

## NEXT Daily – 15 June 2010

### Overseas

The **Dow Jones** fell 20 pts or 0.20% to 10,190.89 (YTD -2.27%), **S&P 500** fell 1 pt or 1.97% to 1,089.63 (YTD -2.28%) and the **NASDAQ** rose 0.02% to 2,243.96 (YTD -1.11%).

The **FTSE** rose 38 pts or 0.74% to 5,202.13 (YTD -3.89%), **Nikkei** rose 174 pts or 1.80% to 9,879.85 (YTD -6.32%) and the **Hang Seng** rose 179 pts or 0.90% to 20,051.91 (YTD -8.32%)

Oil rose \$1.25 to \$75.03 a barrel.

Gold fell \$4.45 to \$1,222.25 an ounce.

Base metals were mixed with Copper up 1.16% to \$292.84, Zinc rose 1.18% to \$77.53 whilst Aluminium was down 0.17% to \$86.84 and Nickel rose 3.15% to \$883.58.

BHP ADR's trading at \$38.34 vs the Aussie close of \$38.58.

SPI 200 Futures closed up 1 pt at 4,526.

### Ideas

U.S. stocks rallied for much of Monday's session, but faltered in the afternoon alongside a waning euro, even after encouraging industrial production data from Europe and bullish comments from a Federal Reserve president seemed to increase confidence in global growth prospects. Euro-zone factories ramped up production at a record annual pace in April. Industrial production rose 0.8% MoM (Mkt est: +0.5%), the 11th consecutive month of increases, from March's upwardly revised 1.6% growth (Prev: +1.3%). YoY IP jumped a record 9.5% (Mkt est: +8.7%) from an upwardly revised 7.7% pace in March (Prev: +6.9%). The positive momentum was turned after Moody's cut Greece's credit rating to junk (despite the fact that S&P had done just that more than six weeks ago). Technical factors also came into play as the S&P failed at its 200-day moving average (~1108), a level it has not closed above since May 19th.

**Domestically UBS reported that the media has been reporting an array of mining projects that have been stalled following the new mining resources tax.** Last week UBS highlighted the \$83bn of private capex that has already started, that they believe should sustain investment activity over the next year or so. But is there a risk of more near-term weakness? UBS said there is no doubt an ongoing flow of newly committed mining and infrastructure projects are vital to sustaining a strong investment horizon for Australia. However, every project they've seen discussed as 'stalled' is listed as either "possible" or "under-consideration", i.e., neither "committed" to, nor actually "under construction". UBS believe it's the latter that drives near-term investment. This week, using the Access Economics Investment Monitor, UBS took a look at almost 200 private infrastructure projects (both mining and elsewhere) that are either under construction or committed to, and ask the somewhat controversial question of how the outlook for investment activity would look if there were no new commitments to large investment projects (in any sector) from here? They find that without a flow of new projects being committed to, weakness (or a 'hole') in the capex cycle would arrive mid to late 2011. But even if there were no new projects approved from here (a worse case scenario), there appears sufficient work 'on hand' to keep investment rising for the next year or so. UBS therefore believe we have a bit of time to achieve resolution & regain clarity in the mining investment landscape.

**WilsonHTM research today reported that the Newcrest-Lihir deal looks to be on track to be consummated and that the plan to bring the Newcrest and Lihir assets together delivers benefits to both entities, diversity and lower group costs for Lihir and for**

Newcrest the Lihir gold portfolio allows the copper-gold porphyries in PNG and Fiji to be developed within the group. The report states:

With the closing of data room the Newcrest's acquisition of Lihir has moved a step closer. From this point Lihir cannot solicit competing bids; that said those that have been in data room can still bid at a later date, possibly after the independent expert's report is provided later this month. Based on discussions and analysis with international gold analysts we see this as unlikely, but do acknowledge the AUD fall has increased the attraction for North American majors. However we still see the most likely outcome as Newcrest acquiring Lihir. Lihir shareholders are due to vote in July and implementation has been set for August 2010.

**We find Newcrest-Lihir competes well with the gold majors**

Through this report we compare and contrast the proposed Newcrest-Lihir combined entity against some of the large international gold companies. We see Newcrest-Lihir as having suite of assets with long life (25yrs on known reserves), high margins (going to +60%) and positive earnings trends (+50% over 2yrs). On average it offers one of the most consistent gold exposures over the medium and long term horizons.

**Short-term trades create an opportunity**

The probability of a successful NCM-LGL deal appears to have drawn considerable number of Long Lihir – Short Newcrest trade in the market; this has resulted in the Newcrest share price remaining subdued while the gold price has been rising. Over the past 2 months the gold price has risen 10% reaching a new high yesterday, during this time the North American gold majors are up ~10%; over the same period Newcrest is flat. This effect is more pronounced if the A\$ gold price is reviewed; it is up 22% over the past 2mths and is more relevant to Newcrest.

**Research**

Navitas Limited (\$4.03) – Following NVT's recent share price weakness, GSJB Were has **upgraded** to a BUY with a price target of \$5.59.

GPT Group (\$2.83) – With GPT's share price underperformance, JP Morgan has **upgraded** to a HOLD with a price target of \$3.07.

Wotif.com Holdings Limited (\$5.50) – Following WTF's recent trading update, Macquarie has **upgraded** to a BUY with a price target of \$6.50.