NEXT Daily – 24th May 2010

Overseas

The **Dow Jones** rose 125 pts or 1.25% to 10,193.39 (YTD -2.25%), **S&P 500** rose 16 pts or 1.50% to 1,087.69 (YTD -2.46%) and the **NASDAQ** rose 25 pts or 1.14% to 2,229.04 (YTD -1.77%)
The **FTSE** fell 10 pts or 0.20% to 5,062.93 (YTD -6.47%), **Nikkei** fell 245 pts or 2.45% to 9,784.54 (YTD -7.22%) and the **Hang Seng** fell 33 pts or 0.17% to 19,545.83 (YTD -10.64%)
Oil fell $0.76 to $70.04 a barrel.
Gold fell $5.25 to $1,177.10 an ounce.
Base metals were stronger with Copper up 3.65% to $309., Zinc rose 1.11% to $84.58 whilst Aluminium was up 3.28% to $91.84 and Nickel rose 0.72% to $965.20.
BHP ADR's trading at $37.59 vs the Aussie close of $36.77.
SPI 200 Futures closed up 58 pts at 4,358.

Ideas

U.S. stocks rebounded Friday led by Financials as the financial services reform in the US looked close to being approved and was less onerous than expected. J.P. Morgan +5.9%, Morgan Stanley +5.7%, Bank of America +4.5%, and Citigroup +3.3%. Also assisting the market was German lawmakers backing a bill allowing the German government to contribute to the €750bln eurozone bail-out package. The Dow recouped 125.38 points, or 1.25%, to 10,193 almost entirely in the last half-hour of trading. Goldman Sachs JBWere (GSJBW) commented on the legislation passed by the Senate last Thursday that would reshape the U.S. financial industry and its regulators with a sweep unseen since the aftermath of the Great Depression. GSJBW said it would change the way banks manage their balance sheets, hedge their interest-rate bets and invest their proceeds. It would chip away at the secrecy of the Federal Reserve, create a council of regulators and make it easier for investors to sue credit raters. It would cut the fees debit-card issuers collect from merchants. Senator Christopher Dodd, the Connecticut Democrat who shepherded the legislation as chairman of the Banking Committee, said: "Any one of these sections of the bill could stand almost as a piece of landmark legislation in and of themselves." Wall Street has a different view saying the Senate bill's provisions could cut the profits of the largest U.S. banks by 13 percent, according to banks, the biggest impact would come from stricter rules on derivatives and the powers of a new consumer agency to write regulations affecting mortgage fees and other financial products. Each of those provisions would hurt bank incomes by 4% House and Senate negotiators must now reconcile their bills the GSJBW comments said. Lawmakers said they expect most of the language in the Senate bill to survive unchanged.

On macro strategy UBS said that much has changed over the past few weeks. De-stabilising events in Europe, worries about China slowing, rapid-fire RBA hikes and a new mining tax, have led RBA pricing, the AUD and equity markets sharply lower. How do we balance this cacophony of negative macro headwinds against our positive outlook for Australia, in particular, our above consensus outlook for 2010/11 GDP growth, a structurally positive view on the AUD to end 2011, and an RBA cash rate 100bp higher by mid 2011 said UBS? They note that:

1) only 4% of Aussie exports go to core Europe, and the 'troubled' EU is just 0.1% of our GDP,
2) Australia retains more policy firepower than most,
3) a weaker Europe reduces the risk of China over-tightening,

4) the RBA is nearer average than very tight, and

5) despite medium-term concern over the new mining tax, we still have 8% of GDP of projects ($109bn) started that need to finished.

In summary UBS said that:

> without re-trekking old ground, these negative macro headwinds (plus our geared consumer and offshore funding needs) must also be balanced against Australia's strong macro fundamentals (canvassed within). While recent events remove the upside risks in our forecasts (and some downside risks have emerged), we believe the positive investment thesis remains fundamentally intact. We still see the next few years delivering a growth recovery, higher rates and a higher AUD.

Hot on the heels of the Sonic Healthcare (SHL) downgrade, Primary Healthcare (PRY) now expects EBITDA for FY10 in the range of $330-340m; this compares with UBS estimate of $373m, consensus $356m and vs FY09 $348m. UBS said the rationale for the downgrade is consistent with SHL, citing impact of cut and flow on effect to volumes and general industry disruption (manifest as slower volumes and increased costs); UBS also expect PRY has experienced pressure on its diagnostic imaging (DI) business. What went wrong said UBS – it's the industry volumes again.... PRY's woes reflect industry-wide impact of Nov-09 5% cuts. Medicare data for the Mar 2010 qtr showed pathology fees fell 4.9% on pcp; volumes fell -7%. UBS expects that competition has driven lease and staff costs up materially, with PRY the target of competitors given its vulnerability through the integration of Symbion assets. Whilst UBS has been sub-sector 'neutral', and PRY's downside risk was expected, they concede that impact of cuts and disruption is deeper than anticipated. Impact is 2H weighted; but washes into FY11; HSP could yet help...: PRY expects FY11 EBITDA in the range of $360-380m given that 1H FY11 confronts deregulation and the full 6-month effect of Nov-09 cuts. UBS note that a successful private equity bid for HSP could alter industry fortunes, with consolidation and synergy opportunities.

Research

Origin Energy Limited ($14.46) – Following recent share price performance, UBS has **upgraded** to a BUY with a price target of $17.05.
Asciano Group ($1.55) – With AIO's recent share price underperformance, UBS has **upgraded** to a BUY with a price target of $2.00.
Primary Health Care Limited ($3.82) – Following PRY's announcement of first-time guidance for FY10 EBITDA, Macquarie, Deutsche and UBS have retained a HOLD whilst Credit Suisse and GSJB Were have maintained a SELL. GSJB Were has a price target of $4.40.
Sigma Pharmaceuticals Limited ($0.48) – With the announcement of a non-binding $0.06ps offer from an undisclosed bidder, Macquarie, UBS, GSJB Were and JP Morgan have all **upgraded** to a HOLD whilst Credit Suisse retains a SELL. GSJB Were has a price target of $0.60.
Mount Gibson Iron Limited ($1.35) – Following their recent share price weakness, UBS has **upgraded** to a BUY with a price target of $1.85.
G.U.D. Holdings Limited ($8.28) – With the announcement of its proposed takeover offer for Dexion, UBS has maintained a BUY, Credit Suisse has **upgraded** to a BUY whilst Macquarie and GSJB Were have retained a HOLD. GSJB Were has a price target of $10.40.
Spotless Group Limited ($2.35) – Following their provision of updated FY10 guidance, GSJB Were and Credit Suisse have retained a BUY, UBS has **upgraded** to a BUY whilst JP Morgan and Macquarie have maintained a HOLD. GSJB Were has a price target of $3.05.
Sonic Healthcare Limited ($10.07) – With weaker than expected Australian market pathology volumes and lower than expected radiology revenues, Deutsche has **downgraded** to a SELL with a price target of $10.00.