Argentina and Venezuela command higher prices to insure against default.

CSL lost 7.2% on Friday after US peer, Baxter, reported 3% revenue growth in cc. terms in its Bioscience division for 1Q10. Growth was particularly weak in Antibody Therapy (IVIG) which fell 7% in cc. terms. This was reflective of weakness in the US market where Antibody Therapy revenues fell 11% and Plasma Proteins (pdFVIII + albumin) fell 4%. Although management commented that this was partly due to lower market growth, and continued inventory adjustments in the channel, JP Morgan (JPM) think that market share loss by Baxter was the primary reason. JPM said a point of concern, however is that Baxter will now have targeted selective reductions in Gammagard pricing, which will be a negative for the industry as a whole. Baxter now expects cc. sales growth in Biosciences to be flat to down 2%. In Antibody Therapies (IVIG), Baxter expects 2010 revenues down 10-15% on 2009 (compared to its previous expectation for mid single digit growth). In the medium term, however, Baxter expects volume growth in IVIG will return to 5% or higher. JPM's view on the dynamics of the plasma market long term has not changed, continuing to think there is enough support

for their forecasts for IVIG pricing growth of 2-3% and volume growth of 5% long term. JPM believes the key implications from the announcement:

- The key issue is whether the declines in plasma growth experienced by Baxter are an industry wide phenomenon. Plasma growth for CSL Behring as at the 1H10 results (9% growth in constant currency terms) did not indicate that the market had declined to the extent reported by Baxter today. In fact CSL released a notice today subsequently stating that it is not aware of any reason to alter the guidance provided to the market at the time of its 1H10 result.
- We expect Carimune has been winning market share off Gammagard and the other premium IVIG products. We await the Talecris result on 5-May-2010 to see whether these market trends extend to other players within the US plasma market or represent market share losses away from Baxter.
- A point of concern, however, was the decision by Baxter to selectively reduce the pricing of its Gammagard product in light of increased competitive pressures. This may result in depressing the pricing of IVIG products across the market.
- Baxter reiterated that it expects industry IVIG volume growth would return to 5+%, buoyed by continued incremental demand for people suffering primary immune deficiency and the targeting of new indications that are under-diagnosed or under-treated. Baxter's view on the long term health of the Plasma proteins market has not changed. We continue to think there is enough support for our forecast of ~9% p/a long-term growth of the plasma proteins market. The demand outlook remains positive – core markets are still underpenetrated, new indications and new plasma-protein products are being investigated, and demographics are favourable. In 2010, our numbers do not assume any explicit price increases in 2010 for IVIG and volume growth of ~5%.
- In particular, Baxter's Alzheimer's Phase III trials involving IVIG remain a significant 'wild card' in the industry, and the recent Phase II trial result released on 14-April-2010 were encouraging. We estimate that just a 5% penetration in this market could increase IVIG demand in the US ~5x. Given current capacity in the market, this could result in significant price increases and volume growth going forward.

Although they think Baxter's weak result was primarily due to market share losses, as opposed to weak industry conditions, they look to the Talecris result on 5-May-2010 (US time) for more visibility on whether this is a phenomenon specific to Baxter or an industry wide deterioration.

Follows a Full Federal Court Approval to proceed CSR can now explore its preferred demerger option. Credit Suisse (CS) said this should be conducted in conjunction with a potential trade Sucrogen sugar sale (Bright Foods, other). The process involves preparation of the scheme booklet for Federal Court approval and then subsequent shareholder demerger vote. CS expect the presented scheme book post the FY10 result (12 May, including audited FY10 accounts). Shareholder vote thereafter. CS said:

Our thesis has been that demergers do not necessarily add value. What demergers do, however, is enhance optionality - whether it be more efficient uses of capital, takeovers or using scrip for growth purposes (e.g. Mackay Sugar interest etc). Post this successful appeal the demerger is firmly back on the agenda. CSR's board now has a number of options, including the demerger of Sucrogen or Trade sale (noting Bright Food's \$1.75bn offer). We believe the demerger is preferred at this stage given:

- 1) it eliminates tax on sale of asset (therefore shareholder value destruction - our estimates tax leakage approximates ~\$250mn);
- 2) CSR management is keen to run its own businesses; and
- 3) uncertainty remains surrounding the use of proceeds if a trade sale were to proceed (given CSR's asbestos responsibilities). Whichever way we cut it, fair value for CSR approximates \$2.00 (\$1.17 Building Materials; \$0.83 for Sucrogen). Trading at ~11x FY11 P/E with improving fundamentals (housing outlook, rising aluminium prices, solid sugar prices and hedging in place), CSR remains inexpensive.

Research

MAp Group (\$3.08) – Following their strong 1Q10 result underpinned by traffic growth and passenger retail spend, RBS have maintained their BUY whilst GSJB Were and UBS have retained a HOLD. GSJB Were has a price target of \$3.50.

Prime Infrastructure Group (\$4.20) – With NGPL having reached a settlement in principle with all active participants, UBS have retained a BUY whilst Credit Suisse and Deutsche have maintained a HOLD. Credit Suisse has a price target of \$4.45.

Lihir Gold Limited (\$3.95) – With LGL reporting a weak MarQ production as per expectations, Deutsche, GSJB Were and JP Morgan have retained a BUY, whilst RBS and UBS have maintained their HOLD and Credit Suisse have reiterated a SELL. GSJB Were has a price target of \$4.35.

Gunns Limited (\$0.52) - Following an update on their corporate restructuring process, UBS have maintained a BUY whilst JP Morgan and Deutsche have retained a HOLD. UBS has a price target of \$0.90.

CSL Limited (\$33.94) – With Baxter International's 1Q10 result noting that the IVIG market is going through a transitory period, JP Morgan have retain their BUY, GSJB Were have maintained a HOLD whilst Credit Suisse have **downgraded** to a HOLD. JP Morgan has a price target of \$41.64.

Woodside Petroleum Limited (\$46.31) – WPL have reported 1Q production and revenue above expectations leading Credit Suisse to retain their BUY whilst GSJB Were, JP Morgan, Macquarie and Deutsche have maintained a HOLD. Credit Suisse has a price target of \$56.75.