

## NEXTDaily – Monday 3<sup>rd</sup> May 2010

### Overseas

The **Dow Jones** fell 158 pts or 1.42% to 11,008.61 (YTD 5.57%), **S&P 500** fell 20 pts or 1.66% to 1,186.69 (YTD 6.42%) and the **NASDAQ** fell 50 pts or 2.02% to 2,461.19 (YTD 8.46%)

The **FTSE** fell 64 pts or 1.15% to 5,553.29 (YTD 2.59%), **Nikkei** rose 132 pts or 1.21% to 11,057.40 (YTD 4.84%) and the **Hang Seng** rose 329 pts or 1.59% to 21,108.59 (YTD - 3.49%)

Oil rose \$0.98 to \$86.15 a barrel.

Gold rose \$12.35 to \$1,179.20 an ounce.

Base metals were stronger with Copper up 1.06% to \$335.50, Nickel rose 3.56% to \$1,190.41, Zinc was up 0.81% to \$102.21 and Aluminium rose 2.61% to \$100.92.

BHP ADR's trading at \$39.38 vs the Aussie close of \$40.75.

SPI 200 Futures closed down 62 pts at 4,757.

### Ideas

Investors, particularly in Australia were presented with a deluge of news to absorb over the weekend starting with U.S. stocks tumbling to close out the worst week since January as news of a criminal probe into Goldman Sachs unnerved investors already anxious about the prospects for heavy regulation from Washington. Offshore oil drillers weakened after President Obama's administration called a halt to new offshore drilling until they've determined what caused the Transocean oil rig to explode. Consumer stocks were also big losers after the University of Michigan/Reuters consumer-sentiment index's dropped MOM in April. Then the People's Bank of China announced on Sunday it will raise the deposit reserve requirement ratio for financial institutions by half a percentage point from May 10. The ratio for the rural credit cooperatives and rural banks would remain unchanged at 13.5% however, the RRR for other small financial institutions would rise to 14%, and that for large financial institutions to 17%. This is the third rise in the deposit ratio this year. On Jan. 12 and Feb. 17, the central bank raised the deposit ratio by half a percentage point each time. The PBOC had cut the bank reserve requirement ratio four times during the second half of 2008 to stimulate growth. Finally Greece reached a historic deal with other euro-zone countries and the International Monetary Fund for a three-year, €110bln bailout, as the country's prime minister on Sunday exhorted his nation to bear the sacrifices needed to mend broken public finances and vowed that his government won't "allow the country to become bankrupt." On Sunday, the finance ministers of the 16 euro-zone nations agreed that the 15 other countries would lend €80bln over three years, after receiving a positive assessment of the need for a bailout by officials at the European Commission, the bloc's executive arm, and the European Central Bank. The IMF will, in parallel, offer a €30bln package.

**Domestically all eyes were on the release of the Henry tax review which recommended a long list of changes to the Australian tax system, of which the Rudd government will focus on 3 key measures;** a 'new and improved' resource rent tax labelled a Resource Super Profits Tax (RSPT), a staged cut in the company tax rate to 28% and a lift in the compulsory superannuation levy from 9% in 2011 to 12% by 2019-20. By funding the sweeteners by the imposition of the RSPT the government is daring those who will oppose the tax that they will also scuttle what will likely be immensely popular reforms of a staged lift in compulsory superannuation and staged cuts in the company tax rate said Goldman Sachs JBWere (GSJBW). GSJBW said:

The Government has delivered a clever, if belated, response that has picked the eyes out of the Henry Review to deliver maximum political impact for minimal

economic and financial market impact. Our research team's first take on the reforms put forward by the Government see them as relatively trivial from an equity valuation perspective, despite the material and negative impact on mining sector earnings. What is significant is that it is a narrowly-constructed package that delivers a new economically-efficient tax at the federal level, designed to appease state-based stakeholders, with the revenue raised used to fund reforms that are both economically justifiable and very voter-friendly.

**Negative:** Resources (although winners and losers).

**Positive:** Banks & Non-financial industrials, Contract mining services. Preliminary figures from our analysts suggest an EPS and NPV valuation impact from the Government's proposed tax initiatives of:

- Banks: ~3-4% EPS upgrade in 2014-15 and uplift to through-the cycle ROE of up to ~1%.

- Industrials (ex Banks): ~1.5% EPS upgrade in 2014-15.

- Resources: ~10% EPS downgrade in 2014-15 (although significant dispersion) and NPV decline of ~10%.

- Given a resources weight of 20% of the index and banks of 25% of the index the EPS impact on the ASX200 in 2014-15 is ~-1.5%.

From a valuation perspective, the NPV impact on the ASX200 is less than 1%, despite an 8% decline for resources.

JP Morgan (JPM) concurred stating:

That the reform with the largest impact is the new **RSPT** which will levy 40% rate on earnings after capital allowances in addition to corporate tax (which has been reduced) and net of state based royalties which will be rebated. Some sort of additional tax on miners similar to the Petroleum Resource Rent Tax was expected so there is some impact already reflected in the share prices. (JPM) estimates that the RSPT reduces **BHP's** NPV by 7.8% driven by a 19% hit to the valuation of the iron ore business offset slightly by RSPT credits from Olympic Dam. For RIO it is worse. This tax hit is obviously at risk of discouraging investment in the Australian resource industry however, the government has tried to deal with this issue by allowing companies to offset costs (incl expl expense) against future RSPT liabilities. The other consolation is that it is a 5 year phase in from 1 July 2012. For OST, (JPM) estimates that there is a 1.4% hit to our DCF (assuming the full quantum of **OST's** reported iron ore asset book value is available as a credit. For the energy sector, (JPM) sees the most material impact being on the **CSG LNG** projects in Queensland which are currently NOT subject to PRRT only subject to a state royalty regime (~8-10% as valorem tax on well head value). Foreign companies including BG, Shell, Petronas, ConocoPhillips and PetroChina have spent (or may spend in the case of Shell/Petrochina bid for AOE) many billions acquiring assets in Queensland and will be understandably concerned about this latest change to Australia's petroleum fiscal environment. For Australian oil companies subject to PRRT or NWS royalties, they can either stick with their current fiscal regime or opt into the RSPT. **WPL/AWE/BPT** no negative impact, **OSH** no impact, **STO** valuation hit of 8-15%, **AOE** potential delay on Shell/Petrochina bid, **BPT** potential negative impact. Separately, there is potentially a negative impact for **IPL** as they mine phos rock. **BLY** may benefit from the Resource Exploration Rebate.

## Research

Woolworths Limited (\$27.10) – With WOW announcing their Easter adjusted 3Q10 Group Sales, Macquarie and UBS have retained a BUY whilst Deutsche, Credit Suisse, GSJB Were and JP Morgan have maintained a HOLD. GSJB Were has a price target of \$31.50.

APN News & Media Limited (\$2.45) – Following APN providing guidance at their AGM that the company expected improved 2Q trading, UBS has maintained their BUY whilst Deutsche, Credit Suisse and JP Morgan have retained a HOLD. Credit Suisse has a price target of \$2.71.

MMap Group (\$3.14) – With Copenhagen Airport (30.8% owned by MAP) reporting its 1Q10 result, RBS, JP Morgan and Macquarie have retained a BUY whilst GSJB Were and UBS have maintained a HOLD. GSJB Were has a price target of \$3.50.

Macquarie Group Limited (\$50.29) – Following MQG's delivery of a solid FY10 result, Credit Suisse, Macquarie and RBS have retained a BUY whilst UBS, GSJB Were and JP Morgan have maintained a HOLD. Deutsche has a price target of \$65.00.

AWE Limited (\$2.47) – With higher operating costs from the maintenance program at BassGas, Deutsche, Macquarie, UBS and Wilson HTM have retained a BUY whilst JP Morgan have maintained a HOLD and Credit Suisse have **upgraded** to a HOLD. Macquarie has a price target of \$3.60.

Transfield Services Limited (\$3.98) – Following the news that TWPS (50/50 JV with WOR) have won a 5 year \$37mpa contract to provide maintenance services at the Loy Yang A power station, UBS have **upgraded** to a BUY with a price target of \$4.50.

GPT Group (\$0.58) – Following the update of GPT's activities for the March quarter, Macquarie have maintained a BUY, Deutsche and Credit Suisse have retained a HOLD whilst GSJB Were and JP Morgan have reiterated a SELL. Credit Suisse has a price target of \$0.63

Avoca Resources Limited (\$2.22) – Following their recent share price strength, GSJB Were have retained a BUY whilst Deutsche have **downgraded** to a HOLD and Credit Suisse have maintained a SELL. GSJB Were has a price target of \$2.75.

Coffey International Limited (\$1.30) – Following the downgrading of its operating EBITDA forecasts, Credit Suisse have maintained a HOLD whilst RBS have **downgraded** to a HOLD with a price target of \$1.40.

IOOF Holdings Limited (\$6.60) – With IFL's recent share price strength since its 1H10 result, JP Morgan has retained a HOLD whilst Credit Suisse have **downgraded** to a HOLD with a price target of \$7.40.

ResMed Inc. (\$7.08) – Following RMD's reports of its 3Q10 NPAT driven by strong revenue growth, Macquarie and Credit Suisse have retained a BUY whilst GSJB Were have **upgraded** to a BUY and JP Morgan have maintained a HOLD. Credit Suisse has a price target of \$8.70.

Salmat Limited (\$4.57) – Following their recent share price performance, Credit Suisse have **downgraded** to a HOLD with a price target of \$4.85.

Regards,

**Zac Leman**