

## NEXT Daily – 8 June 2010

### Overseas

The **Dow Jones** fell 115 pts or 1.16% to 9,816.49 (YTD -5.86%), **S&P 500** fell 14 pts or 1.35% to 1,050.47 (YTD -5.80%) and the **NASDAQ** fell 45 pts or 2.04% to 2,173.90 (YTD -4.20%).

The **FTSE** fell 56 pts or 1.11% to 5,069.06 (YTD -6.35%), **Nikkei** fell 380 pts or 3.84% to 9,520.80 (YTD -9.72%) and the **Hang Seng** fell 401 pts or 2.03% to 19,378.15 (YTD -11.40%)

Oil fell \$0.05 to \$71.46 a barrel.

Gold rose \$21.40 to \$1,241.30 an ounce.

Base metals were mixed with Copper down 2.90% to \$275.23, Zinc fell 0.84% to \$72.42 whilst Aluminium was down 0.78% to \$83.22 and Nickel rose 1.40% to \$822.45.

BHP ADR's trading at \$36.05 vs the Aussie close of \$36.54.

SPI 200 Futures closed down 41 pts at 4,297.

### Ideas

The US market spent much of the day hugging the flat-line but experienced another ugly close, selling-off into the bell. There was very little real buy demand today despite Friday's 3%+ fall. In terms of newsflow, there were a lot of moving pieces today, but on the whole much of it was noise and the market remained concerned about the European debt crisis. European stocks lost further ground, extending losses late in the session as U.S. stocks retreated from early gains, amid ongoing concern that the broadening sovereign-debt crisis might thwart the global economic recovery. Lingering aversion to risk in the wake of Friday's sluggish U.S. jobs growth and ongoing fears of debt default in Europe, continued to leave mining stocks (-2.3%) in the shade.

**Brambles management has confirmed that ConAgra Foods is switching most of its pallet supply contract to a competitor, expected to be iGPS, the plastic pallet pooler.**

Credit Suisse (CS) believes ConAgra is currently a top 10 customer of CHEP USA.

Management expects the loss of the contract to not affect FY10 but will flow through to have an impact from FY11 onwards. CS went on to make the following comments:

**While the contract loss is a negative, management has highlighted that since the CHEP USA restructure announcement in October 2009, the business has won more volume than it has lost.** While there remains the potential for further contract losses, we believe the risk of such is expected to reduce as the quality and service initiatives are rolled out.

**Earnings impact: We estimate the earnings impact to Brambles from the loss of the ConAgra Foods contract to be approximately 2.1-2.5% annualised impact to FY11 NPAT.** As management sees the contract being migrated over a 12-month period, we have reduced our FY11 NPAT forecast by 0.9% following adjustments to currency forecasts. Adopting new currency forecasts has reduced FY11 and FY12 NPAT forecasts by an average of 5.3%.

**The key catalyst for upside is the delivery of the CHEP USA restructure to reduce the risk of contract losses, and increase the ability to increase pricing for the US premium offering.** Ongoing recovery of key markets such as USA are also key catalysts for the stock.

**Toll Holdings Limited announced that it has slightly lowered its 2H EBIT guidance** to be up 5-10% on the 2H of last year, versus February guidance of up c.12%. As a result, **UBS have lowered their forecasts** to imply up c.5% which together with some currency changes result in a 5% downgrade to EPS for FY10E and 4% for FY11E. This reflects their view that the shortfall is primarily cyclical rather than structural, adding the following:

**Weakness coming from Australia/NZ network businesses**

Given Toll will experience a boost in EBIT from acquisitions, partly offset by a negative FX swing on offshore earnings, we believe this guidance implies the Australia/NZ business EBIT is down 6% in the 2H after being down 12% in the 1H. We attribute this ongoing weakness to the non-time sensitive networks businesses (rail forwarding, shipping, road linehaul, specialised freight, New Zealand). Toll Priority, Logistics and Resources appear to be holding up better.

**Still lacking catalysts despite discount to peers**

This downgrade was widely expected within the market and is not overly material. The stock is also trading at a c.20% discount to its global peers, but these generally offer more cyclical leverage than Toll. We fail to see positive catalysts for the stock while the market continues to debate the cyclical versus structural drivers of Toll's earnings decline and acquisition risk continues in the Global Forwarding division.

**Research**

CSL Limited (\$32.85) – Following the news that Grifols and Talecris have signed a definitive agreement whereby GRFS will acquire TLCR for US\$3.4bn, UBS has maintained a BUY whilst Macquarie, Credit Suisse and GSJB Were have retained a HOLD. UBS has a price target of \$41.00.

Kagara Limited (\$0.52) – With Mungana Goldmines announcing that retail investors have subscribed for A\$53mn, reaching minimum IPO subscription requirements, UBS has **upgraded** to a HOLD with a price target of \$0.60.

Webjet Limited (\$1.89) – Following their recent trading update, UBS has **upgraded** to a BUY with a price target of \$2.20.

WHK Group Limited (\$1.00) – With WHG announcing a small tuck-in acquisition in Western Victoria, UBS has **upgraded** to a BUY with a price target of \$1.10.

ConnectEast Group (\$0.38) – Following the release of May traffic data on EastLink, JP Morgan has maintained a BUY whilst RBS, GSJB Were and Macquarie have retained a HOLD. JP Morgan has a price target of \$0.51.

Coca-Cola Amatil Limited (\$11.20) – With CCL looking to introduce milk into the high growth energy drinks market, Macquarie has **upgraded** to a BUY with a price target of \$12.89.

Monadelphous Group Limited (\$12.61) – Following MND giving guidance that their second half sales and earnings should equal their first half results, Macquarie has **upgraded** to a BUY with a price target of \$14.52.