Goldman Sachs
Afternoon Market Report
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Goldman Sachs Australia Pty Ltd
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Institutional Dealing Desk

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MAJOR MARKET DATA

ASX 200	5036.90	**33.2**	**0.66%**		**SPI**	4996		**40**	**0.66%**
ASX High	5045.40	41.7			**SPI Premium**	-40.90		pts	
ASX Low	4998.30	-5.4			**SPI Fair Value**			points	
Value	$5.852bn				**SPI Volume**	26,062		**contracts**	
No. of Trades	963,706				**$A/$US**	1.0352		**-0.0014**	-0.14%
Specials	$1,002mn				**10 yr Bond Futures**	96.43		**-0.0900**	-0.09%
52 Week Hi/Lows					**90 Day Bills Futures**	97.08		**-0.0100**	-0.01%
Momentum	**543 up**	**477 dwn**			**Best Sector Today**	**1**	**Materials**	**1.87%**	
GS Mkt Value	$812mn					**2**	**Energy**	**1.20%**	
NZSE50	4239.20	**17.8**	**0.42%**			**3**	**Industrial**	**0.81%**	
					Worst Sector Today	**1**	**Info Tech**	**-1.97%**	
RBA Cash Rate	3.00	%				**2**	**HealthCare**	**-1.01%**	
Bills Implied Easing	-8.00	**points**				**3**	**Utilities**	**-0.92%**	

AUSTRALIAN MARKET OVERVIEW

1. The ASX 200 closed up +33 points or +0.66%, making this the highest level in the market in 4 ½ years – since 22nd September 2008...
2. We were flat out on the desk – a bit like old times – in fact its probably a preview of the activity levels that we'll see much of this year. As I said back in October last year " I **haven't been this confident in the market for 4 years - basically – this rally is still in its infancy" –** and that hasn't changed despite the market rallying hard since then – we have a long way to go & 5500 (+18%) to 5600 (+20%) by December 2013, may be laughable now, but it'll be reality later.
3. The other 2 big factors that gave the market was aging plenty of stocks hitting multi year highs – so this is a very broad based rally & value was a whopper at $5.9 billion – so it had real participation.
4. **One of the big shorts - Bradken** {$7.53 21.0 2.87%} after **rallying +19%** in the last 2 days was **up again** today, while **Worley** {$27.11 129.0 5.00%} that traded to $24.47 **-3.8%** after its result yesterday, has – like so many other stocks – seen that as the trigger to come in & buy with the stock up **now + $2.78 or +11.3%** off that low seen just yesterday ....
5. The main highlight came from **Alumina** {$1.29 9.0 7.50%} that soared & took other resources stocks higher with it – as it was a reminder about the potential corporate activity that will be coming this year & more importantly what happens when a stock with 8% of the company comes out with positive news ... Alumina today surged after they announced a $452m placement to CITIC which was 15% of the company at $1.235… This immediately cut their worrying debt position from US$681m to US$216m. -
6. **Resources have been cum a big rally** & this was the spark that was needed to star this fire – I think though the resource rally will be in stages with the really big run coming later this year – this is just a rehearsal on a smaller scale vs what will come later.
7. Resources**: Iron Ore coys. BHP** {$38.89 97.0 2.56%}, **RIO** {$72.07 161.0 2.28%}, **Mt Gibson** {$.90 2.5 2.86%}, **Fortescue** {$5.39 22.0 4.26%}, , **Atlas Iron** {$1.88 13.5 7.76%}, **Murchison Metals** {$.04 -0.1 -

2.44%}, **Northern Iron** {$.53 2.5 5.00%} **Others… Alumina** {$1.29 9.0 7.50%} , **Iluka** {$10.53 60.0 6.04%}, **OZ Min** {$7.65 18.0 2.41%} **ERA** {$1.29 1.5 1.18%}, **Pan Aust** {$3.21 10.0 3.22%}, **Sandfire Resources** {$8.08 25.0 3.19%}, **Independence Group** {$4.85 -6.0 -1.22%}, **Western Areas** {$4.67 7.0 1.52%}, **Base Resources** {$.38 0.5 1.35%}

8. **Steel Stocks**: **Bluescope** {$3.79 5.0 1.34%}, **Arrium** {$1.20 7.0 6.22%} – this was formerly **Onesteel** & **Sims metals** {$10.96 37.0 3.49%}

9. Results continued with good ones from **Wesfarmers** {$38.88 46.0 1.20%} & **Downer** {$5.24 38.0 7.82%}. While **SAI Global** {$3.80 -66.0 -14.80%} was hit after downgrading guidance and hit a 3 year low - but gold stocks have gone into an ugly death spiral & its hard to see them getting out of it in this market.
10. **Gold stocks appeal is now zero** & they have the added pressure of seeing the gold price about to do a "death cross" which means its going a lot lower. The US recovery, Chinese recovery, the fact that Europe is no longer going to blow up & better equity markets makes gold's appeal near zero.
11. I have been wrong on gold over the years (as it ran from US$1300 to US$1700) but as I've never believed all the trash about US$2,000 / to US$5,000 price targets – so I'm happy to have been right about avoiding gold stocks (except once when I though **Newcrest** was a trading buy as it was oversold & I've now exited that – gold is going to struggle after 10 great years of going up). Gold stocks are not only sells but may soon join the list of stocks that some may look to short..
12. This rally in the market has seen in the last 9 months the **ASX 200 rally +25%** but over that same time anyone holding gold stocks has had a truely miserable time – despite all the plethoria of those bearish newsletters continuing to bang on that gold is going to US$2,000/ US$3,000 – problem is its only ever gone the other way... So while the ASX 200 is up +25% we have seen **Alacer Gold fall -55%, Kingsgate -46%, Perseus Mining -35%**, **Newcrest -32% St Barbara Mines** -34% & **Teranga Gold -31%**.
13. **Golds today …** **Newcrest** {$23.36 -4.0 -0.17%}, **Kingsgate** {$4.15 -9.0 -2.12%}, , **St Barbara** {$1.50 0.5 0.33%}, **Resolute** {$1.37 -5.0 -3.52%}, **Alacer** {$3.84 -17.0 -4.24%} hitting a record low today , **Evolution Mining** {$1.49 -2.0 -1.32%}**Teranga Gold** {$1.65 -7.0 -4.07%}, **Regis Resources** {$4.58 -24.0 -4.98%} **Perseus** {$1.80 -5.5 -2.97%} hitting its lowest level in 3 years, **OceanaGold** {$2.53 -1.0 -0.39%}, **Medusa Mining** {$4.63 -19.0 -3.94%}

14. Also at today's high of 5045 – the market from its low of 3985 9 months ago in June 2012, we have now seen the ASX 200 **surge +1060 points** or **+26.60%**. The bears have bagged this rally the whole way up & all we have ever seen has been small **falls of -1% to -2%** with **just one -5% fall** in 9 months. Buy the dip has been the right strategy rather than waiting for the "big fall" that has still failed to materialise…
15. So the big question is ...

Is the market a big sell ????

- The mkt has **rallied +25%** in 8 mths – due for a pullback … everyone agrees – its coming – but EVERYONE says sit has to happen (& I also know plenty of instos & retail who want to get in but not at these prices.. So any pullbacks will be short & no more than -3% to -5%
- Below is what I said back on 17th October – since then we have had just one -5% correction (after Obama got back in) & then it bounced straight back. Back then we'd rallied +13.6% and everyone was holding back for a big fall…
- **From 17th October 2012**…(Since the 4th June the ASX 200 has rallied +13.6% back to 15 month highs – so many don't want to "chase the rally" - they **don't want to buy as the market goes up**, ***but we will see over the next 6 months many will have to change tack & will buy when it comes back***. But with so many possibly now thinking they will "buy the dips" as the market pulls back - they'll wait until the selloff looks to have run its course & then jump in the buy stocks & **THUS ANY SELLOFFS will not BE HUGE**.. Hence this **selloff may also be just -5%** or so & if that's the case the market should find solid support...)
- If we see market come back to 4800 / 4900 on a big sell off – that fall will only be -5% and at that level there would be a massive number of buyers who have been sitting back – not wanting to pay new highs – but waiting … We are all hoping it comes back here - but that is where the worry lies – we are simply hoping..

Why it won't come back far .

1. Many stocks have **rallied hard and have hit analysts target prices or look overvalued** vs where they have been in the last 3 years – so the logic is that there will be a ***plethora of recommendation downgrades***…
2. We have seen a few **but if market holds here** & the **recovery is seen as coming through late this year** or early next year then the analysts will be reluctant to downgrade recs. Plenty of stocks have run hard & those long are thinking they better "lock in" profits & when mkt falls back they can buy back in…
3. **BUT there is a massive wall of buyers who want these quality stocks to come back & then buy**. So we have already seen this with **Woolworths**, **Wesfarmers** & **Newscorp** all had poor numbers & were smacked straight after – but ***then all bounced*** – not only back to where they were before the bad news – buy have gone way above… **This is a sneak preview of why mkt won't fall too far when we are hit with mini-selloffs**.
4. When **finally this rally runs out of steam in the next few weeks** it may go "**sideways**" rather than have a big fall as so many expect.
5. Also the **shorts tell you a lot** – they actually panic when ever a coy comes out with ok result & aggressively try to cover as quickly as possible – but as they do "**fresh" money also joins them** on the buy side that adds to the stocks massive rise (JBH +17% in one day & Bradken +18% in 2 days LEI yesterday +6% in one day). In 2009 from March to Sept the mkt rallied +50% and the shorts stayed short for too long as they were waiting for a big falls that just didn't come – **so this time they are covering a lot quicker – the game HAS changed**…. Those who realize this early are the comes who quickly cover their shorts.

All this will continue for most of the year… so where is the BIG pullback going to come from???

6. Iran ?? … Nth Korea ?? .. Europe blows up again but been there done that 3 times in last 3 years - that fear has played out…So unless we have Factor x it'll be trending sideways with an upward bias & although I said last year we'd be +15% this year (5390) – it's **now more likely that the market will be up +18% to +20% and hit 5500 / 5600 by the end of 2013**…
7. The **low interest rate environment** will see banks and other financials still moving higher- along with other high yield stocks & that will be supported by the cyclical & as world improves the resources from maybe mid year – all these will combine to drive the market, the instos & the brokers into having a very good year
8. As I said 4 mths ago (17^{th} October 2012) – back then many were (as they are now) many were .."**waiting for the pullback after it had rallied +13.6%** in the previous 4 mths… now we are **up +25% in 8 mths & nothing has changed**…. Buy the dips – but problem is they may not be that big …

This bull market will run for the next 4 years..

- **This rally is real** & we are in the **early stages of a 4 year bull market** that will amaze so many when they look back in years from now & say how cheap the market was back in 2013.
- As we have seen before – we will see ridiculous valuations with **PE's back at 25x** (which we'll hear are 'cheap') & **dividend yields at 2%.**
- Many analysts are too bullish in the late stages of bull markets & **too negative in the early stages of a bull** market as they are conditioned what they have recently experienced & thus looking in the wrong direction at bear market valuations. Markets will look well beyond what we are seeing today.
- A big driver will be that we are experiencing in Australia something that most alive have never seen before – a **sustained period of low interest rates**. Now at 50 year lows of 3% & heading to 100 year lows around 2.25%, almost all investors have **never lived through this type of environment before** & will be wondering all year what to do. As rates trend lower & the stock market higher they will chase the yield.
- Interest Rates will stay low all this year & maybe into early 2014 as well & that will see a continual flood of cash by investors who **need "income**" and one of the best places for that now & in the near future will be in the equity market.
- This desperate hunt for income (2013 & early 2014) will drive financials & high yield stocks still higher – too ridiculous valuations - but from there the next phase will be followed by **earnings recovery in the non – mining economy** (as the domestic – non mining economy – finally comes out of severe recession it's been in for 4 years). Throw in **recoveries** in US, China & Japan which may see $A come back - as money flows into those booming economies - and we'll see this multi year bull market with the resources also running any time from mid to late 2013, (the defensives will be under pressure from either late 2013 or mid 2014 – depending on when rates start finally going back up again) . I know it all sounds ridiculous now but that's good – the first 40% of a bull market is never believed until well after

So why will market work higher & falls be minimal ??

Retail inflows are picking up big time into instos funds
In the US its also seeing **massive retail inflows** with a **new record: US$78bn flowed into US liste d mutual funds** + ETF's during January
Retail brokers are busy again –
But factors that will continue to support this market…

- Thousands of Mack trucks full of cash switching out of cash / bonds / term deposits (safety) & going into the equity mkt
- **Australian Consumer confidence** bouncing back to 2 year highs,
- **Australian business confidence** unexpectedly surging last month
- **Aust House prices** recovering & going up this year (due to (1) low interest rates, improving economy, improving sentiment, Govt stuffing up super will see many diversify into rentals) – which has a very positive wealth effect for economy. Its shown that studies show that for every extra dollar of household wealth – consumer spending rises by +5c over a 12 month period. So although we can't see it right now in the numbers – retailers will be in better shape by year end.
- **Aust retailers** no longer in terminal decline (but still struggling with internet) & doing a bit better,
- Aust **savings rate** coming back down,
- Aust **car sales** hitting **record** levels (you don't buy a new car if you are worried),
- **Holiday houses that have been on the mkt** for last 2 years are **starting to clear** (these were discounted -25% and were seller no buyer, but in recent weeks the overhang of stock is clearing – prices here still down – but the positive sentiment for thre buyers getting a cheap house & the sellers finally getting rid of a 2 year headache.
- Australian stock market back to 4 ½ **year highs** (retail see this as a sign that things must be ok to get back in)
- **Australian interest rates at 50 year lows** & if **RBA goes any lower will be lowest in 100 years** – so that will (eventually) **fuel growth in non mining economy** & also see money flow into stock market,
- **Election later this year –** the hung parliament has proven to be a bit of a disaster & so a big win by one party will give them a proper mandate. Present opinion polls have the Coalition winning by a landslide & this is seeing business & public more focused on what they will do to get the country going again.
- **The Australian Dollar** has been at US$1.05 for the last 18 months – so its impact has been absorbed – it's no longer a massive headwind that was for the last 3 years & if (when) we finally see it come back to 90c the positive wealth effect of the Australian economy will be huge & fuel the stock market even higher.
- **Offshore investors** are looking at Australia again – I know a CEO of a broking firm that said in the last 3 years US instos have had little interest in seeing him, but recently when he went he had 25 investors who wanted to talk about the Australian mkt ve about 6 in the last 3 years. Also looking at our offshore flows so far this year – they are already coming in.

- **improving overall sentiment** as the more bearish forecasts have not been realized
- A **massive amount of M&A** this year across the globe will support the already inflated valuations..
- **Reporting season** has not turned out (so far anyway) to be the shocker that many were expecting

- **Europe not collapsing**, big news a few weeks ago was that the banking collapse that so many feared out of Europe looks like a distant memory – with news that was very positive for confidence… , the ECB announced that banks repayed a massive EUR 137bn of the LTRO funds in the first lot repayments, leaving 882bn outstanding.
- **US bouncing back** – **Yearly GS (f) GDP for** 2013 is thus **1.8%** but the recovery has that increasing to **2.9%** in 2014, **3.2%** in 2015 & then **3%** in 2016.
- **US housing mkt** recovering , we have see US home prices have their best yearly gain since 2006 (that increases confidence when your house is going back up). Also US Housing starts after years of decline are rapidly recovering- so US housing mkt after 3 years of detracting growth from GDP will finally be contributing to it going forward.
- **Japan** (our 2nd largest trading partner) pushing currency down will increase exports & help Australia confidence is improving…

- **Cheap energy will continue to benefit the US** ... yes its a 10 year story, but will be priced in gradually ... Still already we have see that already the **U.S. expanded its oil production last year – the most in 154 years** -by the most since the first commercial well was drilled in 1859, upending a belief that Americans were increasingly hooked on foreign crude. US domestic output grew by a record 766,000 barrels a day to the highest level in 15 years, government data show, putting the USA on pace to surpass Saudi Arabia as the world's largest producer by 2020. Net petroleum imports have fallen by more than 38% since the 2005 peak and now account for 41% of demand, down from 60% seven years ago, moving the U.S. closer to energy independence than it has been in decades.

- **China GDP** after 3 down years now bouncing back from 7.4% in 3rd qtr to 7.8% in 4th Qtr & 8.4% expected for 2014,

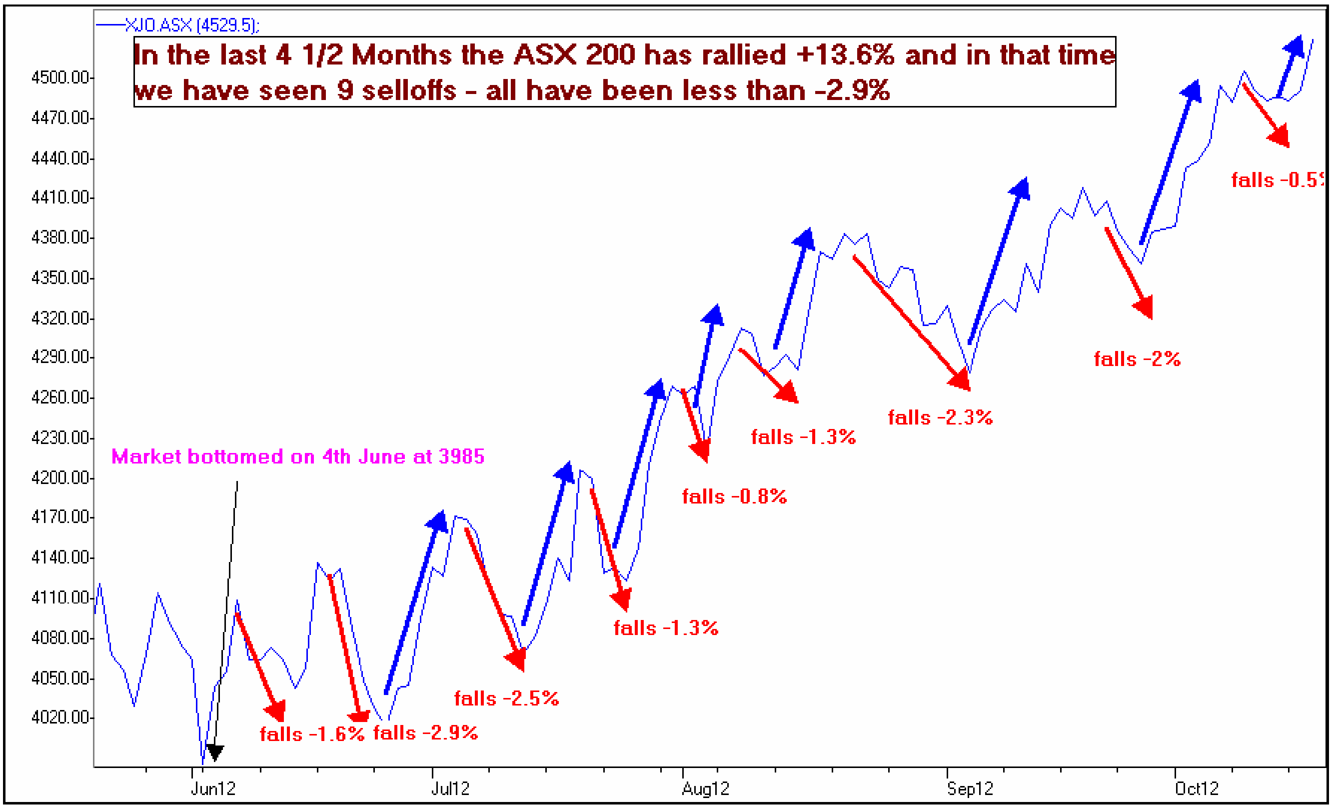
- **CHINA GDP:** As the table below shows, the **4Q marked the first quarter in 2 years - since Dec QTR 2010 that GDP has printed higher on the prior QTR** and as such it should mark **an INFLECTION point in Chinese growth.** Our team in Asia are saying this may mark the bulk of the re-acceleration (growth was on hold in 2012 due to leadership handover) and that we should expect to see more subdued improvement as we move into 2013. This is basically because we think GDP in China in 2013 will be 8.1% so not huge upside from here – BUT recently China's "think tank" upgraded their own GDP forecast from 8.2% to now 8.4% - so downtrend is well & truly broken ..

So…resource stocks can rally if growth is 8% in 2013 – and really soar if its 8.4% !! This sort of growth with strong focus on costs and potential capital management can see PE expansion

Quarter	1Q2010	2Q	3Q	4Q	1Q2011	2Q	3Q	4Q	1Q2012	2Q	3Q	4Q
GDP	11.9%	10.3%	9.6%	9.8%	9.7%	9.5%	9.1%	8.9%	8.1%	7.6%	7.4%	7.9%

From Afternoon Report - 17th October 2012

1. The ASX 200 roared higher up +36 points or +0.82% to a fresh 15 month high to 4528.
2. The resources led the rally & I think they are on the verge of a breakout after spending the last 6 to 8 months under sever pressure – after having no interest in these stocks for a long time – I'm more than happy to **admit that I'm now a buyer of mining stocks** – all we need is some news out of China in the next month to really fire us this forthcoming rally.
3. The banks also did well & are going to continue their rally that looks like it isn't going to stop for a while, the lower interest rate environment will give them kicker in so many ways
4. As I said last week I **haven't been this confident in the market for 4 years - basically – this rally is still in its infancy.**..
5. **Value** today was very good (relative to the last month) at $4.7 billion. This is significant in that the rally before was supported by light value, **but this large value gives this rally a backbone** & I'm not scared to say its going a lot, lot higher in the next 2 ½ months...
6. The market right now feels like it'll keep **rallying for a long time** & whenever we get any sell offs – barring a major calamity (US Fiscal cliff & Spain are 2 risks that we still need to pass) – they will be short & I'd say no greater than -5% as just too many individuals & instos will be looking to "**buy the dips**"
7. Its quite amazing to note that in the last 4 ½ Months the ASX 200 has **rallied +13.6%** and in that time we have seen 9 selloffs BUT **all have been less than -2.9% (see chart below), this is very similar to what we saw in 2003 to 2005..**
8. I have a large number of reasons why this market will keep rallying & over the next week or so I'll mention then but for today let's look at the 2003 situation...
9. **Bottom line is –** stop waiting for any big selloff – stop waiting & its time to just go in and buy



What about 2003 ???

10. **Looking at the last bear market** that saw the ASX 200 bottom in March 2003, despite the **economy** still **looking bad, world markets** in disarray & ***company earning in earnings downgrade*** mode all on 2003, the market still rallied – it "**climbed the wall of worry**"....

11. But the really **interesting point is that as the market kept rallying** , the **press** & **many experts** kept saying the ***rally would not last*** as there was still so much bad news out there & the rally would stall. **But** with ***each pullback we saw something quite amazing*** – it was always **very shallow**, consider the size of the "corrections"....

12. After the market rally began in **March 2003**, we saw pullbacks of (just)

-1.6% in April 2003

-1.4% in June 2003

-3.7% in October 2003

-2.8% in April 2004

-2.4% in July 2005

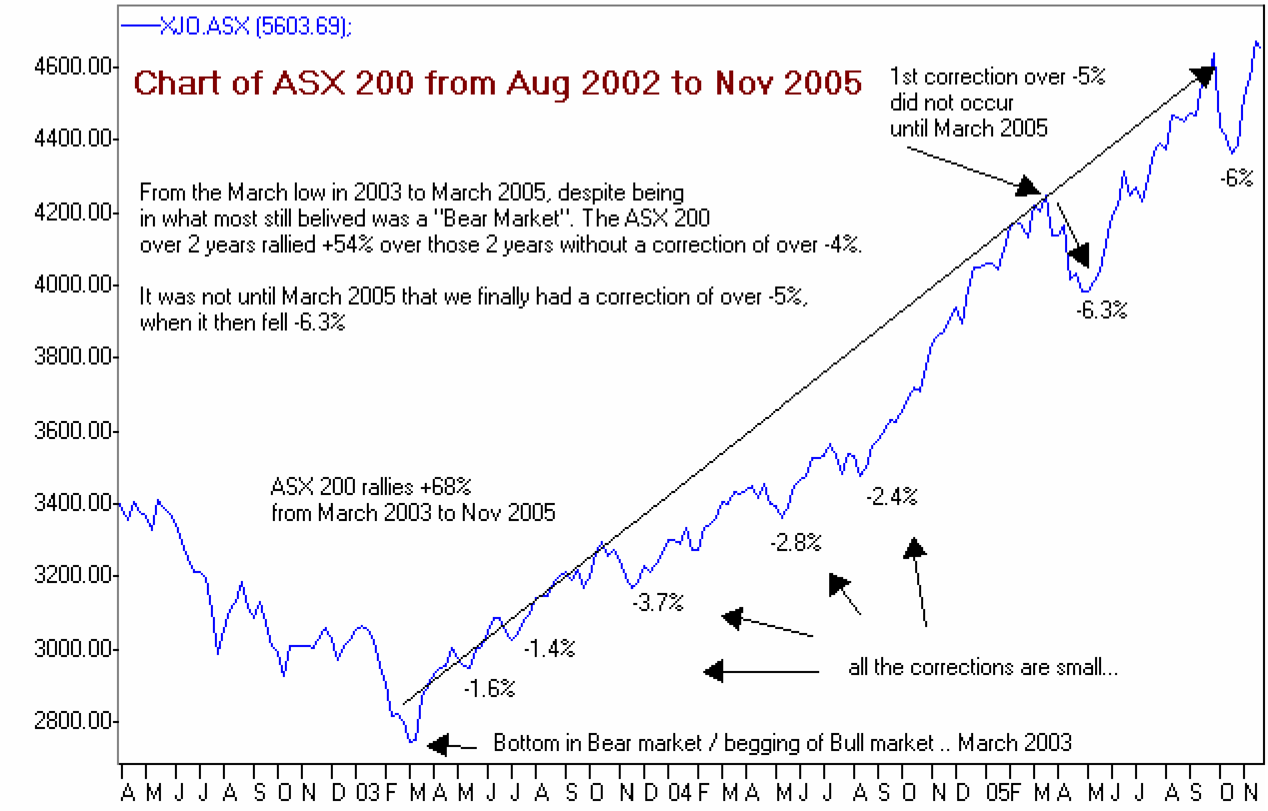
13. But then 2 years later - **still no pullback** over -5% until.... 2 years after the rally began, **by then it had rallied +54% off its low !!!**

14. 1st fall over -5% was.... **-6.3%** in March 2005

15. and then it **rallied** back another **+16.5%** off that selloff, before the 2nd -5% or greater fall in September 2005 where it **fell -6%** before resuming the rally.

16. **So From the March low in 2003 to November 2005** the **market rallied +68%** & ***only had 2 pullbacks of over -5%*** in that whole time & they came after 2 years !!!

Chart of what happened as we came out of the last Bear market in 2003



So why was this ??

1. The markets look forward, while ***most* individuals do not**, they tend to look at information in front of them to form their opinions (how many people's opinions are those from the papers that day) – ***they rarely look forward***, but **markets do - they are looking 9 to 12 mths ahead** - they are the ***collective wisdom of everything*** & like a super global computer, far more intelligent they we are.

2. **The reason why in 2003 to 2005**, despite many still not believing the rally, **everytime it dipped some instos began to "buy the dips"** – while the bears stood out, building up huge cash levels as they waited & waited & waited for the big pullback – **that didn't come for 5 years** and it feels that this is what we are going to see again in this bear market. Cash levels in the US were not too long ago at **74% of the total market capitalisation** of the stock market, the biggest number in 18 years with US$8.8 trillion in cash – sooner or later some of that will find its way back into the equity market, so there is actually plenty of cash out there....

3. Also most importantly U.S. corporate balance sheets are stronger than ever before in history. This view is largely driven by the significant amount of cash on corporate balance sheets.

4. Since the 4th June the ASX 200 has rallied +13.6% back to 15 month highs – so many don't want to "chase the rally" - they **don't want to buy as the market goes up**, ***but we will see over the next 6 months many will have to change tack & will buy when it comes back***. But with so many possibly now thinking they will "buy the dips" as the market pulls back - they'll wait until the selloff looks to have run its course & then jump in the buy stocks & **THUS ANY SELLOFFS will not BE HUGE**..

5. Hence this **selloff may also be just -5%** or so & if that's the case the market should find solid support...

6. Back in 2003 to 2005 we had a **phenomenal run of 2 years** where there was **virtually no pullback !!**

7. **History** has taught me over the years that you ***can learn a lot from the previous actions of others***. **Those who cannot remember the past or learn from history are doomed to repeat it** So the problem is we continue to see many in the markets make the same mistakes as their ancestors in the past.

Why ??

8. Well one is that there are a **huge number of inexperienced people in the market** who have not seen a lot (look at the advent of day traders as a 'profession' & others who trade through on line brokers – ie the BrisConnect fiasco a number of years ago when some suddenly became locked into having to pay thousands of $ because they didn't understand the structure), ***many*** of the **current pack, had until recently never seen a bear market** & didn't see it coming – they just thought the ***market would never stop going up*** - but all the signs were there & **we knew markets back in 2007** were in trouble, it just took until January 2008 before things really came undone.
9. Back then the 2 big flashing warning signs (that most equity investors chose to ignore) were (1) the **sub prime blow up** & (2) & then once the **credit markets were under pressure** & collapsed in August 2007, we knew that the equity market & economy as well were also going to be hit – just when? The way I look at it, is that the equity market is **like a big beautiful house** & the credit markets the plumbing – now you see it (its grubby & equity investors don't care to gets their hands dirty with it) but it's there & if it clogs up - then the house (equity markets & economy) are too & that's what happened.
10. So the problem to some extent is that the **more experienced guys retire & the new young guns** – with no more than **5 or 10 years experience** then go onto to ***make the same mistakes that others did decades before***.
11. Then as they themselves **eventually understand the workings of the market**, they too retire & an***other breed of swingers comes on board*** & guess what here we go again.. A future bull market will see ridiculous valuations with PE's back at 25x (which we'll hear is 'cheap') , div yields at 2% & interest rates at 9% but then I'll hear the old beauty come back ..." but ***Coppo*** – you dinosaur (extra insults from this new cocky breed) you just don't understand – **its different this time !!"**

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17. **Banks** … **NAB** {$29.35 6.0 0.20%}, **CBA** {$66.90 -21.0 -0.31%}, **Westpac** {$28.76 43.0 1.52%} , **ANZ** {$28.06 25.0 0.90%}, **Bank of Queensland** {$8.82 2.0 0.23%} **Bendigo Bank** {$9.95 26.0 2.68%} & **Macquarie Bank** {$38.10 -22.0 -0.57%}
18. **Big Retail Stocks**: today **Woolworths** {$32.88 0.0 0.00%} **JB HI-FI** {$12.70 13.0 1.03%}, **Harvey Norman** {$2.29 0.0 0.00%}, **David Jones** {$2.67 -1.0 -0.37%}, **Metcash** {$4.08 7.0 1.75%}, **Myer** {$2.65 -3.0 -1.12%} **Super Retail** {$10.58 8.0 0.76%} & **Wesfarmers** {$38.88 46.0 1.20%}
19. **Smaller Retailers**…**Kathmandu** {$1.88 3.0 1.62%}, **The Reject Shop** {$16.46 -9.0 -0.54%}, **Pacific Brands** {$.74 -2.0 -2.63%}, **Specialty Fashion** {$.92 -1.0 -1.08%} **Oroton Group** {$7.50 0.0 0.00%}, **Billabong** {$.95 -1.0 -1.04%}, **Premier Investments** {$7.70 6.0 0.79%} & **Fantastic Furniture** {$3.59 3.0 0.84%}
20. **Media stocks: Fairfax** {$.55 0.0 0.00%}, **Ten Network** {$.30 0.0 0.00%}, **Seek** {$8.73 -2.0 -0.23%} , **APN News** {$.30 -0.5 -1.64%}, **Prime Television** {$1.03 0.0 0.00%}, **Southern Cross Media** {$1.21 1.0 0.83%} **News Corp** {$27.75 -17.0 -0.61%}, **Seven West Media** {$2.44 -1.0 -0.41%} (SWM was ***formerly*** WAN) & **PMP** {$.19 -0.5 -2.63%}
21. **Building Materials** …. **Boral** {$5.00 8.0 1.63%} **CSR** {$2.11 -1.0 -0.47%} **Hardies** {$9.68 -12.0 -1.22%}, **Adelaide Brighton Cement** {$3.38 -7.0 -2.03%}, **Fletcher Building** {$7.40 9.0 1.23%}, **Nuplex Induistries** {$2.88 7.0 2.49%} **Brickworks** {$12.73 -2.0 -0.16%} & **GWA** {$2.56 0.0 0.00%}
22. **Financial Services / Market Related Stocks …** **Macquarie Bank** {$38.10 -22.0 -0.57%}, **QBE** {$13.35 35.0 2.69%}, **IAG** {$5.16 -2.0 -0.39%}, **Suncorp** {$11.02 24.0 2.23%}, **Austbrokers** {$8.61 -24.0 -2.71%}, **Computershare** {$9.75 -30.0 -2.99%}, **ASX** {$36.25 40.0 1.12%}, **Cabcharge** {$5.11 7.0 1.39%}, **Flexigroup** {$4.05 -4.0 -0.98%} **SFG Australia** {$.62 -1.5 -2.36%} & **Iress** {$8.37 -18.0 -2.11%}..
23. **Fund managers/brokers** ...**Challenger** {$3.68 1.0 0.27%} , **BT Investment** {$3.14 1.0 0.32%}, **Henderson** {$2.43 -8.0 -3.19%}, **Platinum Asset** {$5.26 6.0 1.15%}, **Bell Financial** {$.72 0.0 0.00%}, **K2 Asset Mgt** {$.63 3.0 5.00%} **Wilson HTM** {$.37 0.5 1.37%} **AMP** {$5.33 0.0 0.00%} **Perpetual** {$39.43 63.0 1.62%}, **IOOF** {$8.29 28.0 3.50%}
24. ***Other* domestic Industrials**: **Seven Group Holdings** {$9.88 7.0 0.71%}, **Downer** {$5.24 38.0 7.82%}, **Bradken** {$7.53 21.0 2.87%}, **Leighton** {$23.37 23.0 0.99%}, **Transfield** {$2.02 17.0 9.19%} **Wesfarmers** {$38.88 46.0 1.20%} **QR National** {$4.18 10.0 2.45%} & **Asciano** {$5.17 15.0 2.99%}

25. **Healthcare** ….**Ansell** {$15.73 -21.0 -1.32%}, **Cochlear** {$70.50 6.0 0.09%}, **CSL** {$56.40 -81.0 -1.42%}, **Ramsay Heathcare** {$29.75 -31.0 -1.03%} **Resmed** {$4.20 -1.0 -0.24%} **Sonic Healthcare** {$13.95 -17.0 -1.20%} Sigma {$.64 1.0 1.60%} **Fisher & Paykel Health** {$1.94 2.0 1.04%} **Primary Healthcare** {$4.65 1.0 0.22%}.

26. **Developers** / **REIT Westfield** {$11.01 -7.0 -0.63%}, **Westfield Retail Trust** {$3.09 -2.0 -0.64%} **Lend Lease** {$10.50 10.0 0.96%}, **Leighton** {$23.37 23.0 0.99%}, **Goodman** {$4.62 3.0 0.65%}, **Investa Office Fund** {$3.06 1.0 0.33%}, **GPT** {$3.79 -1.0 -0.26%}, **Mirvac** {$1.56 -1.5 -0.96%}, **Stockland** {$3.58 -8.0 -2.19%}. ***Dexus*** *{$1.05 -1.0 -0.95%},* ***CFX*** *{$2.06 1.0 0.49%} &* ***CPA*** *{$1.10 -1.5 -1.35%}*

27. **Infrastructure stocks**......**Transurban** {$6.12 -1.0 -0.16%} **Sydney Airport** {$3.18 -2.0 -0.63%}, **AIX** {$3.11 0.0 0.00%}

28. **Gaming Stocks**: **Crown** {$11.85 7.0 0.59%}, **Aristocrat** {$3.72 1.0 0.27%}, **Tattersls** {$3.32 0.0 0.00%}, **Tabcorp** {$3.15 -1.0 -0.32%}, **Echo Entertainment** {$3.66 -3.0 -0.81%} & **Sky City** {$3.29 2.0 0.61%}

29. **Agriculture Stocks Fonterra** {$5.92 2.0 0.34%} **Graincorp** {$12.10 -4.0 -0.33%}, **Incitec** {$3.22 3.0 0.94%}, **Nufarm** {$5.66 1.0 0.18%}, **Aust Ag** {$1.30 0.0 0.00%} **Elders** {$.13 0.0 0.00%}, **Ridley** {$1.22 0.0 0.00%} & **Primeag Australia** {$1.21 -1.0 -0.82%}

RESOURCES

30. Resources**: Iron Ore coys. BHP** {$38.89 97.0 2.56%}, **RIO** {$72.07 161.0 2.28%}, **Mt Gibson** {$.90 2.5 2.86%}, **Fortescue** {$5.39 22.0 4.26%}, , **Atlas Iron** {$1.88 13.5 7.76%}, **Murchison Metals** {$.04 -0.1 -2.44%}, **Northern Iron** {$.53 2.5 5.00%} **Others… Alumina** {$1.29 9.0 7.50%} , **Iluka** {$10.53 60.0 6.04%}, **OZ Min** {$7.65 18.0 2.41%} **ERA** {$1.29 1.5 1.18%}, **Aquarius Platinum**{$1.04 -4.0 -3.70%}, **Aditya Birla** {$.55 -2.5 -4.39%}, **Pan Aust** {$3.21 10.0 3.22%}, **Sandfire Resources** {$8.08 25.0 3.19%}, **Independence Group** {$4.85 -6.0 -1.22%}, **Western Areas** {$4.67 7.0 1.52%}, **Base Resources** {$.38 0.5 1.35%} **Lynas** {$.64 1.5 2.40%}, **Mineral Deposits** {$4.20 -10.0 -2.33%} & **Alkane** {$.67 -1.0 -1.47%}

31. **Golds today … Newcrest** {$23.36 -4.0 -0.17%}, **Kingsgate** {$4.15 -9.0 -2.12%}, , **St Barbara** {$1.50 0.5 0.33%}, **Resolute** {$1.37 -5.0 -3.52%}, **Alacer** {$3.84 -17.0 -4.24%}, **Evolution Mining** {$1.49 -2.0 -1.32%}**Teranga Gold** {$1.65 -7.0 -4.07%}, **Regis Resources** {$4.58 -24.0 -4.98%} **Perseus** {$1.80 -5.5 -2.97%}, **OceanaGold** {$2.53 -1.0 -0.39%}, **Medusa Mining** {$4.63 -19.0 -3.94%}

32. **Coal Stocks**: **Whitehaven Coal** {$3.26 6.0 1.88%}, **Cockatoo Coal** {$.12 0.0 0.00%}, **Bathurst Resources** {$.38 -0.5 -1.32%} **Guildford Coal** {$.44 -1.5 -3.33%}

33. **Mining Services**:**Bradken** {$7.53 21.0 2.87%}, **Monadelphous** {$27.60 -19.0 -0.68%}, **United Group** {$11.68 32.0 2.82%}, **Orica** {$26.99 9.0 0.33%}, **Downer** {$5.24 38.0 7.82%}, **Worley** {$27.11 129.0 5.00%}, **Calibre** {$1.53 -1.0 -0.65%}, **Imdex** {$1.90 5.0 2.70%}, **Seven Group Holdings** {$9.88 7.0 0.71%}, **Emeco** {$.65 -0.5 -0.77%}, **WDS** {$.57 -0.5 -0.88%}, **Sedgman** {$1.20 2.5 2.13%}, **Ausenco** {$4.07 12.0 3.04%} **Matrix Composites & Engineering** {$1.69 -0.5 -0.30%} & **Norfolk** {$.50 -2.0 -3.85%}

34. **Steel Stocks**:**Bluescope** {$3.79 5.0 1.34%}, **Arrium** {$1.20 7.0 6.22%} – this was formerly **Onesteel** & **Sims metals** {$10.96 37.0 3.49%}

35. **Energy Stocks** …**Woodside** {$36.39 42.0 1.17%}, **Santos** {$12.45 29.0 2.38%}, **Roc Oil** {$.60 3.5 6.19%}, **Tap Oil** {$.66 0.0 0.00%}, **Beach Petroleum** {$1.40 -0.5 -0.36%}, **Origin** {$12.12 2.0 0.17%}, **Oilsearch** {$7.44 -3.0 -0.40%}, **Caltex** {$19.15 9.0 0.47%} & **Drillsearch** {$1.33 -2.5 -1.85%}, **Senex** {$.67 0.5 0.76%} **Karoon** {$6.82 14.0 2.10%} & **AWE** {$1.39 -3.5 -2.46%}

36. **Travel & Transport related stocks , Flight Centre** {$32.43 48.0 1.50%}, **Wotif** {$5.70 3.0 0.53%}, **Webjet.com** {$4.50 -15.0 -3.23%}, **Sydney Airport** {$3.18 -2.0 -0.63%} **Virgin** {$.44 -0.5 -1.12%}

37. **Transport related stocks : Asciano** {$5.17 15.0 2.99%}, **Toll Holdings** {$5.50 11.0 2.04%}, **Qantas** {$1.63 4.5 2.85%}, **Virgin** {$.44 -0.5 -1.12%}, **Brambles** {$8.25 3.0 0.36%}.

38. **Uranium Stocks... ERA** {$1.29 1.5 1.18%}, **Paladin** {$1.22 7.5 6.55%}, **Deep Yellow** {$.06 -0.2 -3.03%}, **Marathon Resources** {$.05 0.0 0.00%} **Energy Metals** {$.23 1.5 7.14%}

OTHER

- Japan: Is set for an IPO boom as the market rallies to levels not seen since 2008.

- IPO: Inghams Enterprises is considering a sharemarket float that could value the chicken business at more than $1b (AFR)
- Consumer: Asahi is taking legal action against private equity investors PEP and Unitas Capital claiming they lied about the earnings of Independent Liquor which they acquired in 2011 for $1.2bn. (Aust)

RISES

1. **Sims** {$10.96 37.0 3.49%} better ahead of reporting tomorrow, stock has now **rallied +17.6%** in the last 13 trading days.,.. could be a good **one to be short** into...
2. **Leighton** {$23.37 23.0 0.99%} **Upgraded to BUY**. We are encouraged by further indications that Leighton continues to turn the corner on a number of issues that have impacted company operations. While we continue to see the potential for project execution risks and impairments, we believe the risk/reward equation is now more favourably balanced. On our current forecasts, the stock is trading at a FY14E P/E of 12.6X (adjusted for a June year-end) vs. the FY14 ASX 200 Industrials P/E of 15.3X. This represents an 18% discount vs. the historical average discount of around 5%. We think that near-term catalysts to further drive the re-rating of the stock will likely include (1) divestment of telco infrastructure assets in 1H13, (2) further reduction in balance sheet gearing, (3) positive progress updates on the recoverability of Middle East receivables, (4) demonstrated improvement in project margins following the completion of problematic legacy contracts, and (5) a return to growth in CY14.
3. **Leighton** {$23.37 23.0 0.99%} Hochtief +6.6% jumped to highest level in 11 months after Leighton Holdings unit returned to profit
4. **OZ Minerals** {$7.65 18.0 2.41%} FY12 result in line with expectations / cash flow a bit better. FY13 guidance was maintained at 90-95kt Cu and 130-150koz Au (GSe 94kt CU, 139koz Au). EPS Revisions: **FY13 -1%, FY14 +2%.** Whilst the co provided a long term growth vision, we remain concerned about the prospect of a diminishing resource base. Sell
5. **Worley** {$27.11 129.0 5.00%} **Removed from Conviction List, however BUY retained.** 1H result in line with expectations, and the co commented that markets for its services improved towards the end of 1H13 and it continues to expect growth in FY13 relative to FY12. We have downgraded our forecasts due to lower Infrastructure EBIT forecasts and higher corporate costs, partly offset by better EBIT for Hydrocarbons and Minerals, Metals & Chemicals. EPS Revisions: FY13 -7%, FY14 -5%
6. **RIO** {$72.07 161.0 2.28%} Will keep its unprofitable Gove refinery open after striking a deal with the NT for gas supply (AFR 4). Some press on the divestment/spin-off of Pacific Aluminium with RIO appointing an "advisory board" for the separate company (street talk). Has hired high profile team led by Peter Mansell and ex BHP China boss Clinton Dines to oversee the $2bn listing of it's high cost Aust/NZ ally business. (Aust biz pg1)
7. **Fortescue** {$5.39 22.0 4.26%} First round bids for FMG infrastructure assets due this Friday (Street talk)
8. **Boral** {$5.00 8.0 1.63%} 1H in-line with recent management guidance. At the divisional level a strong result from Construction materials was off-set by weaker than expected Australian Building Products and USA performances. Result has also highlighted some additional concerns over the level of structural decline in earnings of some of BLD's Australian Building Products and Cement operations. Neutral
9. **NAB** {$29.35 6.0 0.20%} Becomes the latest bank to cut fixed rate mortgages dropping 1 year rates 15bp to 5.09% and 2 year by 35bp to 4.99%. (Aust)
10. **Carsales.com** {$8.45 5.0 0.60%} 1H in line with expectations, although divi a little light. EPS Revisions: **FY13 +1%, FY14 +1%.** Result has given us more confidence in our forecasts given the strength we saw in some of CRZ's key sales/earnings drivers.

FALLS

1. **Newcrest** {$23.36 -4.0 -0.17%} weaker with gold Under pressure again, down US$6.70 to $1644. Gold is gone & going a lot lower (US recovery has killed its momentum) – gold stocks are in for a miserable year – following on for the last 2 years which for most was just plain terrible….
2. **Ansell** {$15.73 -21.0 -1.32%} **Downgraded to NEUTRAL** following disappointing 1H result. The key areas of weakness were higher selling and marketing costs for new product launches and integration costs associated with new acquisitions. Sluggish organic sales growth also contributed. Despite the company's reiteration of

FY13E EPS guidance of US107-112c, our confidence around 2H13 earnings has diminished post today's result and hence we downgrade our rating. EPS Revisions: **FY13 -7%, FY14 -5%.**

3. **Alcer Gold** {$3.84 -17.0 -4.24%} **Downgraded to SELL** given the impact on our estimates of the company's strategic review and increased uncertainty about the production profile. On our forecasts, the company will realize declining earnings over the next two years, compared to its gold peers many of whom will enjoy the benefits of production growth over the next 12 months. The company's Australian assets continue to lose money, and AQG has just sold its 49% interest in what we think is its best performing Australian operation (Frog's Leg). EPS Revisions: **FY13 -17%.**

4. **CBA** {$66.90 -21.0 -0.31%} Stronger-than-expected 1H13 result with cash earnings up 6% pcp to A$3,780 mn, 2%-3% ahead of our estimates. We have increased our forecasts reflecting a more favourable NIM outcome (flat hoh, was down 1 bp) and lower effective tax rate (FY13E 27.7%, was 29.0%); offset by higher cost growth (FY13E 3.3% vs. previous 0.8%). EPS Revisions: **FY13 +3%, FY14 +3%.** Best quality **of the banks without doubt, however more than fully reflected in the price. Sell**

5. **CSL** {$56.40 -81.0 -1.42%} 1H result ahead of expectations despite CSL Behring recording sales that were weaker than expected at 9% constant currency growth; however, EBIT grew a strong 37% and was significantly ahead of our forecast. The company reiterated full year guidance of approximately 20% NPAT growth. Another strong result, however with revenue growth at Behring moderating and the return of Baxter to the market, we expect CSL to return to more "normal" levels of growth over the coming period. Neutral

6. **Goodman Group** {$.68 -0.5 -0.73%} Weak 1H result. The significant miss at the EBITDA level was driven largely by the Baking and Grocery divisions, which were materially below our forecasts (c.20% for both). GFF did not provide any specific outlook commentary but reiterated that it expects 2H13 earnings to be above 1H13 due to price rises implemented in Nov/Dec 2012 and ongoing cost savings from Project Renaissance. EPS Revisions: **FY13 -15%, FY14 -4%**. Neutral

7. **Computershare** {$9.75 -30.0 -2.99%} 1H result in line with expectations however the result was boosted by a very low tax rate (18.3% vs. our estimate of 25.4% and 25.1% pcp). On a pre tax basis, it came in 9% below our estimate (with EBIT 6% below). On the plus side, management maintained its full year guidance for EPS growth of 10%-15% (although this is now also based on a lower tax rate).

8. **Stockland** {$3.58 -8.0 -2.19%} 1H result ahead of our expectations due to 1H/2H skew. On a like-for-like there appears to be only a minor downgrade to pre-result guidance of a 10 to 15% decline in EPS in FY13. EPS Revisions: **FY13 -6%, FY14 -9%.** Management remains confident of EPS growth in FY14, and while we have downgraded our FY14E EPS, we show 11% growth over FY13. Today's positive share price reaction is somewhat surprising, which suggests the market was waiting for confirmation of "bad news". With this out, and SGP reaffirming DPS guidance, it appears investors are willing to take a longer term view on SGP's EPS recovery. Prefer MGR. Neutral

9. **Hardies** {$9.68 -12.0 -1.22%} / **Boral** /... GS research ...Six years after the onset of the traumatic **US housing crisis, signs of recovery have begun to appear.** With the devastating consequences of the crisis still fresh in our collective mind, the questions of whether recent gains will prove sustainable, how much farther we have to go and – in the end – how much these developments matter to economic growth are all Top of Mind. We assess the state of the US housing and mortgage markets (making real progress, but still a long way to go in some areas), how much the nascent recovery should add to US economic growth (a welcome boost but little compared to the boom years), and potential positive commodity (copper, timber) implications. But an interview with Robert Shiller, who famously warned of the crisis early on, suggests caution is warranted; he remains concerned about further price declines. We also find that strong housing recoveries around the world are creating policy dilemmas

10. **Coke** {$13.54 -10.0 -0.73%} Planning a beer JV with wine group Casella but has ruled out any move into wine, or a bid for Treasury Wine Estates. (Aust)

ASX 100 MOVERS TODAY

Stock	Last	+/-	% Change		Stock	Last	+/-	% Change
AWC	132.5	12.5	10.42		RRL	464	-18	-3.73
ILU	1060	67	6.75		PRU	178.5	-6.5	-3.51
DOW	518	32	6.58		CPU	972	-33	-3.28
ARI	118.75	6.25	5.56		ABC	338.5	-6.5	-1.88

WOR	2715	133	5.15
FMG	543.5	26.5	5.13
AGO	182.25	8.25	4.74
PNA	324	13	4.18
SGM	1098	39	3.68
STO	1249	33	2.71
TTS	340.5	8.5	2.56
QAN	162	4	2.53
UGL	1163	27	2.38
RIO	7209.5	163.5	2.32
BHP	3879	87	2.29
WHC	327	7	2.19
QBE	1327	27	2.08
SUN	1100	22	2.04
BEN	986	17	1.75
OZL	760	13	1.74
WES	3909	67	1.74
AIO	509.5	7.5	1.49
TOL	547	8	1.48
WBC	2872	39	1.38
MTS	406.5	5.5	1.37
FLT	3238.5	43.5	1.36
AZJ	413.5	5.5	1.35
BSL	379	5	1.34
LLC	1052	12	1.15
WPL	3636	39	1.08
ORG	1223	13	1.07
AUT	372.5	3.5	0.95
ANZ	2806	25	0.9

ANN	1565	-29	-1.82
TAH	310.5	-5.5	-1.74
CSL	5622	-99	-1.73
CPA	110	-1.5	-1.35
MYR	264.5	-3.5	-1.31
BPT	138.75	-1.75	-1.25
NCM	2311	-29	-1.24
MQG	3785	-47	-1.23
JHX	968	-12	-1.22
AGK	1506	-18	-1.18
TWE	493.5	-5.5	-1.1
AMC	896	-10	-1.1
SGP	362.5	-3.5	-0.96
DXS	104.5	-1	-0.95
SPN	118.5	-1	-0.84
LYC	62	-0.5	-0.8
SYD	317.5	-2.5	-0.78
AMP	529	-4	-0.75
CCL	1354	-10	-0.73
IAG	514.5	-3.5	-0.68
SHL	1403	-9	-0.64
NWS	2775	-17	-0.61
MND	2762	-17	-0.61
ALL	369	-2	-0.54
EGP	367	-2	-0.54
TCL	610	-3	-0.49
RMD	419	-2	-0.48
OSH	743.5	-3.5	-0.47
IPL	317.5	-1.5	-0.47

Economic

Inflation expectations: Inflation expectations remain near to a 15 year low

12-month inflation expectations, Feb: +2.2% (from +2.0% in Jan)

Inflation expectations edged higher in February, but remain near to December's 15½ year low. Indeed, on a 3-month rolling basis, expectations are at their lowest point since 1997 (not long after the adoption of an explicit inflation target by the RBA).

Overall, inflation pressures remain quite benign - and especially given the lagged impact of the July 2012 carbon tax and more recent jump in energy prices. We view this as a testament to the amount of slack in the non-mining economy, and consistent with our view that the labour market is softening.

We continue to see the risk of an inflation breakout as low.

Inflation expectations remain very contained

Source: Melbourne Institute.

Companies Reporting Tomorrow

Stock Code	I/F/Q	Reporting Time (AEST)	Goldman Sachs NPAT (forecast)	Consensus NPAT (forecast)	Previous NPAT (pcp)	Goldman Sachs Div (forecast)	Previous Div (pcp)
			A$mn	A$mn	A$mn	A¢	A¢
CQR	I	~8.30am	44.0	n/a	41.7	13.3¢	13.0¢
SGM	I	9.00am	-32.0	n/a	40.6	7.0¢	10.0¢
TGR	I	Pre market	11.7	n/a	10.9	4.0¢	4.0¢

Note: Reporting times are approximate. Bloomberg or company compiled

consensus.
Source: Company data, Goldman Sachs Research estimates

Dividends / Events Tonight & Tomorrow

Trading Update
ANZ (1Q13)

Data Release
SMI - January 2013 data

US Tonight

US Economic	**GS**	**mkt**	**prev**
Initial Claims w/e 9-Feb	n/a	n/a	366,000

ASX SECTORS

Real Estate

GPT Group {$3.79 -1.0 -0.26%} - First Take: CY12 result – another beat
News
The result was slightly ahead of our expectations mainly due to continued better than expectation outcome on interest expense. GPT is guiding to "at least 5%" EPS growth in CY13 (GSe +3.4%), with a dividend payout ratio of 80% of ROI.
Analysis
Realised Operating income (post-exchangables): A$431.4mn vs. GSe A$429.1mn and A$413.8mn pcp
EPS: A24.2¢ vs. GSe A24.1¢ and A22.4¢ pcp
DPS: A19.2¢ vs. A17.8¢ pcp
NTA: A$3.73 vs. A$3.65 at Jun 12
Gearing (net debt/total assets): 21.7% vs. 20.2% at Jun 12. Cost of debt for CY12 was 5.6% vs. last advised cost of debt at 5.3% at June 2012.
Business Segments
Retail: Comp NOI +3.0% vs. +3.9% at Jun 12. Specialty occupancy costs 17.9% vs. 17.8% at Jun 12. Occupancy at 99.5% vs. 99.1% at Jun 12. Cap rate at 6.07% vs. 6.10% at Jun 12.
Office: Comp NOI +3.8% vs. +5.6% at Jun 12. Occupancy at 95.8% vs. 93.6% at Jun 12. WALE 5.4 years vs. 4.8 years at Jun 12. Cap rate at 6.86% vs. 7.01% at Jun 12.
Industrial: Comp NOI +2.7% vs. +2.5% at Jun 12. Occupancy at 98.2% vs. 99.0% at Jun 12. Cap rate at 8.30% vs. 8.36% at Jun 12.
Funds Management: Segment EBIT of A$80.1mn vs. A$81.6mn pcp. Total FUM at A$6.6bn vs. A$6.4bn at Jun 12.
Implications
Our earnings and price target are under review, pending further details.
INVESTMENT LIST MEMBERSHIP: Neutral
COVERAGE VIEW: NEUTRAL

Mirvac Group {$1.56 -1.5 -0.96%} - First Take: 1H13 result; weaker EBIT offset by lower net interest
News
The result was ahead of our estimates, with higher-than-expected Trust NOI and lower-than-expected net interest expense – mainly due to timing differences with the release of interest through COGS and a lower WACD. Offsetting this are lower-than-expected development earnings (likely due us underestimating the 2H skew for this division) and higher corporate overheads. As previously announced, MGR took $273.2mn of impairments during the period which contributed to the decline in NTA to A$1.64 during the period. MGR reiterated FY13 EPS guidance of A10.7-10.8¢ and DPS guidance of A8.5-8.7¢. Our FY13 EPS estimate of A10.8¢ is at the high end of guidance and we expect only minor changes to Bloomberg consensus earnings post today's result.
Analysis
Statutory Profit: A$55.2mn vs. A$176.6mn pcp.

NPAT (core): A$194mn vs. GSe A$187.8mn and A$201.5mn pcp.
EPS: A5.68¢ vs. GSe A5.5¢ and A5.9¢ pcp.
DPS: A4.2¢ vs. A4.0¢ pcp.
Investments: EBIT -0.3% to A$216.3mn vs. GSe A$209.6mn. Comp NOI +3.5% vs. +3.4% at Jun 2012. Occupancy at 98.2% vs. 98.4% at Jun 12. Cap rate at 7.45% vs. 7.49% at Jun 2012.
Development: EBIT -13.7% to A$31.5mn vs. GS A$35.8mn. Residential settlements (incl. JV's & PDA's) were -18% relative to pcp to 694 lots. Residential contracts on hand of A$1,018.7mn are flat on pcp.
Corporate Overheads: A$27.7mn vs. $20.0mn pcp.
Net Interest Expense: A$36.0mn vs. A$52.1mn pcp.
Implications
Our earnings, valuation and target price are under review.
INVESTMENT LIST MEMBERSHIP: Australia/NZ Buy List, Australia/NZ Conviction Buy List
COVERAGE VIEW: NEUTRAL

Consumer Staple

Wesfarmers Limited {$38.88 46.0 1.20%} - First take on 1H13 profit results
Initial thoughts
Overall a good result. Reported NPAT (pre-NRIs) rose 7% to A$1,285mn (GSe A$1,209mn). The key divisions of Coles, Bunnings and Resources were in line or slightly ahead of our forecasts. Cashflow generation was solid and the dividend was higher than we expected (A$0.77 vs. GSe A$0.75). Notable differences in WES other divisions were better-than-expected EBIT from Kmart and Insurance while EBIT from Target and Industrial and Safety were both below our expectations.
Composition of 1H13 EBIT growth
Source: Company data.
Coles continues to 'close the gap'
The Coles business continues to deliver strong growth, in particular the Convenience business. As highlighted in Exhibit 2, Coles has largely closed the gap in sales per sqm, but still remain well below its key competitor Woolworths in EBIT per sqm, highlighting the continued earnings upside potential within this business. Based on our estimates, 1H13 will be the 8th consecutive half where the level of growth in Coles sales and EBIT per sqm has significantly exceeded Woolworths.
Coles food and Liquor - Comparison of key metrics
Source: Company data, Goldman Sachs Research estimates.
Outlook and guidance - While no specific guidance was provided, WES stated that it was 'cautiously optimistic' for the group's second half FY13 outlook. Specifically, WES highlighted $40mn of claims in FY13 in relation to Cyclone Oswald and recent east coast fires. Notwithstanding this, WES expects 2H13E earnings to be substantially above the pcp in the absence of further significant catastrophe events. WES also advised it expects net capex of between A$1.5bn to A$2.0bn in FY13, subject to property development (GSe A$1.6bn).
Result details

- Group Sales - Up 3% to A$30,614mn (GSe A$30,697 mn)
- EBIT (pre-NRIs) - Up 4% to A$2,043mn (GSe A$1,975 mn)
- NPAT (pre-NRIs) - Up 7% to A$1,285mn (GSe A$1,209 mn)
- NRIs - We have not identified any items which we consider to be unusual within the results.
- EPS (pre-NRIs) - Up 7% to 111.2¢ (GSe 104.1¢)
- DPS - Interim 77¢ (GSe 75c), pcp 70¢
- Gross Operating Cash flow - Was solid, up 3% to A$2,898 mn and was 113% of EBITDA (pcp 115%).

Business Segments

- Coles (incl convenience) - 1H13 sales rose 5% to A$18,047mn (GSe A$18,040mn). EBIT up 15% to A$755mn (GSe A$761mn). EBIT margin rose 37bp to 4.2%.
- Home Improvement and Officeworks - 1H13 sales rose 5% to A$4,729mn (GSe A$4,726mn). EBIT up 7% to A$556mn (GSe A$546mn). EBIT margin rose 24bp to 11.8%.
- Chemicals, Energy and Fertiliser - 1H13 sales were flat on the pcp at A$775mn (GSe A$806mn). EBIT up 5% to A$104mn (GSe A$109mn). EBIT margin rose 65bp to 13.4%.
- Target - 1H13 sales rose 0% to A$2,070mn (GSe A$2,084mn). EBIT fell 20% to A$148mn (GSe A$177mn). EBIT margin fell 188bp to 7.1%.

- Kmart - 1H13 sales rose 3% to A$2,299mn (GSe A$2,314mn). EBIT up 25% to A$246mn (GSe A$210mn). EBIT margin rose 189bp to 10.7%.
- Resources - 1H13 sales fell 24% to A$826mn (GSe A$870mn). EBIT fell 63% to A$93mn (GSe A$48mn).
- Insurance - 1H13 sales rose 10% to A$1,035mn (GSe A$972mn). EBIT up 512% to A$104mn (GSe A$61mn). EBIT margin rose 825bp to 10%.
- Industrial and Safety - 1H13 sales fell 1% to A$837mn (GSe A$881mn). EBIT fell 9% to A$88mn (GSe A$101mn). EBIT margin fell 99bp to 10.5%.
- Other - 1H13 EBIT was A$6mn (GSe A$15mn).
- Corporate - 1H13 corporate costs were A$57mn (GSe cost of A$53mn).

Consumer Discretionary

David Jones Limited {$2.67 -1.0 -0.37%} - 2Q13 sales weaker than expected with slowing sales momentum
What's changed
2Q13 sales fell 1.4% to A$590.1mn with like-for-like (LFL) sales down 1.4%. This was below our forecast for total and LFL sales to be flat on the pcp. DJS sales momentum moderated in 2Q13 and we note that we need to go back to FY06 to find lower reported sales in both quarters.
DJS did not provide any specific earnings guidance. Management stated they are focusing on improving the profitability of their sales including category mix and reducing promotional activity. We already assume significant improvement in gross profit margins in FY13.
Implications
A key theme for the discretionary retailers has been improving gross profit margins on the back of lower levels of discounting over the Christmas period vs. the pcp. In particular in the apparel category. DJS appears to be consistent with this, but they note trading continues to remain difficult.
At this point in the cycle, most investors are looking to discretionary retail stocks for leverage. We expect DJS' earnings to continue to face a drag from: (1) business reinvestment (c.A$30mn costs in FY13E); and (2) the step-down in credit card earnings (c.A$25mn in FY14E). Furthermore we would not expect the same level of multiple expansion in any consumer spending upswing for DJS given that current earnings multiples appear to be supported by the value of key properties (Melbourne / Sydney CBD). We maintain our Sell rating on the stock.
Valuation
There is no change to our group EPS forecasts. Our 12 month share price target (still based on 10.2x P/E) rises to A$1.97 (was A$1.88) due to rolling to a larger weighting on higher future earnings.
Key risks
Upside: Improvement in consumer spending; lower-cost reinvestment than expected; corporate activity.
INVESTMENT LIST MEMBERSHIP: Australia/NZ Sell List
COVERAGE VIEW: CAUTIOUS

The Reject Shop {$16.46 -9.0 -0.54%} - Competitor Sold
Deloitte Restructuring Services announced that DSG Holdings Australia ('DSG') has acquired the Retail Adventures Group for A$58.9mn. DSG is controlled by Ms Jan Cameron who was the owner of Retail Adventures until it was placed in voluntary administration on 26 October 2012. This is the second occasion that Retail Adventures has emerged from voluntary administration. Retail Adventures went into administration in January 2009 and operated 402 discount variety stores at the time. However, the number of stores fell to c.270 in October 2012 and c.210 stores in February 2013.
Implications for The Reject Shop (TRS)
There is no change to our Buy rating (TRS A$16.42). We expect TRS to continue to expand by the acquisition of former Retail Adventures store sites in FY14 and FY15. The sale of Retail Adventures is a complicated process and requires time for transition of leases, supplier contracts and staff to DSG. For example, there are 131 leases yet to be agreed by landlords. We expect TRS to expand from 236 stores in FY12 to 274 in FY13 and 294 in FY14. However, the risk is on the upside as new store sites become available. We expect TRS to expand c.400 stores in the long term.

Emerging Companies

Downer EDI {$5.24 38.0 7.82%} - First take on 1HFY13 result
Reported NPAT ahead of GSe: The reported NPAT (pre ROADS) result of A$94mn is ahead of Goldman Sachs expectations of A$82mn.
Sales ahead: Sales increased by 23% to A$4,717mn vs. GSe A$4,376mn.
EBIT ahead but margin in line: Reported EBIT increased by 6% to A$169mn (vs. GSe A$158mn). Reported EBIT margin is 3.6% vs. GSe 3.6% and 4.2% in pcp.
Cash flow: Operating cash flow was a highlight, up 72% to A$184mn.
Dividend reinstated: Downer has declared its first dividend since FY11. Interim dividend of A10¢ps (70% franked) vs. GSe no dividend forecast.
FY13 guidance reiterated: Downer has reiterated its FY13 guidance of underlying EBIT of around A$370mn (vs. GSe A$373mn) and underlying NPAT (pre ROADS) of around A$210mn (vs. GSe A$212mn). Note that this guidance implies a 1H/2H earnings split of around 50%/50%.

SAI Global Limited {$3.80 -66.0 -14.80%} - First Take 1H13 result … in line result but guidance lowered 5-10%

- **1H13 result:** SAI's 1H13 result was in line with our forecasts as EBITDA fell 3% to A$47.3 mn (GSe: A$47.6 mn), in line with management guidance of a mild 1H13 EBITDA decline. Core NPAT fell 13% to A$22.4 mn (GS: A$22.0 mn).
- **Key driver:** Heavy investment in the Information Services business saw EBITDA -5%, while acquisitions drove Compliance EBITDA +7%, effectively offsetting the Information decline. Notably, while the business saw a record level of new business despite its technology platform issues, it experienced a lower level of renewals. Assurance was surprisingly soft, booking flat EBITDA due to a softer Australian performance. Corporate costs rose 23% which will require some explanation.
- **Outlook**: Despite the result coming in line with our expectations, management downgraded guidance from double-digit growth in both EBITDA and NPAT to FY13 EBITDA of A$100-105 mn (up 1-6% on the pcp) and NPAT of A$40.5-44.0 mn (pcp: A$42.4 mn).

Materials & Energy

Alumina Limited {$1.29 9.0 7.50%} - A$452 mn placement to CITIC
What's changed
Alumina has announced that CITIC Resources Holdings Limited will subscribe for 366,029,428 fully paid ordinary shares in Alumina. This will equate to 13.04% of AWC's capital base following completion of the placement. The placement will raise A$452 mn based on an issue price of A$1.235 per share, which reflects a premium of 3% to the closing price of AWC shares on 13 February 2013 and a premium of 11% to the volume weighted average price of Alumina shares for the month ending 13 February 2013. The placement will be completed in two tranches, today and by Monday 18 February 2013.
Vice Chairman and CEO of CITIC, Mr Chen Zeng, will be appointed to the Alumina Board
Implications
This is a move by AWC to repay bank debt, where its net debt position will drop from US$681 mn to US$216 mn. Our earnings don't change materially given we forecast small negative EPS in both FY13e/14e. Earnings in these two years move by +US0.5¢/+0.3¢ to -US3.5¢/-0.4¢.
Valuation
Given the placement was done at a price close to our valuation, our DCF for the company does not change materially (moves up to A$1.19 from A$1.18). We have therefore lifted our 12 month DCF and P/E based price target by A$1¢ to A$0.83.
Key risks
Key upside risks are: better alumina prices and or weakness in the A$ and/or Brazilian Real.
INVESTMENT LIST MEMBERSHIP: Australia/NZ Sell List
COVERAGE VIEW: ATTRACTIVE

Oil Search Limited{$7.44 -3.0 -0.40%} - P'nyang resource upgrade, PNG cost inflation could be the focus
Result date
Tuesday morning, 26 February 2013.
What we expect
NPAT (adjusted): US$155.8 mn (company-compiled consensus mean of US$159.5 mn, with a range of US$134.7 mn to US$171.9 mn).
NPAT (reported): US$177.8 mn (company-compiled consensus mean of US$181.0mn, with a range of US$156.7mn to US$193.9mn – key non-recurring items are Yemen divestment gain +US$29.3mn, Gulf of Papua sell-down gain +US$12.7mn, Pandora write-off -US$20mn).
Underlying EPS: US11.7cps; Final **Dividend:** US2cps.
Look out for
P'nyang resource upgrade: P'nyang's booked resource has been c. 1 Tcf (gross); strong upside now exists following successful drilling at P'nyang South (partially offset by small Pandora write-off offshore). P'nyang will likely contribute toward Train 3 decision.
PNG LNG: Oil Search expects first landing "early 2013" at Komo, and we expect the second Hides rig to commence drilling soon.
Cost inflation: Oil Search already advised normalized cash opex will be at the upper end of its US$23-25/boe range (GSe US$25/boe), driven by cost inflation and softer production. Any read-through for PNG LNG operating costs will be of interest.
Briefing details – 11.00 a.m.
Live briefing: Museum of Sydney, Level 2 Foyer (Cnr Bridge & Phillip Sts).
Australia dial-in: 1800-059-809 or +612-9009-0730 (ID #727594).
International dial-in: US/Canada 1-855-237-2970, UK 0800-051-4282,
HK 800-901-654, Singapore 800-852-9513.
INVESTMENT LIST MEMBERSHIP: Australia/NZ Buy List, Australia/NZ Conviction Buy List
COVERAGE VIEW: NEUTRAL

Caltex Australia Limited{$19.15 9.0 0.47%} - Record result likely; driven by Marketing, Refining provides a boost
Result Date
Monday morning, 25 February 2013
What we expect
NPAT: A$472mn (guidance A$455-475mn); **EPS:** A175¢ps
Final dividend: A30¢ps fully franked (guidance; 20-40% payout).
Divisional EBIT: A$767mn; comprising Marketing A$736mn, Refining A$109mn, Corporate -A$78mn. **Net Debt:** Guidance c. A$750mn
Look out for
Marketing record result: Caltex continues to generate strong growth in its Marketing business with segment EBIT guidance of A$730-740 mn (vs. CY11 EBIT of A$697 mn and GSe A$736 mn).
Refining profitable: We expect a turn-around from last year's loss with CY12 segment EBIT guidance of c. A$100 mn (vs. CY11 EBIT -A$208 mn and GSe A$109 mn) primarily driven by Lytton (but Kurnell's operational performance has also improved in 2H).
Kurnell closure & conversion – more detail? Caltex will be more progressed with engineering, and may provide an update on its Kurnell import terminal project (A$250mn budget), and its estimated refinery closure costs (A$430mn discounted).
Growing competition: Caltex faces rising competition from foreign entrants – notably Puma Energy (which recently took-over Neumann & Ausfuel and outlined aggressive investment plans).

Highs & Lows Today

HIGHS -

- All Time Highs: **AZJ, IIN, MND, RHC, MFG**
- 5 ¼ Year Highs: **WBC, WES**
- 5 Year Highs: **AIA**
- 4 ¾ Year Highs: **BXB**

- 4 ½ Year Highs: **SKE**
- 4 Year Highs: **NPX**
- 3 ½ Year Highs: **BTT**
- 2 ¾ Year Highs: **DOW**
- 2 ½ Year Highs: **PTM**
- 2 ¼ Year Highs: **BSL, ABC**
- 1 ¾ Year Highs: **BOQ**
- 1 ¼ Year Highs: **RIO, BEN, BSL, AWC**

LOWS -

- All Time Lows: **AQG**
- 3 Year Lows: **PRU, SAI**

SUBSTANTIAL SHAREHOLDER CHANGES – 14 February 2013

Company	**Shareholder**	**Change**	**Previous Holding**	**New Holding**
Aurizon Holdings Limited	Commonwealth Bank	**Ceased**	5.30%	-
Fletcher Building Limited	AMP	**Became**	-	5.02%
GrainCorp Limited	UBS AG	**Increased**	6.12%	7.38%
Iluka Resources Limited	Credit Suisse Holdings	**Ceased**	5.06%	-
Myer Holdings Limited	Commonwealth Bank	**Reduced**	6.82%	5.71%
Primary Health Care Limited	AMP	**Became**	-	5.19%

DIRECTORS' INTEREST NOTICES – 14 February 2013

Company	**Shareholder**	**Change**	**Previous Holding**	**New Holding**
Orica Limited	Noel Anthony Meehan	**Increased**	193,451	261,836[1]
Orica Limited	Ian Kingsley Smith	**Increased**	305,302	598,382[1]

Note: Includes Goldman Sachs Australia / New Zealand covered stocks only

Disclaimers

Corporations Law - Disclosure of Interests:

Please note that Goldman Sachs makes important disclosures of its interests at http://www.gs.com.au/disclosures

James Hardie Industries SE ("Company") has announced that it will undertake a buy-back of part of its issued share capital. Goldman Sachs Australia Pty Ltd has been appointed to act as broker on the Company's behalf in relation to the buy-back.

Goldman Sachs is acting as financial advisor to News Corporation in an announced strategic transaction.