

## NEXT Daily – 25<sup>th</sup> May 2010

### Overseas

The **Dow Jones** fell 126 pts or 1.24% to 10,066.57 (YTD -3.47%), **S&P 500** fell 14 pts or 1.29% to 1,073.65 (YTD -3.72%) and the **NASDAQ** fell 15 pts or 0.69% to 2,213.55 (YTD -2.45%)

The **FTSE** rose 6 pts or 0.13% to 5,069.61 (YTD -6.34%), **Nikkei** fell 26 pts or 0.27% to 9,758.40 (YTD -7.47%) and the **Hang Seng** rose 121 pts or 0.62% to 19,667.76 (YTD -10.08%)

Oil rose \$0.19 to \$70.23 a barrel.

Gold rose \$16.05 to \$1,193.15 an ounce.

Base metals were stronger with Copper up 0.91% to \$312.30, Zinc rose 1.96% to \$86.24 whilst Aluminium was up 1.37% to \$93.10 and Nickel rose 3.98% to \$1,003.57.

BHP ADR's trading at \$37.37 vs the Aussie close of \$37.80.

SPI 200 Futures closed down 65 pts at 4,351.

### Ideas

The US Market was trading in a tight range for most of the day, before breaking down in the last 15 minutes. JP Morgan (JPM) believes traders are running very narrow stops at the moment and any abrupt fall can provide a trigger for stop loss selling. Weighing on equities are many of the existing worries around European sovereigns (the UK announced EUR6.2B of austerity measures this morning, Germany is set to announce plans to cut its budget by EUR10B this week), uncertainty around the upcoming financial regulatory reform legislation (Reuters reported this afternoon that Senator Lincoln will be on the committee responsible for finalizing the legislation) and concerns over Spanish banks (the Bank of Spain bailed out a regional bank over the weekend and 4 Spanish banks submitted a proposal today to pool their businesses).

**When JPM published their 4500 target for June 2010 at the beginning of the calendar year, it was considered one of the most pessimistic targets on the street. However, now with the ASX200 below 4500 three of their macro concerns have materialised;**

- 1) China tightening;
- 2) Softer Aussie economic data;
- 3) Lack of positive earnings revisions in the Aussie listed companies.

In addition to these issues we have also seen significant fiscal stress in Europe and much greater Australian regulatory/political risk than expected. On the positive side, the US economic data has been firmer than expected. Due to the fiscal stress in Europe and increased political risks in Australia JPM have now downgraded their year end target to 4750 from 5000. However they believe the upside from here to 4750 is still reasonable they believe and have so we have added more risk to their model portfolios and reduced the weighting towards defensives.

**BHP held its regular bi-annual briefing its Petroleum business yesterday, hosted by Group and Chief Executive BHP Billiton Petroleum, J Michael Yeager.** The presentation focused on three key areas:

- (1) Relative quality of BHP's Petroleum business compared to peers;
- (2) The growth opportunities for FY2011; and
- (3) The longer term outlook.

UBS highlighted the key takeaways from the presentation as:

- **8-10% volume growth in FY2011:** Management expect a strong Q4 to result in BHP meeting its 10% volume growth in FY2010. Additionally, FY2011 is expected to achieve 8-10% volume growth with a full year of Pyrenees volume, Angostura gas project starting up, Atlantis North development, and maximum capacity achieved at Bass Strait, North West Shelf, and Pakistan.
- **BP incident causing uncertainty:** Following BP's recent incident in the Gulf of Mexico, two Atlantis rigs are now drilling relief wells at the site. Furthermore, the US Government has placed a moratorium on drilling until they conduct an investigation into the causes of the incident. These factors have resulted in substantial uncertainty and BHP indicated that production is likely to be at the low end of guidance, depending on how long the issues will take to be resolved.
- **Targeting US\$2bn in capital for FY2010 & 11:** Mike Yeager indicated that cap-ex and exploration budgets for FY2010 are US\$2bn and US\$0.8bn respectively. Additionally, while yet to get board approval, cap-ex and exploration spend in FY2011 are expected to be somewhat similar.

At this point UBS have left their production forecasts unchanged given the uncertainties associated with resolving the BP incident. However, they note that their current production forecasts call for 12% volume growth in FY2010, but only flat in FY2011. Therefore, there could be upside risk to FY2011 estimates. BHP's presentation suggested production of ~160-170mboe in FY2011 compared to UBS estimate of 155mboe. BHP's average EBIT over the last 3 years was ~US\$35/boe. Therefore assuming a similar EBIT margin, the incremental production could result in an upside risk at EBIT level of up to ~US\$500m or 1.5% in FY2011, assuming all else being equal

## Research

WorleyParsons Limited (\$24.24) – With WOR being awarded an EPCM contract in a JV with Fluor for the bauxite mine and 1.8mt alumina refinery being developed by Ma'aden in Saudi Arabia, UBS has **upgraded** to a BUY with a price target of \$28.00.

Energy Resources of Australia Limited (\$13.43) – Following recent share price underperformance, Credit Suisse has **upgraded** to a HOLD with a price target of \$14.50.

Fleetwood Corporation Limited (\$8.50) – Following a strong caravan season to date, Credit Suisse has **upgraded** to a BUY with a price target of \$9.50.

Wotif.com Holdings Limited (\$6.09) – With WTF's recent share price weakness, JP Morgan has **upgraded** to a BUY with a price target of \$6.86.

Westfield Group (\$12.12) – Following improved operating conditions and tenant demand, Deutsche has **upgraded** to a BUY with a price target of \$13.40.