

## NEXT Daily – 5<sup>th</sup> May 2010

### Overseas

The **Dow Jones** fell 225 pts or 2.02% to 10,926.77 (YTD 4.78%), **S&P 500** fell 28 pts or 2.38% to 1,173.60 (YTD 5.25%) and the **NASDAQ** fell 74 pts or 2.98% to 2,424.25 (YTD 6.84%)

The **FTSE** fell 142 pts or 2.56% to 5,411.11 (YTD -0.03%), **Nikkei** rose 132 pts or 1.21% to 11,057.40 (YTD 4.84%) and the **Hang Seng** fell 48 pts or 0.23% to 20,763.05 (YTD -5.07%)  
Oil fell \$3.47 to \$82.72 a barrel.

Gold fell \$9.08 to \$1,173.10 an ounce.

Base metals were weaker with Copper down 5.51% to \$317.02, Zinc fell 6.21% to \$95.86 whilst Aluminium was down 4.24% to \$96.65 and Nickel fell 6.28% to \$1,115.66.

BHP ADR's trading at \$37.68 vs the Aussie close of \$38.59.

SPI 200 Futures closed down 120 pts at 4,642.

### Ideas

**Europe remains the market's biggest story, as heightened sovereign fears around such countries as Greece, Spain, and Portugal weigh.** Overnight, reports of a Spain IMF aid package being put together combined with talk that Greece had retained Lazard to explore a debt restructuring hit risk assets across the board. US Financials fell -2.7% as the Senate prepares to cast its first votes on the financial-reform bill with a number of amendments coming to the floor for discussion. Despite some good economic numbers there was little to cheer up the market. New orders for factory goods rose 1.3% (Mkt est: 0%) to \$391.5bln in March, the 11th increase in the past 12 months from an upwardly revised 1.3% gain in February (Prev: +0.5%). Miners were down 6.5% in the UK catching up after being closed on Monday as the U.K. had its first opportunity to respond to the proposed super-tax on profits of Australian mining operations. Copper fell below \$7,000 for the first time since February, and was down more than 5% at its worst point of the day, as demand fears were stoked by China's attempts to take some of the heat out its economic growth. The latest report on manufacturing activity in China confirmed that recent efforts to rein in liquidity had made an impact, with output expanding at its slowest rate in six months.

**Researcher Capital Economics <http://www.capitaleconomics.com> (CE) explained why the bailout package for Greece has done little to allay investor's fears even though the possibility of a near-term funding crisis has been greatly reduced. CA said:**

One explanation for this frosty response is the massive fiscal tightening Greece has agreed to put in place in order to get its hands on the cash. The economic pain that such belt tightening will bring suggests that it would be unwise to rule out a default further down the line. The good news for Greece is that the €110bn of loans that the IMF and euro-zone governments have agreed collectively to provide over the next three years will meet the bulk of its financing needs of €160bn over the same period. This will give Greece considerable time to regain the markets' confidence and lessens the likelihood of a near-term funding crisis. The ECB has also signalled that, until further notice, Greek government bonds will be able to be used as collateral in Eurosystem credit operations whatever their credit rating. Accordingly, the risk to the banking system has also been reduced. The bad news for Greece is that there is no free lunch. As part of the rescue package, Greece has agreed to reduce its fiscal deficit from 13.6% of GDP in 2009 to 8.1% this year and to below 3% of GDP by 2014. There are to be additional austerity measures, including a further hike in the

rate of VAT, reductions in public-sector workers' bonuses and allowances and a three-year freeze on public sector pay and pensions.

Admittedly, the new deficit reduction targets are less aggressive than the Government's previous goals, but the latter were based on unrealistically optimistic growth forecasts. Accordingly, the setting of more realistic goals is not a sign that Greece is being let off lightly. After all, a 10 percentage points of GDP reduction in the deficit over a five year period is a huge adjustment. Governments that have pulled this off in the past are few and far between. And those that have done so have tended to benefit from a loosening in monetary policy, a large devaluation of the exchange rate and strong global demand, something that Greece cannot rely upon. The latest forecasts also suggest that public debt will peak at almost 150% of GDP, far higher than previously forecast. Beyond 2014, the government will need to run large fiscal surpluses if it is to get debt back to its pre-crisis level of around 100% of GDP. If Greece were to benefit from a period of strong economic growth, it may be able to achieve this without running very large fiscal surpluses. But the need for wage and price moderation and the fact that euro-zone monetary policy suggests otherwise. Given the scale of public opposition to the austerity measures, it is still unclear whether Greece will ultimately be willing to take years of fiscal punishment and recession. Accordingly, we think it is still unwise to rule out the government eventually defaulting or restructuring its debts. And with markets' attention shifting to other peripheral economies, downward pressure on the euro is unlikely to let up.

**Yesterday NCM and LGL announced they have entered into a Merger Implementation Agreement whereby NCM will acquire all of LGL's shares under a Scheme of Arrangement.**

The terms are that LGL shareholders will receive one NCM share for every 8.43 LGL shares plus A\$.225/sh cash, less any dividend declared/paid by LGL for the JunH10. This represents an offer price of A\$4.03/sh based on NCM's closing price of A\$32.06/sh on May 3rd (or A\$3.87/sh based on yesterday's closing price). It is a 6.4% increase on the previous proposal from NCM made on April 1, and a 33.4% premium to LGL's 1 month VWAP to March 29. The LGL Board has recommended unanimously that LGL shareholders vote in favour of the Scheme (vote likely to be held in July), subject to the independent expert's opinion that the Scheme is in the best interests of shareholders and in the absence of a superior proposal. Under the terms of the MIA, LGL has the right to continue existing discussions with alternate potential acquirers until June 8, but it can not solicit new potential acquirers. JP Morgan (JPM) believes, like most in the market, that this deal has compelling strategic and industrial logic. The combined entity would rank at No. 4 in global gold production and have three cornerstone assets (Cadia, Telfer and Lihir) accounting for ~90% of reserves, it would be geographically diverse (10 mines operational in 5 countries), low cost and long life, some A\$85M synergies (pre-tax) are on offer, and it would have a strong organic growth platform, with 6%pa production growth forecast by NCM from a diverse range of projects through to 2014 said JPM. But is the price right? JPM think at 1.83x our LGL 2010E NPV it's a fair and full price for LGL shareholders. Their 6 year historical database of this ratio shows both companies have averaged P/NPV of ~1.9x. For NCM shareholders it is dilutive of NPV because NCM's P/NPV has drifted down in the last 18 months to trade at 1.24x, in line with that of the 12 year historical average of the Diversified majors, BHP and RIO. JPM believe this de-rating is in part due to the ~30% of revenues that NCM derives from coproduct copper, effectively diluting the so called "gold premium" in the eyes of the market. So while on the metrics the deal does not look advantageous for NCM, the addition of LGL's 1Moz+ gold production platform should restore a ~1.9x NPV "gold premium" to the new NCM shares.

**Research**

Westfield Group (\$13.14) – With improved operating conditions in the US market, JP Morgan and Macquarie have retained a BUY, Deutsche has **downgraded** to a HOLD whilst UBS and GSJB Were maintain a HOLD. JP Morgan has a price target of \$13.87.

AGL Energy Limited (\$14.88) – Following Standard & Poors release of their annual ratings review for AGK, Citigroup, Macquarie, Deutsche and JP Morgan have retained a BUY whilst GSJB Were has maintained a HOLD. Deutsche has a price target of \$17.05.

Newcrest Mining Limited (\$30.69) – With the LGL Board voting unanimously in favour of the revised NCM merger offer terms, Credit Suisse, GSJB Were, JP Morgan and RBS have all retained a BUY. GSJB Were has a price target of \$42.00.

Lihir Gold Limited (\$3.79) – Following NCM's revised offer for LGL and Board approval secured, GSJB Were and JP Morgan have maintained a BUY whilst Deutsche has **downgraded** to a HOLD. GSJB Were has a price target of \$4.35.

Wesfarmers Limited (\$27.95) – Following their recent share price underperformance, JP Morgan has **upgraded** to a BUY with a price target of \$33.26.

G.U.D. Holdings Limited (\$9.20) – Following GUD's recent share price performance, UBS has **upgraded** to a BUY with a price target of \$9.90.

Hastie Group Limited (\$1.71) – Following an earnings downgrade by HST, Macquarie, Credit Suisse, UBS and JP Morgan have maintained a BUY whilst Citigroup retain a HOLD. Credit Suisse has a price target of \$2.40.