NEXT Daily – 6th May 2010

Overseas

The **Dow Jones** fell 59 pts or 0.55% to 10,866.83 (YTD 4.21%), **S&P 500** fell 7 pts or 0.66% to 1,165.87 (YTD 4.55%) and the **NASDAQ** fell 21 pts or 0.91% to 2,402.29 (YTD 5.87%)
The **FTSE** fell 69 pts or 1.28% to 5,341.93 (YTD -1.31%), **Nikkei** rose 132 pts or 1.21% to 11,057.40 (YTD 4.84%) and the **Hang Seng** fell 435 pts or 2.10% to 20,327.54 (YTD - 7.06%)
Oil fell $2.73 to $80.01 a barrel.
Gold rose $4.70 to $1,175.97 an ounce.
Base metals were weaker with Copper down 0.96% to $313.97, Zinc fell 1.02% to $94.88 whilst Aluminium was down 1.96% to $94.76 and Nickel fell 11.12% to $991.55.
BHP ADR's trading at $38.21 vs the Aussie close of $38.74.
SPI 200 Futures closed down 54 pts at 4,637.

Ideas

Another night of highly volatile trade brought broad-based losses, however this session's slide wasn't as bad as the prior session's selloff. Still, many market participants seem to have grown increasingly skittish said Goldman Sachs JBWere. The prior session's 2.4% slide was the worst single-session percentage loss since February, but stocks failed to quickly snap back as they had so many other times. Instead, sellers stepped right back in to drop the S&P 500 another 1% in the early going. The pressure pushed the benchmark index well below its 50-day moving average, which hadn't been broken for two months. Early weakness was partly owed to persistent concerns about the fiscal health of Greece and the rest of the PIIGS contingent, which includes Portugal, Ireland, Italy, and Spain. Moody's reminded investors of their risk with news that Portugal's debt has been placed on review for possible downgrade. Lost support for the euro and an interest in safety drove the U.S. dollar sharply higher once again. The greenback set a new 11-month high against a collection of competing currencies before it eased back. Some of the worst losses in the market were found in the energy sector, which was weighed down by broader market weakness and another sharp drop in oil prices. Crude oil prices had dropped 4% in the prior session and then surrendered 3.3% this session. Oil prices now stand at $79.97 per barrel, below the $80 per barrel mark for the first time in more than one month. The latest bout of selling was exacerbated by a larger-than-expected build in weekly oil inventories.

Further to the Resources Super Profits Tax ("RSPT") Credit Suisse (CS) says it is retrospective and appears punitive to miners in its current form. CS said:

> **We see potential for the tax proposal to be significantly watered down, suggesting a final outcome may be far less severe on miners. While the theory and intention of the RSPT - to provide "a fair return to the nation" - is sound, the details in this proposed tax regime do not match the theory or "spin" in our view. We expect significant debate over the consultation period which is likely to focus on one key issue - definition of a "super profit". The super profits tax is applied to regular profits, not super profits - this is the key issue**. While the Government's definition of a "super profit" is much too low, more importantly and where we see real opportunity for debate/change is that it appears to be internally inconsistent. The key sticking point is the 6% "super" return hurdle is applied against an inappropriate asset base - namely the depreciated historical cost base of assets in the company's balance sheet. It should come as no surprise to anyone that comparing 2013$ earnings of an iron ore mine to the fully depreciated historical cost

> of building that mine 20 years earlier will generate the appearance of a super profit and new taxes under the Government's definition - but a super profit calculated in this manner is really just an accounting gimmick, and is not a true measure of a super economic profit…The tax is wildly inconsistent across companies, those with low accounting carrying value of assets are penalised the most, and company's with short mine lives penalised the least. Arbitrarily declaring a "super profit" threshold significantly below the market derived level does not change the actual risk and reward parameters of an individual mining project or investment decision; but it does change Australia's perceived political risk and the economic ranking of Australian resource projects on a global view. **Back to the drawing board - reality does not match theory** and the deck is stacked too far in the Government's favour in our view. If the Government wants to retrospectively apply a new tax based on a concept of "fair" economic returns it is only "fair" that you assess the taxpayer on the actual economic value of the assets (not the cost) used to generate those returns. If not, then this is really an "inflation tax" not an "RSPT", as it will penalise taxpayers in the same manner as "bracket creep" in personal income tax.

Westpac released its first half profit yesterday, beating expectation however the quality of the result and outlook statements were questionable. Deutsche Bank (DB) said that with WBC already trading on a FY11E PER of 11.7x (peer average 11x) which equates to a 13% discount to the market they believe we would need to see earnings upgrades to drive outperformance from here. This is becoming increasingly difficult to find with margin pressures from rising funding costs and declining product spreads likely to offset any benefit from declining BDD said DB. As such they struggle to find material upside to the share price at current levels and have downgraded WBC from a BUY to a HOLD. DB said:

> Our analysis suggests that WBC's margins are likely to remain under pressure in the near term from rising funding costs and a relatively conservative funding profile. Whilst we acknowledge that all the banks will likely suffer the above pressures to some extent, we believe that WBC's very strong balance sheet growth over the past 12-18mths will see WBC's margins decline faster than peers… While WBC's impairment charge of 100bps to non-housing loans was ~45% lower than the previous half and sector leading provisioning levels, we believe bad debts are likely to remain at elevated levels throughout 2H10. In our view, this is largely a result of the continuing upward trend in stressed exposures, particularly in the commercial property segment (~10% of WBC's portfolio)… Despite credit costs improving, pressures on margins have resulted in downgrades to our FY10 cash earnings by -3.2%, FY11 by -8.1% and FY12 by - 7.7%. We are now forecasting for WBC to deliver EPS and cash earnings growth largely in line with peers over the next 2 years

After NWS 3Q10 result DB said in their view NWS' strong result provides further evidence that the building blocks for a stock rerating are well underway. Despite some disappointment in the market around the moderation in 4Q10 earnings growth, the earnings upgrade cycle is becoming well established and the asset mix continues to shift towards higher quality earnings from content businesses. Furthermore management explicitly indicated that NWS has excess capital and they would finalise a strategy in the next few months. DB said:

> The result was ahead of expectations driven by the film and cable content businesses and the strengthening ad recovery benefiting television and newspapers. 3Q10 normalised group NPAT of $769m was up 99% on pcp, equivalent to normalised EPS of $0.29 per share…Management upgraded FY10 operating income guidance from "low 20%'s growth" to "high 20%'s growth" although signaled that the 4Q10 result would be impacted by film earnings $100m lower on tough comparisons. We believe the company's earnings guidance still looks too conservative, as it has all

year, and we are increasing our FY10 EBIT by $70m to $4.511b, equivalent to 29% growth. Whilst management would not be drawn on the FY11 earnings outlook we are encouraged by the strong momentum in cable, the ad recovery and the 1H11 easy comps in television and newspapers. As such we have maintained our 12% FY11 EBIT growth forecast… NWS is trading at the bottom of the 6.5x to 8.9x adjusted CY10E EV/EBITDA range of its US peer group, and at the middle of the 12.3x to 17.3x PE multiple range. In the Australian media context, NWS is also trading at the bottom and middle of the FY11E EV/EBITDA and PE ranges, respectively, despite having a superior mix of businesses. Downside risks include ad deterioration, a change in the popularity of its content, acquisition risk and FX risk on the conversion of NWS' $A share price.

Research

Westpac Banking Corporation ($26.19) – Following their 1H result, Deutsche, UBS and GSJB Were have **downgraded** to a HOLD, JP Morgan, Macquarie and Citigroup have retained a HOLD whilst Credit Suisse and RBS have **downgraded** to a SELL. GSJB Were has a price target of $31.00.
Westfield Group ($12.83) – With WDC's strong performance in recent months, Credit Suisse has **downgraded** to a SELL with a price target of $13.00.
ASX Limited ($32.64) – Following the release of trading statistics for April 2010, RBS and JP Morgan have retained a BUY whilst Credit Suisse and Macquarie maintain a HOLD. JP Morgan has a price target of $41.16.
CFS Retail Property Trust ($1.90) – Following the release of their quarterly update, GSJB Were and JP Morgan have maintained a BUY, UBS and Credit Suisse have retained a HOLD whilst Macquarie has reiterated a SELL. GSJB Were has a price target of $2.06.
Monadelphous Group Limited ($14.00) – Following their recent share price underperformance, UBS has **upgraded** to a BUY with a price target of $16.50.
News Corporation ($18.97) – With their Q3 FY10 report and an updated guidance released, RBS, Deutsche, Macquarie and GSJB Were have retained a BUY whilst Credit Suisse has maintained a HOLD and JP Morgan has **downgraded** to a HOLD. Deutsche has a price target of $26.30.
UGL Limited ($13.85) – Following UGL's recent share price performance, UBS has **upgraded** to a BUY with a price target of $15.50.
Energy Resources of Australia Limited ($13.77) – With ERA's recent underperformance reflecting the associated risks, Macquarie has **upgraded** to a HOLD with a price target of $16.10.