Australia Equity Research

JPMorgan

First to Market AUSTRALIA

Thursday, September 18th 2008

Estimate Changes

Company	FY_09	FY_10
Downgrade		
CSL	-3.3%	-3.8%

** EPS Changes > +/- 1%*

See next page for a complete summary of key rating, target price, EPS changes and analysts' comments

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Key Rating, target price and estimate changes

Estimate Changes

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Downgrade		
CSL	-3.3%	-3.8%

** EPS Changes > +/- 1%*

Price Target Changes

	Target	
Company	New	Old
Downgrades		
MQG	71.58	72.83

Analyst comments

Company	Comment
CSL	Update for different interest rate earned on equity raising proceeds
MQG	No changes in earnings forecasts present.

Source: JPMorgan

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Summary

Altman Z-Score Working Well
The Altman Z-Score is a Bankruptcy Predictor.

In previous research by JPMorgan Quant we have observed that a slightly modified version of the Altman Z-Score also works well as a stock selection tool. (See Burt, N., Quant Concepts, Aug 2003; and Malin, S., Who Said Zed's Dead, Jan 2008.)

In this note we review what the Altman Z-Score is, and we present the score for each stock in the ASX 200. We provide an article review of the Altman's original work to finish.

Last month the predictive ability of the stock was five times the strength of a predictor of reasonable power.

In Figure 2 we present the bottom picks (Altman Z most distressed) in each sector. Complete rankings are in the note.

Australian Banking Sector Update
In this note we update the position of the Australian banks with 32 charts and 7 tables and only brief commentary on each. Think of it as being a really boring cartoon! The major points are –

1. The rotational trade out of resources stocks as commodity prices have faltered has seen the Australian banks outperform thus far over 3QCY2009 but only by virtue of the outperforming lower risk CBA and WBC with the riskier ANZ and NAB massively underperforming.

2. While the cash / 90BBSW gap has eased wholesale funding costs remain elevated. Loan volume growth is slowing markedly across all categories. Deposit margins remain pressured by increased competition. Further the shortening of the duration of term funding over the course of CY2008E thus far suggests the full impact of increased funding costs will not be evident until CY2009E.

3. Thus far only ~20% of SME borrowers will have seen their borrowing rate repriced up for the increased cost of bank funding. Nonetheless A$9.9bn of identifiable new corporate loan exposures have emerged. With non-financials gearing levels high this rate of decay will likely increase into CY2009E given the strong business credit growth of recent years has been channeled into speculative assets, particularly commercial property where asset values are falling sharply.

4. Banks face dramatically higher IT capex bills of ~A$1bn each to address the "IT Hairball" in their ageing legacy core operating systems.

5. Superficially Australian bank relative PEs have contracted from a peak of 95% (to the ASX300 Industrials) to ~75% and dividend yields appear attractive relative to bonds. However, we note that (i) these PE relatives still look demanding compared to those that prevailed during the last loan loss cycle for the Australian banks, (ii) Australian bank dividend quality has deteriorated with dividends funded out of dilutive DRP scrip issuance, and (iii) Consensus EPS expectations for the Australian banks are still falling.

After such a period of sustained underperformance relief rallies should be expected; however, from a longer term perspective we believe the sector is still overvalued and earnings risk is rising.

General Insurance p.41

Impact of insurance ructions

The pace of the downfall of AIG over the last 2 days has been quite breathtaking, and in our view overshadows the impact of the collapse of Lehman Brothers in terms of its impacts on the financial system. That event, along with Hurricane Ike (to a far lesser extent), will have an impact on the global insurance outlook.

We now know that the US Federal Reserve has provided a loan facility of $85B in exchange for an 80% equity stake in AIG. There are punitive interest terms associated with the loan. The Federal Reserve will seek to divest the assets of the group holding company in an orderly process, including, we believe, the insurance entities.

We believe that well capitalized insurers such as QBE and AXA may well benefit from this by being able to purchase assets relatively cheaply either out of AIG, or from the depression this would cause on prices for other insurance assets for sale. If nothing else, we believe they could profit from any customer fallout.

We believe rate reductions are likely to slow in the US, but not stop, on the back of this event.

Losses on Ike should help slow the rate reduction – but we do not believe they will stop it. We estimate that losses could range between $6-18B, but they could in large part be borne by state-based insurers of last resort. As such, it should not substantially reduce capacity.

Net/ Net – we believe the events of the past week, along with the declining US$, are a major positive for QBE and should sway sentiment towards the stock. We maintain a Neutral for now on the grounds of concerns on medium-term earnings and sustainability of insurance margins, but we note that sentiment will likely swing in its favour.

Gearing and Refinancing Risk

We have examined the financial liquidity of all the stocks in our coverage universe, ranking them according to their book gearing (ND/E and ND/ND+E), interest coverage (EBITDA and EBIT) and ND/EBITDA. For each company we have also considered re-financing requirements and debt headroom.

The majority of stocks we cover are comfortably geared and have no immediate risk of refinancing. Those to keep an eye on are, in our opinion, CCP (high level of gearing and increasing onerous covenants), AJL (Mitchell acquisition and exploration costs have pushed gearing up, but a CSM asset sale could take it right back down again), MLE ($100 million of debt falling due within 12 months) and TIM (highly geared with earnings risk).

Book gearing

On the basis of book gearing, only two stocks in our universe have an FY09E ND/ND+E ratio above 50%: CCP at 58% and TIM at 57%. A further six stocks have a ratio exceeding 40%: MSL, TOX, AJL, NFK, GUD and CXP. By contrast, one stock (AAX) has a forecast net cash position at the end of FY09, while six others have FY09E ND/ND+E ratios below 20%: IRE, CSS, TFC, CND, DMP, WDS and TGR.

Interest cover

Five stocks in our universe have FY09E EBIT interest coverage ratios below 4x: CSS at 2.2x, CCP at 2.3x, AJL at 3.3x, PRG at 3.5x and ALS at 3.6x. A further four stocks are below 5x: CRG, MLE, HST and SAI. Those most comfortable on the basis of forward interest cover are IRE, AAX, TIM, TSM, CND. TFC and DMP.

Net debt to EBITDA

TIM's FY09E net debt is 6.9x its FY09E EBITDA, the highest ratio in our universe. Above a 2x ratio are also MLE, PRG, ALS, CSS, SAI and AJL.

De-rating Creates Compelling Value . . . But Hard To Identify Re-rating Catalyst

MQG has been savagely de-rated on a sharp increase volumes with the price now hostage to "hedge fund sentiment". Hedge fund concerns are:

1. MQG's ability to fund itself – The funding requirement is not as big as often reported.

2. An apparent prescient view that MQG's debt rating outlook would be downgraded – After the market closed yesterday, S&P downgraded MQG's outlook from stable to negative. However, the S&P commentary was supportive, and at odds with the outlook downgrade. In any case, ratings outlook downgrade is troublesome.

3. Disbelief that MQG actually carry the reported A$3.5bn in surplus capital – Even if the NOHC restructuring was reversed, MQG would still carry ~A$1.5bn of capital.

4. MQG simple comparisons to Global Investment Banks – MQG do not take on major traded market value risks of a typical Investment Bank, but rather take real asset value risks.

5. Concerns over the sustainability of the business model – MQG face a more challenging environment, but the long term infrastructure privatisation trend remains intact and the business model has already evolved into the more robust unlisted fund model.

While we believe the hedge fund "short MQG" arguments do not bear closer scrutiny the direction of MQG's price is telling us MQG is broken. With the hedge funds driving the agenda, it is hard to identify a catalyst to turn MQG's price direction around but we note binges of short selling have previously been followed by bouts of short covering. With MQG now trading below any of its previous trading bands and at 1.06x net asset backing of A$32.16 (vs NTA of A$29.45) we believe MQG now offers compelling value it is hard to identify a catalyst to turn around sentiment, particularly following the S&P ratings outlook downgrade!

CSL Limited (CSL – A$40.25), Overweight p.71

Talecris gets FDA approval for CIDP - positive

Talecris has received FDA approval for its IVIG Gamunex as a treatment for chronic inflammatory demyelinating polyneuropathy (CIDP) – a debilitating neurological disorder affecting 2-7 people per 100,000 worldwide. Talecris has been granted orphan drug status in CIDP, which implies market exclusivity for 7 years. Despite this, we think the approval will still be directly beneficial to the other players since 1) off-label usage is common in the IVIG market, and 2) Talecris is supply constrained.

Importantly, this is the first and only FDA approved neurological indication for IVIG, and now enables direct marketing for this indication to neurologists. This could in turn lead to an increased awareness amongst neurologists of the off-label neurological uses of IVIG, such as Guillain-Barre Syndrome, multifocal motor neuropathy (MMN), and dermatomyositis, which would be positive for IVIG demand. We view neurological disorders as an important growth driver of IVIG over the medium-term, and note that other clinical trials are underway in this area, e.g. Baxter is sponsoring a Phase III trial for MMN, and a Phase III study in Alzheimer's Disease.

Separately, we understand CSL transferred the proceeds from its equity raising into USD post the raising, implying an exchange rate of ~0.87. This was clearly beneficial relative to where the AUD/USD has moved subsequently. However CSL will now earn interest at US interest rates (~3%). We adjust our forecasts for this lower rate.

CSL is currently trading on a 12 month forward PE of ~24x, which we think is reasonable relative to its EPS growth profile (with or without the Talecris deal), and retain our Overweight rating.

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Sonic Healthcare (SHL – A$13.20), Overweight p.77

Completes purchase of IPN minorities

We are no longer restricted from providing our view on SHL's purchased of the 28.5% of IPN that it did not already own, for a price of 27 cps (total cash outlay of ~$75m).

Based on previous IPN disclosures, we estimate that SHL derives ~$15m p/a in pathology referral revenue from IPN. Now SHL has proceeded to 100% ownership of IPN, it could redeploy the ~60 collection centre licences currently used in IPN medical centres, and use them to take market share from the competitors. If the redeployed licences attracted similar referral volumes to what is currently derived in the IPN centres, this would mean additional pathology revenue of ~$15m p/a. Furthermore, ~75% of pathology referrals from IPN's medical centres are sent to SHL, so there may be scope to increase this. If we incorporate redeploying licences and greater capture of IPN pathology referrals into our forecasts, combined with corporate cost savings, we find the acquisition of the IPN minorities delivers nil change to FY09E EPS and 1% upside to FY10E EPS. It remains to be seen whether SHL can successful redeploy collection centre licences.

We think the purchase of the IPN minorities is opportunistic and follows Ed Bateman's exit from the register in Nov-07. While 100% ownership gives SHL a little more flexibility to expand medical centres, and this may be beneficial to the group given the PRY/SYB merger, acquisitions in Germany still remain the most attractive location for deploying capital as they offer higher potential for earnings/value accretion.

Woolworths Limited (WOW – A$28.40), Overweight p.83

Hardware Retailer Mitre 10 Looking to Recapitalise - ALERT

The Australian Financial Review has reported that Mitre 10, the number two player in Australia hardware retailing, has been holding talks with WOW about a potential buy-out or capital injection. Mitre 10 management were quoted saying the company "really has no other option but to recapitalise the business". The challenge of competing with the WES owned Bunnings hardware retail business, with its scale with both consumers and suppliers (including exclusive buying arrangements), has contributed to the woes of Mitre 10.

The loss making nature of the ASIC accounts that are available make valuing Mitre 10 difficult. Despite this, we believe the strategic rationale for WOW, or another acquirer, is significant. For WOW in particular, it would leverage its proven capability in big box retailing (e.g. supermarkets, Big W, Dan Murphy's), its industry leading supply chain, its deep retail management team, and provide a further growth avenue in Australia. The challenges would be the franchise structure, with retaining and managing franchisees another layer of complexity.

From a competitive standpoint, a well capitalised and renewed competitor would be a negative for Bunnings, as it has enjoyed a very strong market position against all other hardware retailers. At present, it is too early to determine what would happen, but this may prove an opportunity for WOW, and a potential distraction for WES.

Avoiding Distress

Altman Z-Score Working Well

Australia
Australian Quantitative Analysis

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- The Altman Z-Score is a Bankruptcy Predictor.
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- In this note we review what the Altman Z-Score is, and we present the score for each stock in the ASX 200. We provide an article review of the Altman's original work to finish.
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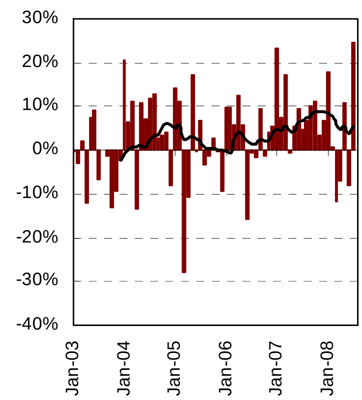
- In Figure 2 we present the bottom picks (Altman Z most distressed) in each sector. Complete rankings are in the note.

Figure 1: Last 5 year performance*



Source: JPMorgan
*Performance is predictive ability of the factor. 5% is considered reasonable.

Figure 2: Poor Earnings Safety Scores + FCF and debt ratios

Code	NAME	Sector	Altman-Z Score	Rank
ABS	A.B.C. Learning Centres	CDXMed	0.59	Bottom
PMV	Premier Investments	CS	0.12	Bottom
ROC	Roc Oil	Energy	-0.30	Bottom
SGX	Sino Gold	Gold	-0.33	Bottom
SHL	Sonic Healthcare	HC	0.99	Bottom
BCM	Babcock & Brown Capital	FinXPT	-0.20	Bottom
AEZ	APN/UKA Euro Retail Property	PT	0.22	Bottom
TCL	Transurban Group	Ind	-0.30	Bottom
CPU	Computershare Limited	IT	1.78	Bottom
JHX	James Hardie	MatXMin	0.80	Bottom
AUN	Austar United	Media	-0.53	Bottom
AGO	Atlas Iron	Mining	-4.04	Bottom
TLS	Telstra	TS	1.37	Bottom
BBP	Babcock & Brown Power	Utilities	0.23	Bottom

Source: Aspect Huntely, JPMorgan

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What is Altman's Z-Score?

Created by Edward Altman in the 1960's (review of the original paper follows), the model was originally designed to proxy the probability that a company may suffer financial problems in the near future.

To calculate the score, five ratios are weighted and combined (see below).

Companies with a very low score are said to have a high probability of experiencing imminent financial distress.

$$\mathbf{Z = 1.2\ X_1 + 1.4\ X_2 + 3.3\ X_3 + 0.6\ X_4 + 1.0\ X_5}$$

- X_1 = Working Capital/ Total Assets
- X_2 = Retained Earnings/ Total Assets
- X_3 = EBIT/ Total Assets
- X_4 = Market Cap/ Total Debt
- X_5 = Revenue/ Total Assets

The scores as presenterd in Figure 3, whil technically correct, are crude. If a stock looks unusually placed it may be worth speaking to the JPMorgan analyst or account manager to review the ranking.

A slight modification

As we are focused primarily on investible companies, rather than a universe inclusive of micro-caps, we appreciate that size is not an effective predictor of distress in this universe. In previous work, we found that the ratio was more effective ***without the Market Cap component***. Whilst back in the 1960's when the original analysis took place there was a strong rationale for the idea that 'being big' offered protection against bankruptcy, this argument is arguably less relevant than it once was.

In fact, given some of the headline-making collapses of recent times, there is a strong argument that 'looking through' (potentially) exuberant and inflated market caps to focus purely on the underlying fundamentals is the preferable approach.

As a result, in our analysis we have dispensed with the market cap sub-component in our application of the ratio.

Universes

The Altman Z-Score should be used to ***rank stocks within sectors*** so that it is comparing like with like. This is because working capital, revenue and retained earnings policies for companies can vary greatly between sectors.

In Figure 3 we present the Altman Z Score for ASX200 Members, sorted from least to most Altman Z distressed in each sector.

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Figure 3: Altman Z-Score and Components, ASX 200 : Ranked best to worst in each Sector

Code	NAME	Sector	WC/TA	RE/TA	EBIT/TA	REV/TA	AltmanZ Score
JBH	JB Hi Fi Limited	CDXMed	0.17	0.23	0.19	3.41	4.57
TTS	Tatts Group Limited	CDXMed	0.29	0.21	0.21	3.20	4.52
ALL	Aristocrat Leisure Limited	CDXMed	0.14	0.51	0.40	1.38	3.58
GUD	GUD Holdings Limited	CDXMed	0.41	0.13	0.20	1.55	2.88
BBG	Billabong International Limited	CDXMed	0.28	0.33	0.16	0.83	2.17
WTF	Wotif.com Holdings Limited	CDXMed	0.16	0.16	0.27	0.57	1.90
HVN	Harvey Norman Holdings Ltd	CDXMed	0.23	0.35	0.10	0.74	1.86
FLT	Flight Centre Limited	CDXMed	0.19	0.15	0.10	0.94	1.73
DJS	David Jones Limited	CDXMed	0.08	0.06	0.09	1.23	1.70
CWN	Crown Limited	CDXMed	0.28	0.51	0.06	0.27	1.52
PBG	Pacific Brands Limited	CDXMed	0.18	0.05	0.09	0.86	1.45
IVC	InvoCare Limited	CDXMed	0.00	-0.04	0.15	0.69	1.13
TAH	Tabcorp Holdings Limited	CDXMed	-0.05	-0.08	0.14	0.65	0.95
ABS	A.B.C. Learning Centres Limited	CDXMed	0.05	0.04	0.06	0.27	0.59
MTS	Metcash Limited	CS	0.16	0.03	0.11	3.19	3.78
WOW	Woolworths Limited	CS	-0.06	0.11	0.13	2.85	3.36
LNN	Lion Nathan Limited	CS	0.00	0.15	0.18	0.78	1.60
FCL	Futuris Corporation Limited	CS	0.02	0.10	0.04	0.99	1.30
GFF	Goodman Fielder Limited	CS	0.01	0.01	0.11	0.87	1.28
CCL	Coca-Cola Amatil Limited	CS	0.14	-0.13	0.13	0.87	1.27
FGL	Foster's Group Limited	CS	0.12	0.09	0.11	0.57	1.21
WES	Wesfarmers Limited	CS	0.02	0.03	0.06	0.90	1.15
ABB	ABB Grain Ltd	CS	0.15	0.04	0.02	0.75	1.07
AWB	AWB Limited	CS	0.11	0.03	0.01	0.81	0.99
TIM	Timbercorp Limited	CS	-0.05	0.19	0.08	0.27	0.74
PMV	Premier Investments Limited	CS	0.04	-0.06	0.03	0.04	0.12
CTX	Caltex Australia Limited	Energy	0.17	0.43	0.14	3.63	4.91
AWE	Australian Worldwide Exploration Ltd	Energy	0.34	0.29	0.52	0.85	3.03
WOR	WorleyParsons Limited	Energy	0.14	0.14	0.16	1.43	2.33
OSH	Oil Search Limited	Energy	0.22	0.41	0.16	0.39	1.76
WPL	Woodside Petroleum Limited	Energy	-0.12	0.39	0.20	0.41	1.48
CEY	Centennial Coal Company Limited	Energy	0.03	0.25	0.08	0.63	1.27
ORG	Origin Energy Limited	Energy	-0.00	0.18	0.08	0.69	1.19
RIV	Riversdale Mining Limited	Energy	0.42	0.04	0.00	0.49	1.05
STO	Santos Limited	Energy	0.03	0.17	0.12	0.35	1.01
ERA	Energy Resources of Australia Limited	Energy	0.11	-0.02	0.11	0.36	0.85
BPT	Beach Petroleum Limited	Energy	-0.01	-0.04	0.17	0.33	0.82
NXS	Nexus Energy Limited	Energy	-0.07	0.04	0.15	0.19	0.66
FLX	Felix Resources Limited	Energy	0.14	-0.15	0.05	0.36	0.48
QGC	Queensland Gas Company Limited	Energy	0.48	-0.07	-0.03	0.07	0.45
PDN	Paladin Energy Ltd	Energy	0.10	-0.03	-0.02	0.00	0.01
ROC	Roc Oil Company Limited	Energy	-0.05	-0.31	-0.05	0.35	-0.30
NCM	Newcrest Mining Limited	Gold	0.10	0.19	0.18	0.55	1.52
LGL	Lihir Gold Limited	Gold	0.09	0.00	0.12	0.22	0.74
SBM	St Barbara Limited	Gold	0.39	-0.67	-0.09	0.83	0.07
PNA	PanAust Limited	Gold	0.02	-0.10	-0.04	0.06	-0.18
SGX	Sino Gold Mining Limited	Gold	-0.11	-0.12	-0.02	0.03	-0.33
COH	Cochlear Limited	HC	0.32	0.37	0.28	1.00	2.81
CSL	CSL Limited	HC	0.38	0.41	0.21	0.80	2.50
SIP	Sigma Pharmaceuticals Limited	HC	0.14	0.06	0.08	1.45	1.99
RMD	ResMed Inc.	HC	0.39	0.39	0.11	0.60	1.96
ANN	Ansell Limited	HC	0.30	-0.31	0.11	1.08	1.36
RHC	Ramsay Health Care Limited	HC	0.02	0.07	0.08	0.87	1.26
HSP	Healthscope Limited	HC	-0.05	0.05	0.09	0.86	1.16
SHL	Sonic Healthcare Limited	HC	-0.11	0.07	0.11	0.66	0.99

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Code	NAME	Sector	WC/TA	RE/TA	EBIT/TA	REV/TA	AltmanZ Score
CXP	Corporate Express Australia Limited	Ind	0.15	0.22	0.21	2.56	3.73
AAX	Ausenco Limited	Ind	0.24	0.25	0.27	2.01	3.55
MND	Monadelphous Group Limited	Ind	0.11	0.17	0.22	2.33	3.44
SEK	Seek Limited	Ind	0.11	0.38	0.51	1.00	3.36
MAH	Macmahon Holdings Limited	Ind	0.13	0.02	0.12	1.91	2.47
HIL	Hills Industries Limited	Ind	0.34	0.16	0.11	1.46	2.45
CRG	Crane Group Limited	Ind	0.19	0.11	0.09	1.74	2.41
SPT	Spotless Group Limited	Ind	-0.03	-0.15	0.06	2.36	2.32
DOW	Downer EDI Limited	Ind	0.09	0.08	0.09	1.71	2.22
LEI	Leighton Holdings Limited	Ind	-0.11	0.17	0.14	1.59	2.14
BLY	Boart Longyear Limited	Ind	0.22	-0.12	0.20	1.31	2.08
UGL	United Group Limited	Ind	0.13	0.07	0.09	1.47	2.02
BXB	Brambles Limited	Ind	-0.01	0.43	0.19	0.81	2.01
TSE	Transfield Services Limited	Ind	0.05	0.08	0.07	1.58	1.99
TPI	Transpacific Industries Group Limited	Ind	0.12	0.09	0.14	1.06	1.80
CAB	Cabcharge Australia Limited	Ind	0.07	0.33	0.22	0.46	1.73
PMP	PMP Limited	Ind	0.05	-0.28	0.12	1.61	1.68
GWT	GWA International Limited	Ind	0.25	0.05	0.13	0.85	1.65
ALS	Alesco Corporation Limited	Ind	0.14	0.07	0.10	0.96	1.57
CSR	CSR Limited	Ind	-0.03	0.16	0.09	0.80	1.30
EHL	Emeco Holdings Limited	Ind	0.16	-0.01	0.14	0.52	1.15
QAN	Qantas Airways Limited	Ind	-0.10	0.07	0.07	0.82	1.03
MIG	Macquarie Infrastructure Group	Ind	0.07	0.26	0.11	0.14	0.95
AIX	Australian Infrastructure Fund	Ind	0.03	0.16	0.11	0.13	0.76
AIO	Asciano Group	Ind	-0.02	0.02	0.06	0.39	0.59
MAP	Macquarie Airports	Ind	0.06	0.02	0.08	0.14	0.50
CEU	ConnectEast Group	Ind	-0.00	-	0.05	0.05	0.20
TOL	Toll Holdings Limited	Ind	-0.25	0.04	0.03	0.34	0.18
TCL	Transurban Group	Ind	-0.03	-0.23	0.00	0.06	-0.30
IRE	Iress Market Technology Limited	IT	0.14	0.18	0.39	1.10	2.78
CPU	Computershare Limited	IT	0.04	0.27	0.20	0.71	1.78
PPX	PaperlinX Limited	MatXMin	0.26	-0.00	0.04	1.73	2.16
ORI	Orica Limited	MatXMin	-0.00	0.25	0.13	0.90	1.69
AMC	Amcor Limited	MatXMin	-0.02	0.12	0.08	1.16	1.57
BLD	Boral Limited	MatXMin	0.09	0.19	0.08	0.88	1.51
ABC	Adelaide Brighton Limited	MatXMin	0.03	0.11	0.14	0.72	1.37
NUF	Nufarm Limited	MatXMin	0.06	0.22	0.07	0.73	1.33
GNS	Gunns Limited	MatXMin	0.04	0.13	0.13	0.44	1.11
GTP	Great Southern Limited	MatXMin	0.09	0.18	0.11	0.28	0.99
JHX	James Hardie Industries N.V.	MatXMin	0.08	-0.21	0.09	0.67	0.80
CMJ	Consolidated Media Holdings Limited	Media	0.33	0.50	0.49	5.22	7.93
WAN	West Australian Newspapers Holdings Ltd	Media	0.13	-0.01	0.42	0.99	2.51
SEV	Seven Network Limited	Media	0.42	0.53	0.02	0.04	1.36
NWS	News Corporation	Media	0.08	0.18	0.13	0.57	1.35
APN	APN News and Media Ltd	Media	0.04	0.04	0.12	0.52	1.02
FXJ	Fairfax Media Limited	Media	0.02	0.10	0.09	0.35	0.80
TEN	Ten Network Holdings Limited	Media	0.08	-0.22	0.13	0.58	0.79
MCG	Macquarie Communications Infrastructure Group	Media	-0.02	-0.04	0.07	0.21	0.37
MMG	Macquarie Media Group	Media	0.00	-0.02	0.03	0.09	0.15
AUN	Austar United Communications Ltd	Media	-0.05	-1.45	0.18	0.95	-0.53

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Code	NAME	Sector	WC/TA	RE/TA	EBIT/TA	REV/TA	AltmanZ Score
PAN	Panoramic Resources Limited	Mining	0.10	0.36	0.56	1.06	3.54
AQP	Aquarius Platinum Limited	Mining	0.13	0.22	0.56	0.94	3.24
MCR	Mincor Resources NL	Mining	0.35	0.57	0.26	0.98	3.04
SGM	Sims Group Ltd	Mining	0.17	0.17	0.16	1.94	2.90
IGO	Independence Group NL	Mining	0.06	0.38	0.36	0.98	2.77
***	Restricted Acquirier	Mining	0.07	0.47	0.32	0.79	2.60
MCC	Macarthur Coal Limited	Mining	0.33	0.24	0.21	0.91	2.35
MRE	Minara Resources Limited	Mining	0.18	- 0.07	0.36	0.80	2.12
BSL	BlueScope Steel Limited	Mining	0.01	0.24	0.15	1.25	2.09
SRL	Straits Resources Limited	Mining	- 0.10	0.03	- 0.01	2.00	1.89
MGX	Mount Gibson Iron Limited	Mining	0.16	0.19	0.19	0.49	1.59
OST	OneSteel Limited	Mining	0.11	0.07	0.08	1.02	1.53
OZL	Oz Minerals Limited	Mining	0.02	0.23	0.20	0.49	1.50
KZL	Kagara Ltd	Mining	0.03	0.26	0.17	0.52	1.49
PEM	Perilya Limited	Mining	0.16	0.19	- 0.05	0.99	1.30
AWC	Alumina Limited	Mining	- 0.16	0.46	0.18	0.00	1.05
***	Restricted Target	Mining	0.02	0.19	0.10	0.30	0.92
ILU	Iluka Resources Limited	Mining	0.10	- 0.00	0.07	0.50	0.83
WSA	Western Areas N.L.	Mining	0.23	- 0.19	0.00	0.15	0.17
CXC	Coeur D'Alene Mines Corporation	Mining	0.06	- 0.16	0.02	0.08	-0.02
EQN	Equinox Minerals Limited	Mining	0.03	- 0.08	- 0.02	0.00	-0.15
FMG	Fortescue Metals Group Ltd	Mining	0.01	- 0.06	- 0.03	0.00	-0.16
LYC	Lynas Corporation Limited	Mining	0.67	- 0.50	- 0.08	0.00	-0.18
MMX	Murchison Metals Ltd	Mining	0.28	- 0.43	- 0.08	0.01	-0.53
PLA	Platinum Australia Limited	Mining	0.35	- 0.74	- 0.17	0.00	-1.17
SDL	Sundance Resources Limited	Mining	0.40	- 1.09	- 0.08	0.00	-1.31
AGO	Atlas Iron Limited	Mining	0.67	- 1.28	- 0.92	0.00	-4.04
SGT	Singapore Telecommunications Limited	TS	- 0.05	0.57	0.14	0.44	1.64
TEL	Telecom Corporation of New Zealand Limited	TS	- 0.06	0.20	0.15	0.77	1.47
TLS	Telstra Corporation Limited	TS	- 0.07	0.18	0.16	0.66	1.37
AGK	AGL Energy Limited	Utilities	0.16	0.05	0.07	0.59	1.10
SPN	SP Ausnet	Utilities	- 0.03	0.15	0.06	0.14	0.51
APA	APA Group	Utilities	- 0.09	0.05	0.08	0.18	0.40
DUE	DUET Group	Utilities	0.02	- 0.01	0.06	0.13	0.32
HDF	Hastings Diversified Utilities Fund	Utilities	0.05	-	0.04	0.10	0.29
BBI	Babcock & Brown Infrastructure Group	Utilities	0.03	0.01	0.04	0.11	0.28
ENV	Envestra Limited	Utilities	- 0.03	- 0.05	0.07	0.14	0.28
SKI	Spark Infrastructure Group	Utilities	- 0.07	0.05	0.09	-	0.26
BBW	Babcock & Brown Wind Partners Limited	Utilities	0.18	- 0.01	- 0.00	0.05	0.26
BBP	Babcock & Brown Power	Utilities	0.09	- 0.03	- 0.01	0.20	0.23

Code	NAME	Sector	WC/TA	RE/TA	EBIT/TA	REV/TA	AltmanZ Score
PTM	Platinum Asset Management Limited	FinXPT	0.86	0.66	1.16	1.43	7.20
LLC	Lend Lease Corporation Limited	FinXPT	0.02	0.26	0.06	1.72	2.29
SDG	Sunland Group Limited	FinXPT	0.32	0.25	0.13	0.51	1.68
HGI	Henderson Group PLC	FinXPT	0.26	0.13	0.12	0.56	1.43
AXA	AXA Asia Pacific Holdings	FinXPT	0.79	0.09	0.01	0.16	1.26
AMP	AMP Limited	FinXPT	0.82	0.01	- 0.01	0.08	1.03
QBE	QBE Insurance Group Limited	FinXPT	0.46	0.09	0.02	0.29	1.02
IAG	Insurance Australia Group Limited	FinXPT	0.40	- 0.02	0.02	0.41	0.93
OCV	Octaviar Limited	FinXPT	0.41	0.05	0.06	0.08	0.85
ALZ	Australand Property Group	FinXPT	0.11	0.08	0.07	0.31	0.79
BNB	Babcock & Brown Limited	FinXPT	0.22	0.05	0.08	0.19	0.79
AUW	Australian Wealth Management Limited	FinXPT	0.12	0.03	0.03	0.37	0.66
PPT	Perpetual Limited	FinXPT	0.02	0.04	0.08	0.27	0.61
IFL	IOOF Holdings Limited	FinXPT	- 0.51	0.00	0.30	0.24	0.61
HFA	HFA Holdings Limited	FinXPT	0.06	0.06	0.08	0.16	0.57
TAL	Tower Australia Group Limited	FinXPT	0.27	0.04	-	0.18	0.56
ASX	ASX Limited	FinXPT	0.06	0.04	0.07	0.09	0.44
FKP	FKP Property Group	FinXPT	- 0.31	0.13	0.12	0.18	0.40
BOQ	Bank of Queensland Limited	FinXPT	0.27	0.01	0.01	0.02	0.38
SUN	Suncorp- Metway Limited	FinXPT	0.16	0.02	0.01	0.10	0.37
ANZ	ANZ Banking Group Ltd	FinXPT	0.06	0.03	0.02	0.03	0.20
AFG	Allco Finance Group Limited	FinXPT	0.05	0.05	0.01	0.01	0.18
SGB	St. George Bank Limited	FinXPT	0.04	0.01	0.02	0.02	0.14
WBC	Westpac Banking Corporation	FinXPT	0.02	0.03	0.01	0.03	0.13
CBA	Commonwealth Bank of Australia	FinXPT	0.03	0.02	0.01	0.03	0.13
NAB	National Australia Bank Limited	FinXPT	- 0.05	0.03	0.01	0.04	0.07
BEN	Bendigo and Adelaide Bank Limited	FinXPT	0.01	0.01	0.01	0.02	0.06
MQG	Macquarie Group Limited	FinXPT	- 0.08	0.02	0.01	0.05	0.03
CGF	Challenger Financial Services Group Limited	FinXPT	- 0.18	- 0.00	- 0.02	0.10	-0.17
BCM	Babcock & Brown Capital Limited	FinXPT	- 0.02	- 0.04	- 0.05	0.03	-0.20
CNP	Centro Properties Group	PT	0.09	0.21	0.14	0.07	0.93
BWP	Bunnings Warehouse Property Trust	PT	- 0.02	0.31	0.06	0.07	0.66
SGP	Stockland	PT	- 0.02	0.20	0.07	0.17	0.65
MOF	Macquarie Office Trust	PT	0.06	0.19	0.05	0.09	0.59
MGR	Mirvac Group	PT	- 0.08	0.06	0.10	0.26	0.58
MDT	Macquarie DDR Trust	PT	0.01	0.16	0.10	0.00	0.58
IOF	ING Office Fund	PT	0.01	0.24	0.05	0.06	0.58
CPA	Commonwealth Property Office Fund	PT	- 0.05	0.22	0.05	0.14	0.56
BJT	Babcock & Brown Japan Property Trust	PT	0.02	0.09	0.09	0.09	0.55
CER	Centro Retail Group	PT	- 0.00	0.07	0.12	0.04	0.54
DXS	Dexus Property Group	PT	- 0.07	0.21	0.07	0.09	0.54
GPT	GPT Group	PT	- 0.05	0.24	0.06	0.07	0.54
ABP	Abacus Property Group	PT	0.08	0.08	0.07	0.08	0.53
WDC	Westfield Group	PT	- 0.04	0.23	0.04	0.08	0.50
VPG	Valad Property Group	PT	0.05	0.02	0.08	0.10	0.45
IIF	ING Industrial Fund	PT	- 0.01	0.09	0.07	0.04	0.38
TSO	Tishman Speyer Office Fund	PT	- 0.01	0.09	0.06	0.05	0.36
CFX	CFS Retail Property Trust	PT	- 0.06	-	0.10	0.08	0.34
GMG	Goodman Group	PT	0.01	- 0.00	0.05	0.14	0.30
MCW	Macquarie Countrywide Trust	PT	0.00	0.07	0.05	0.02	0.30
AEZ	APN/UKA European Retail Property Group	PT	- 0.03	-	0.05	0.08	0.22

Source: AspectHuntely, JPMorgan.

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Article Review:

Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy

Subject: Altman Z-score
Author: Edward I. Altman
Publication: Journal of Finance, Volume 23, No.4
Date of Article: September 1968

JPMorgan Comment

The aim of the Altman paper was to demonstrate that there was value to be found in a multivariate ratio analysis framework, over the common technique of sequential ratio comparison. This aim was met by the derivation of the Altman Z-score, which was shown to be successful in predicting bankruptcy up to two years out.

The Altman Z-score is an empirically derived combination of ratios to highlight Bankruptcy risk. *"The variables and coefficients were chosen via an iterative process, and there is no claim regarding optimality"*. This suggests that they may be improved via a current optimization, which would be philosophically aligned with the principles of the paper, as well as theoretically valid.

Begely, Ming Watts (1997) are unable to improve the predictive ability of the model by re-estimating them with more recent data. Bankruptcy classification errors in the 1980's: *An empirical analysis of the Altman and Ohlson models*, Review of Accounting Studies, forthcoming. Referenced in I. Dichev JoF, 1998.

Article Abstract

Theorists downgrade the arbitrary rules of thumb widely used by practitioners, such as company ratio comparisons. Since attacks on the relevance of ratio analysis emanate from many esteemed members of the scholarly world, does this mean that ratio analysis is limited to the world of "nuts and bolts"?

The purpose of this paper is to attempt an assessment of this issue – the quality of ratio analysis as an analytical technique. The prediction of corporate bankruptcy is used as an illustrative case. Specifically, a set of financial and economic ratios will be investigated in a bankruptcy prediction context wherein a multiple discriminate statistical methodology is employed.

Article Summary

Ratio analysis had been essentially univariate in nature, with emphasis placed on individual signals of impending problems. "Ratio analysis presented in this fashion was susceptible to faulty interpretation and is potentially confusing. For instance, a firm with a poor profitability and/or solvency record may be regraded as a potential bankrupt. However, because of its above-average liquidity, the situation may not be considered serious. The question becomes, which ratios are most important in detecting bankruptcy potential, what weights should be attached to those selected ratios, and how should those weights be objectively established?"

From a large number of variables found to be significant indicators of corporate problems, a list of 22 ratios was compiled. These were classified into five standard categories: liquidity, profitability, leverage, solvency and activity ratios.

The ratios were chosen due to:

1. popularity in the literature
2. potential relevance to the study
3. new ratios initiated for the paper

The variables and coefficients were chosen via an iterative process, and there is no claim regarding optimality.

The Altman Z-Score

$$Z = 1.2\ X_1 + 1.4X_2 + 3.3\ X_3 + 0.6\ X_4 + 1.0\ X_5$$

Where:

X_1 = Working Capital / Total Assets
X_2 = Retained Earnings / Total Assets
X_3 = Earnings before interest and taxes / Total Assets
X_4 = Market Value Equity / Book Value of Total Debt
X_5 = Sales / Total Assets
Z = Overall Index

Discussion of Components

X_1 = Working Capital / Total Assets

X_1 is a measure of net liquid assets relative to total capitalization.

Working capital is defined as the difference between Current Assets and Current Liabilities. Other ratios considered were the current ratio and the quick ratio. The ratio based on Working Capital was the most significant.

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X_2 = Retained Earnings / Total Assets

The age of a firm is implicitly considered, as a young firm will not have had time to build up significant cumulative profits. While this may discriminate against young firms, the incidence of failure is higher in a firm's earlier years. (*JPMQ:* if age were the variable intended to be targeted, then it may be more effective to target this directly)

X_3 = Earnings before interest and taxes / Total Assets

This ratio targets the earning power of a firm's assets, and appears particularly appropriate for studies dealing with corporate failure. 'Furthermore, insolvency in a bankruptcy sense occurs when the total liabilities exceed the fair valuation of the firm's assets with value determined by the earnings power of the assets."

X_4 = Market Value Equity / Book Value of Total Debt

Shows how much a firm's assets can decline in value before it becomes insolvent. Inclusion of this ratio adds a market value element to the study.

X_5 = Sales / Total Assets

The sales generation capacity of a firm's assets measures management's capability in dealing with competitive conditions. While weak on an individual basis, its unique relationship to the other variables ranks it second in its contribution to the overall discriminating ability of the model. A probable reason for the unexpected strength of the contribution of this variable is its high negative correlation between X_3 and X_5, X_3 being the largest contributor to group separation.

"The logic behind the negative correlation is that as firms suffer losses and deteriorate toward failure, their assets are not replaced as much as in healthier times, and also the cumulative losses have further reduced the asset size through debits to Retained Earnings. The asset size reduction apparently dominates any sales movement."

Asia Pacific Equity Research
17 September 2008

Banking Sector

Australian Banking Sector Update

- In this note we update the position of the Australian banks with 32 charts and 7 tables and only brief commentary on each. Think of it as being a really boring cartoon! The major points are –

  1. The rotational trade out of resources stocks as commodity prices have faltered has seen the Australian banks outperform thus far over 3QCY2009 but only by virtue of the outperforming lower risk CBA and WBC with the riskier ANZ and NAB massively underperforming.
  2. While the cash / 90BBSW gap has eased wholesale funding costs remain elevated. Loan volume growth is slowing markedly across all categories. Deposit margins remain pressured by increased competition. Further the shortening of the duration of term funding over the course of CY2008E thus far suggests the full impact of increased funding costs will not be evident until CY2009E.
  3. Thus far only ~20% of SME borrowers will have seen their borrowing rate repriced up for the increased cost of bank funding. Nonetheless A$9.9bn of identifiable new corporate loan exposures have emerged. With non-financials gearing levels high this rate of decay will likely increase into CY2009E given the strong business credit growth of recent years has been channeled into speculative assets, particularly commercial property where asset values are falling sharply.
  4. Banks face dramatically higher IT capex bills of ~A$1bn each to address the "IT Hairball" in their ageing legacy core operating systems.
  5. Superficially Australian bank relative PEs have contracted from a peak of 95% (to the ASX300 Industrials) to ~75% and dividend yields appear attractive relative to bonds. However, we note that (i) these PE relatives still look demanding compared to those that prevailed during the last loan loss cycle for the Australian banks, (ii) Australian bank dividend quality has deteriorated with dividends funded out of dilutive DRP scrip issuance, and (iii) Consensus EPS expectations for the Australian banks are still falling.

After such a period of sustained underperformance relief rallies should be expected; however, from a longer term perspective we believe the sector is still overvalued and earnings risk is rising.

Banks

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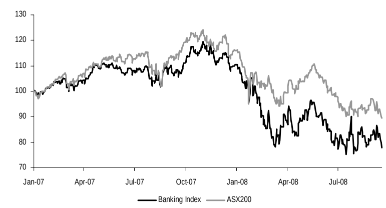
Figure 1: Australian Banks Accumulation Performance



Source: IRESS

Table 1 Banks Accumulation Index vs. ASX 200 Accumulation Index

	Banking Index	ASX200	+ / -
1H06	**8.2%**	**8.8%**	-0.6%
2H06	**12.4%**	**14.2%**	-1.7%
CY06	**21.7%**	**24.2%**	-2.6%
1H07	**8.1%**	**12.7%**	-4.6%
2H07	**2.1%**	**3.0%**	-0.9%
CY07	**10.4%**	**16.1%**	-5.7%
1Q08	-20.6%	-14.4%	-6.2%
2Q08	-8.7%	-1.8%	-6.9%
1H08	**-27.5%**	**-15.9%**	-11.5%
3Q08 QTD	-2.7%	-8.2%	5.5%
CY08 YTD	**-29.4%**	**-22.8%**	-6.6%

Source: IRESS.

Main Points

Thus far over 3QCY2008 the Australian banks have outperformed the broader market. This follows a sustained period of underperformance. However the outperformance is entirely attributable to the "safer" CBA and WBC with the "riskier" ANZ and NAB massively underperforming . . .

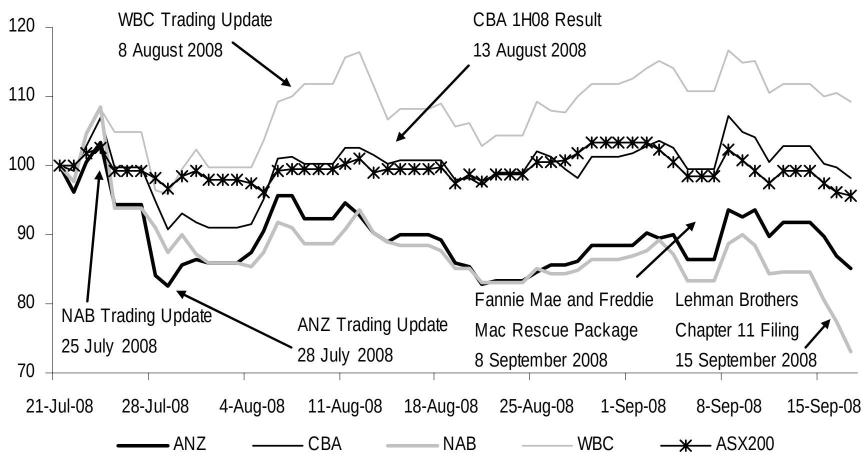
Table 2: Australian Major Banks Accumulation Index vs. ASX 200 Accumulation Index

	Banking Index	ASX200	+ / -	ANZ	CBA	NAB	WBC	SGB
1Q06	9.8%	9.0%	0.8%	10.6%	8.3%	16.4%	4.7%	4.0%
2Q06	-1.5%	-0.2%	-1.3%	2.4%	-2.0%	-4.6%	0.2%	-2.4%
1H06	**8.2%**	**8.8%**	-0.6%	**13.3%**	**6.1%**	**11.1%**	**4.9%**	**1.5%**
3Q06	2.8%	2.9%	-0.1%	1.0%	6.0%	4.4%	-2.4%	3.1%
4Q06	9.4%	10.9%	-1.5%	7.5%	8.2%	12.5%	9.4%	11.7%
2H06	**12.4%**	**14.2%**	-1.7%	**8.6%**	**14.7%**	**17.4%**	**6.7%**	**15.1%**
CY06	**21.7%**	**24.2%**	-2.6%	**23.1%**	**21.7%**	**30.4%**	**11.9%**	**16.8%**
1Q07	4.4%	6.9%	-2.5%	5.3%	3.7%	0.0%	8.7%	6.2%
2Q07	3.5%	5.4%	-1.9%	-0.4%	9.9%	3.7%	-0.3%	3.5%
1H07	**8.1%**	**12.7%**	-4.6%	**4.9%**	**14.0%**	**3.7%**	**8.3%**	**9.9%**
3Q07	2.9%	5.9%	-3.0%	2.4%	4.9%	-3.2%	11.1%	-0.1%
4Q07	-0.7%	-2.7%	2.0%	-5.1%	4.8%	-2.7%	0.2%	-8.5%
2H07	**2.1%**	**3.0%**	-0.9%	**-2.8%**	**10.0%**	**-5.8%**	**11.3%**	**-8.6%**
CY07	**10.4%**	**16.1%**	-5.7%	**1.9%**	**25.4%**	**-2.4%**	**20.6%**	**0.5%**
1Q08	-20.6%	-14.4%	-6.2%	-17.9%	-27.4%	-20.2%	-14.9%	-18.6%
2Q08	-8.7%	-1.8%	-6.9%	-14.7%	-3.9%	-9.4%	-13.4%	8.3%
1H08	**-27.5%**	**-15.9%**	-11.5%	**-29.9%**	**-30.3%**	**-27.7%**	**-26.3%**	**-11.8%**
3Q08 QTD	-2.7%	-8.2%	5.5%	-14.5%	6.0%	-21.9%	15.1%	11.2%
CY08 YTD	**-29.4%**	**-22.8%**	-6.6%	**-40.1%**	**-26.1%**	**-43.5%**	**-15.2%**	**-1.9%**

Source: IRESS.

. . . This divergence between the underperforming "riskier" ANZ and NAB vs the "safer" CBA and WBC was particularly evident initially following the Chapter 11 Filing by LEH which focuses attention on NAB's unprovisioned A$4.5bn CLO book and ANZ's A$11.6bn credit intermediation portfolio . . .

Figure 2: Australian Major Banks Relative Performance



Source: IRESS

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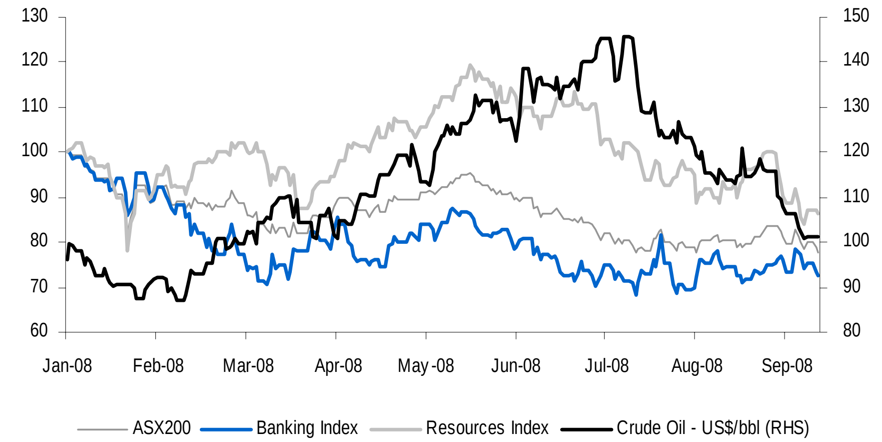
Of late Australian banks have been beneficiaries of the rotation out of resources stocks as commodity prices have retreated . . .

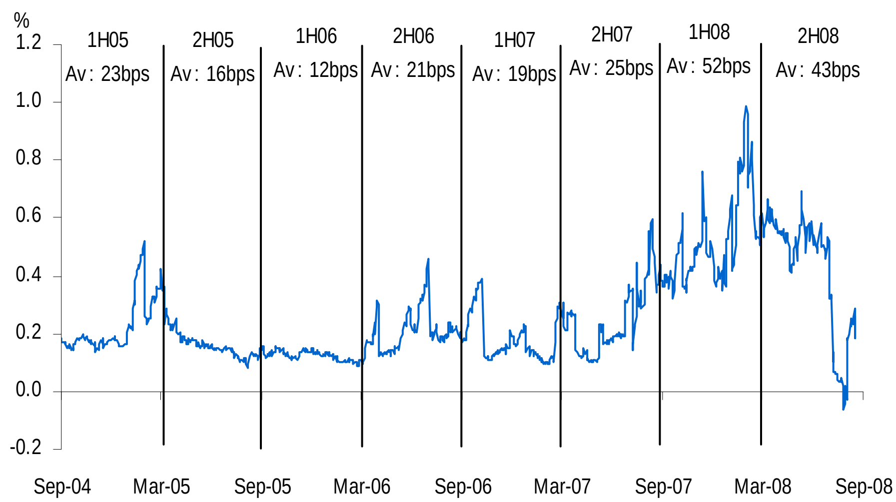
Figure 3: Australian Banks vs Resources Index vs ASX200 vs Crude Oil



Source: IRESS, DataStream

The cash 90BBSW gap had eased given "dovish" commentary from the RBA . . .

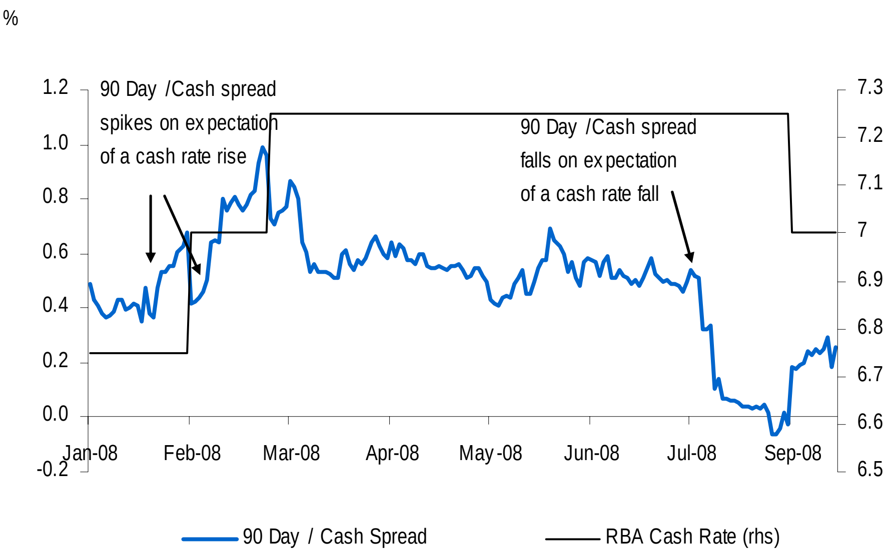
Figure 4: 90-Day Bank Bill vs. Cash Rate



Source: IRESS.

However the apparent flattening in the short end of the yield curve has not been sustained following the actual 25bp rate cut by the RBA on September 2, 2008 . . .

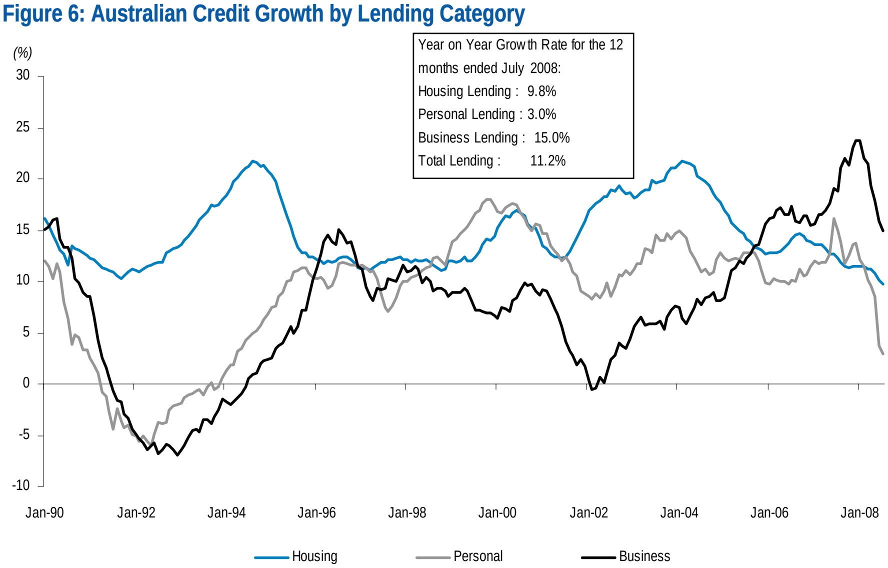
Figure 5: 90-Day Bank Bill vs. Cash Rate Spread – Expectations of Cash Rate Movements



Source: IRESS.

Australian bank loan growth has been strong, concentrated in home loans until recently and far outstripped retail deposit growth with incremental wholesale funding swapped back to the 90BBSW. However loan growth is now slowing markedly in the wake of rising bank lending rates . . .

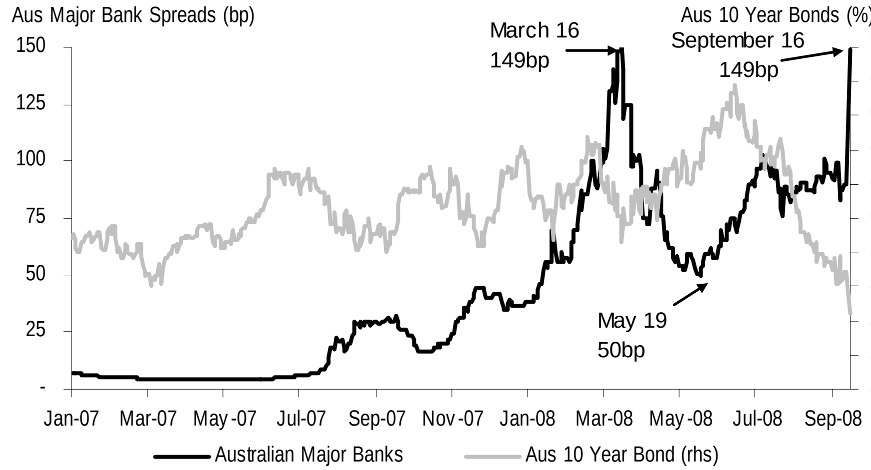
Figure 6: Australian Credit Growth by Lending Category



Source: RBA.

Term debt funding costs for Australian banks remain high . . .

Figure 7: Australian Banks- Cost of 5 Year Euro Senior Debt



Source: JPMorgan DataQuery.

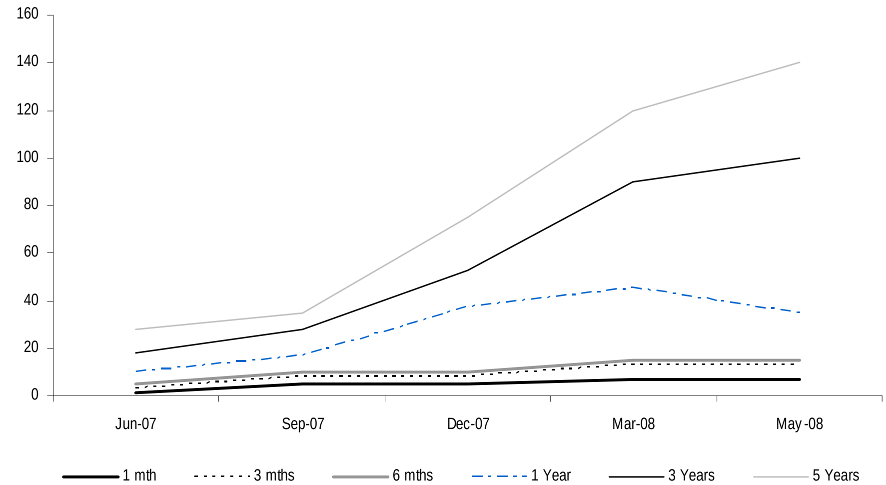
Credit Default Swap rates similarly remain high indicating wholesale funding markets remain very tight . . .

Figure 8: Asia iTraxx Australian Main 5yr Swap

Source: JPMorgan DataQuery

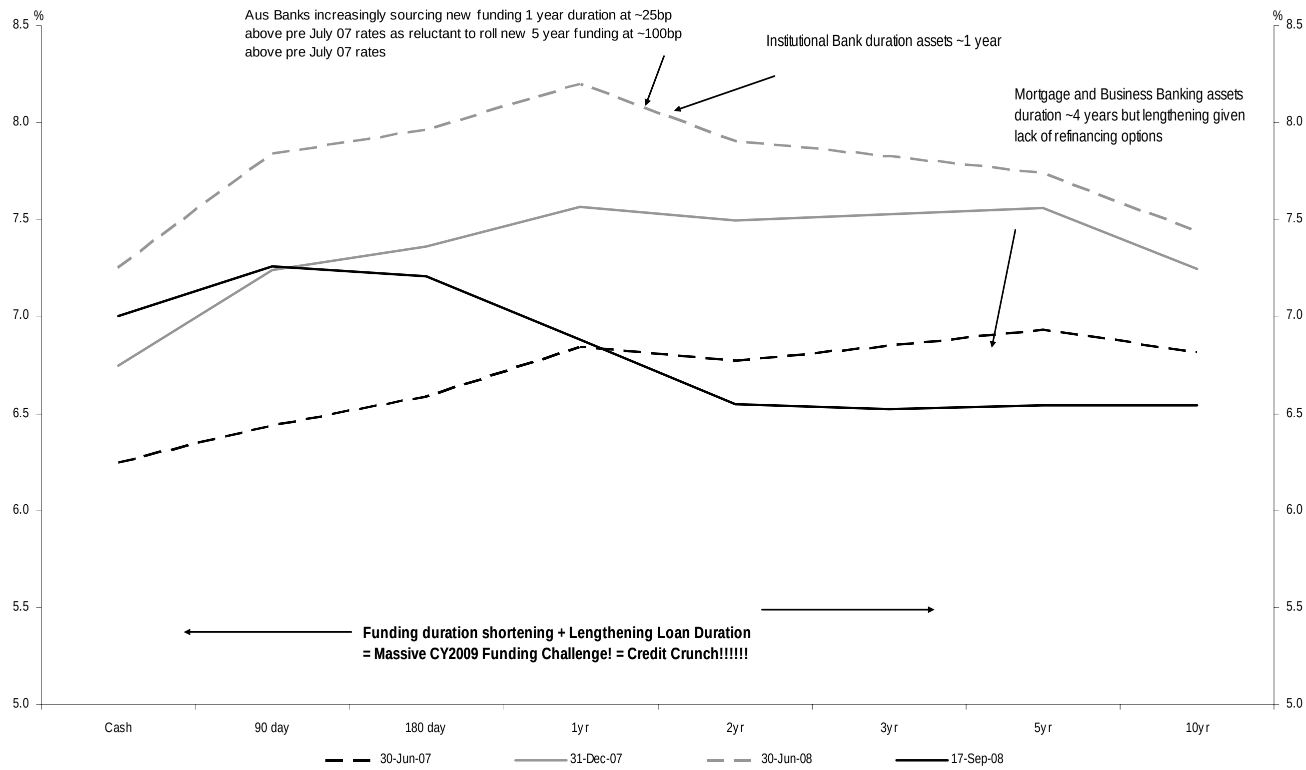
There is evidence banks have been shortening the duration of their funding profile which suggests FY09E and FY10E should be quantitatively challenging years in terms of funding . . .

Figure 9: SGB- Short and Medium-Term Yield Curves



Source: Company, JPMorgan

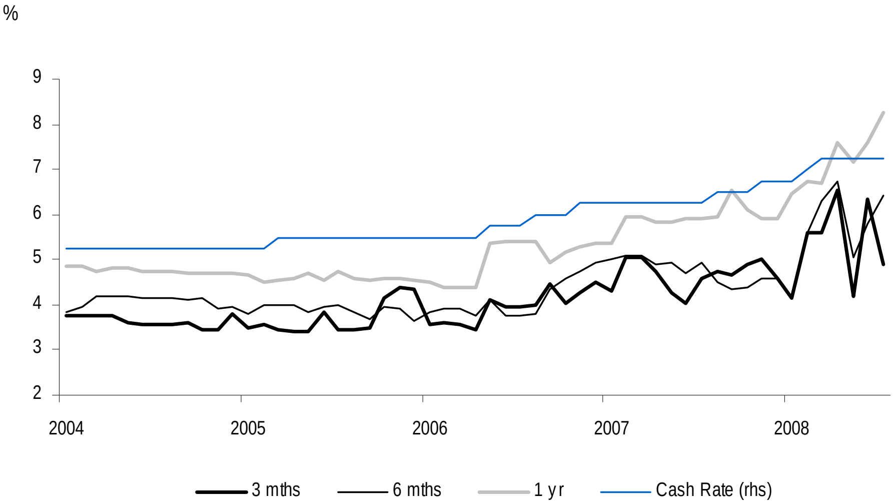
Figure 10: The Emerging Funding Duration Mis-match of the Australian Banks



Source: JPMorgan.

Retail deposit rates are being bid up as single A banks that can't access wholesale debt markets target deposits and the AA rated banks respond . . .

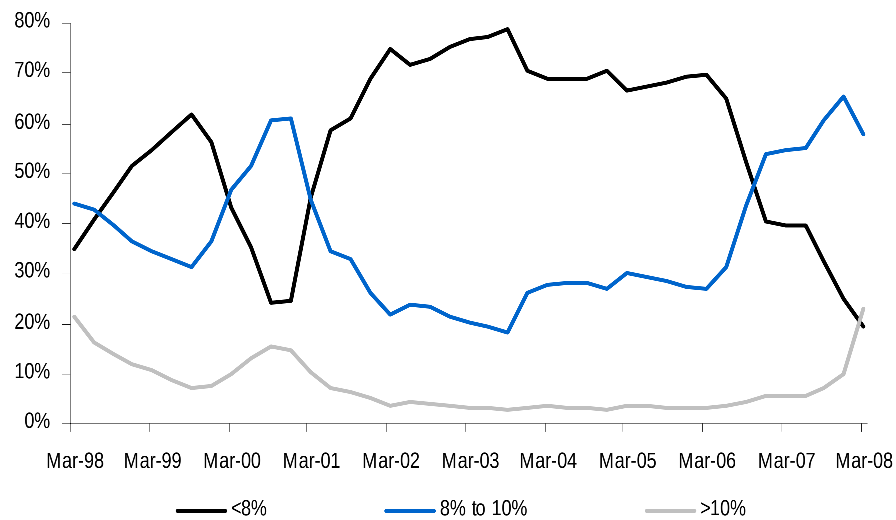
Figure 11: Deposit Rates vs Cash Rates



Source RBA

. . . However most SME borrowers have not yet seen borrowing costs rise to fully reflect the banks higher funding costs . . .

Figure 12: Proportion of Corporate Debt at Each Interest Rate Tranche - $100,001 to $500,000



Source: RBA, JPMorgan estimates

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Table 3: Australian Major Bank "Troubled Companies" Exposures

A$ in millions

	ANZ			CBA			NAB		
	Secured	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Centro	870	380	1250	990	160	1150	700	300	1000
ABC Learning *	0	250	250	0	680	680	0	200	200
Opes Prime Group	650		650			0	50		50
BNB	120		120	170		170	150		150
Lehman Brothers		150	150		150	150		100	100
AFG			0	0	200	200	0	87	87
Commander Communications			0	100		100	100		100
Primebroker Securities	260		260			0			0
City Pacific			0	240	0	240			0
ACA (US Monoline)	0	226	226			0			0
Tricom	195	0	195			0			0
National Gaming & Leisure			0			0	0	110	110
MFS Living & Leisure			0			0	0	110	110
Rubicon			0			0	0	65	65
Q Group		56	56			0			0
Austindo		55	55			0			0
MFS			0			0			0
Lafayette Mining	0	51	51			0			0
Freighlink	50		50			0			0
Basis Capital			0			0			0
MFS Childcare Property Trust			0			0			0
Landco			0	63		63	94		94
TOTAL	**2145**	**1168**	**3313**	**1563**	**1190**	**2753**	**1094**	**972**	**2066**
	WBC			**SGB**			**TOTAL**		
	Secured	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
Centro	100	0	100	458	0	458	**3118**	**840**	**3958**
ABC Learning *	0	300	300			0	**0**	**1430**	**1430**
Opes Prime Group			0			0	**700**	**0**	**700**
BNB	120	120	240			0	**560**	**120**	**680**
Lehman Brothers		10	10			0	**0**	**410**	**410**
AFG	0	250	250	0	60	60	**0**	**597**	**597**
Commander Communications	200		200			0	**400**	**0**	**400**
Primebroker Securities			0			0	**260**	**0**	**260**
City Pacific			0			0	**240**	**0**	**240**
ACA (US Monoline)			0			0	**0**	**226**	**226**
Tricom			0			0	**195**	**0**	**195**
National Gaming & Leisure			0			0	**0**	**110**	**110**
MFS Living & Leisure			0			0	**0**	**110**	**110**
Rubicon			0			0	**0**	**65**	**65**
Q Group			0			0	**0**	**56**	**56**
Austindo			0			0	**0**	**55**	**55**
MFS	30		30	25	0	25	**55**	**0**	**55**
Lafayette Mining			0			0	**0**	**51**	**51**
Freightlink			0			0	**50**	**0**	**50**
Basis Capital	40		40			0	**40**	**0**	**40**
MFS Childcare Property Trust			0	38	0	38	**38**	**0**	**38**
Landco			0			0	**157**	**0**	**157**
TOTAL	**490**	**680**	**1170**	**521**	**60**	**581**	**5813**	**4070**	**9883**

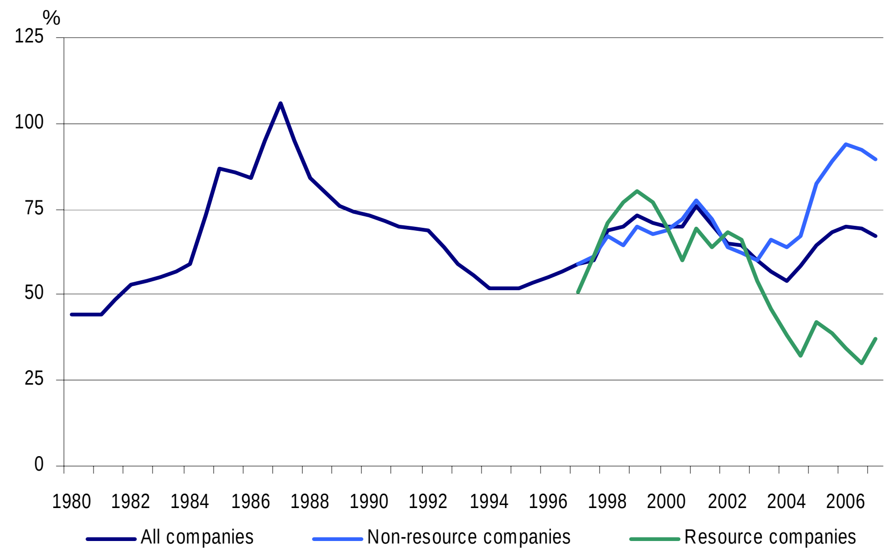
*CBA exposure includes a ~A$400m convertible note that is marked-to-market through the trading book.

Source: Company reports, JPMorgan estimates

. . . Nonetheless these tighter credit conditions have seen a marked uptick in the levels of new impaired corporate exposures . . .

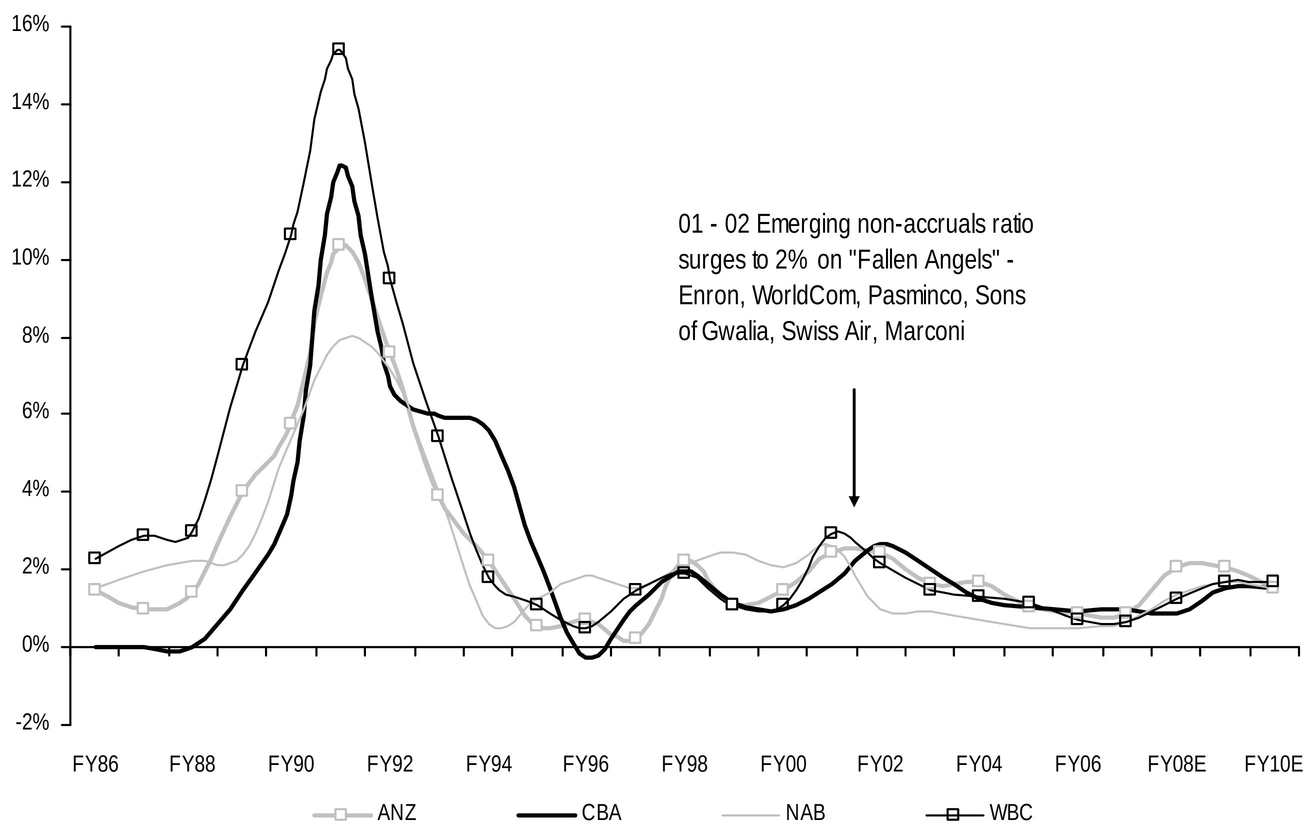
. . . Gearing levels in Australian non-bank industrial companies are high relative to history and this rising cost of debt is problematic . . .

Figure 13: Listed Non-Financial Companies' Gearing Ratio*



*Gross debt/shareholders' equity, book value, excluding foreign companies.
Source: September 2007 Financial Stability Review, Aspect Huntley, RBA, Statex.

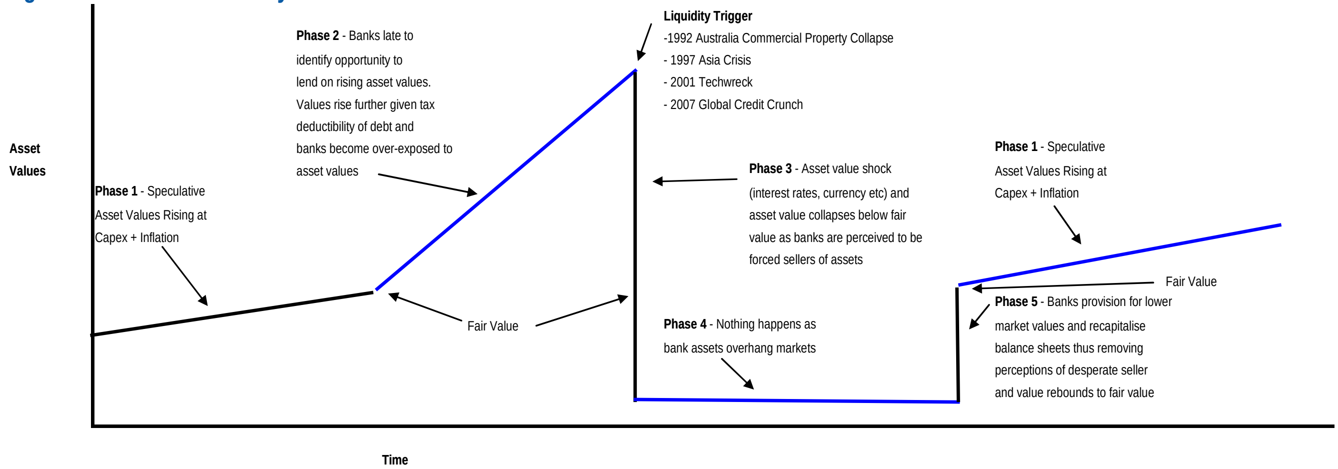
Figure 14: Emerging Non-Accrual Loans Ratio (Long-Term)



Source: Company reports, JPMorgan estimates.

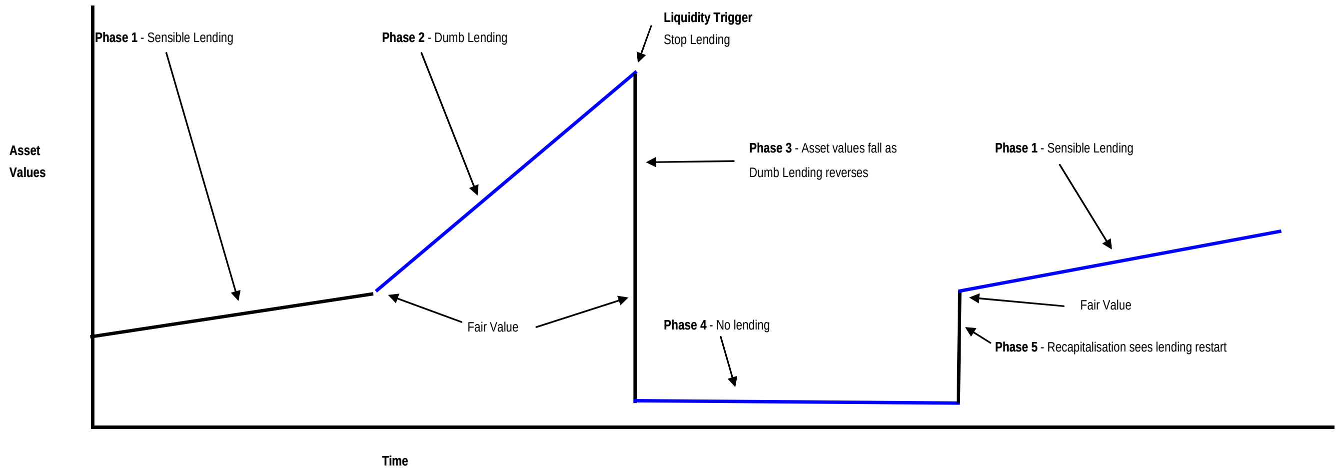
. . . As the rate at which new impaired assets are emerging is already rising off historically low levels . . .

Figure 15: The Asset Value Cycle



Source: JPMorgan.

Figure 16: Simplified Asset Value Cycle



Source: JPMorgan

. . .Banks can do "dumb lending" for an extended period without problems, in our view. It is when a "liquidity trigger" stops the dumb lending that loan losses escalate . . .

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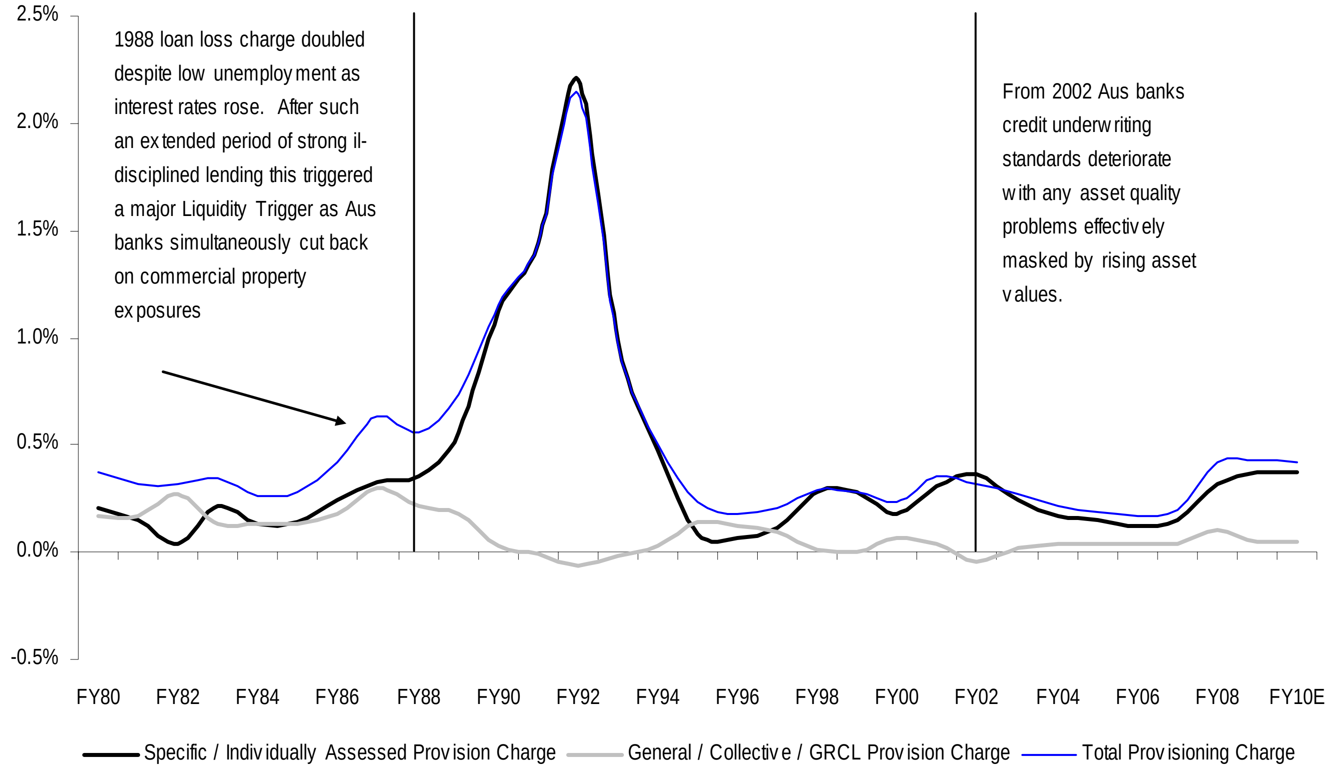
Figure 17: Major Australian Banks' Long-Term Provisioning Charges vs. Gross Loans and Acceptances



Source: Companies and JPMorgan estimates.

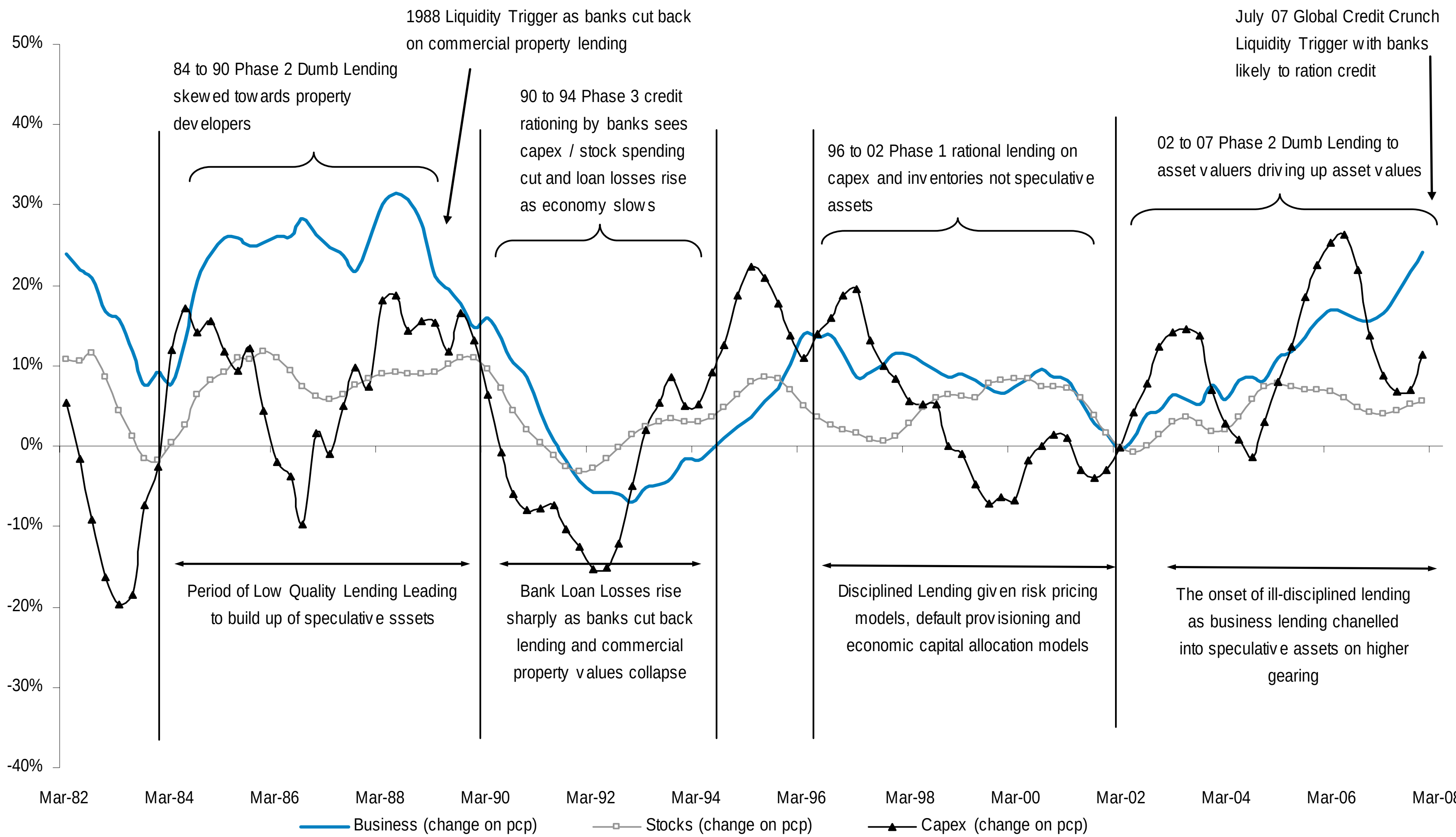
Table 4: Emerging Non Accruals

	1H06	2H06	FY06	1H07	2H07	FY07	1H08	2H08E	FY08E	FY09E	FY10E
ANZ											
Opening Non Housing Loans	121732	124957	121732	130488	134916	130488	147723	168381	147723	178134	196393
New & Increased Impaired Loans	630	454	1084	531	611	1142	1043	2021	3064	3652	3005
Annualised Emerging Non Accruals	1.04%	0.73%	0.89%	0.81%	0.91%	0.88%	1.41%	2.40%	2.07%	2.05%	1.53%
CBA											
Opening Non Housing Loans	79217	87469	79217	93272	102452	93272	123928	140695	123928	147252	159268
New & Increased Impaired Loans	365	380	745	401	527	928	566	538	1104	2260	2230
Annualised Emerging Non Accruals	0.92%	0.87%	0.94%	0.86%	1.03%	0.99%	0.91%	0.76%	0.89%	1.54%	1.40%
NAB											
Opening Non Housing Loans	142939	158419	142939	172536	185162	172536	206054	225419	206054	239531	264123
New & Increased Impaired Loans	358	374	732	412	753	1165	834	1957	2791	4060	4041
Annualised Emerging Non Accruals	0.50%	0.47%	0.51%	0.48%	0.81%	0.68%	0.81%	1.74%	1.35%	1.70%	1.53%
WBC											
Opening Non Housing Loans	85409	91800	85409	102515	112613	102515	123548	136344	123548	141798	153368
New & Increased Impaired Loans	284	327	611	313	335	648	733	818	1551	2391	2659
Annualised Emerging Non Accruals	0.67%	0.71%	0.72%	0.61%	0.59%	0.63%	1.19%	1.20%	1.26%	1.69%	1.73%
SGB											
Opening Non Housing Loans	24037	27601	24037	31014	33687	31014	37322	41124	37322	43591	47149
New & Increased Impaired Loans	49	83	132	80	65	145	114	134	248	667	721
Annualised Emerging Non Accruals	0.41%	0.60%	0.55%	0.52%	0.39%	0.47%	0.61%	0.65%	0.66%	1.53%	1.53%

Source: Companies, JPMorgan estimates

The rate at which new impaired assets has been emerging has been rising over the last 2 years but the profit impact had been masked by recoveries which are now set to decline . . .

Figure 18: Australian Business Lending vs. Capex vs. Stocks

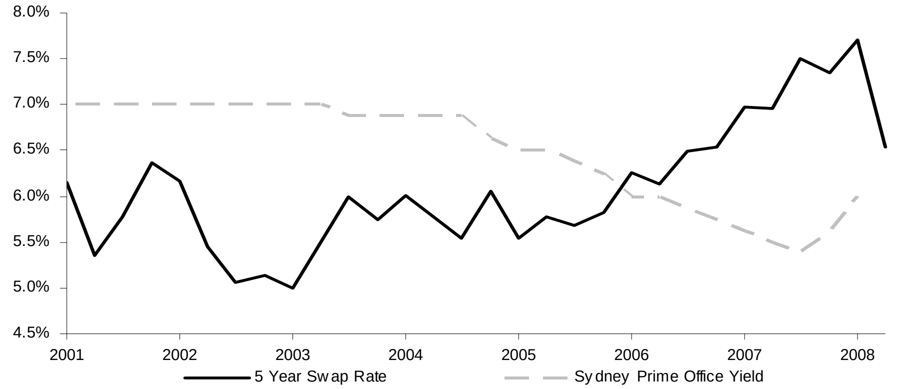


Source: APRA, ABS, JPMorgan.

. . . Since 2002 the surging business lending is not explained by capex or lending on inventories which suggests increased lending on speculative assets on an increasingly geared basis (refer to Figure 16 for what this means) . . .

. . . Notwithstanding recent declining values, commercial property values, which are the principal security for bank lending, still look unsustainably high in the present interest rate environment . . .

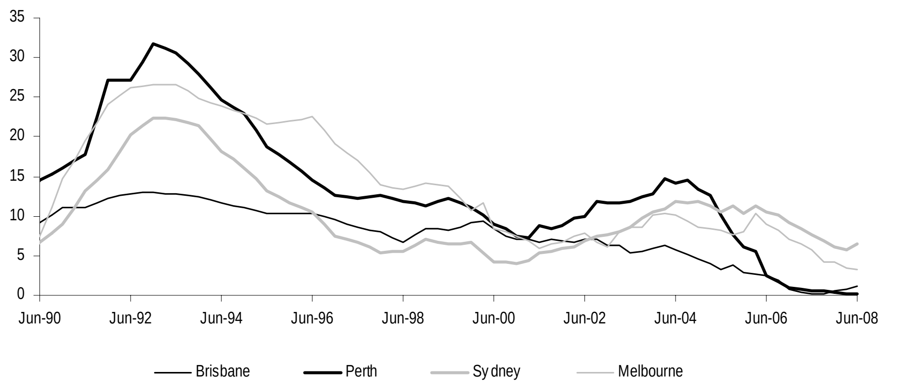
Figure 19: The 5 year swap rate vs. Sydney prime office yields...Can this last? Seems implausible. Office buildings cannot afford to disappoint



Source: JPMorgan Property Team, JLL, IRESS

. . . However the Commercial Property "problem" is on valuations this time not surplus capacity with CBD vacancy rates at historic lows BUT starting to turn upwards . . .

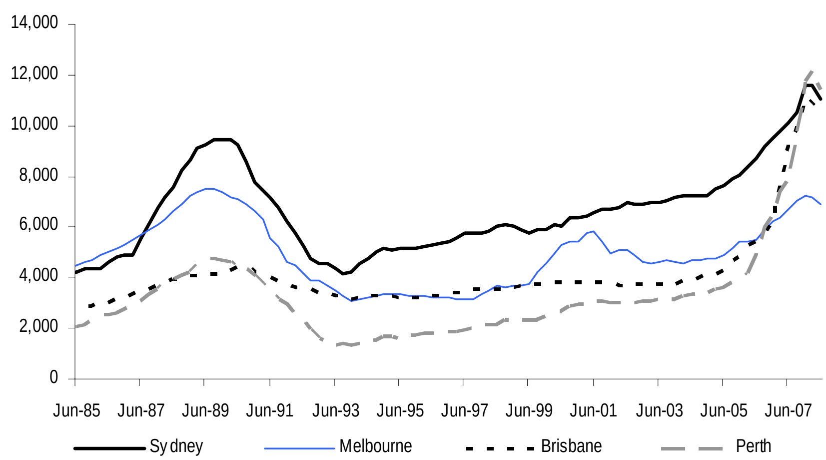
Figure 20: All Grade CBD Vacancy Rates



Source: PCA, JPMorgan Property Team

We believe the appreciation in Australian commercial property values in recent years defies rational explanation . . .

Figure 21: Prime Office Values in Australia (Per Square metre)



Source: JPMorgan Property Team, Jones Lang LaSalle

. . . Prospective rental growth rates on CBD property don't look all that encouraging relative to the present valuations . . .

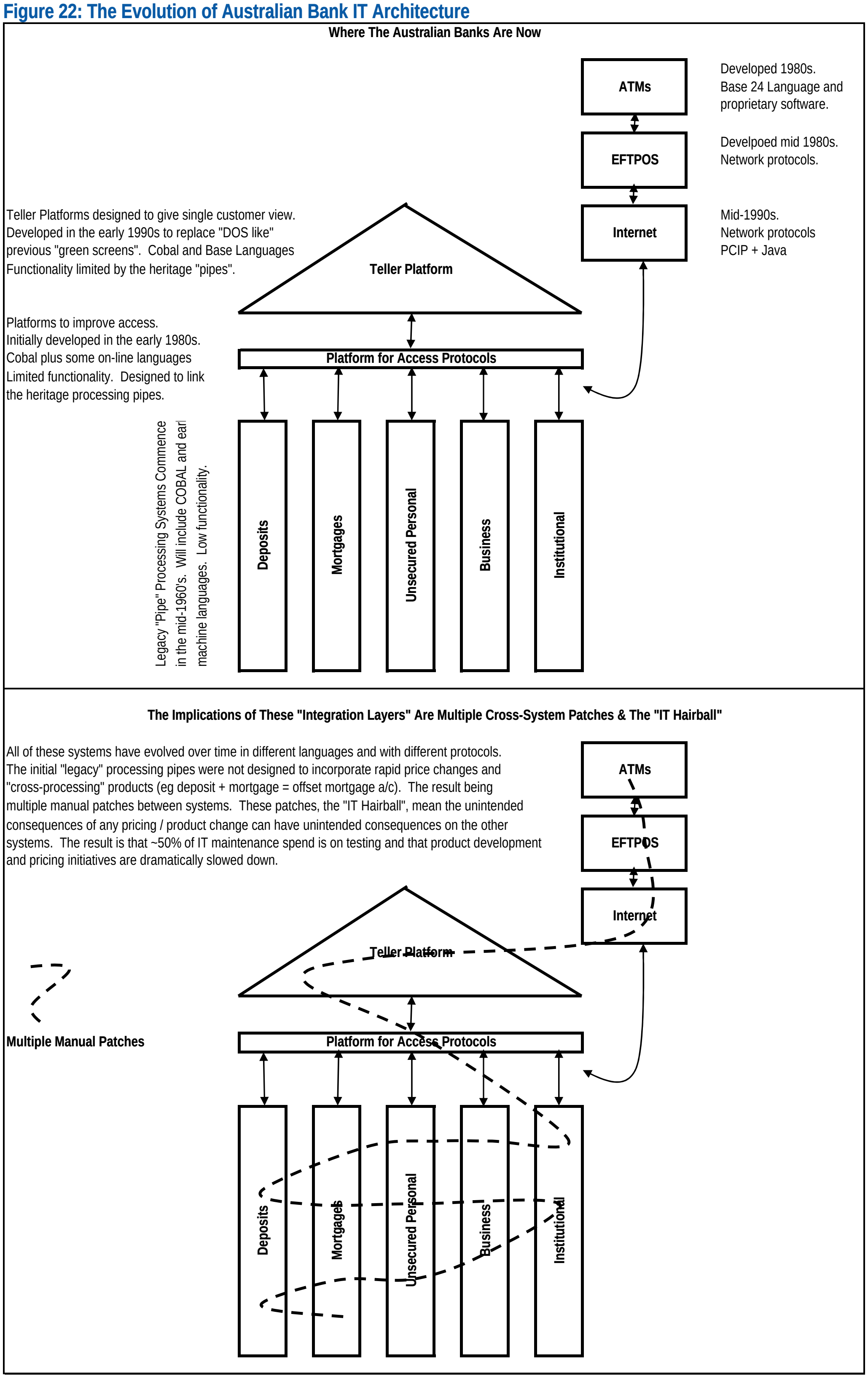
Table 5: Current Growth Rates for Prime Gross Effective Rents

Location	2008	2009	2010	2011	2012	5 yr CAGR
Brisbane CBD	-4%	-6%	-10%	-2%	1%	**-4%**
Sydney CBD	0%	1%	2%	4%	5%	**2%**
North Sydney	4%	3%	3%	3%	4%	**3%**
Melbourne CBD	7%	4%	-2%	3%	3%	**3%**
Canberra	4%	-8%	-2%	0%	3%	**-1%**
Perth CBD	20%	8%	-4%	-2%	0%	**4%**
Adelaide CBD	10%	12%	10%	4%	3%	**8%**

Source: Jones Lang Lasalle Research, JPMorgan Property Team

The Australian banks face a major IT capex spend of ~A$1bn each to address the legacy "IT Hairball" in their "core" operating systems. Thus far only CBA and NAB have disclosed their strategy to deal with this problem . . .

Figure 22: The Evolution of Australian Bank IT Architecture



Source: JPMorgan

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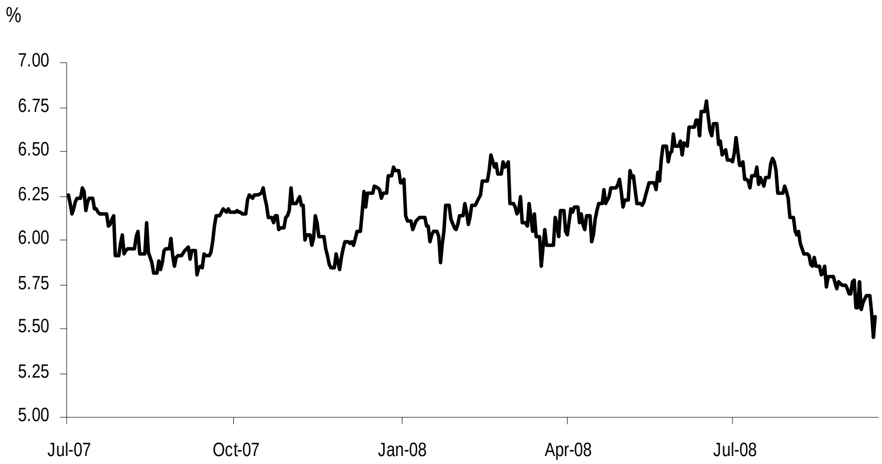
The recent rally in Australian 10 year bond rates may indicate a risk of deflation . . .

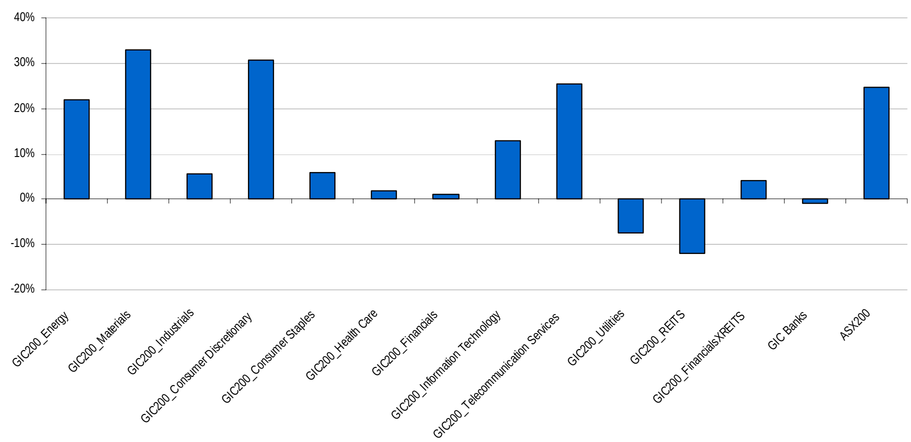
Figure 23: 10 Year Bond Rate



Source: IRESS

Based on the data since October 2000 the Australian banks are now only slightly negatively correlated to rising bond rates. This does not make a lot of sense for a financial stock . . .

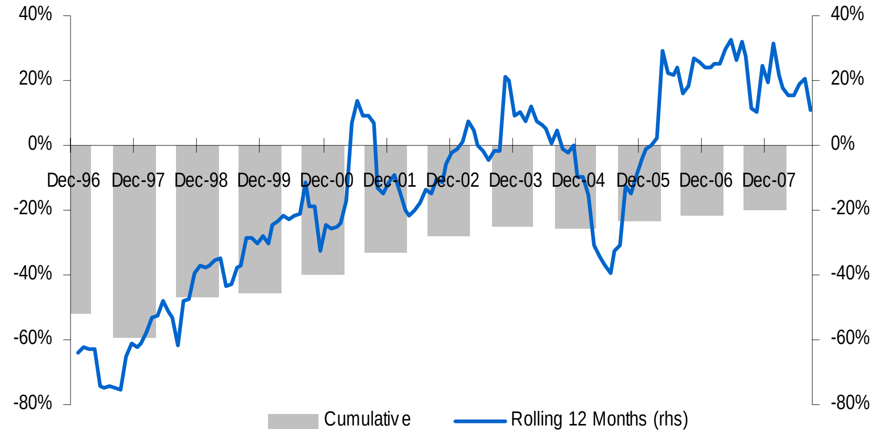
Figure 24: Monthly Total Return Correlations GIC 200 Sectors vs. 10-Year Bond Yield Return October 2000 to August 2008



Source: JPMorgan, IRESS.

On a rolling 2 year basis the Australian banks have become very positively correlated to rising bond rates. This defies any logical explanation but has crystallised a major positive rerating . , .

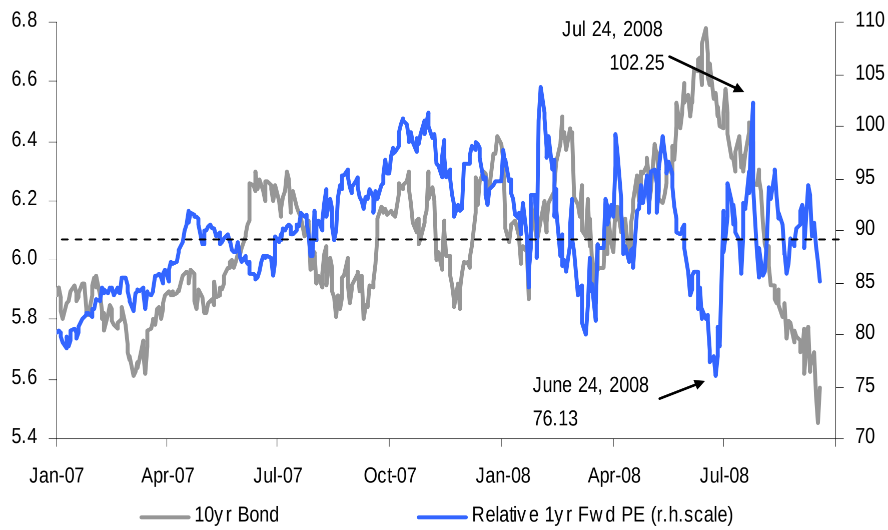
Figure 25: Banking Index vs. 10yr Bond Yield 2yr Rolling Correlations



Source: JPMorgan, IRESS.

Australian banks have been derated relative to the market . . .

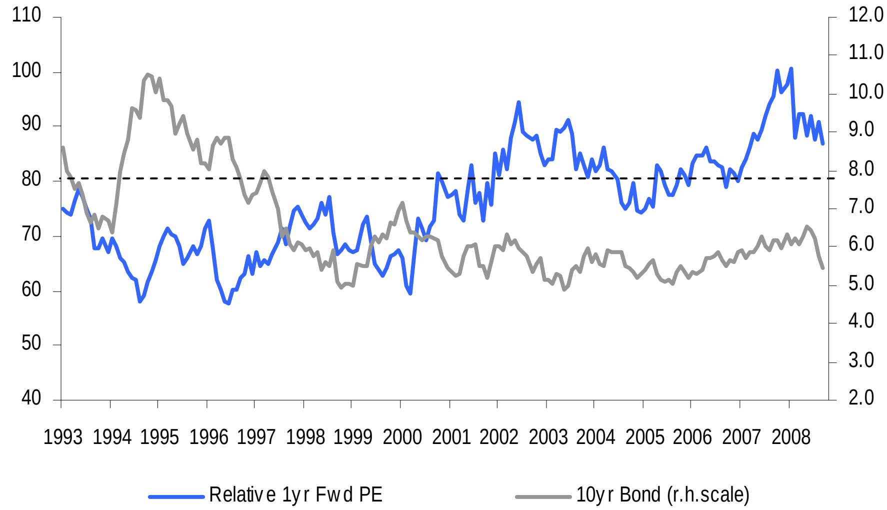
Figure 26: Average One-Year Fwd P/E Australian Major Banks' Relative to ASX300 Industrials vs. 10 - Year Bonds (Short Term)



Source: Bridge DFS, IRESS

BUT Prior to 2001 Australian banks were rated as cyclical stocks trading on relative PEs of 60% to 65%. The absence of a meaningful loan loss cycle from 2001 saw Aus banks positively re-rated as "defensives" whereas the late CY2007E / CY2008E thus far sell-off likely sees the PE derating not yet complete!

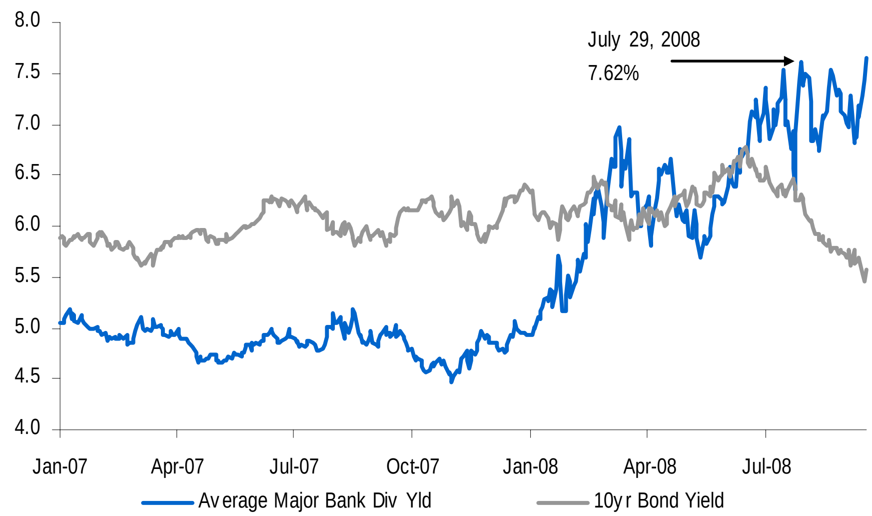
Figure 27: Average One-Year Fwd P/E Australian Major Banks' Relative to ASX300 Industrials vs. 10-Year Bonds



Source: Bridge DFS, IRESS

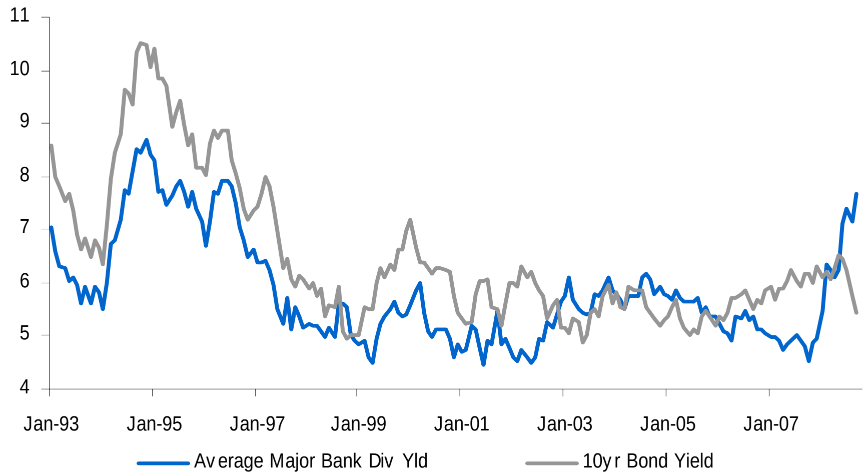
Australian bank FY08E prospective dividend yields of 7.4% appear prima facie attractive relative to 10 year bonds at 5.46% but this "valuation" signal is lessened qualitatively as bank dividends are being increasingly funded by way of dilutive DRP scrip issuance!

Figure 28: One- Year Fwd Prospective Dividend Yield vs. 10-Year Bond Yield (Short Term)



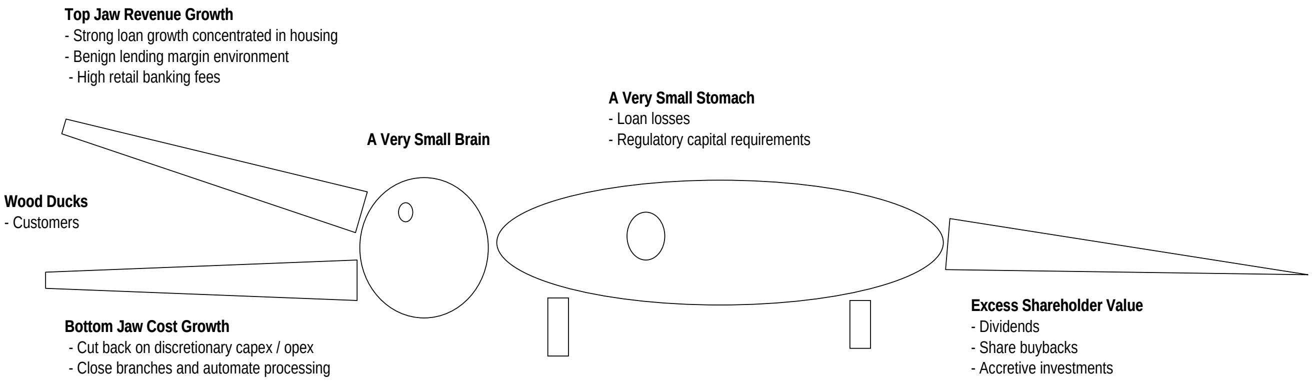
Source: Company, IRESS, JPMorgan estimates

Figure 29: One- Year Fwd Prospective Dividend Yield vs. 10-Year Bond Yield



Source: Company, IRESS, JPMorgan estimates

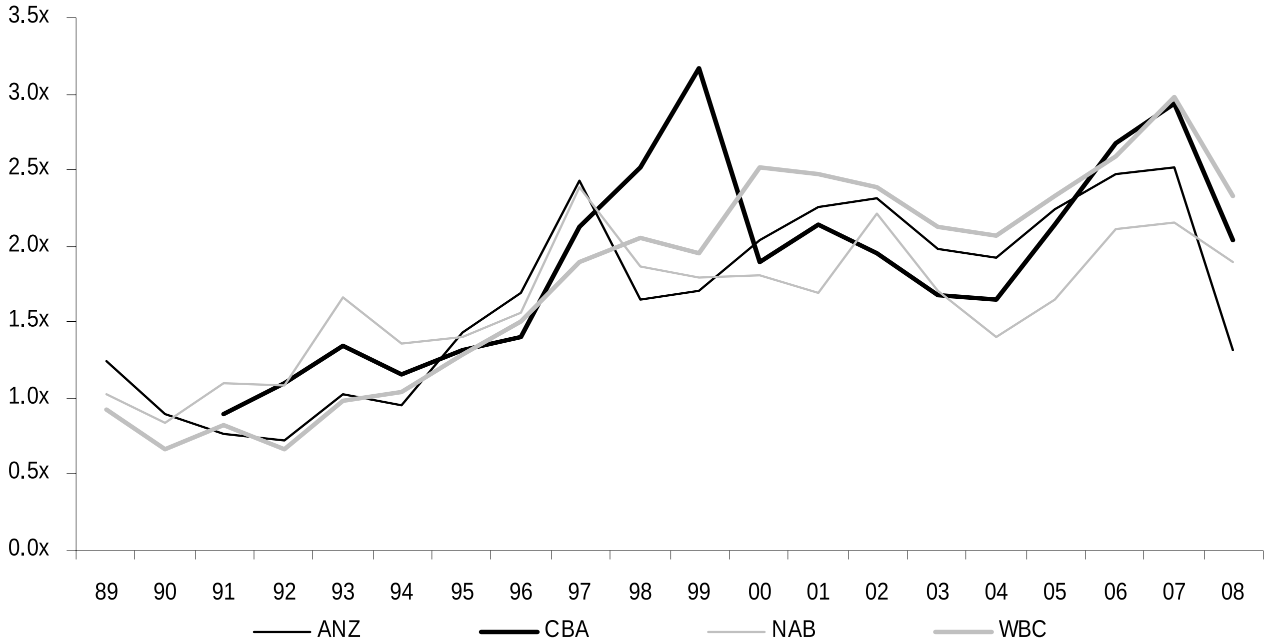
Figure 30: Surplus Capital "Crocodile" In Optimal Conditions



Source: JPMorgan

. . . Ultimately the sustainability of cash dividends is driven by profitability, asset growth and capital intensity . . .

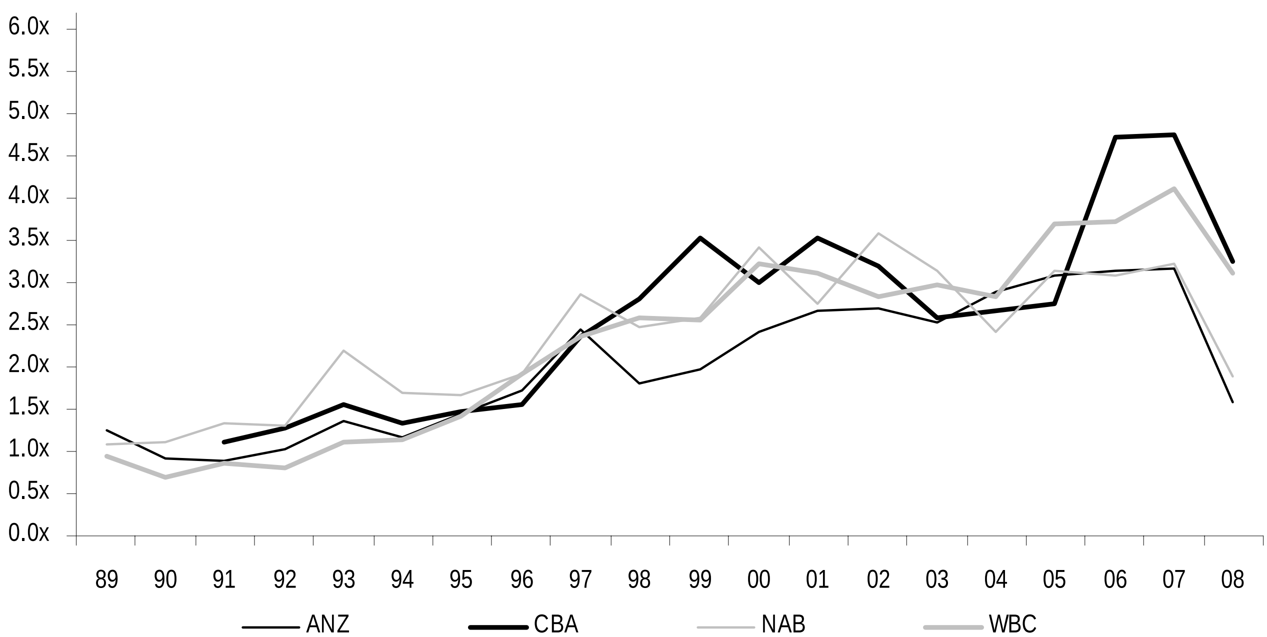
Figure 31: Major Bank Price to Book Value Ratios



Source: Companies, IRESS, JPMorgan

As earnings pressures rise and dividend quality deteriorates history suggests Australian bank share prices could de-rate further towards their net tangible asset backing as was the case for a long period in the early 1990's when there was last a loan loss cycle

Figure 32: Major Bank Price To Net Tangible Assets Ratios



Source: Companies, IRESS, JPMorgan

Table 6: Australian Major Banks: Company- Specific Investment Dynamics

Overweight	Neutral	Underweight
Banking Sector *Overweight Banks Scenario* *1 Non-bank industrial earnings risk.* *2 Perception that funding conditions can improve quickly.* *3 Perception that loan loss cycle will "not be that bad".* *4 Globally bonds rally.* *BUT* *1 The longer term sectoral outlook is uninspiring given valuation stretch, rising earnings risk, and tight funding markets persisting.* *2 Political anti-bank rhetoric continuing after the Federal election.*		**Banking Sector - Strategic Underweight Stance** **1** Global credit crunch adversly impacting earnings and capital. **2** Tight funding markets sees sustained rise in cost of funds. **3** Earnings risk: margins, slowing volumes, costs and loan losses. **4** Organic capital generation and dividend quality weakening. **5** Substantial near term Basel 2 capital releases unlikely. **6** Spectre of substantial IT capex to fix "IT Hairball". **7** Valuations not cheap rel to Aust market, history and banks globally. **8** Domestic institutional investors overweight. **BUT** **1** International investors are underweight. **2** Near term earnings risk of non-bank industrial stocks.
MQG #1 Pick given **1** Trading cheaply as Integrated Invest Bank / Infrastructure Fund Manager given growth opportunities and super high incremental ROE if equity supporting seed assets risk stripped out. **2** Specialist trust funds business growing strongly and increasingly diversified by asset class, asset domicile and listing domicile. Capital raisings in specialist trusts moving to offshore unlisted market. **3** Capitalised to exploit growth opportunities. **4** Staff bonus pool absorbs dilutionary impact of May 07 capital raising. **5** Funding assets on favourable terms despite credit market volatility. **6** New NOHC structure will enable offshore grwoth to continue. **BUT** **1** Market concerned re sustainability. **2** Periodic concerns over infrastructure funds mangt model. **3** Expensive relative to US investment banks. **4** Vulnerability to weaker equity and bond markets. **5** Risks are perceived arrogance, rising real rates, seed asset valuation risk and conglomerate management risk.	**CBA #3 Pick given** **1** Strength in deposits a positive differentiator. **2** Relative safety in current funding enviroment - least impacted by the "global credit crunch" **3** Above peer EPS growth opportunity in capital management, cost efficiency and housing / business loan sales. **4** Below peer capital intensity equates to superior capital generation. **5** "Tight" register with domestic and o/s institutions underweight and retail holdings sticky given capital gains tax. **6** Premium valuation justified given above peer capital generation. **BUT** **1** Capital adequacy stretched and ACE illusory given inclusion of A$2bn of non-recourse debt. **2** Vulnerability to increased competition on deposit / housing margins. **3** Proprietary channel home loan share declined further in 1H08. **4** Major aspirations in infrastructure funds management space. **5** Consistent association with problem loan exposures	**SGB #5 Pick given** **1** Proposed WBC merger will take months to complete but the Board acceptance reflects poor positioning for the Global Credit Crunch. **2** SGB's previous high loan growth / securitisation funded / highly geared / high dividend payout ratio no longer works. **3** FY08E guidance of 8 - 10% susceptible to small deterioration in either NIM or loan losses. **4** Consistently disappointing home loan distribution performance. **5** Peer relative valuation stretched. **BUT** **1** Counter-bidders cant be ruled out given SGB's NSW franchise and strong wealth management business **2** Sources of above peer EPS growth (i) the eventual NSW recovery & (ii) offshoring non-voicing processing functions. **3** Domestic institutions U/W and MSCI December 2007 inclusion.
ANZ #2 Pick given **1** Acquisition risk in Asia and domestic wealth management. **2** Risk return tradeoff of low domestic wealth management / high Asia will increasingly prove a negative differentiator. **3** FY08E headwinds (i) steeper yield curve, (ii) higer wholesale debt costs, (iii) rising loan losses, given non-recurring write-backs, (iv) declining hedge profile going forward against a strong A$, and (v) dilutive impact of 2007 final / 2008 interim DRP U/W. **4** Overly exposed to weakening NZ economy (ie ~22% NPAT). **5** PE discount justified given higher capital intensity, slowing growth outlook and acquisition risk. **6** "Loose" share register with domestic institutions overweight. **7** Above-peer broker usage and reliance on incrementally expensive wholesale funding affords little pricing flexibility. **8** Consistent association with problem loan exposures **BUT** **1** The bad news is already in the "relative" share price	**WBC #4 Pick given** **1** Recent turn around in WBC's distribution performance - only major bank to grow above system **2** Highest quality earnings with restructuring booked above the line. **3** Above-peer asset quality - fewer problem loan exposures currently **4** High profitability, low capital intensity and high franking support 70% dividend payout ratio and ongoing share buy-back potential. **5** WBC entering period of realising benefits from past investment **6** Appointment of Gail Kelly as CEO (formerly SGB) had settled perceptions of WBC's previous poor management rating. **BUT** **1** Proposed SGB acquisition is near term EPS dilutive, increases execution risk and sees WBC assuming SGB's poor funding profile and asset quality for little medium term EPS accretion. **2** 5% FY08E cost growth is poor return on historic above peer Opex. **3** Lingering concerns WBC's improved share reflects discounting. **4** "Loose" share register with domestic institutions overweight.	**NAB #6 Pick given** **1** Better than expected 1H08 result and dividend with flat operating costs offseting ruising loan losses and a higher tax rate **2** Below peer 0.78% ROA is structural given wealth management accounting and above peer staff pay rates. Not easily recitified. **3** Target payout 65% but organic capital generation below peers. **4** UK margins still tumbling from back-book repricing. Thus far sound UK asset quality stretches credibility. **5** Previous surplus capital position absorbed and 1H08 DRP underwriting. **6** Acquisition risk Aust wealth mangt and UK, US and Europe banking. **7** A$4.5bn of unprovisioned CLO exposures. **8** S&P negative rating outlook. **BUT** **1** Sub-inflation cost growth guidance extended to 2010E **2** CY2007 under-performance had reduced extreme relative valuation gap
		Regionals (BOQ & BEN) #7 & #8 Pick given **1** Absolute $ valuation looks stretched. **2** Inadequate organic capital generation due to low ROA. **3** Reliance on securitisation market for capital relief. **4** History of high operating cost growth. **5** Inadequate organic capital generation due to low ROA. **6** Margin outlook highly reliant on retail deposit growth. **7** Capital constrained given strong growth and B2 transition. **BUT** **1** FY08E EPS growth guidance (BOQ: 10% to 12%, BEN: 12%). **2** BEN: Community Bank margin resilient given retail deposit growth. **3** BOQ: Sustainable earnings growth from differentiated OMB model. **4** Tight share register **5** Low credit risk.

Source: JPMorgan.

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Table 7: Major Bank Valuations

Peer Relative Valuations	17-Sep-08		Est Ex Divd		
Major Bank	**Mkt Price**	**Est Div**	**Price**	**Mkt Cap**	**Weighting**
ANZ	A$16.00	A$0.59	A$15.41	A$32.3bn	17.4%
CBA	A$41.10	A$0.34	A$40.76	A$55.3bn	29.8%
NAB	A$20.70	A$0.68	A$20.02	A$37.1bn	20.0%
WBC	A$23.01	A$0.56	A$22.45	A$44.0bn	23.7%
SGB	A$30.15	A$0.73	A$29.42	A$16.9bn	9.1%
Sub-Total Major Banks				**A$185.6bn**	**100%**
ASX200				**A$960.5bn**	**19%**

Normalised Fully Diluted Cash EPS	FY07	FY08E	FY09E	FY10E
ANZ	205.1c	157.0c	179.4c	193.0c
CBA	346.7c	346.9c	334.6c	351.1c
NAB	256.9c	235.9c	249.8c	273.8c
WBC	186.8c	196.9c	179.0c	176.6c
SGB	210.8c	227.2c	210.1c	202.6c

Normalised EPS Growth	FY08E	FY09E	FY10E
ANZ	-23.5%	14.3%	7.6%
CBA	0.1%	-3.5%	4.9%
NAB	-8.2%	5.9%	9.6%
WBC	5.5%	-9.1%	-1.4%
SGB	7.8%	-7.5%	-3.6%
ASX200	10.0%	7.0%	7.0%

Normalised PE Multiple	FY08E	FY09E	FY10E
ANZ	9.8x	8.6x	8.0x
CBA	11.8x	12.2x	11.6x
NAB	8.5x	8.0x	7.3x
WBC	11.4x	12.5x	12.7x
SGB	12.9x	14.0x	14.5x
Major Bank Simple Av	**10.9x**	**11.1x**	**10.8x**
Market Cap Weighted Av	**10.8x**	**11.0x**	**10.6x**

Sustainable Payout Ratio	FY08E	FY09E	FY10E	Average	Premium
ANZ	63.2%	67.9%	69.3%	66.8%	-5.8%
CBA	81.9%	80.0%	80.0%	80.6%	13.7%
NAB	55.0%	57.2%	58.5%	56.9%	-19.7%
WBC	77.2%	73.9%	71.8%	74.3%	4.8%
SGB	73.7%	68.6%	64.2%	68.8%	-2.9%
Major Bank Simple Av				**69.5%**	
Market Cap Weighted Av				**70.9%**	

Other Factors		
ANZ		
CBA		
NAB		
WBC	Execution risk on SGB proposal	-2%
SGB		

Peer Relative Valuations			
Target PE Multiples	**FY08E**	**FY09E**	**FY10E**
ANZ	10.2x	10.3x	10.0x
CBA	12.3x	12.5x	12.1x
NAB	8.7x	8.8x	8.5x
WBC	11.1x	11.3x	10.9x
SGB	10.5x	10.7x	10.3x
Major Bank Simple Av	**10.5x**	**10.7x**	**10.4x**
Market Cap Weighted Av	**10.7x**	**10.9x**	**10.6x**

Implied Relative Price	FY08E	FY09E	FY10E
ANZ	A$15.96	A$18.55	A$19.36
CBA	A$42.54	A$41.75	A$42.49
NAB	A$20.42	A$22.00	A$23.40
WBC	A$21.84	A$20.20	A$19.33
SGB	A$23.80	A$22.39	A$20.95

Implied Target Av Price	Jun 09 Target	Current ExDiv	+/-
ANZ	**A$17.96**	A$15.41	16.5%
CBA	**A$42.26**	A$40.76	3.7%
NAB	**A$21.94**	A$20.02	9.6%
WBC	**A$20.46**	A$22.45	-8.9%
SGB	**A$22.38**	A$29.42	-23.9%

Absolute $ Valuations (SusCapGen)						
Barra Beta	**10 Bond**	**ERP**	**Beta**	**SusCapGen**	**Current**	**+/-**
ANZ	5.74%	5.00%	1.03	**A$20.92**	A$15.41	35.7%
CBA	5.74%	5.00%	0.97	**A$53.47**	A$40.76	31.2%
NAB	5.74%	5.00%	0.97	**A$33.08**	A$20.02	65.2%
WBC	5.74%	5.00%	1.01	**A$27.68**	A$22.45	23.3%
SGB	5.74%	5.00%	1.00	**A$25.81**	A$29.42	-12.3%
Major Bank Market Cap Weighted Undervalued / (Overvalued)						**33.0%**
Beta of 1	**10 Bond**	**ERP**	**Beta**	**SusCapGen**	**Current**	**+/-**
ANZ	5.74%	5.00%	1.00	A$21.15	A$15.41	37.2%
CBA	5.74%	5.00%	1.00	A$53.27	A$40.76	30.7%
NAB	5.74%	5.00%	1.00	A$32.72	A$20.02	63.4%
WBC	5.74%	5.00%	1.00	A$27.77	A$22.45	23.7%
SGB	5.74%	5.00%	1.00	A$25.77	A$29.42	-12.4%
Major Bank Market Cap Weighted Undervalued/ (Overvalued)						**32.8%**

Other Valuation Metrics			
NTA Per Share	**FY08E**	**FY09E**	**FY10E**
ANZ	$10.54	$11.09	$11.75
CBA	$12.38	$14.38	$15.76
NAB	$13.33	$14.30	$15.17
WBC	$7.79	$8.46	$9.08
SGB	$9.50	$10.09	$10.48
Major Bank Simple Av	**$10.71**	**$11.66**	**$12.45**
Market Cap Weighted Av	**$10.90**	**$12.00**	**$12.88**

NTA Multiple	FY08E	FY09E	FY10E
ANZ	1.5x	1.4x	1.3x
CBA	3.3x	2.8x	2.6x
NAB	1.5x	1.4x	1.3x
WBC	2.9x	2.7x	2.5x
SGB	3.1x	2.9x	2.8x
Major Bank Simple Av	**2.4x**	**2.2x**	**2.1x**
Market Cap Weighted Av	**2.5x**	**2.3x**	**2.1x**

Dividend Per Share	FY08E	FY09E	FY10E
ANZ	$1.36	$1.36	$1.36
CBA	$2.66	$2.66	$2.78
NAB	$1.94	$1.94	$1.94
WBC	$1.44	$1.44	$1.44
SGB	$1.85	$1.85	$1.85
Major Bank Simple Av	**$1.85**	**$1.85**	**$1.87**
Market Cap Weighted Av	**$1.93**	**$1.93**	**$1.96**

Dividend Yield	FY08E	FY09E	FY10E
ANZ	8.8%	8.8%	8.8%
CBA	6.5%	6.5%	6.8%
NAB	9.7%	9.7%	9.7%
WBC	6.4%	6.4%	6.4%
SGB	6.3%	6.3%	6.3%
Major Bank Simple Av	**7.5%**	**7.5%**	**7.6%**
Market Cap Weighted Av	**7.5%**	**7.5%**	**7.6%**

Major Bank Valuations Summarised

Prices	17-Sep-08
ANZ	A$15.41
CBA	A$40.76
NAB	A$20.02
WBC	A$22.45
SGB	A$29.42

	NTA		Absolute $ SusCapGen		Peer Relative Share Price Target	
	Value	**+/-**	**Value**	**+/-**	**Jun 09**	**+/-**
ANZ	A$11.09	-28.0%	A$20.92	35.7%	**A$17.96**	16.5%
CBA	A$14.38	-64.7%	A$53.47	31.2%	**A$42.26**	3.7%
NAB	A$14.30	-28.6%	A$33.08	65.2%	**A$21.94**	9.6%
WBC	A$8.46	-62.3%	A$27.68	23.3%	**A$20.46**	-8.9%
SGB	A$10.09	-65.7%	A$25.81	-12.3%	**A$22.38**	-23.9%

Source: Company reports, JPMorgan estimates, IRESS.

General Insurance

Impact of insurance ructions

Insurance

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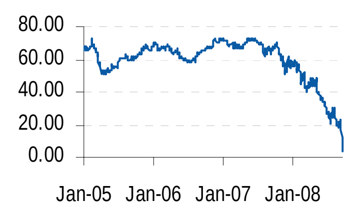
- The pace of the downfall of AIG over the last 2 days has been quite breathtaking, and in our view overshadows the impact of the collapse of Lehman Brothers in terms of its impacts on the financial system. That event, along with Hurricane Ike (to a far lesser extent), will have an impact on the global insurance outlook.
- We now know that the US Federal Reserve has provided a loan facility of $85B in exchange for an 80% equity stake in AIG. There are punitive interest terms associated with the loan. The Federal Reserve will seek to divest the assets of the group holding company in an orderly process, including, we believe, the insurance entities.
- We believe that well capitalized insurers such as QBE and AXA may well benefit from this by being able to purchase assets relatively cheaply either out of AIG, or from the depression this would cause on prices for other insurance assets for sale. If nothing else, we believe they could profit from any customer fallout.
- We believe rate reductions are likely to slow in the US, but not stop, on the back of this event.
- Losses on Ike should help slow the rate reduction – but we do not believe they will stop it. We estimate that losses could range between $6-18B, but they could in large part be borne by state-based insurers of last resort. As such, it should not substantially reduce capacity.
- Net/ Net – we believe the events of the past week, along with the declining US$, are a major positive for QBE and should sway sentiment towards the stock. We maintain a Neutral for now on the grounds of concerns on medium-term earnings and sustainability of insurance margins, but we note that sentiment will likely swing in its favour.

Figure 1: AIG share price (US$)



Source: Bloomberg

Table 1: Estimated losses from hurricane Ike (US$)

	US$
AIR Worldwide	8bn to 12bn
EQECAT	8bn to 18bn
RSM	6bn to 16bn

Source: Company reports.

Summary

The pace of the downfall of AIG over the last 2 days has been quite breathtaking, and in our view overshadows the impact of the collapse of Lehman Brothers. Whilst the implications for the broader financial system are considerable, we focus in this note on the impacts in the insurance sector from this event, and from Hurricane Ike.

Key points:

- The Federal Reserve has provided a loan facility of $85B in exchange for an 80% stake in AIG. There are punitive interest terms associated with the loan.
- The Federal Reserve will seek to divest the assets of the group holding company in an orderly process, including, we believe, the insurance entities.
- We believe that well capitalized insurers such as QBE and AXA may well benefit from this by being able to purchase assets relatively cheaply (and, if nothing else, profit from any customer fallout).
- We believe rate reductions are likely to slow in the US, but not stop.
- Losses on Ike could range between $6-18B, but we expect they could in large part be borne by state-based insurers of last resort. We believe that the upward impact on rates from this event alone will be limited.
- Net/ Net – we believe the events of the past week, along with the declining US$, are a major positive for QBE and should sway sentiment towards the stock. We maintain a Neutral for now on the grounds of concerns on medium-term earnings and sustainability of insurance margins.

The issue with AIG

AIG has posted significant losses over the past three quarters, primarily as a result of its underwriting of a number of credit default swaps (CDSs) covering collateralized debt obligations (CDOs) with mortgage exposures. The company reported losses of US$13.2B in 1H08 and US$5.3B in losses in 4Q07, taking losses over the previous three quarters to US$18.5B.

Standard & Poor's on Monday 15/09/2008 lowered the rating on the AIG Group Holding Company from AA- to A- with the rating on CreditWatch with negative implications. S&P flag reduced access to capital to meet increasing mortgage-related losses, offset in part by the substantial strength of the insurance subsidiaries. The New York Department of Insurance will permit AIG’s insurance subsidiaries to upstream US$20B into the holding company in order to reduce the immediate liquidity strain being felt particularly by AIG Financial Products Corp, which is facing increased collateral requirements as a result of CDS mark-to-market losses. The longer-term liquidity requirements will be met with a loan from the Federal Reserve Bank.

The Federal Reserve Bank of New York has agreed to provide AIG with a two-year, US$85B secured loan which will help AIG meet its liquidity requirements.

1. The loan will accrue interest at 850 basis points above Libor.

2. Comments made by the Federal Reserve Bank indicate that the "loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner . . ."

3. The loan is collateralized by all of AIG's assets, and the Federal Reserve Bank expects the loan to be repaid from the proceeds of asset sales.

4. The US Government will receive 79.9% of AIG's equity, essentially diluting existing equity holders by a factor of 4.

The exposures in AIG to the sub-prime crisis stem from:

- It owns American General Finance, which originates first-lien mortgage loans to buyers of residential housing
- It owns United Guaranty Corporation, which provides mortgage insurance for very high loans to value residential mortgages
- AIG insurance invested in mortgage-backed securities and CDOs (which has underlying collateral of residential loans)
- AIG Trading Group provides credit protection on certain super senior tranches of CDOs.
- AIG writes substantial amounts of Director's And Officer's Insurance

The impacts of AIG on the Australian insurers

- **No Contagion effects:** In FY07 AIG reported net written premiums of US$47B, which we estimate accounts for 3% of the global insurance market. Given the relatively small global market share **we would not expect the contagion effect to other insurers through reinsurance treaties to be significant**. **SUN, IAG and QBE have all announced negligible counterparty exposure to AIG.**

- **Increased Asset Sales:** In our view, the eventual sale of AIG assets offers QBE a good opportunity to pick up good assets at bargain prices. We understand that whilst the Asian assets of AIG would be very highly sought after, we believe:

    - the tight credit conditions and low price to book ratios / PE ratios of European and American peers should place QBE at a competitive advantage in terms of raising capital and making whatever price might be paid for assets appear EPS accretive immediately.

    - If nothing else, increased assets for sale should place downward pressure on prices.

- We note that QBE has around A$1B in surplus capital to make acquisitions. We believe if they sought to raise more, it would be well received by the market.

- We believe AXA could also be a beneficiary from asset sales in Asia.

- **Rate reductions may slow:** AIG represents about 11% of the US Commercial Insurance Market. They have been known as a more aggressive writer. We believe they are likely to be less aggressive and be told to preserve capital. We suspect this may have some modest upwards pressure on US rates. We note that Munich Re have signaled that this could be a rate-environment changing event (although we are less bullish than this).

The impact of hurricane Ike could help rates, too

The events from Hurricane Ike over the weekend pale when viewed in the context of AIG. Nevertheless, industry estimates of losses from hurricane Ike range from US$6-18B.

- AIR Worldwide estimates losses of US$8-12B.

- Risk Management Solutions puts losses at US$6-16B.

- EQECAT estimates losses from Ike of US$8-18B.

Our US insurance team would not be surprised to see losses from hurricane Ike exceed US$10B. Total US industry premiums amount to around US$500B, putting losses at 1-4% of total industry premiums. We understand though that much of the losses related to Ike would lie with state-regulated insurers, who were acting as insurers of last resort as substantial capacity exited storm-exposed areas.

As such, while losses from hurricane Ike and the hurricane season in general are likely to be large, we and our US insurance team do not expect to see much upward pressure on rates from this alone. Coupled with AIG, however, we do certainly see reason to believe that reductions in rates should slow.

Again, we believe that QBE will benefit from an above-normal hurricane season in Texas. QBE only writes around US$82MM in premium in Texas, which accounts for around 2.4% of its US premium revenue. As a result, we would not expect QBE to post a significant loss from Ike.

Asia Pacific Equity Research
17 September 2008

Emerging Companies

Gearing and Refinancing Risk

Australia
Emerging Companies

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- We have examined the financial liquidity of all the stocks in our coverage universe, ranking them according to their book gearing (ND/E and ND/ND+E), interest coverage (EBITDA and EBIT) and ND/EBITDA. For each company we have also considered re-financing requirements and debt headroom.
- The majority of stocks we cover are comfortably geared and have no immediate risk of refinancing. Those to keep an eye on are, in our opinion, **CCP** (high level of gearing and increasing onerous covenants), **AJL** (Mitchell acquisition and exploration costs have pushed gearing up, but a CSM asset sale could take it right back down again), **MLE** ($100 million of debt falling due within 12 months) and **TIM** (highly geared with earnings risk).

Book gearing

- On the basis of book gearing, only two stocks in our universe have an FY09E ND/ND+E ratio above 50%: CCP at 58% and TIM at 57%. A further six stocks have a ratio exceeding 40%: MSL, TOX, AJL, NFK, GUD and CXP. By contrast, one stock (AAX) has a forecast net cash position at the end of FY09, while six others have FY09E ND/ND+E ratios below 20%: IRE, CSS, TFC, CND, DMP, WDS and TGR.

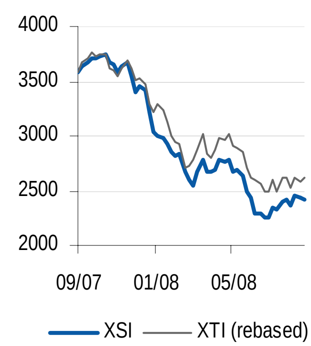
Interest cover

- Five stocks in our universe have FY09E EBIT interest coverage ratios below 4x: CSS at 2.2x, CCP at 2.3x, AJL at 3.3x, PRG at 3.5x and ALS at 3.6x. A further four stocks are below 5x: CRG, MLE, HST and SAI. Those most comfortable on the basis of forward interest cover are IRE, AAX, TIM, TSM, CND. TFC and DMP.

Net debt to EBITDA

- TIM's FY09E net debt is 6.9x its FY09E EBITDA, the highest ratio in our universe. Above a 2x ratio are also MLE, PRG, ALS, CSS, SAI and AJL.

Figure 1: XSI vs. XTI



Source: IRESS Market Technology

Table 1: Preferred Stocks

Ticker	Name	FY09E PE
AJL	AJ Lucas Group	13.5x
AAX	Ausenco	15.9x
CRG	Crane Group	12.0x
MSL	The MAC Services	14.4x
TOX	Tox Free Solutions	10.4x
WDS	WDS	8.8x

Source: JPMorgan estimates.

www.morganmarkets.com

Gearing and Refinancing Risk

Keep your eye on these ones

Credit Corp (CCP)

CCP's modus operandi in recent years has been to gear up its own balance sheet to facilitate the acquisition of debt ledgers from banks and credit card companies. This has left the company with plenty of debt: at 30 June 2008, ND/ND+E was 65%, the highest level of book gearing in our universe. FY09E EBIT interest cover is 2.3x (the second lowest in our universe). The good news is that CCP’s facilities were recently refinanced for three years, but covenants require its asset cover ratio (PDL value + current receivables/loan balance, currently 1.6:1) to step up to 2.0:1 by early 2011. To keep its head above water, CCP needs to continue to improve its productivity while keeping a lid on new ledger acquisitions.

AJ Lucas Group (AJL)

Following its acquisition of Mitchell Drilling and with an active CSM exploration programme to fund, AJL’s debt levels are becoming quite high. Book gearing is 49% FY09E ND/ND+E (equal fourth highest in our universe) and FY09E EBIT interest cover is 3.3x (third lowest). This suggests AJL is hardly a 'safe haven' investment in our view. The key to our positive view on the stock, however, is our view that the company will look to spin off its CSM assets within the next few months. We have a blue-sky valuation of $530 million for these assets. Were AJL to receive cash for at least a portion of the divestment proceeds of the CSM assets, this could allow AJL to pay down debt substantially. In any case, AJL refinanced its debt facilities recently for a further three years.

Macquarie Leisure Trust Group (MLE)

Although hardly over-geared by the standard of most property trusts, MLE has one of the highest net debt to EBITDA ratios in our universe (2.5x). It has a $100 million facility that matures in less than 12 months (August 2009). EBIT interest cover in FY09 is estimated at 4.3x: we do not see this as uncomfortable, but acknowledge the risk of an earnings shortfall impacting this.

Timbercorp (TIM)

On a ND/ND+E basis, TIM's gearing looks a little shaky at ~60%. Total debt of $864 million comprises $110 million of current debt with the remaining $754 million relating to non-current secured loans. The company has previously flagged a 'capital management' program which has thus far resulted in an increase in the average maturity of total debt (through re-financing) but has failed to pay down debt. TIM has subsequently suffered through increased interest costs upon re-financing. $200 million of existing debt matures in just over a year. Going forward, we expect capital expenditure levels to reduce due to the absence of capital costs related to horticulture schemes. Furthermore, we expect TIM to sell some of its non-core assets and/or undertake further sale and leaseback agreements on its forestry land in order to reduce debt levels. Because interest income on TIM’s loan book is included in net interest, FY09E EBIT interest cover looks robust.

Table 2: Book Gearing Ratios

	ND/E FY08	ND/E FY09E	ND/ND+E FY08	ND/ND+E FY09E
CCP	187.0%	137.5%	65.2%	**57.9%**
TIM	132.4%	134.0%	57.0%	**57.3%**
MSL	54.7%	98.5%	35.4%	**49.6%**
TOX	51.0%	95.0%	33.8%	**48.7%**
AJL	83.5%	94.8%	45.5%	**48.7%**
NFK	144.8%	76.5%	59.1%	**43.3%**
GUD	71.8%	67.8%	41.8%	**40.4%**
CXP	80.6%	67.2%	44.6%	**40.2%**
SAI	77.0%	64.9%	43.5%	**39.3%**
PRG	84.7%	64.6%	45.9%	**39.2%**
CPB	56.6%	62.2%	36.1%	**38.3%**
ALS	53.9%	54.0%	35.0%	**34.1%**
TSM	-2.6%	53.2%	-2.7%	**34.7%**
HST	63.5%	49.7%	38.8%	**33.2%**
CRG	49.0%	47.1%	32.9%	**32.0%**
SPT	54.7%	46.7%	35.4%	**31.9%**
MLE	46.3%	46.1%	31.7%	**31.6%**
WOR	44.4%	41.8%	30.8%	**29.5%**
TGR	17.2%	22.7%	14.7%	**18.5%**
WDS	51.0%	17.6%	33.8%	**15.0%**
DMP	20.1%	13.3%	16.7%	**11.7%**
CND	14.6%	12.6%	12.8%	**11.2%**
TFC	-4.6%	10.1%	-4.8%	**9.2%**
CSS	14.6%	9.4%	12.8%	**8.6%**
IRE	3.7%	9.3%	3.6%	**8.5%**
AAX	-15.1%	-26.9%	-17.8%	**-36.8%**

Source: JPMorgan estimates, Company data.

Note: Sorted in order of FY09E ND/ND+E.

Table 3: Interest Coverage Ratios

	EBIT Interest Cover FY08	EBIT Interest Cover FY09E	EBITDA Interest Cover FY08	EBITDA Interest Cover FY09E
CSS	-0.3x	**2.2x**	3.2x	3.5x
CCP	1.8x	**2.3x**	7.2x	8.4x
AJL	6.0x	**3.3x**	8.0x	4.6x
PRG	3.4x	**3.5x**	4.4x	4.6x
ALS	4.5x	**3.6x**	5.4x	4.3x
CRG	3.8x	**4.0x**	4.8x	5.2x
MLE	4.3x	**4.3x**	5.9x	5.5x
HST	3.3x	**4.4x**	3.7x	5.0x
SAI	4.8x	**4.5x**	6.8x	6.0x
GUD	7.3x	**6.5x**	8.6x	7.8x
SPT	5.6x	**6.7x**	8.7x	9.9x
TOX	8.3x	**6.8x**	10.3x	9.3x
NFK	6.0x	**7.7x**	6.9x	8.8x
MSL	17.3x	**8.8x**	22.3x	11.7x
CXP	10.4x	**9.8x**	12.0x	11.4x
CPB	11.5x	**11.0x**	14.4x	12.9x
WDS	5.5x	**12.1x**	8.3x	16.8x
WOR	16.4x	**13.9x**	18.5x	15.5x
TGR	6.2x	**14.9x**	6.7x	16.1x
DMP	9.4x	**20.0x**	12.4x	26.5x
TFC	-40.4x	**21.5x**	-41.3x	21.9x
CND	13.2x	**32.9x**	14.2x	35.5x
TSM	-85.0x	**34.9x**	-102.6x	41.1x
TIM	5.2x	**99.6x**	5.6x	110.3x
AAX	-28.0x	**-17.7x**	-30.5x	-19.4x
IRE	-40.0x	**-43.4x**	-56.0x	-55.0x

Source: JPMorgan estimates, Company data.

Note: Sorted in order of FY09E EBIT interest cover.

Table 4: Net Debt to EBITDA Ratios

	ND/EBITDA FY08	ND/EBITDA FY09E
TIM	4.6x	**6.9x**
MLE	2.8x	**2.5x**
ALS	2.3x	**2.5x**
PRG	3.3x	**2.2x**
CSS	5.5x	**2.1x**
SAI	2.7x	**2.0x**
AJL	1.2x	**2.0x**
MSL	1.2x	**1.7x**
CRG	1.8x	**1.6x**
TOX	1.2x	**1.5x**
HST	2.2x	**1.2x**
CCP	1.5x	**1.2x**
CPB	1.4x	**1.1x**
CXP	1.2x	**1.0x**
GUD	1.1x	**1.0x**
SPT	1.2x	**1.0x**
TGR	0.9x	**1.0x**
WOR	1.1x	**0.9x**
NFK	1.4x	**0.8x**
TSM	0.0x	**0.7x**
CND	0.7x	**0.6x**
WDS	1.0x	**0.4x**
DMP	0.6x	**0.4x**
TFC	-0.1x	**0.3x**
IRE	0.1x	**0.1x**
AAX	-0.4x	**-0.7x**

Source: JPMorgan estimates, Company data.

Note: Sorted in order of FY09E ND/EBITDA.

Debt Facilities

AJ Lucas Group (AJL)

Refinance Risk: Low

All of AJL's borrowing facilities were renegotiated in August 2008 at the time of the acquisition of Mitchell Drilling. AJL's $105 million senior bank debt has a three-year term from this date.

Alesco Corporation (ALS)

Refinance Risk: Moderate

ALS has total bank facilities of $419 million, $332 million of which were drawn down at 31 May 2008, leaving headroom of $97 million. $80 million of ALS's facilities were recently extended for a further three years. There are no debt facilities maturing during FY09. ALS states it is 'comfortably within banking covenants'.

Ausenco (AAX)

Refinance Risk: Low

Debt funding facility has recently been increased to $177 million. US$42 million is drawn, amortising over 5 years to 2013. The average cost is 5.6%. At 30 June 2008, only $11 million of borrowings were classified in current liabilities.

Campbell Brothers (CPB)
Refinance Risk: Low
Of CPB's total interest-bearing liabilities of $234 million at 31 March, less than $3 million was payable within 12 months from that date (mainly finance leases). Long-term debt is payable up to November 2011.

Clarius Group (CND)
Refinance Risk: Moderate
CND has available facilities in excess of $25 million, comprising a $15 million bank bill credit facility and a $11.6 million overdraft facility. At 30 June 2008, the bank bill credit facility was fully drawn down but there was $9.5 million available in the overdraft facility. CND's credit facilities are subject to half yearly reviews but the term of agreement is not due for renewal until September 2009.

Clean Seas Tuna (CSS)
Refinance Risk: Moderate
CSS's total debt facility is $20.4 million, of which $10.5 million is drawn. The debt is a one-year rolling facility, and so all debt is current.

Corporate Express Australia (CXP)
Refinance Risk: Low
At the end of the CY07 financial year, CXP had $260 million floating charge facilities and $64.2 million other facilities. At that date, a $50 million unsecured bank loan was classified as a current liability. This has since been refinanced and is no longer current. At 30 June 2008, debt was drawn down to $144 million, leaving headroom of $180 million under existing facilities.

Crane Group (CRG)
Refinance Risk: Moderate
6% of CRG's $310 million outstanding bank debt at 30 June 2008 were payable during FY09, with a further 33% payable in FY10.

Credit Corp Group (CCP)
Refinance Risk: Low
CCP's facilities were recently refinanced for three years. They have a $140 million limit, stepping down to $120 million by 30 June 2009. They are currently drawn to $127 million. The key covenant is the asset cover ratio (PDL value + current receivables/loan balance), which is currently set at a minimum of 1.5:1, stepping up to 2.0:1 by January 2011. At 30 June 2008, the asset cover ratio was 1.6:1.

Domino's Pizza Enterprises (DMP)
Refinance Risk: Low
DMP has total debt facilities of $52.4 million, of which $28.2 million was drawn at 30 June 2008. Un-utilised debt under the existing facilities is $24.2 million. DMP's Euro facility expires in November 2011 and its Australian facilities in September 2010.

G.U.D. Holdings (GUD)
Refinance Risk: Low
GUD recently refinanced its facilities. It now has an $80 million seasonal facility to June 2010 and a $100 million core facility to June 2012. Following the sale of Victa, there is $86 million headroom under the existing facilities.

Hastie Group (HST)
Refinance Risk: Moderate
HST has secured bank loan facilities of $395 million, of which $282 million was used at 30 June 2008. These facilities have various maturity dates out to 2013 and there was an amount of $30 million classified as current at 30 June 2008 (mainly an overdraft).

The MAC Services Group (MSL)
Refinance Risk: Moderate
The MAC has bank facilities of $100 million, of which $56 million remains un-drawn. The current expiry is $60 million in three years and $40 million in two years, with evergreen.

Macquarie Leisure Trust Group (MLE)
Refinance Risk: High-Moderate
MLE has $250 million drawn from a $300 million facility. $100 million of this matures in August 2009, $200 million matures in August 2011. Half of debt is fixed with interest rate swaps.

Norfolk Group (NFK)
Refinance Risk: Low
NFK has total facilities of $130 million, of which $62 million was drawn at the last balance date (31 March 2008). There are over two years to maturity.

Programmed Maintenance (PRG)
Refinance Risk: Low
PRG recently refinanced its debt facilities with Westpac out to May 2010. The company had $220 million of drawn debt at 31 March 2008.

SAI Global (SAI)
Refinance Risk: Low
SAI has total bank facilities of $63.5 million of which it has drawn $43.2 million, leaving $20.3 million headroom. The company refinanced in February 2008. The earliest maturity is February 2010 and the latest February 2012.

Spotless Group (SPT)
Refinance Risk: Moderate
Debt terms ranging from 1 year to 7 years. The total facility is $498 million, of which $286 million was drawn at 30 June 2008, leaving headroom of $212 million. There is a $45 million unsecured facility on a five-year rolling basis maturing August-September 2012. There is a $110 million unsecured facility on a three-year rolling basis maturing August-September 2010. There is a $154 million unsecured facility ($47 million drawn at 30 June 2008) on a one-year rolling basis, which was rolled in August 2008. There are $189 million of US notes expiring in July 2013 and July 2015.

Tassal Group (TGR)
Refinance Risk: Moderate
TGR's $81 million debt facilities with Westpac were refinanced in 2006 out to July 2009. The net debt is currently $32.6 million, giving the company plenty of headroom in our view. Further leasing facilities may be added.

TFS Corporation (TFC)
Refinance Risk: Low
TFS has a total debt facility of $28 million, of which $11.5 million is drawn. TFS has a rolling two year facility. At 30 June 2008, there was only $0.5 million of borrowing due for repayment in FY09 (overdraft and hire purchase liability).

ThinkSmart (TSM)
Refinance Risk: Low
TSM has effectively no debt at present.

Timbercorp (TIM)
Refinance Risk: Moderate
TIM had total debt of $864 million as at 31 March 2008; this was partially hedged. There average maturity on debt is early 2010. There is $200 million that matures December 2009. Debt levels are expected to reduce significantly in 2010 as development capex decreases.

Tox Free Solutions (TOX)
Refinance Risk: Low
TOX has $2 million of bank debt payable within 12 months.

WDS (WDS)
Refinance Risk: Low
WDS has recently refinanced its three year facility with GE Commercial Corporation. The facility is to a maximum of $95 million, of which $50.2 million was being utilised at 30 June 2008, leaving $44.8 million available capacity.

Safe Havens

We believe a company’s level of gearing and refinancing risk is of critical importance to any investment consideration. In identifying 'safe havens' in turbulent times for equities, we also believe earnings certainty and operating leverage (the ability to cut costs) are just as important. We have assessed our entire universe according to four metrics:

1. Earnings certainty.
2. Operating leverage.
3. Lack of financial leverage.
4. Lack of refinancing risk.

Table 1 below shows the results of our analysis. The lower the score, the better a stock ranks as a ‘safe haven’.

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Table 5: Emerging Companies: Safe Havens

No.	Security	Recommendation	Earnings Certainty	Operating Leverage	Lack of Financial Leverage	Lack of Re-financing Risk	Total
1	AAX	OW	2	3	1	1	7
2	IRE	OW	2	3	1	1	7
3	TFC	OW	4	2	1	1	8
4	WDS	OW	2	3	2	1	8
5	SAI	OW	2	2	4	1	9
6	SPT	N	3	1	3	2	9
7	CPB	OW	2	3	3	2	10
8	CRG	OW	2	2	3	3	10
9	CND	OW	4	1	2	3	10
10	DMP	N	2	3	2	3	10
11	TOX	OW	1	2	4	3	10
12	NFK	OW	3	2	4	2	11
13	PRG	OW	2	2	4	3	11
14	TSM	OW	4	5	1	1	11
15	CSS	OW	4	3	2	3	12
16	TGR	OW	4	4	2	2	12
17	CXP	N	2	2	4	5	13
18	HST	OW	3	4	3	3	13
19	AJL	OW	4	4	5	1	14
20	MLE	OW	3	3	4	5	15
21	ALS	OW	5	3	3	4	15
22	CCP	N	5	2	5	3	15
23	MSL	OW	2	5	4	4	15
24	GUD	N	4	3	4	5	16
25	TIM	N	4	2	5	5	16

Source: JPMorgan. The lower the score, the greater the likelihood of the stock being a 'safe haven'.

Macquarie Group Limited

De-rating Creates Compelling Value . . . But Hard To Identify Re-rating Catalyst

Overweight

A$33.93

17 September 2008
Price Target: A$71.58

Australia
Banks

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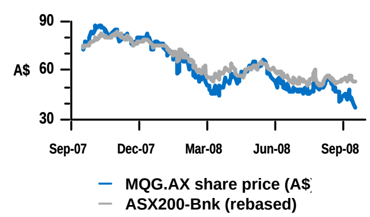
Price Performance



- MQG has been savagely de-rated on a sharp increase volumes with the price now hostage to "hedge fund sentiment". Hedge fund concerns are:
  1. **MQG's ability to fund itself** – The funding requirement is not as big as often reported.
  2. **An apparent prescient view that MQG's debt rating outlook would be downgraded** – After the market closed yesterday, S&P downgraded MQG's outlook from stable to negative. However, the S&P commentary was supportive, and at odds with the outlook downgrade. In any case, ratings outlook downgrade is troublesome.
  3. **Disbelief that MQG actually carry the reported A$3.5bn in surplus capital** – Even if the NOHC restructuring was reversed, MQG would still carry ~A$1.5bn of capital.
  4. **MQG simple comparisons to Global Investment Banks** – MQG do not take on major traded market value risks of a typical Investment Bank, but rather take real asset value risks.
  5. **Concerns over the sustainability of the business model** – MQG face a more challenging environment, but the long term infrastructure privatisation trend remains intact and the business model has already evolved into the more robust unlisted fund model.

- While we believe the hedge fund "short MQG" arguments do not bear closer scrutiny the direction of MQG's price is telling us MQG is broken. With the hedge funds driving the agenda, it is hard to identify a catalyst to turn MQG's price direction around but we note binges of short selling have previously been followed by bouts of short covering. With MQG now trading below any of its previous trading bands and at 1.06x net asset backing of A$32.16 (vs NTA of A$29.45) we believe MQG now offers compelling value it is hard to identify a catalyst to turn around sentiment, particularly following the S&P ratings outlook downgrade!

Macquarie Group Limited (Reuters: MQG.AX, Bloomberg: MQG AU)

Year-end Mar (A$)	FY07A	FY08A	FY09E	FY10E
Net Interest Income (A$ mn)	7,221	8,356	8,189	8,877
Net profit after tax (A$ mn)	1,494.00	1,837.00	1,733.99	1,855.20
EPS (A$)	6.041	6.833	6.207	6.431
P/E (x)	5.6	5.0	5.5	5.3
Dividend (A$)	3.15	3.45	3.45	3.70
Net Yield (%)	9.3%	10.2%	10.2%	10.9%
Franking (%)	100.0	100.0	75.0	60.0
Normalised* Profit (A$ mn)	1,463.0	1,803.0	1,697.0	1,818.3
Normalised* EPS (A$)	5.698	6.535	5.983	6.211
EPS growth (%)	49.1%	14.7%	-8.4%	3.8%
Normalised* P/E (x)	6.0	5.2	5.7	5.5
Relative P/E (%)	39.3%	37.9%	46.5%	50.6%

Company Data	
52-week range (A$)	88.73 - 36.20
Market capitalisation (A$ bn)	9.53
Market capitalisation ($ bn)	7.64
Fiscal Year End	Mar
Price (A$)	33.93
Date Of Price	17 Sep 08
Avg daily t/over (12m) (mn)	188.9
Shares outstanding (mn)	281.0
ASX100	3,849.1
ASX200-Bnk	5,253.1
NTA/Sh^	31.72
Tier 1 Ratio	18.0%

Source: Company data, Reuters, JPMorgan estimates. ^ Next forecast FY. * Normalisation excludes goodwill, P&L on FX movements, asset disposal and some non-operational items.

See page 96 for analyst certification and important disclosures, including non-US analyst disclosures.

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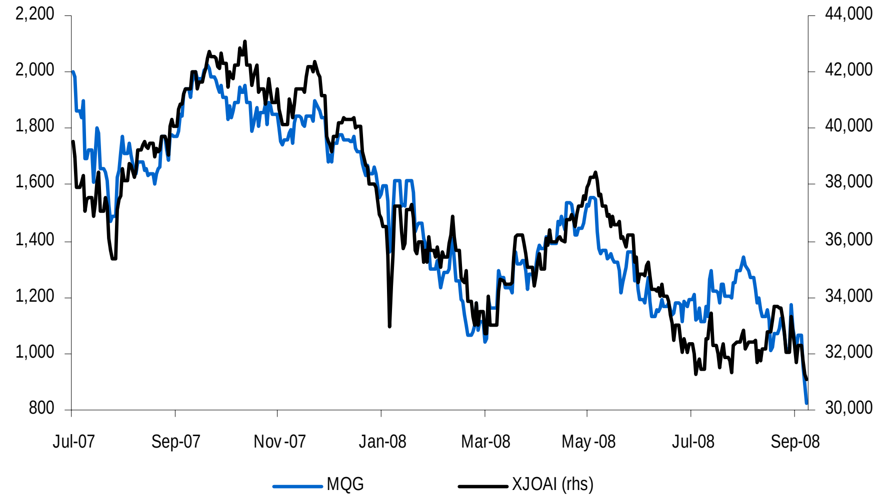
Main Points

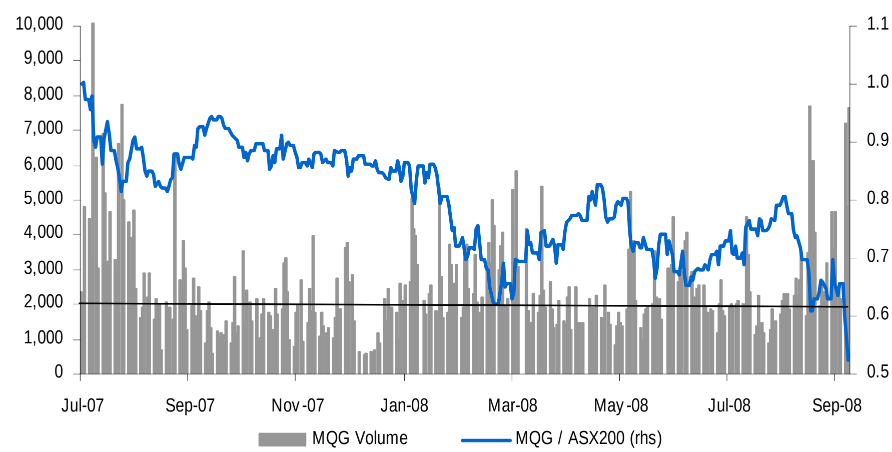
Figure 1: MQG vs. ASX200



Source: IRESS.

As detailed in Figure 1 MQG has been savagely de-rated since the onset of the global credit crunch from July 2007 but more recently the derating has been even more extreme in the wake of the numerous problems recently emerging in global capital markets. As detailed in Figure 2 since the onset of the Global Credit Crunch in July 2007, MQG's share price performance has been driven by two main factors, in our view, namely (i) tracking the broader index on investor sentiment (refer Figure 1), and (ii) periods of extreme outperformance and underperformance accompanied by sharp upticks in trading volumes (refer Figure 2), which suggests sharp oscillations between short selling and short covering. As a general rule we believe trading volumes above an average 2m shares per day reflect short selling or short covering. As such we believe the MQG share price is now hostage to "hedge fund sentiment" as opposed to longer term "long only" institutional investors. This swing in the constituency driving the MQG share price is important.

Figure 2: MQG Volume vs. MQG AI/ASX200 AI



Source: IRESS.

So why are the hedge funds now so actively shorting MQG? We believe there are five major hedge fund concerns being -

1. **MQG's ability to fund itself in the near term** - In the wake of the LEH Chapter 11 filing this is the predominant issue as evidenced by the weakening shareprice, the blowout in the MQG credit default swap and recent media reports that MQG will not be able to roll its short term debt funding requirement as it becomes due (refer The Australian 17 September 2008 page 37). This is the predominant theme for MQG as evidenced by **the near perfect correlation between the MQG share price and the inverse of its credit default swap pricing** (refer Figure 3),

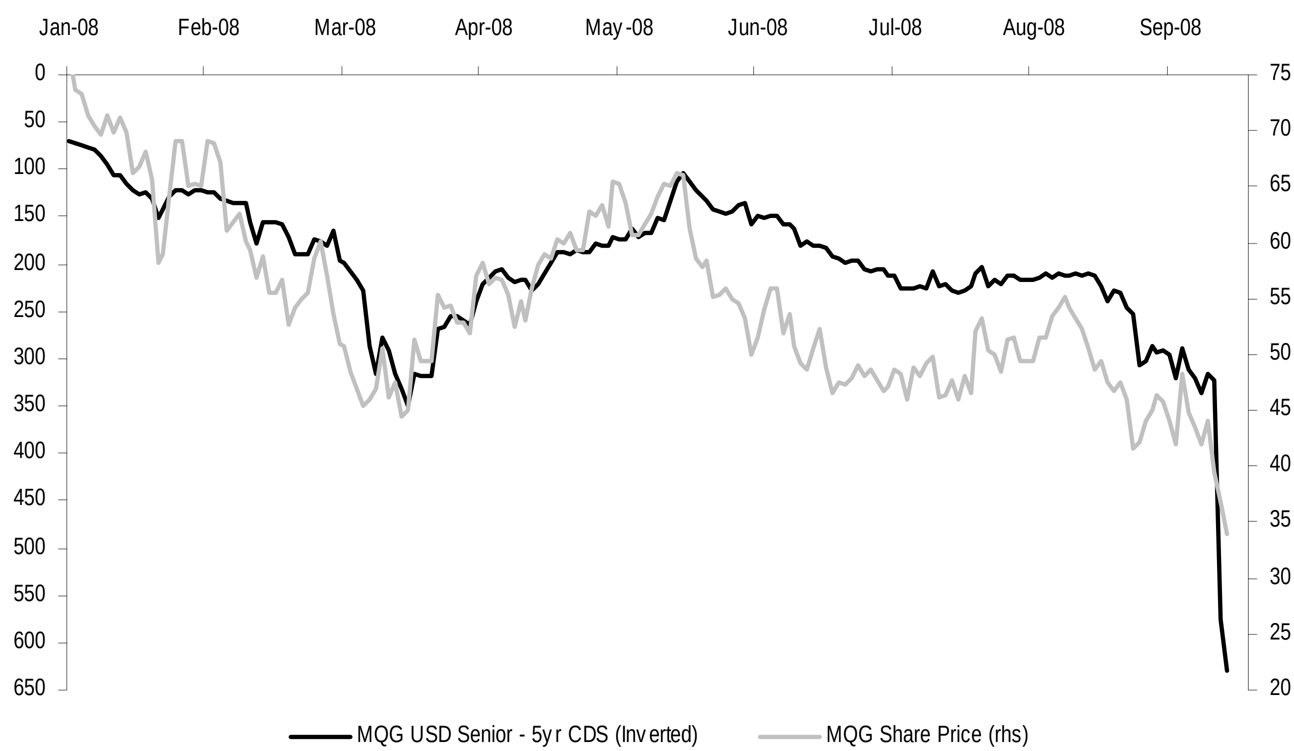
2. **An apparent prescient view that MQG's debt ratings would be downgraded,**

3. **Disbelief that MQG actually carry A$3.5bn in surplus capital,**

4. **The de-rating of investment banks generally in the wake of the collapse of LEH and Bear Sterns**, and

5. **Concerns over the sustainability of the MQG infrastructure and property "asset recycling model"** in the wake of the global credit crunch with asset falling values falling, credit spreads rising and access to debt declining.

Figure 3: MQG USD Senior 5yr CDS vs share price



Source: IRESS, Bloomberg, JPMorgan

So let's go through each of these issues individually -

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Issue 1 - MQG's Ability To Fund Itself – *The Fact Is That The Funding Requirement Is Not As Big As Often Reported*

Access to funding in external debt markets

As detailed in Table 1, MQG's most recent disclosures indicates a total funding requirement of A$72.8bn. Including the undrawn credit facility of A$4.1bn, MQG's total term funding (drawn and undrawn) maturing beyond one year is A$30.9bn, thereby leaving A$46bn of funding maturing within one year.

While this figure appears high at first glance (and has attracted a few headlines), a closer look at the construction of the assets which they are supporting warrants closer attention. MQG holds ~A$21bn in cash and liquid assets and ~A$11bn of net trading assets, thereby only leaving ~**A$14bn of loan assets with a duration of less than one year to be funded via external markets – significantly less than the A$46bn initially posed**.

Further, MQG's liquidity policy requires MGL to meet all of its repayment obligations for the next twelve months with no access to wholesale funding markets, while the liquidity modelling for the Banking entity includes twelve month liquidity scenarios significantly more drastic than the conditions that have prevailed since August 2007.

Table 1: MQG - Asset and Liability Duration Profile

A$bn

Assets	**<1yr**				**>1yr**				**Total**
	Bank	Non-Bank	Elim	Group	Bank	Non-Bank	Elim	Group	
Cash & liquid assets	18.7	2.1	0.0	20.8				0.0	20.8
Net trading assets	10.5	0.7	0.0	11.2				0.0	11.2
Loan assets - <1yr	12.4	1.0	0.0	13.4				0.0	13.4
Assets held for sale				0.0	0.0	0.8	0.0	0.8	0.8
Other investment securities				0.0	1.9	0.8	0.0	2.7	2.7
Loan assets - >1yr				0.0	13.8	3.8	0.0	17.6	17.6
MBL bridging loan to MGL	5.0		-5.0	0.0	3.8	0.0	-3.8	0.0	0.0
Non-bank deposit with MBL				0.0	-5.8	5.8	0.0	0.0	0.0
Inv in funds + equity inv				0.0	2.4	3.9	0.0	6.3	6.3
	46.6	**3.8**	**-5.0**	**45.4**	**16.1**	**15.1**	**-3.8**	**27.4**	**72.8**
Liabilities	**<1yr**				**>1yr**				**Total**
	Bank	Non-Bank	Elim	Group	Bank	Non-Bank	Elim	Group	
Deposits	13.0	0.2	0.0	13.2				0.0	13.2
NCDs	12.2	0.0	0.0	12.2				0.0	12.2
CP	7.6	0.0	0.0	7.6				0.0	7.6
Other issued paper	6.0	0.0	0.0	6.0				0.0	6.0
MBL bridging loan		5.0	-5.0	0.0	0.0	3.8	-3.8	0.0	0.0
Other bank loans		0.3		0.3	0.0	0.0	0.0	0.0	0.3
Sub debt				0.0	2.3	0.0	0.0	2.3	2.3
Snr credit facility		1.4		1.4	0.0	3.5	0.0	3.5	4.9
Secured funding	2.2			2.2	4.9	1.1	0.0	6.0	8.2
Bonds	3.1			3.1	5.0	0.0	0.0	5.0	8.1
Hybrid				0.0	0.8	0.0	0.0	0.8	0.8
Equity				0.0	5.6	3.6	0.0	9.2	9.2
	44.1	**6.9**	**-5.0**	**46.0**	**18.6**	**12.0**	**-3.8**	**26.8**	**72.8**
Undrawn Credit Facility					0.0	4.1	0.0	4.1	
Total (drawn & undrawn)					**18.6**	**16.1**	**-3.8**	**30.9**	

Source: Company, JPMorgan estimates

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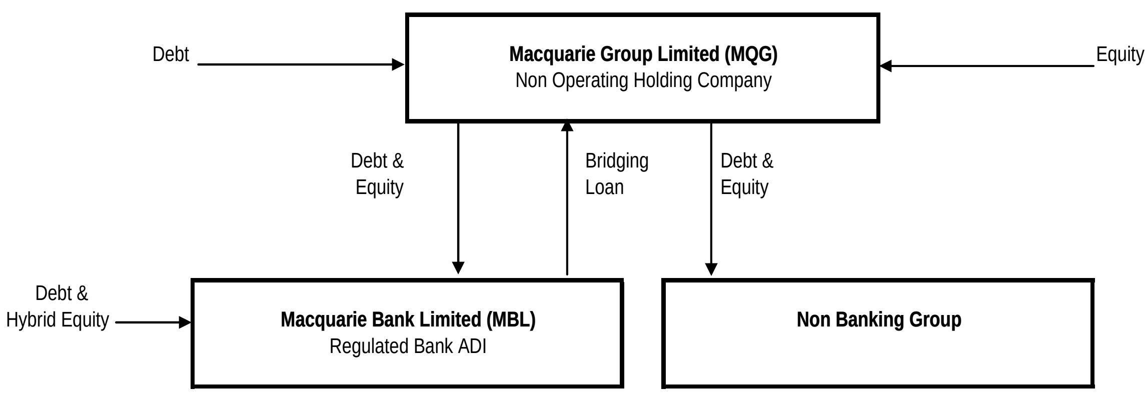
The bridging loan from MBL to the NOHC
As part of the NOHC restructuring the MQG NOHC was initially funded to the tune of an A$10bn unsecured bridging loan from the Macquarie Bank Limited entity initially extended in November 2007 (refer Figure 4). As at March 2008 this amortising two-year facility had been paid down to A$8.8bn and has since been paid down to A$7.6bn.

In the wake of the onset of the global credit crunch which commenced in July 2007, the pricing and availability of debt have deteriorated sharply for all of the Australian banks generally and MQG specifically. Against the backdrop of these tight credit markets the market has not unjustifiably being focusing on the ability of MQG to external refinance the residual A$7.6bn of the bridging loan.

After reviewing the situation we feel comfortable that this does not present a major problem for MQG given MQG's non-banking subsidiary carries massive surplus liquidity which could be upstreamed to MQG to repay the A$7.6bn bridging loan from the ADI. As at March 2008, the non-bank carried liquidity of A$2.1bn and an A$5.8bn deposit with the ADI subsidiary via the NOHC. This deposit is an APRA approved inter-company transaction and has not been netted out; however, this deposit could similarly applied to reducing the A$7.6bn MQG bridging loan.

Furthermore, in August 2007 MQG announced it had obtained commitments from a syndicate of Australian and international banks for an A$8bn debt facility to the NOHC of which A$4bn had not been drawn down as at March 2008. Finally since the March 2008 interim reporting date MQG has raised a further A$600m in Converting Preference Share Capital.

Figure 4: MQG Funding Structure



Source: Company reports.

Issue 2 - An Apparent Prescient View That MQG's Debt Ratings Would Be Downgraded – *After The Market Closed Yesterday, S&P Affirmed Macquarie Bank's A/A1 Rating But Revised The Outlook From Stable To Negative. However, The S&P Rating Commentary Was Very Supportive Of The Rating Being Maintained! The S&P Commentary Would Appear To Be At Odds With The Ratings Outlook Downgrade But In Any Case, The Fact Is That The Ratings Outlook Downgrade Is Troublesome.*

After the close of the market MQG and S&P announced that ratings agency Standard and Poor's (S&P) had reaffirmed its ratings for the Macquarie group of companies: 'A' long-term and 'A-1' short term issuer credit ratings on Macquarie Bank Limited, and 'A-' long-term and 'A-2' short-term issuer credit ratings on Macquarie Group Limited, Macquarie Financial Holdings Limited, and Macquarie International Finance Limited. **However S&P downgraded the ratings outlook to negative from stable** *"due to financial market turmoil but that the most likely scenario is that the agency's ratings on Macquarie group entities will remain at their current levels."* This ratings outlook downgrade appears to be at odds with the rest of the ratings report which stated -

- The group's *"limited direct exposure to the impact of the current global financial market turmoil, and very capable management of its liquidity, capital and counterparty exposures"*.
- *"Macquarie's well-developed risk management systems are robust enough to deal with the market uncertainties under most stress situations commensurate with a 'A' rating category"*.
- *"The financial and business fundamentals of the Macquarie group are unlikely to be materially affected by the current dislocation in financial markets"*.
- The group is *"likely to maintain a strong earnings profile"* and is *"unlikely to have material credit or mark-to-market losses because it has very limited exposures to subprime mortgages, collateralized debt obligations (CDOs) and counterparties whose credit quality has materially worsened in recent days"*.

Furthermore Moody's Investors Service Senior Vice President, Mr Patrick Winsbury, who said: *"The fundamental story at Macquarie is very different from anything you've seen in the US. They have done an extremely good job avoiding all the pitfalls so far in the crisis."*

Commenting on the ratings affirmation but outlook downgrade MQG CFO Greg Ward stated that *"While current markets are challenging, the Group remains profitable, well capitalised and well funded with liquid assets of more than $A20bn as at 30 June 2008. The Group's existing long term funding sources exceed the Group's long term assets; the Group has raised over $A6bn of long term funding from various sources since 31 March 2008. As we have previously noted, we have been carefully managing exposures to professional counterparties for some time."*

MQG also advised that it had an exposure to Lehman Brothers group of A$21m and A$33m to another troubled financial entity which separately and combined are not material. ***The S&P commentary would appear to be at odds with the ratings outlook downgrade but in any case the fact is that the ratings outlook downgrade is troublesome.***

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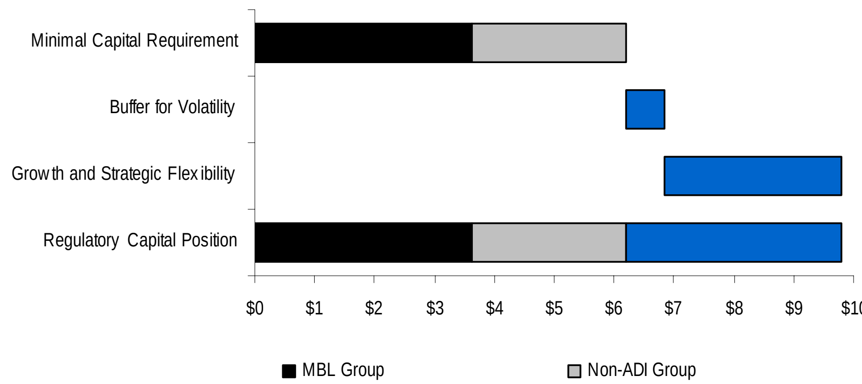
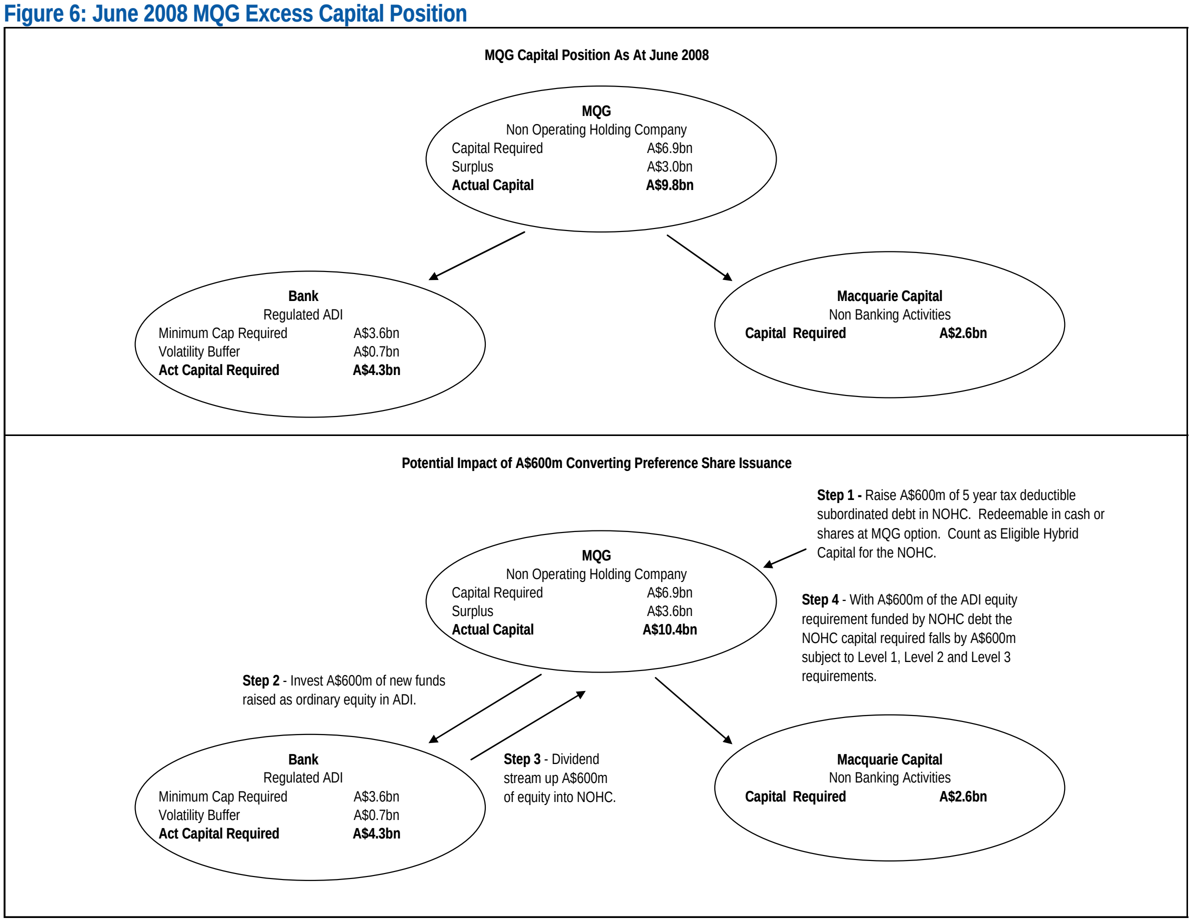
Issue 3 – Disbelief That MQG Actually Carry The Reported A$3.5bn in Surplus Capital – *Even If The NOHC Restructuring Was Reversed MQG Would Still Carry ~A$1.5bn Of Capital Following The A$830m Capital Raising in May 2007, and the A$600m Converting Preference Share Issuance in June 2008*

Figure 5: MQG Excess Capital Position – June 2008



Source: Company reports, JPMorgan estimates.

Figure 6: June 2008 MQG Excess Capital Position



Source: Company reports, JPMorgan estimates.

As detailed in Figure 6 and Figure 5, MQG's capital requirement for the 'bank' sits at ~A$4.3bn, (given a minimum capital requirement of ~A$3.6bn, plus a volatility buffer of A$0.7bn), resulting in a Tier 1 ratio for the 'bank of ~12.4%. Capital requirements for the 'non-bank' are A$2.6bn under an APRA approved internal economic capital adequacy model. Thus, the total capital requirements of MQG are ~A$6.9bn vs a stated capital position of A$10.4bn, implying a 'surplus' capital position of A$3.5bn.

In assessing whether the MQG capital position is truly in surplus, we consider the following factors:

- By MQG's own disclosures, A$3.6bn of equity is held against the 'non-bank' vs the economic capital requirement of A$2.6bn, implying **A$1bn of surplus capital held in the non-bank** – However, with regards to the potential for increased regulatory supervision for the non-banking activities, we note that globally central banks are providing increased levels of tacit and even tangible support for previously "lightly" regulated investment banks in the wake of the global credit crunch. Much of the present parlous state of the global financial system can be sourced directly back to non-regulated or "lightly" regulated financial intermediaries. In Australia, regulatory policy is already shifting in this direction with deposit insurance on the horizon for banks, credit unions and building societies. We highlight the very real risk that in this environment the regulatory capital intensity of MQG's non-banking activities may increase markedly and thus consume much of the existing surplus capital.

  As noted in the MQG 2008 Annual Report, under the current regulations, an internal assessment of Economic capital adequacy is designed to ensure MQG has sufficient capital to absorb 'all but the most extreme losses'. To our way of thinking, there is the potential for the regulator to increase the Economic capital requirements to re-align the purpose from absorbing 'all but the most extreme losses' to absorbing losses at the point of stress.

  The potential for this to occur is highlighted in the NOHC explanatory memorandum, where MQG disclosed: *APRA is still developing its policy framework for supervising NOHCs. The new prudential standards, including those for capital, are not expected until 2009 at the earliest. Macquarie and APRA have agreed an interim capital adequacy framework for MGL, based on Macquarie's Board-approved Economic Capital Model and APRA's capital standards for banks. This will apply until APRA's capital rules for NOHCs are finalized and implemented. This interim framework results in no significant change to Macquarie's regulatory capital requirement from that currently prevailing.*

- Therefore, the remaining **A$2.5bn of surplus capital is held in the bank** – Given that we have established the minimum Tier 1 requirement of ~A$4.3bn represents a Tier 1 ratio of ~12.4%, we view the A$2.5bn of surplus capital above the regulatory minimum largely as a function of (i) the strong 17.6% Tier 1 position of MBL ahead of the NOHC restructure, courtesy of the A$830m institutional placement and Share Purchase Plan in May 2007, and (ii) the A$600m Converting Preference Share Issuance in June 2008. While MQG management consistently stated that neither the transition to Basel II, nor the NOHC restructure would release capital on day 1, the fact is that previous capital raisings had bolstered MQG's capital position. **While the premise for the capital raisings at the time was to grow the capital base ahead of expected strong future asset growth, the fact that the near term growth profile has slowed now sees that capital available**.

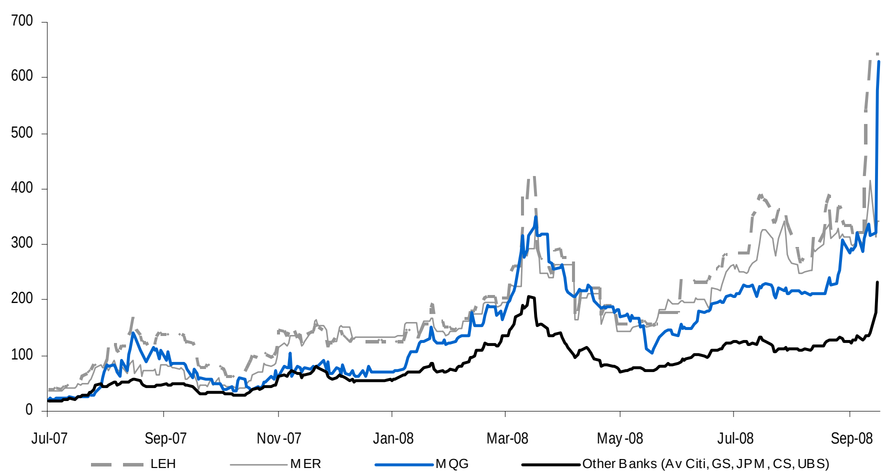
Issue 4 – MQG Comparisons To Global Investment Banks – *MQG Do Not Take On Major Traded Market Value Risks Of A Typical Investment Bank But Rather Take Real Asset Value Risks*

MQG's traditional investment banking businesses revolve around customer facilitation, rather than trading (refer Table 2), with little in the way of active position taking apart from in infrastructure seed assets, (i) where much of the Enterprise Value Risk is effectively transferred to the external providers of non-recourse debt financiers, and MQG and co-investors are capitalised adequately to be "patient" and assets are not necessarily held in a volatile mark to market environment.

Similarly, simplistic comparisons to global investment banks ignore the sheer quantum of funds management earnings derived from MQG's A$225bn portfolio of Assets Under Management. Furthermore, in contrast to global investment banks the mechanics of MQG's staff bonus pool provide a major long term earnings volatility buffer, and create a 10 year business development remuneration horizon for Executive Directors, while rewarding less senior staff over a short three year horizon. The MQG bonus pool is a two edged sword, with super-leverage to current super-earnings growth. We believe the MQG bonus pool is more realistically the "ordinary equity" and ordinary shares are more akin to "preference shares".

This simplistic "investment banking" rating of MQG is also evident in debt markets where MQG's 5 year subordinated debt CDS pricing mirrored those of LEH and MER (refer Figure 7) notwithstanding the fact that MQG's direct and indirect exposures to troubled sub-prime assets is negligible.

Figure 7: Global "Investment Bank" USD Senior 5yr CDS (Basis Points)



Source: Bloomberg, JPMorgan

Table 2: MQG vs. Major Global Investment Banks - VaR vs. Shareholders Funds

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
MQG	**2.32%**	**1.12%**	**0.42%**	**0.20%**	**0.15%**	**0.22%**	**0.15%**	**0.13%**	**0.11%**	**0.13%**
Goldman Sachs (US$m)	0.38%	0.17%	0.21%	0.24%	0.27%	0.27%	0.25%	0.28%	0.32%	
Merrill Lynch (US$m)	0.15%	0.11%	0.10%	0.11%	0.10%	0.09%	0.11%	0.13%	0.16%	
Lehman Brothers (US$m)	0.49%	0.27%	0.28%	0.23%	0.17%	0.18%	0.23%	0.22%	0.40%	
Morgan Stanley (US$m)	0.19%	0.15%	0.14%	0.16%	0.15%	0.17%	0.19%	0.24%	0.25%	
Bear Stearns (US$m)	0.30%	0.25%	0.27%	0.26%	0.21%	0.18%	0.19%	0.24%	0.28%	
Average – International Peers	**0.26%**	**0.17%**	**0.18%**	**0.18%**	**0.17%**	**0.17%**	**0.19%**	**0.22%**	**0.28%**	

Source: Company, JPMorgan estimates

Issue 5 - Concerns Over the Sustainability of the MQG Infrastructure and Property “Asset Recycling Model” – *MQG Face A More Challenging Environment But The Long Term Infrastructure Privatisation Trend Remains Intact And The Business Model Has Already Evolved Into The More Robust Unlisted Fund Model*

In the context of ongoing tightness in global markets, the sharp de-rating of MQG’s share price suggests that the MQG business model is perceived to be broken. Feedback from institutional investors is that there is absolutely no consensus view on MQG with sentiment ranging from (i) MQG is fundamentally flawed, to (ii) nothing has changed. However, there has been one major change following the onset of the global credit crunch as from July 2007 given the rising power of hedge funds as the traditional long-only asset managers wait on the sidelines In assessing whether the MQG end-to-end infrastructure investment banking model is fundamentally broken we believe there are two questions that must be asked, being:

1. **Do wholesale pension funds still need to buy long duration assets to match their long duration liabilities?** The near universal answer to this question from institutional investors thus surveyed is in the affirmative. As shown by the strong pipeline of new unlisted funds the appetite of these unlisted investors shows no sign of abating.
2. **Will publicly owned infrastructure assets which have been funded with public debt but require a growing capex investment continue to be sold by government owners?** Once again, the near universal answer to this question from institutional investors thus surveyed is in the affirmative.

Since 2000 MQG has overseen the evolution of its managed fund model from the listed model – which requires the continued regearing of assets to create the illusion of a regular distribution – into the more sustainable unlisted model where the terminal value of the asset is the major objective as opposed to regular asset regearing. After reviewing these facts MQG’s long-term business model remains intact notwithstanding the current disruption to debt markets posed by the global credit crunch. The only piece missing is the debt markets; however, if debt conditions remain tight then infrastructure asset values will inevitably adjust and the “infrastructure securitization” cycle will continue at its frenetic pace.

Having deliberately shrunk its “seed asset inventory” in 2H07 (i.e., the March 2007 half) and A$10bn of “investable” cash in satellite funds, MQG is well positioned to exploit the inevitable resumption of the market between willing buyers (wholesale global pension funds) and forced sellers (governments) when asset values adjust to reflect the increased cost of debt.

The transition to the unlisted model
The spectre of rising inflation and rising debt spreads in the wake of the global credit crunch has savaged listed property and infrastructure funds. This is particularly evident for MIG, MQG’s largest managed listed fund which is trading at A$2.12 representing a staggering 47% discount to the published NAV of A$4.01 per unit. This phenomenon is not MQG specific with similar discounts evident on other infrastructure funds. While no one wants to hear the bad news, the fact is that the listed infrastructure fund business model is likely dead with the market increasingly cynical that the underlying assets can continually be re-geared to create “distributions”.

Tacitly, MQG acknowledged this fact with new infrastructure funds being raised in the unlisted space from sophisticated wholesale pension fund investors. Facing a similar trading discount, the CGF-managed CIF has been "proving" its stated NAV by realizing the underlying assets at premiums, with Macquarie vehicles MAP and MCG following, also active in realising asset values out of listed vehicles. We note:

(i) The listed model is reliant on regular re-gearing of the assets whereas the unlisted investors do not require the illusion of regular distributions but require a rising terminal asset value.

(ii) MQG has raised a lot of unlisted funds which are ready to be invested. Investors in these funds pay base management fees on capital commitments not invested funds which likely accelerates the investment priority.

(iii) Unlisted funds are opaque and less impacted by the inevitable scrutiny attaching to the government's selling infrastructure assets to the private sector.

(iv) Base management fees in the unlisted space are likely materially higher than in the listed space.

Table 3: MQG's Changing Infrastructure Fund Model - Listed IPO to Unlisted Wholesale Funds

	Listed IPO Timeline		Unlisted Fund Timeline
1	Buy 100% of infrastructure asset as a "seed asset"	**1**	MQG invests circa 10% in an unlisted fund consortia which buys infrastructure asset.
2	9 months later sell asset into IPO vehicle at which time MQG earn modest valuation uplift plus transactional fees. MQG likely retain a 10% IPO stake escrowed for 12 months.	**2**	When consortium buys asset MQG earn transactional fees.
3	Post IPO MQG earn 1% base fee on uplifted enterprise value plus 20% excess return performance fee.	**3**	MQG earn 1.5% to 2.5% base fee plus modest performance fee based On 20% of absolute $ return over 8% annual return benchmark.
		4	Asset held for circa 3 years at which time realizations by way of either listed IPO or asset trade sale. MQG earn transactional fees at realisation plus any uplift on their own stake plus circa 20% of consortium capital gain over 8% less the performance fees earned to date.
		5	If asset sold into IPO then MQG earn 1.5% to 2.5% base fee on uplifted enterprise value plus 20% excess return performance fee.

The transition from the Listed IPO Model to Unlisted Fund Model (i) reduces the initial seed asset investment, BUT (ii) lengthens the seed asset holding period AND (iii) Back-ends the profit realisation AND (iv) Increases base management fees.

Source: Company reports, JPMorgan.

MQG vs domestic 'Asset Recycling' peers

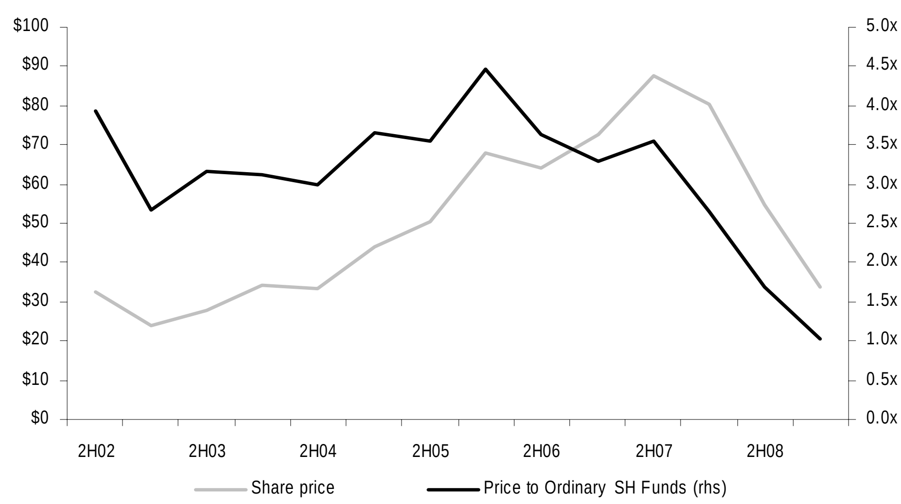
The recent severe underperformance of all the Australian listed "asset recyclers" (i.e., MQG, CGF, MFS, BNB, AFG) following the onset of the July 2007 global credit crunch suggests four risk amplifiers/dampeners for this business model:

- **Avoid entities where the senior executives' equity is leveraged up further through some margin lending structure in a shareholder entity.** In effect, as the model is pressured the share price is pressured further by excessive selling akin to a rights issue at the worst time in the cycle. MQG does not appear to be guilty of this double leverage of executive equity.
- **Target those businesses where the underlying managed trusts are diversified by asset type, asset geography and listing domicile.** This reduces the correlation risk and the risk of contagion across all of that businesses managed funds. MQG's managed satellite specialist funds are significantly more diversified than the other "asset recyclers".

- **Target those "asset recyclers" that are well** capitalized to exploit cheaper asset values. MQG is well capitalized with surplus capital of A$3.6bn in the headstock, A$10bn of investable cash in the satellite funds and a much reduced inventory of infrastructure seed assets awaiting to be replenished in a "buyers market".
- **Target entities where the staff remuneration structure is matched to the creation of long-term** shareholder value as opposed to short-term transactional profitability. we believe the MQG bonus pool is really a "shock absorber" for ordinary shareholders and accordingly smoothes the ordinary shareholder returns across the cycle. This does not come without a cost as during optimal conditions the staff bonus pool likely fares better than ordinary shareholders. Conversely, in this more challenging environment the smoothing impact of the bonus pool, and accordingly the much reduced earnings risk, is not reflected in MQG's present share price. This analyst remains concerned that the exact mechanics of the staff bonus pools of the other asset recyclers are not clear and likely exaggerate the earnings risk for shareholders in a more challenging environment.

What Is The Share Price Telling Us? *While we believe the hedge fund "short MQG" arguments do not bear closer scrutiny the fact is that the direction of MQG's shareprice is telling us MQG is irrevocably broken. In this environment, with the hedge funds driving the agenda, it is hard to identify a catalyst to turn MQG's price direction around but we note that massive binges of short selling in MQG have previously been followed by commensurate bouts of short covering. With MQG now trading below any of its previous trading bands* (refer Figure 9 and Figure 10) *and at 1.06x net asset backing of A$32.*16 (vs Net Tangible Asset Backing of A$29.45 refer Figure 8) *we believe MQG now offers compelling value. However we reiterate its hard to identify a catalyst to turn around sentiment, particularly following the S&P ratings outlook downgrade!*

Figure 8: MQG Price to Ordinary Shareholder Funds Per Share



Source: Company, JPMorgan, IRESS

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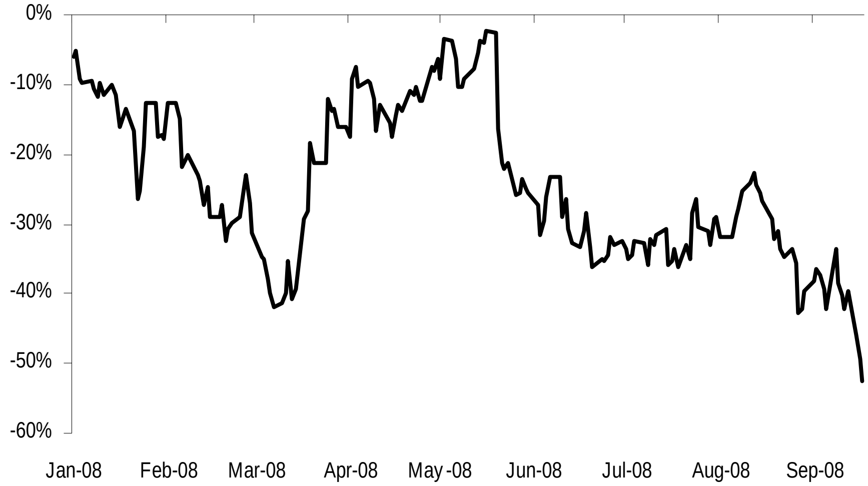
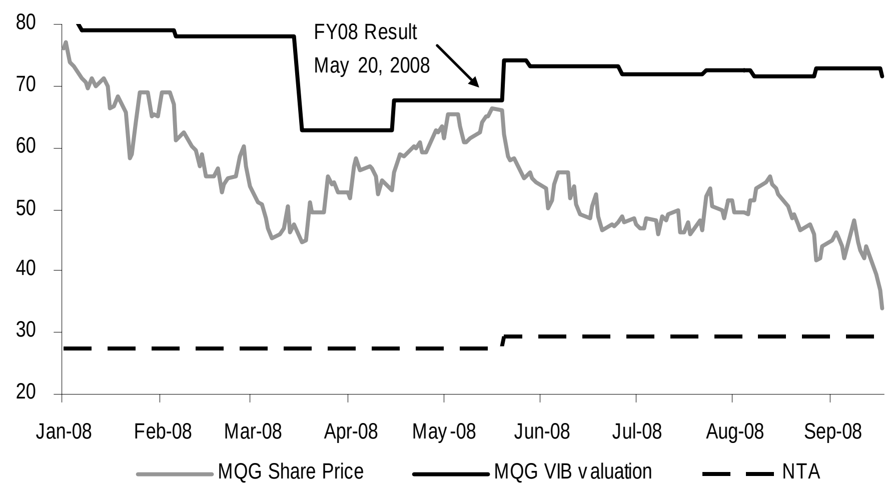
Figure 9: MQG Share Price Premium / (Discount) To "Vanilla IB" Valuation



Source: JPMorgan, IRESS

Figure 10: MQG Share Price Performance Relative to JPMorgan Share Price Target

A$



Source: JPMorgan, IRESS

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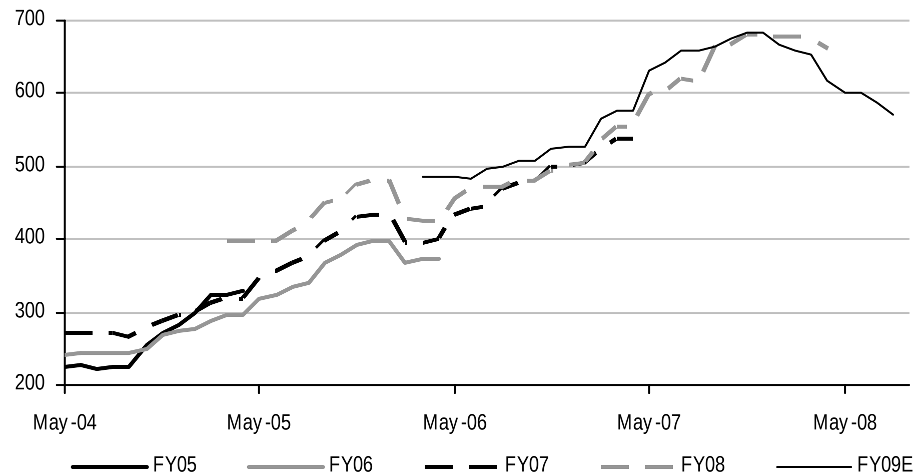
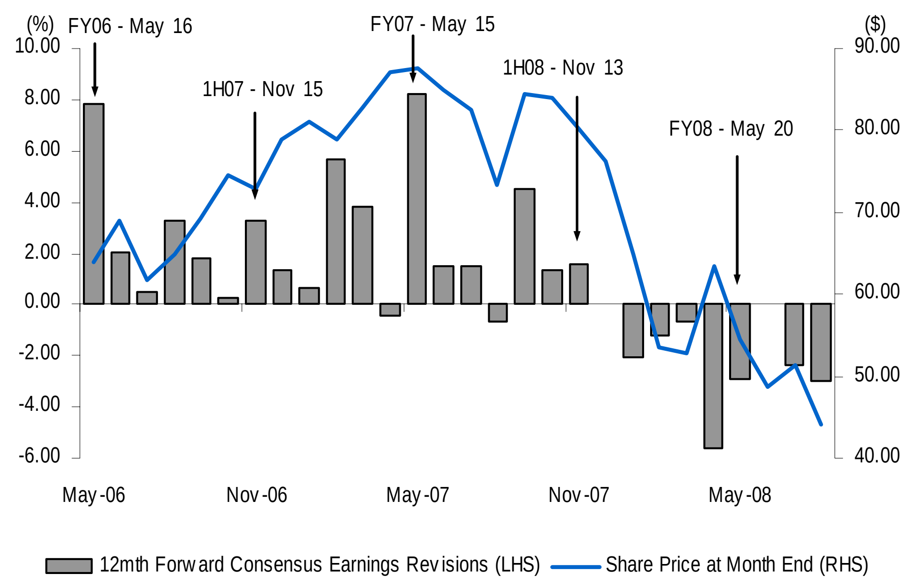
Figure 11: MQG Consensus Earnings Revisions Over Time

Cents Per Share



Source: Bridge DFS, IBES.

Figure 12: MQG – Consensus Earnings Revisions vs Share Price Performance



Source: Bridge DFS, IBES.

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Share Price Target

Table 4: MQG Valuation — “Vanilla” Investment Bank or Integrated Investment Bank / Infrastructure Fund Manager

Date	17-Sep-08
MQG Price	**A$33.93**
ASX 200	4722
10 Bonds	5.58%

Sum of the Parts - "Vanilla" Investment Bank			
Group Cash Earnings Allocation	**FY08**	**FY09E**	**FY10E**
Traditional Banking	181	161	181
Recurring Funds Management	215	232	239
Investment Banking	1021	1117	1202
"Operational" Cash Earnings	**1417**	**1510**	**1622**
Performance Fees	163	187	197
Entrepreneurial Items	223	0	0
Total Cash Earnings	**1803**	**1697**	**1818**
Target Divisional Values			
Traditional Banking Cash Earnings	**181**	**161**	**181**
Peer Bank PE (Major Bank Av JPMorgan)	10.4x	10.3x	9.9x
Premium to Peer	0%	0%	0%
Target PE	10.4x	10.3x	9.9x
Notional Value	**A$1.873bn**	**A$1.661bn**	**A$1.791bn**
Recurring Funds Management			
Recurring Funds Mangt Cash Earnings	215	232	239
Less Dividend Income Post Bonus + Tax	-19	-22	-21
Cash Ex Dividends	**196**	**210**	**217**
Peer PE (Av AMP, AXA, IFL, PPT)	15.4x	12.0x	11.1x
Premium to Peer	0%	0%	0%
Target PE	15.4x	12.0x	11.1x
Notional Value	**A$3.026bn**	**A$2.527bn**	**A$2.411bn**
Add Back Equity Investments Book Value	6.609	6.609	6.609
Add Back Unrecognised Mark to Market Gain	0.457	0.457	0.457
Notional Bonus on Unrecog Gain	-0.231	-0.217	-0.217
Notional Tax on Unrecog Gain	-0.032	-0.046	-0.046
Notional Funds Management Value	**A$9.828bn**	**A$9.330bn**	**A$9.213bn**
Funds Under Management	A$232bn	A$232bn	A$256bn
Notional Value to FUM	4.24%	4.02%	3.60%
Investment Banking Cash Earnings	1021	1117	1202
Peer Average US Global Investment Bank PE	8.3x	6.6x	5.6x
Notional Value	**A$8.460bn**	**A$7.350bn**	**A$6.740bn**
Performance Fees Cash Earnings	**163**	**187**	**197**
Target PE	6.0x	6.0x	6.0x
Notional Value Performance Fees	**A$0.979bn**	**A$1.124bn**	**A$1.180bn**
Entrepreneurial Items Cash Earnings	223	0	0
Target PE	6.0x	6.0x	6.0x
Notional Value Entrepreneurial Items	**A$1.339bn**	**A$0.000bn**	**A$0.000bn**
MQG Group Value	**A$22.5bn**	**A$19.5bn**	**A$18.9bn**
Fully Diluted Weighted Av Shares	275.9m	283.6m	292.7m
Sum of the Parts	**A$81.48**	**A$68.63**	**A$64.64**
Target Average		**A$71.58**	

Composite Valuation - Integrated Investment Bank / Infrastructure Funds Manager			
	FY08	**FY09E**	**FY10E**
MQG Group Cash Earnings	**1803**	**1697**	**1818**
Average Ordinary Equity	7503	8514	9466
MQG Cash Earnings ROE	24.0%	19.9%	19.2%
	FY08	**FY09E**	**FY10E**
Regulatory Capital In Seed Assets / Equity	3548	4257	4733
% Av Equity	47%	47%	50%
Profit Earned on Seed Assets / Equity			
Dividends Received	91	104	104
Provn For Diminution Investments	-420	0	0
Gain On Disposal of Businesses	948	0	0
Total Pre Bonus / Pre Tax	**619**	**104**	**104**
Total Post Bonus / Post Tax	**217**	**36**	**36**
Implied ROE	**6.11%**	**0.86%**	**0.77%**
	FY08	**FY09E**	**FY10E**
Residual Earnings	1586	1661	1782
Residual Operational Ordinary Equity	3956	4257	4733
Implied ROE	**40.10%**	**39.01%**	**37.65%**
Major Bank Av ROE	17.6%	16.7%	16.6%
Major Bank PE	10.4x	10.3x	9.9x
MQG Residual ROE Multiplier	2.28x	2.34x	2.27x
Arbitrary Discount Factor			
Implied Target MQG Residual PE	23.6x	24.2x	22.5x
Implied Market Value (Excl Seed Assets)	**A$37.474bn**	**A$40.191bn**	**A$40.106bn**
Fully Diluted Weighted Av Shares	275.9m	283.6m	292.7m
Per Share	**A$135.83**	**A$141.70**	**A$137.00**
Seed Asset Valuation Risk - Net Assets	**3548**	**4257**	**4733**
Fully Diluted Weighted Av Shares	275.9m	283.6m	292.7m
Per Share	**A$12.86**	**A$15.01**	**A$16.17**
Composite Value	**A$148.69**	**A$156.71**	**A$153.17**
Target Average		**A$152.86**	

MQG Share Price	**A$33.93**		
Estimated Time-Weighted Dividend	A$0.98		
Estimated Ex-dividend share price	**A$32.95**		
	Valuation	**Weighting**	
"Vanilla" Investment Bank Value	A$71.58	100.0%	A$71.58
Integrated Invest Bank / Infrastruct FM	A$152.86	0.0%	A$0.00
		Share Price Target	**A$71.58**
		+/- Upside	**117%**

Source: Company reports, IRESS, JPMorgan estimates.

Our forecasts give a sum-of-the-parts valuation, “Vanilla Investment Bank”, June 2009 share price target of A$71.58. Risks to our price target are those to the MQG model, around (i) seed asset valuation risk, and (ii) conglomerate management risk. We believe MQG offers compelling relative value, albeit it is difficult to identify a near-term positive catalyst

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Table 5: MQG—Results and Forecasts

A$ in millions, year-end March

	FY05	FY06	FY07	1H08	2H08	FY08	1H09E	2H09E	FY09E	FY10E	FY11E
Profit & Loss Account											
Interest Income	1633	3136	4632	3186	3512	6698	3889	4083	7972	8790	9691
Interest Expense	-1228	-2544	-3904	-2663	-3218	-5881	-3598	-3785	-7383	-8154	-9042
Net Interest Income	**405**	**592**	**728**	**523**	**294**	**817**	**290**	**299**	**589**	**636**	**648**
Non Interest Revenues											
Fee & Commission Income											
Base Fees (Fully Owned by MQG)	388	553	785	477	481	958	507	507	1013	1065	1174
Performance Fees (Fully Owned by MQG)	312	200	74	169	217	386	221	221	442	464	511
M&A, Advisory and U/W	567	950	1227	898	561	1459	617	648	1265	1395	1538
Brokerage and Commissions	271	715	949	616	637	1253	692	727	1419	1565	1786
Financial Products and XB Leasing	75	115	216	106	37	143	74	78	152	167	184
Banking, Lending & Securitisation	165	55	56	33	33	66	35	36	71	78	86
Wrap & Other Admin Fee Income		99	109	71	75	146	79	83	161	178	196
Other Fee & Commission Income	129	155	124	108	126	234	132	139	271	299	330
Net Fee & Commission Income	**1907**	**2842**	**3540**	**2478**	**2167**	**4645**	**2357**	**2438**	**4795**	**5211**	**5806**
Trading Income											
Equities	370	526	765	593	574	1167	603	633	1236	1362	1502
Commodities	165	197	295	132	262	394	275	289	564	622	685
Foreign Exchange	159	152	120	95	163	258	171	180	351	387	426
Interest Rate Products	36	1	-133	23	-7	16	21	22	43	47	52
Total Trading Income	**730**	**876**	**1047**	**843**	**992**	**1835**	**1070**	**1123**	**2193**	**2418**	**2666**
Other Income											
Gain on Disposal of Investments	467	288	1441	684	264	948	0	0	0	0	0
Provn for Diminution Investments	3	-25	-12	-34	-386	-420	0	0	0	0	0
Gain on Deconsolidation of Controlled Entities	53	0	0	0	0	0	0	0	0	0	0
Base Fees (Equity A/c MBL Share)	27	52	0	0	0	0	0	0	0	0	0
Performance Fees (Equity A/c MQG Share)	0	0	0	0	0	0	0	0	0	0	0
Equity Accounted Income	8	120	242	94	62	156	62	62	124	124	124
Dividends Received	84	42	84	39	52	91	52	52	104	104	104
Specific Provisions	-35	-25	-29	4	-75	-71	-12	-6	-18	-13	-15
General / Collective Provisions	-34	-11	-11	-13	-24	-37	-6	-7	-13	-14	-16
Other	40	81	151	92	192	284	192	192	384	384	384
Total Other Income	**613**	**522**	**1866**	**866**	**85**	**951**	**288**	**293**	**581**	**584**	**581**
Total Non Interest Revenues	**3250**	**4240**	**6453**	**4187**	**3244**	**7431**	**3714**	**3855**	**7569**	**8213**	**9053**
Total Income	**3655**	**4832**	**7181**	**4710**	**3538**	**8248**	**4005**	**4153**	**8158**	**8849**	**9702**
Expenses											
Employment Expenses	-1945	-2407	-3733	-2420	-1757	-4177	-1902	-1973	-3875	-4203	-4608
Occupancy Expenses	-101	-139	-226	-121	-143	-264	-143	-150	-293	-323	-356
Non-salary Technology Expenses	-104	-128	-163	-100	-114	-214	-116	-122	-237	-262	-288
Professional fees, travel and communication exp	-190	-156	-251	-117	-129	-246	-133	-140	-273	-301	-331
Other Operating Expenses	-154	-715	-880	-579	-563	-1142	-618	-648	-1267	-1396	-1539
Total Expenses	**-2494**	**-3545**	**-5253**	**-3337**	**-2706**	**-6043**	**-2912**	**-3032**	**-5945**	**-6484**	**-7123**
Profit Before Tax	**1161**	**1287**	**1928**	**1373**	**832**	**2205**	**1092**	**1121**	**2213**	**2365**	**2579**
Income Tax Expense	-280	-290	-377	-273	-44	-317	-210	-216	-425	-456	-498
Minority Interests	-29	-52	-57	-24	-27	-51	-27	-27	-54	-54	-54
Net Profit After Tax	**852**	**945**	**1494**	**1076**	**761**	**1837**	**856**	**878**	**1734**	**1855**	**2026**
Less Preference Dividends	-29	-29	-31	-16	-18	-34	-18	-18	-37	-37	-37
Less 2H05E MGM Mark to Market Gain Post Tax	-91										
Normalised Earnings	**732**	**916**	**1463**	**1060**	**743**	**1803**	**837**	**860**	**1697**	**1818**	**1989**
Assets Under Management											
Infrastructure	37993	61546	100107	121602	131222	131222	131222	131222	131222	144672	159501
Real Estate	12862	17460	18297	18714	23532	23532	23532	23532	23532	25944	28603
Other	3413	8579	12898	17406	17707	17707	17707	17707	17707	19522	21523
Total Specialist Funds	**54268**	**87585**	**131302**	**157722**	**172461**	**172461**	**172461**	**172461**	**172461**	**190138**	**209627**
Funds Management & Financial Services											
Retail	13248	14981	17204	21601	20739	20739	20739	20739	20739	22865	25208
Wholesale	29198	37709	48680	44752	38813	38813	38813	38813	38813	42791	47177
Total Funds Management & Financial Services	**42446**	**52690**	**65884**	**66353**	**59552**	**59552**	**59552**	**59552**	**59552**	**65656**	**72386**
Total Assets Under Management	**96714**	**140275**	**197186**	**224075**	**232013**	**232013**	**232013**	**232013**	**232013**	**255794**	**282013**

Source: JPMorgan estimates, Company.

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Table 6: MQG—Results and Forecasts

A$ in millions, year-end March

	FY05	FY06	FY07	1H08	2H08	FY08	1H09E	2H09E	FY09E	FY10E	FY11E
Balance Sheet Details											
Group Assets	49313	106211	136389	178986	167250	167250	175555	184147	184147	203022	223832
SHFunds	4432	5337	7519	9415	10061	10061	10506	11025	11025	12004	13053
Risk Weighted Assets	19771	28751	39386	42599	46732	46732	49053	51453	51453	56727	62542
Av Balance Sheet Details											
Interest Earning Assets	26732	49620	71325	100857	93559	97208	98237	103149	100693	111014	122393
Total Average Assets	44903	91112	119604	156921	167115	162018	175414	183998	179706	198028	218326
Interest Bearing Liabs	27798	51744	74578	92826	104298	98562	109364	114678	112021	123532	136363
Total Liabilities	41272	86164	112937	148385	157409	152897	165130	173233	169182	186552	205842
SH Funds	3631	4948	6667	8536	9706	9121	10283	10765	10524	11476	12484
Free Float	-1067	-2125	-3254	8031	-10739	-1354	-11127	-11529	-11328	-12518	-13970
KEY RATIOS											
Asset Growth (%) - Period End	12.66	115.38	28.41	31.23	-6.56	22.63	4.97	4.89	10.10	10.25	10.25
Asset Leverage (x)	11.1	19.9	18.1	19.0	16.6	16.6	16.7	16.7	16.7	16.9	17.1
Simple Equity Ratio (%)	8.99	5.02	5.51	5.26	6.02	6.02	5.98	5.99	5.99	5.91	5.83
Profitability (%)											
To Av Assets											
- Net Interest Income	0.90	0.65	0.61	0.67	0.35	0.50	0.33	0.32	0.33	0.32	0.30
- Non Interest Revenues	7.24	4.65	5.40	5.34	3.88	4.59	4.23	4.19	4.21	4.15	4.15
- Operating Expenses	5.55	3.89	4.39	4.25	3.24	3.73	3.32	3.30	3.31	3.27	3.26
- Pre Tax Earnings	2.59	1.41	1.61	1.75	1.00	1.36	1.25	1.22	1.23	1.19	1.18
Effective Tax Rate	24.7	23.1	19.9	20.1	5.4	14.6	20.0	20.0	20.0	20.0	20.0
Cost To Income	68.24	73.37	73.15	70.85	76.48	73.27	72.72	73.01	72.87	73.27	73.42
Rates Of Return											
ROA	1.63	1.01	1.22	1.35	0.89	1.11	0.95	0.93	0.94	0.92	0.91
ROE	26.84	25.35	27.04	29.00	19.31	24.03	20.24	19.65	19.93	19.21	18.99
Per Share Data											
Normalised Basic EPS (¢)	333.2	400.3	591.6	401.8	271.3	670.6	302.1	305.3	607.4	630.3	667.7
Normalised Fully Diluted EPS (¢)	325.5	382.3	569.8	387.5	267.1	653.5	297.5	300.8	598.3	621.1	658.3
Operating Dividend Per Share (¢)	161	215	315	145	200	345	145	200	345	370	390
Special Dividend Per Share (¢)	40	0	0	0	0	0	0	0	0	0	0
PER Basic EPS (x)	10.2	8.5	5.7	4.2	6.3	5.1	5.6	5.6	5.6	5.4	5.1
PER Fully Diluted EPS (x)	10.4	8.9	6.0	4.4	6.4	5.2	5.7	5.6	5.7	5.5	5.2
Dividend Yield (%)	4.7	6.3	9.3	4.3	5.9	10.2	4.3	5.9	10.2	10.9	11.5
Dividend Franking (%)	90	95	100	100	100	100	80	70	75	60	60
Franking Rate (%)	30	30	30	30	30	30	30	30	30	30	30
Normalised Payout Ratio (%)	48.9	54.3	54.3	37.1	73.9	52.3	48.4	66.0	57.3	59.3	59.0
DRP Participation (%)	18.1	24.9	38.2	29.0	28.6	28.7	16.0	16.0	16.0	16.0	16.0
Issued Shares (m)											
Period End	223.7	232.4	253.9	271.1	274.6	274.6	279.6	283.7	283.7	292.9	302.5
Ordinary Weighted Average	219.7	228.8	247.3	263.8	273.9	268.9	277.1	281.7	279.4	288.5	297.9
Diluted Weighted Average	224.9	239.6	256.8	273.6	278.2	275.9	281.3	285.9	283.6	292.7	302.2
Dilution Factor (%)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Company, JPMorgan estimates

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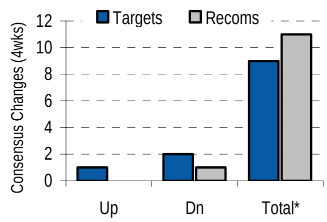
All Data As Of 16-Sep-08

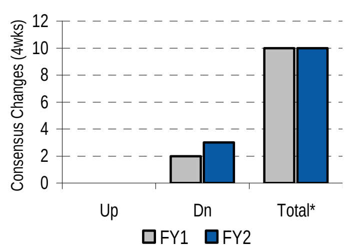
Q-Snapshot: Macquarie Group Ltd.

Quantitative Analysis

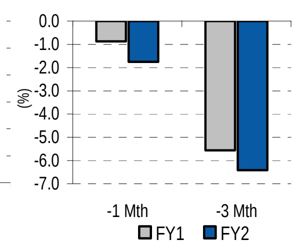
Targets & Recommendations



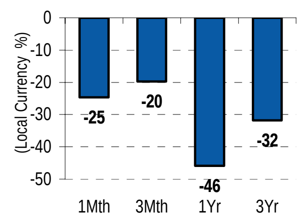
EPS Revisions



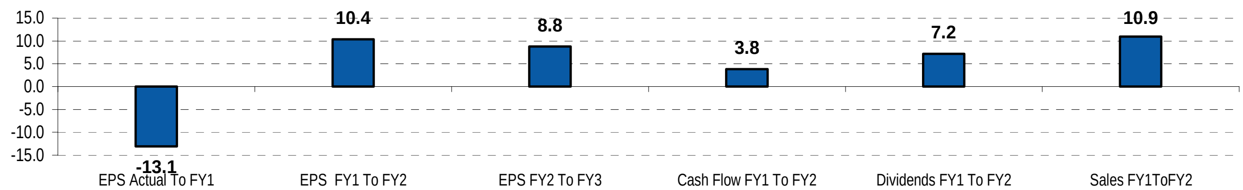
EPS Momentum (%)



Historical Total Return (%)



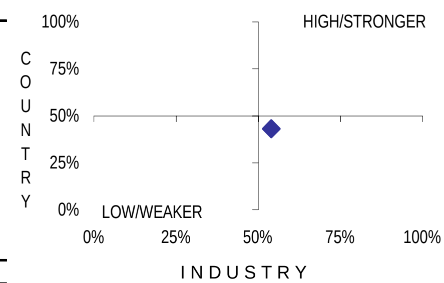
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	87%	80%
Valuations: P/E Vs Sector (12mth fwd EPS)	80%	77%
Valuations: EPS Growth (forecast)	18%	21%
Momentum: 12 Month Price Momentum	21%	28%
Momentum: 1 Month Price Reversion	96%	91%
Quality: Return On Equity (forecast)	62%	75%
Quality: Earnings Risk (Variation in Consensus)	63%	83%
Earnings&Sentiment: Earnings Momentum	35%	36%
Earnings&Sentiment: Change in Recomms	34%	48%
Earnings&Sentiment: Net Revisions Fy2 EPS	4%	18%
COMPOSITE Q-SCORE (0% To 100%)**	**43%**	**54%**

JPMorgan Composite Q-Score



Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
1295-MY	Public Bank Bhd	Malaysia	12,628	7.31	14.0	87%
601166-CN	Industrial Bank Co. Ltd.	China	12,284	58.42	6.9	85%
500180-IN	HDFC Bank Ltd.	India	11,608	6.60	22.6	86%
1155-MY	Malayan Banking Bhd	Malaysia	10,820	9.50	11.4	64%
8403-JP	Sumitomo Trust & Banking Co. Ltd.	Japan	10,754	74.08	12.0	35%
MQG-AU	**Macquarie Group Ltd.**	**Australia**	**9,767**	**134.50**	**6.9**	**54%**
NBAD-AE	National Bank of Abu Dhabi	United Arab Emirates	9,040	2.04	9.1	97%
004940-KR	Korea Exchange Bank	South Korea	8,022	16.92	9.1	76%
SUN-AU	Suncorp-Metway Ltd.	Australia	7,723	48.49	8.5	5%
8332-JP	Bank of Yokohama Ltd.	Japan	7,255	42.78	12.2	20%
601169-CN	Bank of Beijing Co. Ltd.	China	7,086	33.06	8.9	89%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
SGB-AU	St. George Bank Ltd.	Regional Banks	13,783	75.03	13.1	64%
FMG-AU	Fortescue Metals Group Ltd.	Steel	11,899	65.75	-15.8	80%
ORG-AU	Origin Energy Ltd.	Electric Utilities	11,895	82.63	25.0	95%
AMP-AU	AMP Ltd.	Investment Managers	11,060	45.84	18.1	22%
LEI-AU	Leighton Holdings Ltd.	Engineering & Construction	10,191	35.92	16.9	59%
MQG-AU	**Macquarie Group Ltd.**	**Financial Conglomerates**	**9,767**	**134.50**	**6.9**	**43%**
STO-AU	Santos Ltd.	Oil & Gas Production	9,158	69.17	17.9	77%
BXB-AU	Brambles Ltd.	Miscellaneous Commercial Services	8,953	53.38	14.9	18%
FGL-AU	Foster's Group Ltd.	Beverages: Alcoholic	8,776	54.94	15.4	63%
CNA-AU	Coal & ALlied Industries Ltd.	Coal	8,043	0.07	13.2	100%
SUN-AU	Suncorp-Metway Ltd.	Financial Conglomerates	7,723	48.49	8.5	7%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit http://jpmorgan.hk.acrobat.com/qsnapshot/
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.
* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

CSL Limited

Talecris gets FDA approval for CIDP - positive

Overweight

A$40.25

17 September 2008
Price Target: A$50.02

Healthcare

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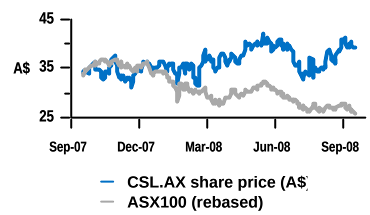
Price Performance



- Talecris has received FDA approval for its IVIG Gamunex as a treatment for chronic inflammatory demyelinating polyneuropathy (CIDP) – a debilitating neurological disorder affecting 2-7 people per 100,000 worldwide. Talecris has been granted orphan drug status in CIDP, which implies market exclusivity for 7 years. Despite this, we think the approval will still be directly beneficial to the other players since 1) off-label usage is common in the IVIG market, and 2) Talecris is supply constrained.
- Importantly, this is the first and only FDA approved neurological indication for IVIG, and now enables direct marketing for this indication to neurologists. This could in turn lead to an increased awareness amongst neurologists of the off-label neurological uses of IVIG, such as Guillain-Barre Syndrome, multifocal motor neuropathy (MMN), and dermatomyositis, which would be positive for IVIG demand. We view neurological disorders as an important growth driver of IVIG over the medium-term, and note that other clinical trials are underway in this area, e.g. Baxter is sponsoring a Phase III trial for MMN, and a Phase III study in Alzheimer's Disease.
- Separately, we understand CSL transferred the proceeds from its equity raising into USD post the raising, implying an exchange rate of ~0.87. This was clearly beneficial relative to where the AUD/USD has moved subsequently. However CSL will now earn interest at US interest rates (~3%). We adjust our forecasts for this lower rate.
- CSL is currently trading on a 12 month forward PE of ~24x, which we think is reasonable relative to its EPS growth profile (with or without the Talecris deal), and retain our Overweight rating.

CSL Limited (Reuters: CSL.AX, Bloomberg: CSL AU)

Year-end Jun (A$)	FY08A	FY09E	FY10E	FY11E
Total Revenue (A$ mn)	3,759	4,049	4,503	4,989
EBITDA (A$ mn)	1,108.4	1,413.3	1,682.5	1,917.1
Net profit after tax (A$ mn)	701.80	971.40	1,176.46	1,365.70
EPS (A$)	1.268	1.626	1.951	2.265
P/E (x)	31.7	24.7	20.6	17.8
EV/EBITDA	20.2	15.8	13.3	11.7
Dividend (A$)	0.46	0.54	0.65	1.59
Net Yield (%)	1.1%	1.3%	1.6%	4.0%
Normalised* EPS (A$)	1.268	1.626	1.951	2.265
EPS growth (%)	31.7%	28.2%	20.0%	16.1%
Normalised* P/E (x)	31.7	24.7	20.6	17.8
Relative P/E (%)	231.5%	202.7%	191.0%	178.4%

Company Data	
52-week range (A$)	43.19 - 30.90
Market capitalisation (A$ bn)	24.08
Market capitalisation ($ bn)	19.30
Fiscal Year End	Jun
Price (A$)	40.25
Date Of Price	17 Sep 08
Avg daily t/over (12m) (mn)	68.1
Shares outstanding (mn)	598.3
ASX100	3,849.1
ASX200-Ind	6,533.8
NTA/Sh^	7.27
Net Debt^ (A$ bn)	-1.68

Source: Company data, Reuters, JPMorgan estimates. ^ Next forecast FY. * Normalisation excludes goodwill, P&L on FX movements, asset disposal and some non-operational items.

www.morganmarkets.com

New FDA Approved Indication For IVIG

Talecris has received FDA approval for its liquid IVIG product Gamunex in the treatment of chronic inflammatory demyelinating polyneuropathy (CIDP)[1].

We see several key points from this development:

- Although CIDP is a relatively small market, it nonetheless adds a new demand factor for IVIG.
- Although Talecris has been granted orphan drug status in promoting this indication, which implies market exclusivity for seven years, the approval should still be beneficial to the other players because:
    1. off-label usage is common in the IVIG market so the competitors IVIG products will likely also be used to treat CIDP, and
    2. Talecris is supply constrained so it will either not be able to supply IVIG for CIDP, or it will need to deny IVIG supply to other patients in order to meet demand in CIDP - either way the shortfall will need to be met by the competitors.
- This is the first and only IVIG therapy approved to treat a neurological disorder in the US. This means Talecris can market the indication directly to neurologists, which should in turn increase the awareness amongst neurologists of the other neurological diseases where IVIG is prescribed off-label such as Guillain-Barre Syndrome, multifocal motor neuropathy (MMN), and dermatomyositis.
- Neurological disorders are an increasingly important driver of IVIG growth, and other clinical trials are underway in this area, e.g. Baxter is sponsoring a phase III trial for MMN, which just started enrolling, and Baxter will soon start a phase III study in Alzheimer's. Furthermore, the rapid approval of Gamunex on a limited patient size[2], bodes well that clinical studies can be successfully designed and carried out on other neurological indications.

Earnings Revisions

We understand that CSL has converted the A$1.75b proceeds for the recent equity raising to USD and that it did so soon after the raising. This means CSL likely converted at an AUD/USD rate of ~0.87, implying US$1.52b on conversion. This means that CSL will earn US interest rates on the cash (i.e. 3%), not Australian interest rates (i.e. 6-7%) as we had assumed, and therefore we adjust our forecasts here. This leads to a downgrade to EPS of 3-4% - see Table 1.

[1] An acquired inflammatory disorder of the peripheral nervous system, which leads to muscle weakness and fatigue as well as impaired movement and sensation. The disease affects 2-7 individuals per 100,000 worldwide, and can occur at any age and in both genders.
[2] The FDA approved the indication on a fast-track basis with 12-month results from a single randomized, 75 patient trial (though admittedly the data was impressive)

Table 1: Earnings Revisions

$A million	FY09E	FY10E	FY11E	FY12E	FY13E
Revenue - old	4,049.3	4,502.6	4,988.5	5,438.4	5,762.1
Revenue - new	4,049.3	4,502.6	4,988.5	5,438.4	5,762.1
Difference	0%	0%	0%	0%	0%
EBIT - old	1,267.6	1,524.6	1,754.4	1,961.4	2,074.2
EBIT - new	1,267.6	1,524.6	1,754.4	1,961.4	2,074.2
Difference	0%	0%	0%	0%	0%
PBT - old	1,354.7	1,651.8	1,921.8	2,154.9	2,288.8
PBT - new	1,310.8	1,590.4	1,845.3	2,068.4	2,194.3
Difference	-3%	-4%	-4%	-4%	-4%
NPAT to members - old	1,004.4	1,222.5	1,423.1	1,594.7	1,694.2
NPAT to members - new	971.4	1,176.5	1,365.7	1,529.8	1,623.3
Difference	-3%	-4%	-4%	-4%	-4%
JPM "Normalised" EPS - old	168.8	204.2	237.8	266.7	283.4
JPM "Normalised" EPS - new	163.3	196.5	228.2	256.0	271.6
Difference	-3%	-4%	-4%	-4%	-4%

Source: JPMorgan estimates.

Recommendation

We retain our Overweight recommendation for the following reasons:

- **PE is reasonable relative to our forecast earnings growth.** The 12 month forward PE of ~24x is reasonable given our forecast ~22% p/a EPS growth, on average, over the next 3 years, particularly given potential EPS upside if the Talecris transaction proceeds.

- **Upside risk to revenue growth for plasma proteins.** The recent results from Baxter, Grifols and CSL all show that the plasma proteins market continues to deliver strong revenue growth, with constant currency growth in the range of 12-15% p/a. If these trends continue in the industry, our CSL forecasts could be exceeded.

- **Upside risk to prices for IVIG and albumin.** Both the Baxter, Grifols and CSL's recent results suggest that price increases continue to be observed for IVIG and albumin. If plasma supply continues to remain 'tight', it is entirely possible that plasma protein prices will 'overshoot' what is sustainable in the long-term, and in turn deliver earnings above our forecasts.

- **Margin expansion at CSL Behring is highly likely**. We expect CSL's EBITDA margins in its CSL Behring division to expand from ~32% to ~38% over the next 5 years. This comes from: 1) introduction of a liquid IVIG (Privigen) in 1Q 2008, and the subsequent conversion of lyophilised IVIG customers to the higher priced liquid IVIG product; 2) IVIG yield improvements once the liquid IVIG production process is fully operational; 3) cancellation of the low-margin plasma supply agreement with a competitor (now assume at the end of 2009) and use of this plasma for the manufacture of higher-margin CSL plasma-derived products (this will not occur if the Talecris transaction proceeds). As these structural factors are largely in CSL's control, we believe the resulting margin expansion is highly likely to be delivered. This is what drives earnings growth to be significantly higher than the revenue growth over this time frame.

- **Several clinical trials could deliver substantial upside**

  Trial 1 – Merck has already stated that a regulatory filing will be made with the FDA in CY08 to support the expansion of the Gardasil vaccination indication to include boys. If the application is successful, this could lead to a significant expansion in the market size for Gardasil, and hence the royalty payments available to CSL.

  Trial 2 – Although its still relatively 'early days', Baxter's decision to pursue Phase III trials based on preliminary Phase II results is a definite positive for CSL because the Alzheimer's indication could ultimately significantly increase demand in the IVIG market (e.g. if 15,000 Alzheimer's patients went on IVIG therapy it would add ~US$1 billion to the market). The Phase III trial is expected to commence in 2H CY08, and longer term (12-18 months) data from the Phase II trial is also expected before the end of CY08.

  Trial 3 – Phase III ALIAS (Albumen in Acute Ischemic Stroke) Trial is being conducted by the NIH, scheduled completion is Dec 2009. If this works, it would add 80-85m grams of demand for albumin in the US alone, representing an increase of ~50% to this market.

Share Price Target

We explicitly separate the earnings from HPV vaccine royalties from the group earnings, and value each separately to set our Jun 09 share price target. We then scale these valuations for the cost of equity over the time period. This implies the stock, excluding HPV vaccine royalties, will be trading on a forward PE of ~26x at this time which we believe is reasonable in light of the expected strong medium-term EPS growth, and the PE of the HPV vaccine royalties will be ~10x, which we believe is appropriate. We add to this a modest premium to account for the potential upside from extending HPV vaccination to boys and the use of IVIG in treatment of Alzheimer's disease. The implied PE for the group is ~25x. The risks to our share price target could come from deterioration in the market conditions of the plasma-proteins, failure to launch HPV vaccine in-line with our forecasts, commercialisation of Iscomatrix or other products, foreign exchange or tax rate movements different to our forecasts, or acquisitions.

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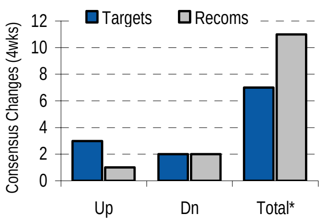
All Data As Of 17-Sep-08

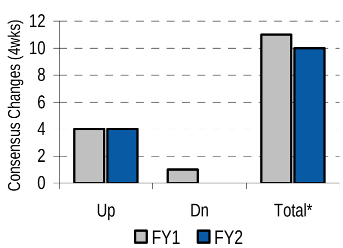
Q-Snapshot: CSL Ltd.

Quantitative Analysis

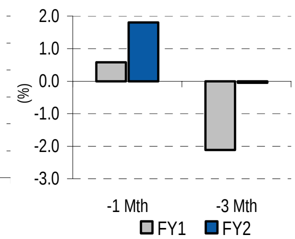
Targets & Recommendations



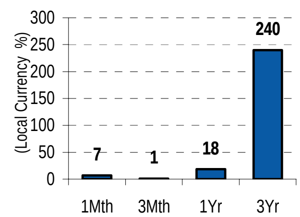
EPS Revisions



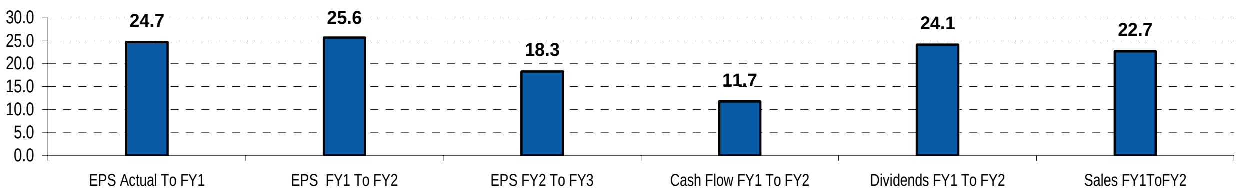
EPS Momentum (%)



Historical Total Return (%)



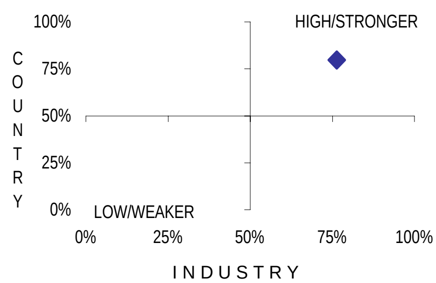
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	10%	20%
Valuations: P/E Vs Sector (12mth fwd EPS)	45%	55%
Valuations: EPS Growth (forecast)	74%	64%
Momentum: 12 Month Price Momentum	87%	89%
Momentum: 1 Month Price Reversion	22%	5%
Quality: Return On Equity (forecast)	74%	81%
Quality: Earnings Risk (Variation in Consensus)	78%	89%
Earnings&Sentiment: Earnings Momentum	59%	39%
Earnings&Sentiment: Change in Recomms	26%	21%
Earnings&Sentiment: Net Revisions Fy2 EPS	90%	89%
COMPOSITE Q-SCORE (0% To 100%)**	**80%**	**76%**

JPMorgan Composite Q-Score



Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
4502-JP	Takeda Pharmaceutical Co. Ltd.	Japan	41,326	189.42	21.6	41%
4503-JP	Astellas Pharma Inc.	Japan	21,381	101.52	13.0	72%
4568-JP	Daiichi Sankyo Co. Ltd.	Japan	20,778	91.73	25.4	16%
CSL-AU	**CSL Ltd.**	**Australia**	**17,635**	**72.68**	**25.0**	**76%**
4523-JP	Eisai Co. Ltd.	Japan	10,863	48.33	19.5	34%
4543-JP	Terumo Corp.	Japan	10,215	47.80	22.9	32%
4911-JP	Shiseido Co. Ltd.	Japan	9,818	48.63	28.2	41%
4519-JP	Chugai Pharmaceutical Co. Ltd.	Japan	8,777	39.67	26.5	48%
7741-JP	Hoya Corp.	Japan	8,656	51.23	10.7	53%
4508-JP	Mitsubishi Tanabe Pharma Corp.	Japan	7,267	14.99	18.2	84%
4507-JP	Shionogi & Co. Ltd.	Japan	6,842	45.98	24.9	79%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
WPL-AU	Woodside Petroleum Ltd.	Oil & Gas Production	29,256	133.66	14.1	87%
WOW-AU	Woolworths Ltd.	Food Retail	27,836	86.87	19.1	59%
WDC-AU	Westfield Group Australia	Real Estate Investment Trusts	27,392	134.38	17.2	35%
ANZ-AU	Australia & New Zealand Banking Group Ltd.	Major Banks	27,281	212.79	10.1	12%
WES-AU	Wesfarmers Ltd.	Industrial Conglomerates	19,243	85.68	11.2	62%
CSL-AU	**CSL Ltd.**	**Biotechnology**	**17,635**	**72.68**	**25.0**	**80%**
QBE-AU	QBE Insurance Group Ltd.	Property/Casualty Insurance	16,596	85.78	11.4	29%
SGB-AU	St. George Bank Ltd.	Regional Banks	13,905	70.07	13.0	63%
FMG-AU	Fortescue Metals Group Ltd.	Steel	12,084	65.59	-15.1	80%
ORG-AU	Origin Energy Ltd.	Electric Utilities	11,950	82.46	24.7	95%
AMP-AU	AMP Ltd.	Investment Managers	10,466	45.89	17.3	23%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit http://jpmorgan.hk.acrobat.com/qsnapshot/
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.
* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

CSL Limited

Y/E June

Profit & Loss Statement

(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Sales Revenue	**3277**	**3759**	**4049**	**4503**	**4989**
% change	13.9%	14.7%	7.7%	11.2%	10.8%
Unallocated Revenue	0.0	0.0	0.0	0.0	0.0
One-off Revenue	0	0	0	0	0
Share of NPAT from assoc.	0	0	0	0	0
Operating Costs	(2,358)	(2,651)	(2,636)	(2,820)	(3,071)
EBITDA (IFRS)	**919**	**1108**	**1413**	**1683**	**1917**
Depreciation	(99)	(103)	(115)	(128)	(132)
EBITA (IFRS)	**820**	**1006**	**1298**	**1555**	**1785**
Amortisation	(34)	(39)	(30)	(30)	(30)
EBIT (IFRS)	**786**	**967**	**1268**	**1525**	**1754**
Net Interest Expense	(12)	(15)	43	126	166
Pre-Tax Profit	**774**	**952**	**1311**	**1650**	**1920**
Tax	(235)	(250)	(339)	(429)	(498)
Add Tax Impact of Sig Items	-	-	-	-	-
Reported NPAT pre-sig	**539**	**702**	**971**	**1221**	**1422**
Significant items (after-tax)	-	-	-	-	-
NPAT post-sig & g/will	**539**	**702**	**971**	**1221**	**1422**
NPAT attrib to OEI	-	-	-	-	-
NPAT to members	539	702	971	1,221	1,422
EPS reported (cps)	98	127	163	203	236
Basic EPS pre sig (cps)*	**98**	**128**	**163**	**204**	**237**
% change	53%	30%	28%	25%	16%
EPS "normalised" (cps)*	95	125	163	204	238
% change	57%	32%	31%	25%	16%
EPS "normalised" ex HPV (cps)*	85	107	136	166	195
% change	41%	26%	27%	22%	18%
DPS (cps)*	35	46	54	68	166
Payout ratio (%)	35%	36%	33%	33%	70%
Franking (%)	27%	50%	33%	33%	33%
Effective tax rate (%)	30%	26%	26%	26%	26%

*adjusted for 3:1 share split on 25 Oct 2007

Comparison To Guidance	FY09	Guidance
NPAT	971	$810-850m excluding Talecris deal
HPV Royalties	272	$180-200m (consensus)

HPV Royalties

	FY07A	FY08A	FY09E	FY10E	FY11E
Sales from Royalties ($Am)	86.0	167.0	272.3	381.7	426.5
EBIT from Royalties ($Am)	76.8	143.1	233.4	327.1	365.6
NPAT from Royalties ($Am)	53.8	100.2	163.4	229.0	255.9
EPS from Royalties (cps)	9.8	18.1	27.4	38.0	42.4

Cashflow Statement

(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Net op cash flow	**481**	**715**	**872**	**1259**	**1431**
Capex & Acquisitions	(389)	(245)	(277)	(196)	(182)
Asset Sales	4	1	0	0	0
Other investing cash flows	36	(3)	-	-	-
Equity Raised	32	13	1746	0	0
Debt Repayment	(21)	(37)	-	-	-
Debt Proceeds	254	0	0	0	0
Dividends Paid	(163)	(227)	(284)	(373)	(692)
Share buyback	-	-	-	-	-
Other financing cash flows	-	-	1	2	2
Net cashflow	**(252)**	**225**	**2,057**	**690**	**557**
GCFPS (cps)	263	130	147	210	239
Free cashflow ($m)	392	480	627	1094	1249
FCF after capex/share (cps)	215	87	105	182	208

Balance Sheet

(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Current assets	**2,336**	**2,226**	**2,611**	**4,980**	**5,836**
PP&E	859	976	1,106	1,143	1,193
Equity investments	-	-	31	62	62
Intangibles	928	911	880	850	819
Other non current assets	78	582	2,567	1,054	966
Total assets	**4,200**	**4,695**	**7,195**	**8,089**	**8,877**
Total liabilities	1,931	1,889	1,956	2,002	2,059
Shareholder funds	**2,269**	**2,806**	**5,239**	**6,088**	**6,818**
Total debt	1,008	953	953	953	953
Cash	480	702	2,759	3,449	4,005
Net debt	**528**	**252**	**(1,806)**	**(2,495)**	**(3,052)**
Operating working capital	1,208	1,340	1,583	1,704	1,857

Shares: 598.3m **M'cap: A$24080m** **Price: A$40.25**

Financial Ratios

	FY07A	FY08A	FY09E	FY10E	FY11E
PE reported pre sig items (x)	13.6	31.5	24.6	19.8	17.0
PE "normalised"	42.5	32.2	24.6	19.7	16.9
PE "normalised" - excl HPV royalties*	44.3	35.1	27.6	22.6	19.2
EV/EBITDA (x)	26.8	22.0	15.8	12.8	11.0
P/GCFPS (x)	15.3	31.0	27.4	19.2	16.9
Dividend yield (%)	0.9%	1.1%	1.3%	1.7%	4.1%
ROE	23.8%	25.0%	18.5%	20.1%	20.9%
ROIC	18.1%	21.7%	25.7%	29.6%	32.6%
ROIC (operations only)	26.2%	30.1%	33.9%	38.1%	41.0%
Gearing (ND/(ND+E))	18.9%	8.2%	-52.6%	-69.5%	-81.0%
Net Interest cover (EBITDA)	76.5	75.8	-32.8	-13.4	-11.5
Net Interest cover (EBIT)	65.5	66.1	-29.4	-12.1	-10.6

*assumes HPV value is $2.7

PE "normalised" 12 mths fwd	23.6
PE "normalised" 12 mths fwd - CSL excl HPV royalties*	31.4

Sales by Division

(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
CSL Behring	2,653	2,827	3,167	3,462	3,841
Other Human Health (incl HPV royalties)	624	933	882	1,041	1,147
Total	3,277	3,759	4,049	4,503	4,989

EBITDA by Division

(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
CSL Behring	824	894	1109	1272	1455
Other Human Health (incl HPV royalties)	95	214	304	411	462

EBITDA Margin by Division

(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
CSL Behring	31.1%	31.6%	35.0%	36.7%	37.9%
Other Human Health (incl HPV royalties)	15.2%	23.0%	34.5%	39.5%	40.2%

IVIG & Albumin Pricing - Average

	FY07A	FY08A	FY09E	FY10E	FY11E
IVIG Products (USD per gram)	47	51	56	59	61
Albumin Product (USD per gram)	1.79	2.16	2.39	2.54	2.61

NPV 'Base Case' Valuation at discount rate 9.5%

	A$m	A$	
CSL Behring	6,077	10.16	
Other Human Health	328	0.55	
Other***	(316)	(0.53)	
Operational NPV (10yr forecast)	6,088	10.18	
Net Debt	1,524	2.55	
Terminal Value	9,125	15.25	
Operating Business NPV	16,738	27.98	
HPV Project	1,614	2.70	
Other R&D Projects	159	0.27	
TOTAL NPV	18,511	30.94	
Share price prem/(disc) to NPV			32.4%

***includes Aventis Behring contingent payment

12 Mth Fwd Mulitples Implied In Our Valuation

CSL - Total	A$	EV/EBITDA	PE
"Base Case" - CSL as is	30.94	13.9	22.1
"Mid-Case"	**35.44**	**16.1**	**25.3**
"Bull-Case"	39.93	18.3	28.5
CSL - excl HPV royalties	**A$**	**EV/EBITDA**	**PE**
"Base Case" - CSL as is	28.24	14.7	23.7
"Mid-Case"	**32.74**	**17.2**	**27.4**
"Bull-Case"	37.23	19.8	31.2

Mid-case assume partial success becoming a specialty pharma
Bull-case assume strong success becoming a specialty pharma

Note:
ROIC = NOPLAT/Invested Capital, cummulative goodwill amortisation is added back to IC
ROIC (operations only) removes goodwill from IC
Unless specified all financial to FY05 are AGAAP, FY06 onwards are IFRS

Source: JPMorgan estimates

JPMorgan

Sonic Healthcare

Completes purchase of IPN minorities

Overweight

A$13.20

17 September 2008
Price Target: A$18.22

Healthcare

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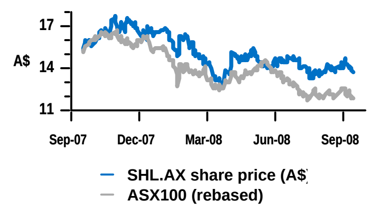
J.P. Morgan Securities Australia Limited

- We are no longer restricted from providing our view on SHL's purchased of the 28.5% of IPN that it did not already own, for a price of 27 cps (total cash outlay of ~$75m).
- Based on previous IPN disclosures, we estimate that SHL derives ~$15m p/a in pathology referral revenue from IPN. Now SHL has proceeded to 100% ownership of IPN, it could redeploy the ~60 collection centre licences currently used in IPN medical centres, and use them to take market share from the competitors. If the redeployed licences attracted similar referral volumes to what is currently derived in the IPN centres, this would mean additional pathology revenue of ~$15m p/a. Furthermore, ~75% of pathology referrals from IPN's medical centres are sent to SHL, so there may be scope to increase this. If we incorporate redeploying licences and greater capture of IPN pathology referrals into our forecasts, combined with corporate cost savings, we find the acquisition of the IPN minorities delivers nil change to FY09E EPS and 1% upside to FY10E EPS. It remains to be seen whether SHL can successful redeploy collection centre licences.
- We think the purchase of the IPN minorities is opportunistic and follows Ed Bateman's exit from the register in Nov-07. While 100% ownership gives SHL a little more flexibility to expand medical centres, and this may be beneficial to the group given the PRY/SYB merger, acquisitions in Germany still remain the most attractive location for deploying capital as they offer higher potential for earnings/value accretion.

Price Performance



Sonic Healthcare Limited (Reuters: SHL.AX, Bloomberg: SHL AU)

Year-end Jun (A$)	FY08A	FY09E	FY10E	FY11E
Total Revenue (A$ mn)	2,371	2,867	3,175	3,466
EBITDA (A$ mn)	479.9	595.3	688.6	772.3
Net profit after tax (A$ mn)	245.12	289.68	345.86	390.53
EPS (A$)	0.735	0.837	1.017	1.149
P/E (x)	18.0	15.8	13.0	11.5
EV/EBITDA	12.6	10.1	8.8	7.8
Dividend (A$)	0.52	0.60	0.71	0.83
Net Yield (%)	3.9%	4.5%	5.4%	6.3%
Normalised* EPS (A$)	0.735	0.837	1.017	1.149
EPS growth (%)	12.2%	13.9%	21.5%	12.9%
Normalised* P/E (x)	18.0	15.8	13.0	11.5
Relative P/E (%)	138.5%	139.0%	118.4%	113.2%

Company Data	
52-week range (A$)	18.08 - 12.76
Market capitalisation (A$ bn)	4.42
Market capitalisation ($ bn)	3.54
Fiscal Year End	Jun
Price (A$)	13.20
Date Of Price	17 Sep 08
Avg daily t/over (12m) (mn)	17.9
Shares outstanding (mn)	335.0
ASX100	3,849.1
ASX200-Ind	6,533.8
NTA/Sh^	-2.21
Net Debt^ (A$ bn)	1.61

Source: Company data, Reuters, JPMorgan estimates. ^ Next forecast FY. * Normalisation excludes goodwill, P&L on FX movements, asset disposal and some non-operational items.

See page 96 for analyst certification and important disclosures, including non-US analyst disclosures.

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Share Price Target

We set our Jun 09 share price target based on our DCF valuation scaled up for the cost of equity over this time period, and apply a slight discount to reflect the uncertainty surrounding Govt intentions for funding in the industry. This implies the stock will be trading on a forward PE of ~18x at this time which we believe is appropriate. Risks to our share price target could come from failure to make new acquisitions in-line with our forecasts, failure to deliver margin improvement in the Australian pathology business, a Govt price-cut in Australian pathology and/or radiology, or calls for NHS pathology outsourcing tenders are announced in the UK.

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‘With Acquisitions’

Sonic Healthcare Limited

Y/E June | Shares: 335m | M'cap: A$4422m | Price: A$13.20

Profit & Loss Statement
(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Total revenue	**1877**	**2371**	**2867**	**3175**	**3466**
% change	14%	26%	21%	11%	9%
Operating Costs	(1,472)	(1,894)	(2,272)	(2,487)	(2,694)
EBITDA (IFRS)	**406**	**478**	**595**	**689**	**772**
Depreciation	(62)	(76)	(101)	(109)	(116)
EBITA (IFRS)	**344**	**402**	**494**	**579**	**656**
Amortisation	(3)	(7)	(9)	(9)	(9)
EBIT (IFRS)	**341**	**397**	**485**	**570**	**647**
Net Interest Expense	(50)	(65)	(92)	(103)	(112)
Pre-Tax Profit	**290**	**332**	**392**	**467**	**535**
Tax	(80)	(81)	(102)	(122)	(144)
Reported NPAT	**210**	**250**	**290**	**346**	**391**
NPAT attrib to OEI	(12)	(5)	(1)	-	-
NPAT to members	**198**	**245**	**290**	**346**	**391**
Significant items (after tax)	-	-	-	-	-
NPAT "normalised"	**198**	**245**	**290**	**346**	**391**
EBIT margin (%)	18.3%	16.9%	17.2%	18.2%	18.9%
Effective tax rate (%)	28%	24%	25%	25%	26%
EPS reported (cps)	65.5	73.5	83.7	101.7	114.9
EPS "normalised" (cps)	**65.5**	**73.5**	**83.7**	**101.7**	**114.9**
% change	11.8%	12.2%	13.9%	21.5%	12.9%
DPS (cps)	46.0	52.0	59.6	71.4	83.4
% change	12.2%	13.0%	14.7%	19.7%	16.8%
Payout ratio (%)	68%	67%	68%	67%	70%
Franking (%)	100%	100%	80%	56%	52%

Comparison To Guidance	JPMorgan	Guidance
Revenue Growth in FY09	20.9%	>15% growth
EPS Growth in FY09	13.9%	>10% growth

Cashflow Statement
(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Net op cash flow	**268**	**332**	**381**	**449**	**499**
Capex & Acquisitions	(615)	(826)	(449)	(353)	(350)
Asset Sales	6	9	-	-	-
Other investing cash flows	3	(1)	(6)	(6)	(6)
Equity Raised	4	462	(107)	7	-
Debt Repayment	(284)	(1,550)	-	-	-
Debt Proceeds	734	1,752	440	206	206
Dividends Paid	(127)	(162)	(192)	(220)	(262)
Other financing cash flows	(3)	(1)	-	-	-
Net cashflow	**(23)**	**15**	**67**	**83**	**87**
GCFPS (cps)	90.0	101.5	112.1	134.6	149.5
Free cashflow ($m)	138.7	189.1	271.2	324.2	358.9
FCF/share (cps)	46.6	57.8	79.9	97.1	107.5

Balance Sheet
(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Current assets	**341**	**448**	**565**	**683**	**812**
PP&E	371	441	473	505	544
Equity investments	7	12	12	12	12
Other non current assets	2,181	2,728	3,040	3,248	3,440
Total assets	**2,900**	**3,629**	**4,090**	**4,449**	**4,808**
Total liabilities	1,462	1,667	2,137	2,363	2,593
Shareholder funds	**1,438**	**1,962**	**1,953**	**2,086**	**2,214**
Total debt	1,175	1,302	1,742	1,948	2,153
Cash	36	64	131	214	300
Net debt	**1,139**	**1,238**	**1,611**	**1,734**	**1,853**
Operating working capital	142	177	201	220	241

Note:
ROIC = NOPLAT/Invested Capital, cummulative goodwill amortisation is added back to IC
ROIC (operations only) removes goodwill from IC

Financial Ratios

	FY07A	FY08A	FY09E	FY10E	FY11E
PE reported (x)	20.1	18.0	15.8	13.0	11.5
PE "normalised"	20.1	18.0	15.8	13.0	11.5
EV/EBITDA (x)	12.6	11.8	10.1	8.9	8.1
P/GCFPS (x)	14.7	13.0	11.8	9.8	8.8
Dividend yield (%)	3.5%	3.9%	4.5%	5.4%	6.3%
ROE	14.6%	12.8%	14.9%	16.6%	17.6%
ROIC	8.6%	8.7%	9.4%	10.4%	11.0%
ROIC (operations only)	34.3%	38.2%	31.2%	29.9%	28.3%
Gearing (ND/(ND+E))	44%	39%	45%	45%	46%
Net Interest cover (EBIT)	6.8	6.1	5.2	5.6	5.8

PE "normalised" on 12 month forward basis	15.2x
EV/EBITDA on 12 month forward basis	9.8x

Sales by Division

(A$ millions)	FY07A	FY08A	FY09E	FY10E	FY11E
Pathology - Aust/NZ	813	868	901	939	982
Pathology - UK	107	119	127	135	144
Pathology - Germany	204	447	654	686	709
Pathology - US	335	483	678	765	834
Radiology	329	333	347	364	383
IPN & Other & Acquisitions	89	122	162	286	415
Total	1,877	2,371	2,867	3,175	3,466

EBIT by Division

(A$ millions)	FY07A	FY08A	FY09E	FY10E	FY11E
Pathology - Aust/NZ	176	195	207	225	243
Pathology - UK	34	36	39	44	48
Pathology - Germany	32	60	90	100	102
Pathology - US	61	74	109	124	136
Radiology	45	41	42	46	52
IPN & Other & Acquisitions	(6)	(9)	(3)	31	65
Total	341	397	485	570	647

EBIT Margin by Division

(A$ millions)	FY07A	FY08A	FY09E	FY10E	FY11E
Pathology - Aust/NZ	21.6%	22.5%	22.9%	23.9%	24.8%
Pathology - UK	31.3%	30.4%	31.1%	32.4%	33.3%
Pathology - Germany	15.5%	13.4%	13.8%	14.6%	14.4%
Pathology - US	18.2%	15.4%	16.2%	16.2%	16.3%
Radiology	13.7%	12.2%	12.1%	12.7%	13.5%
Total	18.2%	16.7%	16.9%	17.9%	18.7%

NPV Valuation at 9%	**A$m**	**A$**	
Australia & NZ Pathology	1,157	3.45	
UK & Germany Pathology	903	2.70	
US Pathology	785	2.34	
Radiology	319	0.95	
IPN & Other & Acquisitions	(656)	(1.96)	
Operational NPV (10yr forecast)	2,508	7.49	
Net Debt	(1,417)	(4.23)	
Net Debt OEI (add back)	(14)	(0.04)	
Terminal Value	5,496	16.41	
Group NPV	6,601	19.70	
Share price prem/(disc) to NPV			-32.4%

12 month forward multiples implied by our valuation	EV/EBITDA	PE
	12.3x	22.9x

Note: We assume 9 acquisitions at rate of 1 p/a on 30 June. Each adds A$120m of revenue.

Source: JPMorgan estimates, Company data

'Without Acquisitions'

Sonic Healthcare Limited

Y/E June | Shares: 335m | M'cap: A$4422m | Price: A$13.20

Profit & Loss Statement
(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Total revenue	**1877**	**2371**	**2867**	**3054**	**3218**
% change	14%	26%	21%	7%	5%
Operating Costs	(1,472)	(1,894)	(2,272)	(2,401)	(2,519)
EBITDA (IFRS)	**406**	**478**	**595**	**653**	**699**
Depreciation	(62)	(76)	(102)	(104)	(109)
EBITA (IFRS)	**344**	**402**	**494**	**549**	**590**
Amortisation	(3)	(7)	(9)	(9)	(9)
EBIT (IFRS)	**341**	**397**	**484**	**540**	**581**
Net Interest Expense	(50)	(65)	(89)	(83)	(80)
Pre-Tax Profit	**290**	**332**	**395**	**456**	**501**
Tax	(80)	(81)	(103)	(119)	(135)
Reported NPAT	**210**	**250**	**292**	**338**	**366**
NPAT attrib to OEI	(12)	(5)	(1)	-	-
NPAT to members	**198**	**245**	**292**	**338**	**366**
Significant items (after tax)	-	-	-	-	-
NPAT "normalised"	**198**	**245**	**292**	**338**	**366**
EBIT margin (%)	18.3%	16.9%	17.2%	18.0%	18.3%
Effective tax rate (%)	28%	24%	25%	25%	26%
EPS reported (cps)	65.5	73.5	84.4	99.3	107.6
EPS "normalised" (cps)	**65.5**	**73.5**	**84.4**	**99.3**	**107.6**
% change	11.8%	12.2%	14.7%	17.8%	8.3%
DPS (cps)	46.0	52.0	60.1	69.7	78.1
% change	12.2%	13.0%	15.6%	16.0%	12.0%
Payout ratio (%)	68%	67%	68%	67%	70%
Franking (%)	100%	100%	80%	57%	56%

Comparison To Guidance	JPMorgan	Guidance
Revenue Growth in FY09	20.9%	>15% growth
EPS Growth in FY09	14.7%	>10% growth

Cashflow Statement
(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Net op cash flow	**268**	**332**	**383**	**445**	**476**
Capex & Acquisitions	(615)	(826)	(451)	(142)	(130)
Asset Sales	6	9	-	-	-
Other investing cash flows	3	(1)	(6)	(6)	(6)
Equity Raised	4	462	(107)	7	-
Debt Repayment	(284)	(1,550)	-	-	-
Debt Proceeds	734	1,752	440	-	-
Dividends Paid	(127)	(162)	(192)	(218)	(250)
Other financing cash flows	(3)	(1)	-	-	-
Net cashflow	**(23)**	**15**	**67**	**86**	**90**
GCFPS (cps)	90.0	101.5	112.9	133.2	142.5
Free cashflow ($m)	138.7	189.1	271.4	325.4	350.4
FCF/share (cps)	46.6	57.8	80.0	97.5	104.9

Balance Sheet
(A$ millions)

	FY07A	FY08A	FY09E	FY10E	FY11E
Current assets	**341**	**448**	**565**	**670**	**784**
PP&E	371	441	475	492	509
Equity investments	7	12	12	12	12
Other non current assets	2,181	2,728	3,040	3,057	3,058
Total assets	**2,900**	**3,629**	**4,092**	**4,231**	**4,363**
Total liabilities	1,462	1,667	2,137	2,149	2,166
Shareholder funds	**1,438**	**1,962**	**1,955**	**2,082**	**2,197**
Total debt	1,175	1,302	1,742	1,742	1,742
Cash	36	64	131	217	307
Net debt	**1,139**	**1,238**	**1,611**	**1,525**	**1,435**
Operating working capital	142	177	201	211	224

Note:
ROIC = NOPLAT/Invested Capital, cummulative goodwill amortisation is added back to IC
ROIC (operations only) removes goodwill from IC

Financial Ratios

	FY07A	FY08A	FY09E	FY10E	FY11E
PE reported (x)	20.1	18.0	15.6	13.3	12.3
PE "normalised"	20.1	18.0	15.6	13.3	12.3
EV/EBITDA (x)	12.6	11.8	10.1	9.1	8.4
P/GCFPS (x)	14.7	13.0	11.7	9.9	9.3
Dividend yield (%)	3.5%	3.9%	4.6%	5.3%	5.9%
ROE	14.6%	12.8%	15.0%	16.2%	16.6%
ROIC	8.6%	8.7%	9.4%	10.4%	10.9%
ROIC (operations only)	34.3%	38.2%	31.1%	33.3%	34.3%
Gearing (ND/(ND+E))	44%	39%	45%	42%	40%
Net Interest cover (EBIT)	6.8	6.1	5.4	6.5	7.3

PE "normalised" on 12 month forward basis	15.1x
EV/EBITDA on 12 month forward basis	9.9x

Sales by Division

(A$ millions)	FY07A	FY08A	FY09E	FY10E	FY11E
Pathology - Aust/NZ	813	868	901	939	982
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Pathology - Germany	204	447	654	686	709
Pathology - US	335	483	678	765	834
Radiology	329	333	347	364	383
IPN & Other & Acquisitions	89	122	162	164	167
Total	1,877	2,371	2,867	3,054	3,218

EBIT by Division

(A$ millions)	FY07A	FY08A	FY09E	FY10E	FY11E
Pathology - Aust/NZ	176	195	207	225	243
Pathology - UK	34	36	39	44	48
Pathology - Germany	32	60	90	100	100
Pathology - US	61	74	109	125	137
Radiology	45	41	42	46	51
IPN & Other & Acquisitions	(6)	(9)	(3)	0	3
Total	341	397	484	540	581

EBIT Margin by Division

(A$ millions)	FY07A	FY08A	FY09E	FY10E	FY11E
Pathology - Aust/NZ	21.6%	22.5%	22.9%	23.9%	24.7%
Pathology - UK	31.3%	30.4%	31.1%	32.4%	33.2%
Pathology - Germany	15.5%	13.4%	13.8%	14.6%	14.1%
Pathology - US	18.2%	15.4%	16.1%	16.3%	16.4%
Radiology	13.7%	12.2%	12.1%	12.7%	13.3%
Total	18.2%	16.7%	16.9%	17.7%	18.1%

NPV Valuation at 9%	**A$m**	**A$**	
Australia & NZ Pathology	1,168	3.49	
UK & Germany Pathology	911	2.72	
US Pathology	792	2.36	
Radiology	322	0.96	
IPN & Other & Acquisitions	(230)	(0.69)	
Operational NPV (10yr forecast)	2,963	8.84	
Net Debt	(1,417)	(4.23)	
Net Debt OEI (add back)	(14)	(0.04)	
Terminal Value	3,981	11.88	
Group NPV	5,540	16.54	
Share price prem/(disc) to NPV			-19.8%

12 month forward multiples implied by our valuation	EV/EBITDA	PE
	10.6x	19.1x

Note: We assume 9 acquisitions at rate of 1 p/a on 30 June. Each adds A$0m of revenue.

Source: JPMorgan estimates, Company data

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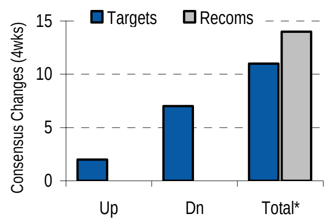
All Data As Of 17-Sep-08

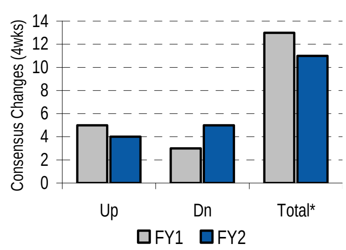
Q-Snapshot: Sonic Healthcare Ltd.

Quantitative Analysis

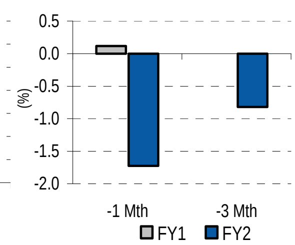
Targets & Recommendations



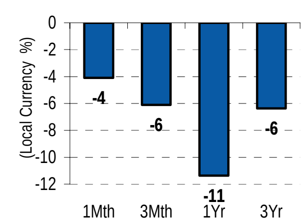
EPS Revisions



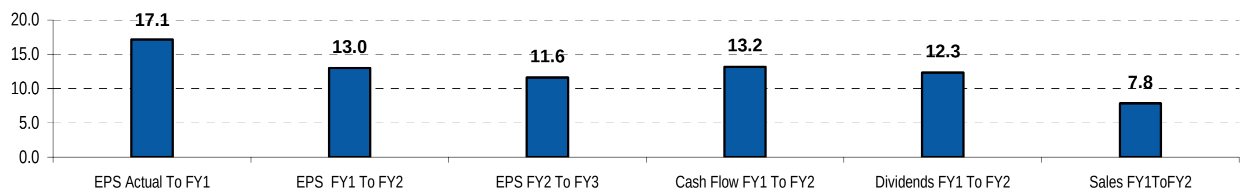
EPS Momentum (%)



Historical Total Return (%)



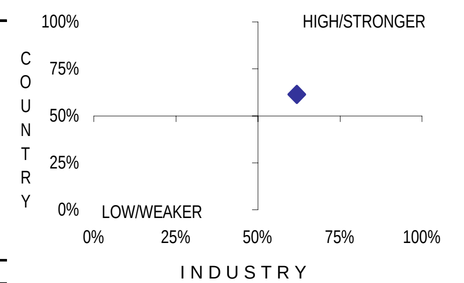
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	30%	44%
Valuations: P/E Vs Sector (12mth fwd EPS)	**79%**	72%
Valuations: EPS Growth (forecast)	55%	54%
Momentum: 12 Month Price Momentum	64%	70%
Momentum: 1 Month Price Reversion	54%	52%
Quality: Return On Equity (forecast)	50%	71%
Quality: Earnings Risk (Variation in Consensus)	72%	73%
Earnings&Sentiment: Earnings Momentum	67%	57%
Earnings&Sentiment: Change in Recomms	37%	**25%**
Earnings&Sentiment: Net Revisions Fy2 EPS	47%	48%
COMPOSITE Q-SCORE (0% To 100%)**	**61%**	**62%**

JPMorgan Composite Q-Score



Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
F34-SG	Wilmar International Ltd.	Singapore	13,722	27.94	11.4	62%
SHL-AU	**Sonic Healthcare Ltd.**	**Australia**	**3,734**	**15.25**	**15.4**	**62%**
532296-IN	Glenmark Pharmaceuticals Ltd.	India	3,288	1.85	18.7	**99%**
600276-CN	Jiangsu Hengrui Medicine Co. Ltd.	China	2,380	3.68	33.2	70%
7649-JP	Sugi Holdings Co. Ltd.	Japan	1,694	5.87	24.6	56%
600196-CN	Shanghai Fosun Pharmaceutical (Group) Co.	China	1,573	14.71	13.3	50%
8199-HK	Shandong Weigao Group Medical Polymer Co.	China	1,461	1.42	22.9	59%
600062-CN	Beijing Double-Crane Pharmaceutical Co. Ltd.	China	1,367	3.51	24.2	**20%**
000423-CN	Shandong Dong-E E-Jiao Co. Ltd.	China	1,021	16.01	23.9	30%
600085-CN	Beijing Tongrentang Co. Ltd.	China	1,007	5.39	27.4	**7%**
002038-CN	Beijing SL Pharmaceutical Co. Ltd.	China	960	5.10	30.1	**98%**

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
TOL-AU	Toll Holdings Ltd.	Trucking	3,989	32.28	15.4	**16%**
CFX-AU	CFS Retail Property Trust	Real Estate Investment Trusts	3,967	18.90	17.4	30%
GMG-AU	Goodman Group	Real Estate Investment Trusts	3,957	27.64	7.9	36%
LGL-AU	Lihir Gold Ltd.	Precious Metals	3,936	53.32	16.6	46%
LNN-AU	Lion Nathan Ltd.	Beverages: Alcoholic	3,918	13.35	17.4	64%
SHL-AU	**Sonic Healthcare Ltd.**	**Medical/Nursing Services**	**3,734**	**15.25**	**15.4**	**61%**
DXS-AU	Dexus Property Group	Real Estate Investment Trusts	3,653	16.02	11.8	35%
FXJ-AU	Fairfax Media Ltd.	Publishing: Newspapers	3,588	21.85	11.2	**19%**
TAH-AU	TABCorp Holdings Ltd.	Casinos/Gaming	3,505	23.53	8.3	38%
SGM-AU	Sims Group Ltd.	Steel	3,278	24.65	9.8	**83%**
GPT-AU	GPT Group	Real Estate Investment Trusts	3,235	37.84	7.8	**7%**

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit http://jpmorgan.hk.acrobat.com/qsnapshot/
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.
* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

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Woolworths Limited

Hardware Retailer Mitre 10 Looking to Recapitalise - ALERT

Overweight

A$28.40

17 September 2008

- The Australian Financial Review has reported that Mitre 10, the number two player in Australia hardware retailing, has been holding talks with WOW about a potential buy-out or capital injection. Mitre 10 management were quoted saying the company "really has no other option but to recapitalise the business". The challenge of competing with the WES owned Bunnings hardware retail business, with its scale with both consumers and suppliers (including exclusive buying arrangements), has contributed to the woes of Mitre 10.
- The loss making nature of the ASIC accounts that are available make valuing Mitre 10 difficult. Despite this, we believe the strategic rationale for WOW, or another acquirer, is significant. For WOW in particular, it would leverage its proven capability in big box retailing (e.g. supermarkets, Big W, Dan Murphy's), its industry leading supply chain, its deep retail management team, and provide a further growth avenue in Australia. The challenges would be the franchise structure, with retaining and managing franchisees another layer of complexity.
- From a competitive standpoint, a well capitalised and renewed competitor would be a negative for Bunnings, as it has enjoyed a very strong market position against all other hardware retailers. At present, it is too early to determine what would happen, but this may prove an opportunity for WOW, and a potential distraction for WES.

Table 1: Bunnings & Mitre 10 Financials

A$ millions.

	FY05	FY06	FY07	FY08
Sales				
Bunnings	4015.5	4247.2	4739.8	5265.0
Mitre 10	904.5	968.5	1017.7	
Sales growth				
Bunnings	6.5%	5.8%	11.6%	11.1%
Mitre 10	-4.5%	7.1%	5.1%	
EBIT				
Bunnings	415.7	420.5	528.4	589.0
Mitre 10	-15.3	-1.9	-11.6	
EBIT margins				
Bunnings	10.4%	9.9%	11.1%	11.2%
Mitre 10	-1.7%	-0.2%	-1.1%	
Store numbers				
Bunnings	232	226	223	226
Mitre 10			590	520
Sales/store				
Bunnings	17.3	18.8	21.3	23.3
Mitre 10			1.7	

Source: ASIC (Mitre 10), WES (Bunnings). June year end. Mitre 10 FY08 results have not been released.

Food Retailing

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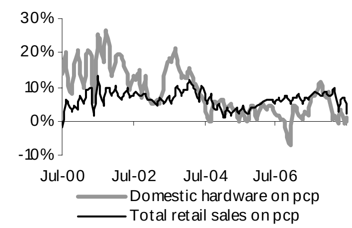

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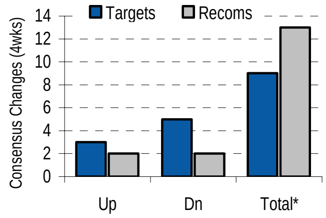
All Data As Of 17-Sep-08

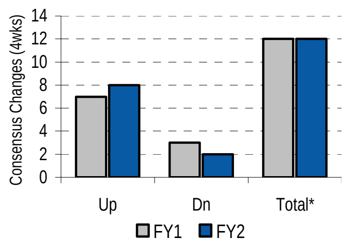
Q-Snapshot: Woolworths Ltd.

Quantitative Analysis

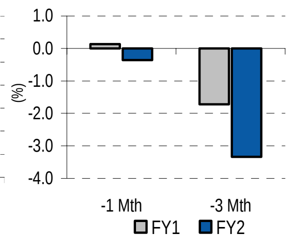
Targets & Recommendations



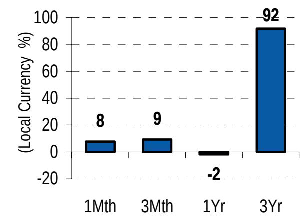
EPS Revisions



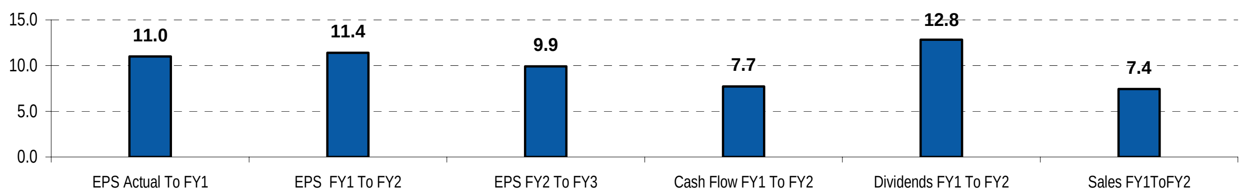
EPS Momentum (%)



Historical Total Return (%)



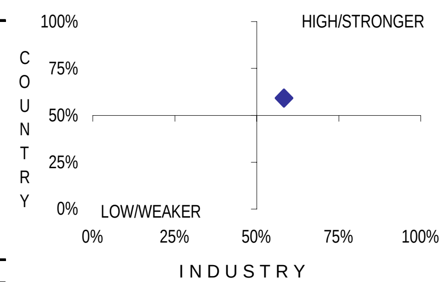
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	18%	18%
Valuations: P/E Vs Sector (12mth fwd EPS)	22%	25%
Valuations: EPS Growth (forecast)	46%	40%
Momentum: 12 Month Price Momentum	74%	79%
Momentum: 1 Month Price Reversion	20%	7%
Quality: Return On Equity (forecast)	80%	89%
Quality: Earnings Risk (Variation in Consensus)	78%	77%
Earnings&Sentiment: Earnings Momentum	44%	28%
Earnings&Sentiment: Change in Recomms	35%	33%
Earnings&Sentiment: Net Revisions Fy2 EPS	86%	86%
COMPOSITE Q-SCORE (0% To 100%)**	**59%**	**58%**

JPMorgan Composite Q-Score



Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
WOW-AU	**Woolworths Ltd.**	**Australia**	**27,836**	**86.87**	**19.1**	**58%**
3382-JP	Seven & I Holdings Co. Ltd.	Japan	27,734	121.94	20.0	57%
9984-JP	Softbank Corp.	Japan	17,207	169.36	22.0	20%
9983-JP	Fast Retailing Co. Ltd.	Japan	10,834	78.15	25.8	89%
004170-KR	Shinsegae Co. Ltd.	South Korea	9,676	38.03	18.8	28%
330-HK	Esprit Holdings Ltd.	Hong Kong	9,162	48.63	9.2	22%
8267-JP	Aeon Co. Ltd.	Japan	7,932	52.74	56.1	5%
002024-CN	Suning Appliance Co. Ltd.	China	7,428	14.00	20.5	55%
8028-JP	FamilyMart Co. Ltd.	Japan	3,688	31.71	20.7	78%
2768-JP	Sojitz Corp.	Japan	3,163	41.65	4.7	74%
HVN-AU	Harvey Norman Holdings Ltd.	Australia	3,091	17.03	11.6	25%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
SGT-AU	Singapore Telecom SGD0.15 (Chess Unit)	Major Telecommunications	40,213	6.90	14.5	54%
NWS-AU	News Corp.	Media Conglomerates	35,997	39.01	11.2	68%
WBC-AU	Westpac Banking Corp.	Major Banks	35,291	209.58	11.8	58%
NAB-AU	National Australia Bank Ltd.	Major Banks	29,702	258.77	8.6	20%
WPL-AU	Woodside Petroleum Ltd.	Oil & Gas Production	29,256	133.66	14.1	87%
WOW-AU	**Woolworths Ltd.**	**Food Retail**	**27,836**	**86.87**	**19.1**	**59%**
WDC-AU	Westfield Group Australia	Real Estate Investment Trusts	27,392	134.38	17.2	35%
ANZ-AU	Australia & New Zealand Banking Group Ltd.	Major Banks	27,281	212.79	10.1	12%
WES-AU	Wesfarmers Ltd.	Industrial Conglomerates	19,243	85.68	11.2	62%
CSL-AU	CSL Ltd.	Biotechnology	17,635	72.68	25.0	80%
QBE-AU	QBE Insurance Group Ltd.	Property/Casualty Insurance	16,596	85.78	11.4	29%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit http://jpmorgan.hk.acrobat.com/qsnapshot/
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.
* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

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Woolworths Ltd

Profit&Loss Statement (A$m)	FY08	FY09E	FY10E	FY11E
Total Revenue	47,034.8	51,122.1	55,711.6	60,693.1
EBITDA	**3,178.9**	**3,575.6**	**4,075.6**	**4,575.8**
Depreciation & non g/will Amortisation	(650.1)	(703.0)	(835.9)	(922.0)
Amortisation of Goodwill / Impairment	0.0	0.0	0.0	0.0
EBIT	**2,528.8**	**2,872.5**	**3,239.6**	**3,653.7**
Net Interest	(191.3)	(252.3)	(258.8)	(191.3)
Pre-Tax Profit	**2,337.5**	**2,620.3**	**2,980.9**	**3,462.5**
Tax	(686.0)	(771.1)	(879.3)	(1,023.7)
Minority Interests	(24.7)	(27.0)	(30.2)	(32.3)
Preference Divs	0.0	0.0	0.0	0.0
NPAT before Abnormals	**1,626.8**	**1,822.2**	**2,071.4**	**2,406.4**
NPAT after Abnormals	**1,626.8**	**1,822.2**	**2,071.4**	**2,406.4**
Normalised NPAT	**1,611.6**	**1,807.2**	**2,056.4**	**2,391.4**

Cash Flow Statement (A$m)	FY08	FY09E	FY10E	FY11E
Pre-Tax Profit	2,337.5	2,620.3	2,980.9	3,462.5
Depreciation & Amortisation	650.1	703.0	835.9	922.0
(Profit) / Loss on Asset Sales	0.0	0.0	0.0	0.0
Tax Paid	(573.9)	(732.5)	(818.5)	(954.3)
Incr/(Decr) in provisions	2.7	30.5	38.4	39.7
(Inc)/Dec in Working Capital	236.1	139.8	221.8	182.9
Other Operating Items	1.5	(1,615.1)	347.0	31.5
Operating Cash Flow	**2,654.0**	**1,146.0**	**3,605.5**	**3,684.3**
Gross Capital Expenditure	(1,733.6)	(1,973.7)	(1,553.1)	(1,432.2)
Sale of Fixed Assets	228.4	12.0	0.0	0.0
Net Acquisitions	(262.9)	0.0	0.0	0.0
Other Investing Items	14.7	0.0	0.0	0.0
Investing Cash Flow	**(1,753.4)**	**(1,961.7)**	**(1,553.1)**	**(1,432.2)**
Equity Issued	63.3	153.1	78.5	0.1
Dividends Paid	(876.8)	(1,175.1)	(1,328.5)	(1,544.3)
Inc/(Dec) in Borrowings	(123.3)	1,837.7	(802.4)	(707.9)
Other Financing Items	0.0	0.0	0.0	0.0
Financing Cash Flow	**(936.8)**	**815.7**	**(2,052.5)**	**(2,252.1)**
Net Inc/(Dec) in Cash	**(36.2)**	**0.0**	**0.0**	**(0.0)**

Per Share Ratios (A$ cents)	FY08	FY09E	FY10E	FY11E
Normalised EPS	132.1	147.2	167.0	193.8
Cash Flow Per Share	184.2	203.5	234.3	268.7
Net Tangible Assets per share	49.3	116.8	185.6	258.6

Valuation Ratios (x)	FY08	FY09E	FY10E	FY11E
P/E Multiple	21.5	19.3	17.0	14.7
Price To Book Value	5.7	5.1	4.6	4.1
Price To Cash Flow	15.4	14.0	12.1	10.6
EBITDA Multiple	11.5	10.7	9.2	8.1
EBIT Multiple	14.4	13.4	11.6	10.1

Leverage	FY08	FY09E	FY10E	FY11E
Net Debt/Equity	32.4%	54.6%	38.6%	26.6%
Net Debt/Total Assets	12.9%	20.5%	15.7%	11.5%
Interest Cover (x)	13.2	11.4	12.5	19.1
Dividend Cover (x)	1.4	1.4	1.4	1.4

Balance Sheet (A$m)	FY08	FY09E	FY10E	FY11E
Cash & Bills	754.6	754.6	754.6	754.6
Debtors	637.8	650.9	678.4	736.7
Inventories	3,010.0	3,169.6	3,383.3	3,604.1
Other Current Assets	99.8	2,064.3	1,806.2	1,868.4
Current Assets	**4,502.2**	**6,639.5**	**6,622.5**	**6,963.7**
Receivables	0.0	0.0	0.0	0.0
Investments	262.0	262.0	262.0	262.0
PP & E	4,835.2	5,829.0	6,546.1	7,056.3
Intangibles	5,638.8	5,638.8	5,638.8	5,638.8
Goodwill	0.0	0.0	0.0	0.0
Other Non Current Assets	434.3	434.5	434.6	434.8
Non Current Assets	**11,170.3**	**12,164.3**	**12,881.6**	**13,391.9**
Total Assets	**15,672.5**	**18,803.7**	**19,504.1**	**20,355.6**
Creditors	4,804.9	5,117.6	5,580.8	6,042.8
Current Borrowings	550.2	550.2	550.2	550.2
Current Lease Liabilities	0.0	0.0	0.0	0.0
Provisions	988.0	1,083.1	1,210.8	1,350.6
Other Current Liabilities	81.3	106.7	128.7	151.5
Current Liabilities	**6,424.4**	**6,857.7**	**7,470.5**	**8,095.1**
Non Current Creditors	0.0	0.0	0.0	0.0
Non Current Borrowings	2,224.0	4,061.7	3,259.3	2,551.3
Non Current Lease Liabilities	0.0	0.0	0.0	0.0
Provisions	380.0	413.1	451.4	491.6
Other Non Current Liabilities	408.8	408.8	408.8	408.8
Non current liabilities	**3,012.8**	**4,883.6**	**4,119.5**	**3,451.8**
Total Liabilities	**9,437.2**	**11,741.2**	**11,590.0**	**11,546.9**
Ordinary Shareholders Funds	5,992.9	6,793.1	7,614.4	8,476.7
Outside Equity Interests	242.4	269.4	299.7	332.0
Convertible Notes	0.0	0.0	0.0	0.0
Preference Capital	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total Equity	**6,235.3**	**7,062.5**	**7,914.1**	**8,808.7**

DuPont Analysis	FY08	FY09E	FY10E	FY11E
EBIT Margin	5.4%	5.6%	5.8%	6.0%
x Asset Turnover	3.13	2.97	2.91	3.05
x Interest Burden	0.92	0.91	0.92	0.95
x Tax Burden	0.70	0.70	0.69	0.70
= Return on Assets	10.8%	10.6%	10.8%	12.1%
x Leverage	2.6	2.6	2.6	2.4
= Return on Equity	27.7%	27.4%	27.7%	28.8%

Source: JPMorgan estimates, Company data.

JPMorgan

Substantial Shareholder Disclosures

Summary of the previous week to Sep 17, 2008

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Table 1: Daily Movement

SUBSTANTIAL SHAREHOLDER DISCLOSURES

Shareholder	Increase/ Decrease	Interest (%)	ASX Code	Company in which interest is held	Previous (%)
452 Capital Pty Limited	Ceasing		AMC	Amcor Limited	5.05
AMP Limited	Ceasing	4.90	OKN	Oakton Limited	5.10
Ausbil Dexia Limited	Increases	8.56	DJS	David Jones Limited	7.42
Barclays Group	Decreases	5.06	MRE	Minara Resources Limited	6.18
Capital Partners Pty Ltd	Increases	14.55	TCL	Transurban Group	10.72
Credit Suisse Holdings (Australia) Limited	Increases	8.63	SLV	Sylvania Resources Limited	6.47
FMR LLC and FIL (formerly FMR Corp and FIL)	Increases	9.24	NCM	Newcrest Mining Limited	8.14
IOOF Holdings Limited	Becoming	9.56	GNS	Gunns Limited	
National Australia Bank Limited Group	Becoming	6.06	IGO	Independence Group NL	
Passport Global Master Fund SPC Ltd	Ceasing		AGO	Atlas Iron Limited	5.23
Perpetual Limited and subsidiaries	Increases	16.57	GNS	Gunns Limited	14.78
The Children Investment Fund Management (UK) LLP	Becoming	5.29	BBW	Babcock & Brown Wind Partners Limited	

Source: Aspect

See page 96 for analyst certification and important disclosures, including non-US analyst disclosures.

JPMorgan Forecasts - Economics and Commodities

	07Q4A	08Q1E	08Q2E	08Q3E	08Q4E	CY07A	CY08E	CY09E	CY10E	Long Term
Economic										
(%, annualised growth)										
GDP	2.8	2.7	1.1	2.6	3.2	4.2	2.7	2.6		
CPI	3.0	4.2	4.5	4.6	4.6	2.3	4.5	3.3		
Interest Rate										
(%, end of period)										
3m eurodeposit rate (%)*	7.20	7.58	7.80	7.65	7.35	5.97	7.60	6.88		
10 Year Bond Yield	6.35	6.10	6.15	6.15	6.05	5.59	6.11	5.83		
Currency										
A$/US$	0.91	0.91	0.97	0.87	0.84	0.81	0.90	0.83		
(period average)										
Commodities										
(period average)										
Gold (USD$ per ounce)	788	924	896	850	865	697	884	854	835	750
Oil (WTI) (US$/bbl)	91	98	124	110	110	72	110	110	110	110
Aluminium (US$/lb)	1.11	1.24	1.33	1.32	1.34	1.20	1.31	1.22	1.11	1.13
Copper (US$/lb)	3.27	3.51	3.83	3.47	3.74	3.23	3.64	3.15	2.27	1.93
Lead (US$/lb)	1.47	1.31	1.05	0.86	0.86	1.17	1.02	0.79	0.77	0.54
Nickel (US$/lb)	13.30	13.07	11.67	9.07	9.53	16.94	10.83	9.53	9.30	7.37
Zinc (US$/lb)	1.19	1.10	0.96	0.81	0.84	1.48	0.93	0.88	0.98	0.88
Iron Ore - Fines (USc/Fe%)	80	80	145	145	145	79	129	156	159	
Iron Ore - Lump (USc/Fe%)	103	103	202	202	202	100	177	217	222	
Coking Coal (US$/t)	98	98	300	300	300	102	250	300	263	
Steaming Coal (US$/t)	55	55	125	125	125	54	107	144	131	

Source: JPMorgan

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JPMorgan Company Forecasts

17 September, 2008

Company	Ticker	Year	Price	Reported Profit ($m)[2]			Normalised Profit ($m)[3]			Reported EPS (¢)[4]			Normalised EPS (¢)			Nor EPS Growth (%)			P/E Nor (x)			Relative P/E (%)[5]			DPS (¢)			Yield (%)			Franking (%)			Current
		End	A$[1]	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	Rating[6]
Banks																																		
Australia & New Zealand Banking Grou	ANZ	Sep	16.00	3235	4021	4564	3148	3984	4527	166.9	187.2	201.6	156.8	178.8	193.4	-24	14	8	10.2	8.9	8.3	74	73	77	136.0	136.0	136.0	8.5	8.5	8.5	100	100	100	OW
Bendigo Bank Ltd	BEN	Jun	10.84	171	285	299	202	275	287	79.1	102.6	105.4	90.6	98.3	100.4	10	8	2	12.0	11.0	10.8	87	90	100	65.0	69.0	73.0	6.0	6.4	6.7	100	100	100	UW
Bank of Queensland Ltd	BOQ	Aug	13.50	139	177	207	145	181	211	99.1	109.8	121.9	95.8	105.0	116.4	6	10	11	14.1	12.9	11.6	103	105	107	73.0	81.0	91.0	5.4	6.0	6.7	100	100	100	UW
Commonwealth Bank of Australia	CBA	Jun	41.10	4791	4643	4969	4742	4646	4973	350.3	334.4	350.7	346.9	334.6	351.0	0	-4	5	11.8	12.3	11.7	86	101	108	266.0	266.0	278.0	6.5	6.5	6.8	100	100	100	N
National Australia Bank Ltd	NAB	Sep	20.70	4185	4486	5015	3888	4454	4983	260.2	258.2	282.7	235.9	250.1	274.2	-8	6	10	8.8	8.3	7.5	64	68	70	194.0	194.0	194.0	9.4	9.4	9.4	100	100	100	UW
St George Bank Ltd	SGB	Sep	30.15	1254	1260	1234	1272	1201	1175	225.9	220.3	212.9	227.2	210.2	202.7	8	-8	-4	13.3	14.3	14.9	97	118	138	185.0	185.0	185.0	6.1	6.1	6.1	100	100	100	UW
Westpac Banking Corp	WBC	Sep	23.01	3810	3538	3556	3753	3483	3497	203.5	185.7	183.4	196.9	179.0	176.6	5	-9	-1	11.7	12.9	13.0	85	105	121	144.0	144.0	144.0	6.3	6.3	6.3	100	100	100	N
Capital Goods																																		
Ausenco Limited	AAX	Dec	12.90	63	74	86	66	76	88	72.7	81.2	94.2	76.4	83.7	96.6	49	10	16	16.9	15.4	13.4	123	126	124	43.8	51.0	58.0	3.4	4.0	4.5	100	100	100	OW
AJ Lucas Group Ltd	AJL	Jun	6.08	13	30	32	18	30	32	24.5	44.9	48.2	33.6	44.9	48.2	182	34	7	18.1	13.5	12.6	132	111	117	8.0	10.0	12.0	1.3	1.6	2.0	100	100	100	OW
Alesco Corp Ltd	ALS	May	5.70	58	52	64	72	59	71	67.2	57.0	70.6	83.8	64.5	77.9	13	-23	21	6.8	8.8	7.3	50	72	68	67.0	67.0	67.0	11.8	11.8	11.8	100	100	100	OW
Boart Longyear Limited (USD)	BLY	Dec	1.45	232	267	284	225	267	284	15.4	17.7	18.9	15.0	17.7	18.9	36	18	6	7.8	6.6	6.2	57	54	57	5.0	8.0	10.0	4.3	6.9	8.6	35	35	35	OW
Crane Group Ltd	CRG	Jun	12.46	61	70	80	64	70	80	92.4	103.9	119.0	98.5	103.9	119.0	10	5	15	12.6	12.0	10.5	92	98	97	71.0	73.0	81.0	5.7	5.9	6.5	100	100	100	OW
CSR Ltd	CSR	Mar	2.45	177	189	232	193	189	232	19.2	18.9	23.3	20.9	18.9	23.3	-23	-10	23	11.7	13.0	10.5	86	106	98	15.0	15.0	16.0	6.1	6.1	6.5	100	100	100	N
Hastie Group Ltd	HST	Jun	2.40	38	59	67	38	59	67	29.2	36.1	41.2	29.2	36.1	41.2	49	24	14	8.2	6.7	5.8	60	55	54	16.0	19.0	22.0	6.7	7.9	9.2	100	100	100	OW
Leighton Holdings Ltd	LEI	Jun	40.79	608	711	909	590	711	909	216.1	238.8	305.2	212.1	238.8	305.2	36	13	28	19.2	17.1	13.4	140	140	124	145.0	159.0	203.0	3.6	3.9	5.0	79	100	100	N
Monadelphous Group Ltd	MND	Jun	15.01	70	79	88	66	79	88	81.2	91.8	102.9	77.2	91.8	102.9	9	19	12	19.4	16.4	14.6	142	134	135	72.0	82.0	92.0	4.8	5.5	6.1	100	100	100	UW
United Group Ltd	UGL	Jun	14.30	131	158	187	131	158	187	80.6	97.4	115.2	80.6	97.4	115.2	23	21	18	17.7	14.7	12.4	129	120	115	58.0	70.0	83.0	4.1	4.9	5.8	100	100	100	OW
WDS Limited	WDS	Jun	2.55	18	31	36	19	30	36	20.1	29.0	31.7	19.7	28.6	31.4	41	45	10	12.9	8.9	8.1	94	73	75	8.0	10.0	13.0	3.1	3.9	5.1	100	100	100	OW
Commercial & Professional Services																																		
Brambles Limited (USD)	BXB	Jun	8.33	628	663	730	628	663	730	45.4	49.0	55.2	45.4	49.0	55.2	19	8	13	14.8	13.7	12.1	108	112	112	31.2	32.6	34.0	4.7	4.9	5.1	10	8	7	OW
Cabcharge Australia Ltd	CAB	Jun	7.20	59	68	75	60	68	75	50.3	56.2	62.3	51.4	56.2	62.3	14	9	11	14.0	12.8	11.6	102	105	107	34.0	38.0	42.0	4.7	5.3	5.8	100	100	100	OW
Credit Corp Group Ltd	CCP	Jun	0.75	10	9	11	10	9	11	23.7	20.8	24.6	23.7	20.8	24.6	-47	-12	18	3.1	3.6	3.0	23	29	28	4.0	5.0	6.0	5.4	6.7	8.1	100	100	100	N
Clarius Group Ltd	CND	Jun	1.30	11	13	14	12	13	14	20.3	23.0	24.4	21.7	23.0	24.4	-15	6	6	6.0	5.6	5.3	44	46	49	16.0	18.0	20.0	12.3	13.8	15.4	100	100	100	OW
Campbell Brothers Ltd	CPB	Mar	35.64	77	115	145	71	115	145	147.8	221.4	277.3	137.1	221.4	277.3	37	61	25	26.0	16.1	12.9	190	132	119	95.0	148.0	174.0	2.7	4.2	4.9	50	50	50	OW
Corporate Express Australia Ltd	CXP	Dec	4.84	66	73	82	71	73	82	39.0	42.9	48.5	41.3	42.5	48.0	5	3	13	11.7	11.4	10.1	86	93	93	28.5	29.0	32.0	5.9	6.0	6.6	100	100	100	N
Downer EDI Ltd	DOW	Jun	7.16	166	187	222	166	187	222	44.3	50.3	60.2	44.3	50.3	60.2	-10	13	20	16.2	14.2	11.9	118	117	110	25.5	29.0	35.0	3.6	4.1	4.9	0	0	0	N
The MAC Services Group Ltd	MSL	Jun	2.56	18	26	34	18	26	34	12.8	17.7	23.4	12.8	17.7	23.4	20	39	32	20.1	14.4	11.0	146	118	101	7.5	10.0	13.0	2.9	3.9	5.1	100	100	100	OW
Norfolk Group Limited	NFK	Mar	1.20	20	24	28	12	14	16	15.4	18.1	21.3	15.4	18.1	21.3		18	18	7.8	6.6	5.6	57	54	52	5.7	11.0	12.0	4.8	9.2	10.0	100	100	100	OW
Programmed Maintenance Services	PRG	Mar	3.86	28	32	36	32	39	43	32.9	32.9	37.0	36.5	40.2	44.2	13	10	10	10.6	9.6	8.7	77	79	81	20.0	24.0	26.0	5.2	6.2	6.7	100	100	100	OW
SAI Global Ltd	SAI	Jun	2.96	15	25	29	28	33	36	10.6	17.6	20.0	19.3	23.0	25.3	0	19	10	15.3	12.8	11.7	112	105	108	11.0	11.2	12.3	3.7	3.8	4.2	85	85	85	OW
SEEK Limited	SEK	Jun	5.24	77	88	92	77	88	92	26.7	29.8	31.3	26.7	29.8	31.3	38	12	5	19.7	17.6	16.8	143	144	155	18.7	20.9	22.6	3.6	4.0	4.3	100	100	100	N
Spotless Group Ltd	SPT	Jun	3.42	26	68	77	57	68	77	12.0	31.3	35.1	26.3	31.3	35.1	9	19	12	13.0	10.9	9.7	95	90	90	21.0	22.0	25.0	6.1	6.4	7.3	50	50	50	N
Tox Free Solutions Limited	TOX	Jun	1.70	6	11	14	7	11	14	9.1	16.3	20.5	10.1	16.3	20.5	11	61	26	16.8	10.4	8.3	122	86	77	0.0	4.0	5.0	0.0	2.4	2.9	0	100	100	OW
Transpacific Industries Group Ltd	TPI	Jun	6.23	193	224	257	175	206	239	64.4	72.3	80.0	58.4	66.5	74.4	39	14	12	10.7	9.4	8.4	78	77	78	18.1	20.7	22.8	2.9	3.3	3.7	100	100	100	OW
Transfield Services Ltd	TSE	Jun	7.73	106	119	136	106	119	136	53.2	60.1	68.8	53.2	60.1	68.8	0	13	14	14.5	12.9	11.2	106	105	104	36.0	40.0	46.0	4.7	5.2	6.0	100	100	100	OW
Consumer Durables & Apparel																																		
Billabong International Ltd	BBG	Jun	13.16	176	193	216	172	189	211	85.1	92.3	102.6	83.0	90.1	100.4	11	9	11	15.9	14.6	13.1	116	120	121	55.5	60.0	65.0	4.2	4.6	4.9	100	50	50	OW
Globe International Ltd	GLB	Jun	0.48	(25)	2	4	0	2	4	(59.3)	5.3	8.4	0.6	5.3	8.4		805	60	81.4	9.0	5.6	594	74	52	0.0	0.5	2.5	0.0	1.1	5.3	100	100	100	UW
GUD Holdings Ltd	GUD	Jun	6.45	37	40	42	42	40	42	62.6	68.9	72.7	70.2	68.9	72.7	16	-2	6	9.2	9.4	8.9	67	77	82	68.0	72.0	73.0	10.5	11.2	11.3	100	100	100	N
Consumer Services																																		
Aristocrat Leisure Ltd	ALL	Dec	6.97	142	216	220	182	192	220	30.7	46.2	46.9	39.4	41.0	46.9	-23	4	14	17.7	17.0	14.9	129	139	138	44.1	47.0	48.9	6.3	6.7	7.0	55	57	59	N
Crown Limited	CWN	Jun	8.45	3563	331	472	376	331	472	516.6	48.0	68.4	54.5	48.0	68.4	10	-12	42	15.5	17.6	12.4	113	144	114	54.0	48.0	68.4	6.4	5.7	8.1	40	38	38	OW
Domino's Pizza Enterprises Limited	DMP	Jun	3.25	12	14	19	12	14	19	18.4	20.8	29.3	18.8	22.0	29.0	28	17	32	17.2	14.8	11.2	126	121	104	10.9	12.4	16.3	3.4	3.8	5.0	100	100	100	N
TABCORP Holdings Ltd	TAH	Jun	8.03	(164)	471	490	517	497	516	(31.1)	89.5	93.1	98.1	94.5	98.2	0	-4	4	8.2	8.5	8.2	60	70	76	94.0	94.0	94.0	11.7	11.7	11.7	100	100	100	UW
Tattersall's Ltd	TTS	Jun	2.60	258	277	301	256	278	301	20.4	21.9	23.8	20.3	22.0	23.8	-5	8	8	12.8	11.8	10.9	94	97	101	20.0	21.5	23.3	7.7	8.3	9.0	100	100	100	N

Source: Company Data, JPMorgan Estimates

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JPMorgan Company Forecasts

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Company	Ticker	Year	Price	Reported Profit ($m)[2]			Normalised Profit ($m)[3]			Reported EPS (¢)[4]			Normalised EPS (¢)			Nor EPS Growth (%)			P/E Nor (x)			Relative P/E (%)[5]			DPS (¢)			Yield (%)			Franking (%)			Current
		End	A$[1]	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	Rating[6]
Diversified Financials																																		
ASX Limited	ASX	Jun	33.91	366	356	382	363	355	381	213.6	207.9	223.1	212.1	207.2	222.1	15	-2	7	16.0	16.4	15.3	117	134	141	192.4	187.5	201.0	5.7	5.5	5.9	100	100	100	OW
Challenger Financial Services Group	CGF	Jun	2.32	(44)	225	269	218	225	269	(7.6)	40.7	50.0	36.1	38.5	47.2	18	7	23	6.4	6.0	4.9	47	49	46	12.5	13.0	16.0	5.4	5.6	6.9	76	0	100	N
Henderson Group plc (GBP)	HGI	Dec	2.64	77	81	85	79	81	85	10.7	11.3	11.8	11.1	11.3	11.8	0	1	5	10.7	10.5	10.0	78	86	93	6.5	7.3	8.3	5.5	6.2	7.0	0	0	0	OW
IOOF Holdings Ltd	IFL	Jun	5.13	23	23	24	26	23	24	34.3	33.0	35.2	38.0	33.0	35.2	-17	-13	7	13.5	15.6	14.6	99	127	135	30.0	26.4	28.1	5.8	5.1	5.5	100	100	100	N
Macquarie Group Ltd	MQG	Mar	33.93	1837	1734	1855	1803	1697	1818	683.3	620.7	643.1	653.5	598.3	621.1	15	-8	4	5.2	5.7	5.5	38	46	51	345.0	345.0	370.0	10.2	10.2	10.9	100	75	60	OW
Perpetual Limited	PPT	Jun	44.63	129	118	134	133	118	134	309.4	282.3	320.3	320.6	282.3	320.3	-9	-12	13	13.9	15.8	13.9	102	130	129	330.0	294.0	329.0	7.4	6.6	7.4	100	100	100	N
ThinkSmart Limited	TSM	Dec	1.00	7	10	14	10	11	15	7.2	10.5	14.5	10.1	12.0	15.9	94	19	32	9.9	8.3	6.3	72	68	58	4.2	6.0	7.9	4.2	6.0	7.9	100	100	100	OW
Energy																																		
Australian Worldwide Exploration Ltd	AWE	Jun	2.70	265	305	270	265	305	270	58.9	60.6	51.9	57.1	58.9	50.5	764	3	-14	4.7	4.6	5.3	35	38	49	0.0	0.0	0.0	0.0	0.0	0.0				UW
Beach Petroleum Ltd	BPT	Jun	0.85	64	121	159	53	121	159	7.2	11.8	15.5	5.9	11.7	15.4	27	99	32	14.4	7.3	5.5	105	60	51	1.8	2.3	3.1	2.1	2.7	3.6				OW
Centennial Coal Co Ltd	CEY	Jun	5.17	289	230	365	64	230	365	93.2	67.2	106.6	20.8	67.2	106.6	66	224	59	24.9	7.7	4.9	182	63	45	21.0	33.6	53.3	4.1	6.5	10.3	1	1	1	OW
Energy Resources of Australia Ltd	ERA	Dec	15.82	93	279	339	93	279	339	48.5	146.1	177.8	48.5	146.1	177.8	22	201	22	32.6	10.8	8.9	238	89	82	22.1	73.1	88.9	1.4	4.6	5.6	100	100	100	N
Origin Energy Ltd	ORG	Jun	16.35	517	2378	799	443	604	775	59.0	269.1	89.0	50.6	68.1	86.4	13	35	27	32.3	24.0	18.9	236	197	175	25.0	27.0	52.0	1.5	1.7	3.2	100	100	100	OW
Oil Search Ltd (USD)	OSH	Dec	5.80	418	325	336	287	325	336	39.9	32.0	33.0	25.4	28.8	29.7	111	13	3	18.4	16.2	15.7	134	133	146	8.0	8.0	8.0	1.7	1.7	1.7	0	0	0	OW
Paladin Resources Ltd (USD)	PDN	Jun	4.21	(36)	64	147	(36)	64	147	(5.9)	10.4	23.9	(5.9)	10.4	23.9			130		32.7	14.2		268	131							0	0	0	OW
Queensland Gas Company Limited	QGC	Jun	4.20	245	35	32	31	35	32	32.1	3.6	3.3	4.0	3.6	3.2	866	-10	-10	104.7	116.0	129.3	764	950		0.0	0.0	0.0	0.0	0.0	0.0				OW
Roc Oil Co Ltd (USD)	ROC	Dec	0.94	(90)	35	18	18	35	18	(32.6)	12.8	6.8	6.3	12.8	6.8		104	-47	12.0	5.9	11.1	88	48	103	0.0	0.0	0.0	0.0	0.0	0.0				N
Santos Ltd	STO	Dec	18.00	2237	709	667	557	678	636	373.9	114.7	105.0	94.5	114.7	105.0	23	21	-8	19.1	15.7	17.2	139	129	159	44.0	44.0	44.0	2.4	2.4	2.4	100	100	100	OW
WorleyParsons Limited	WOR	Jun	30.99	344	427	508	344	427	508	142.5	174.7	207.8	140.8	172.7	205.4	40	23	19	22.0	17.9	15.1	161	147	140	85.5	105.0	124.0	2.8	3.4	4.0	53	52	51	OW
Woodside Petroleum Ltd	WPL	Dec	51.06	2405	2408	2323	2398	2408	2323	347.6	333.8	313.9	346.6	333.8	313.9	95	-4	-6	14.7	15.3	16.3	107	125	151	200.0	200.0	188.0	3.9	3.9	3.7	100	100	100	N
Food & Staples Retailing																																		
ABB Grain Ltd	ABB	Sep	8.31	39	92	128	39	92	129	25.3	53.1	71.5	25.5	53.2	71.9	680	109	35	32.6	15.6	11.6	238	128	107	14.8	34.0	45.8	1.8	4.1	5.5	100	100	100	OW
AWB Ltd	AWB	Sep	2.95	52	82	99	87	97	106	15.0	22.6	25.6	25.1	26.7	27.3	19	6	3	11.7	11.1	10.8	86	91	100	9.3	12.8	15.3	3.1	4.3	5.2	100	100	100	UW
Metcash Trading Ltd	MTS	Apr	4.31	197	214	232	199	221	239	25.3	27.9	30.4	25.9	28.7	31.1	2	11	8	16.7	15.0	13.9	122	123	129	21.0	21.5	23.5	4.9	5.0	5.5	100	100	100	UW
Wesfarmers Ltd	WES	Jun	28.63	1050	2074	2116	1134	2129	2114	179.5	256.1	258.1	205.9	263.0	257.9	12	28	-2	13.9	10.9	11.1	101	89	103	200.0	215.0	230.0	7.0	7.5	8.0	100	100	100	UW
Woolworths Ltd	WOW	Jun	28.40	1627	1822	2071	1612	1807	2056	133.3	148.4	168.2	132.1	147.2	167.0	22	11	13	21.5	19.3	17.0	157	158	158	92.0	103.0	118.0	3.2	3.6	4.2	100	100	100	OW
Food Beverage & Tobacco																																		
Australian Vintage Ltd	AVG	Jun	0.88	1	22	20	3	8	19	1.2	16.8	15.4	2.8	5.8	14.7		112	151	31.9	15.1	6.0	233	124	56	0.0	1.5	5.0	0.0	1.7	5.7	0	100	100	OW
Coca-Cola Amatil Ltd	CCL	Dec	9.07	382	395	435	396	398	437	53.8	53.5	58.5	53.6	53.8	58.9	14	0	9	16.9	16.9	15.4	123	138	143	39.5	41.5	44.5	4.4	4.6	4.9	100	100	100	N
Clean Seas Tuna Limited	CSS	Jun	0.70	(0)	1	5	(0)	1	5	(0.1)	0.6	2.1	(0.1)	0.6	2.1			233		110.4	33.2		904	307	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	OW
Fosters Group Ltd	FGL	Jun	5.89	112	758	166	681	739	752	5.5	39.4	8.6	35.1	38.4	39.1	1	9	2	16.8	15.3	15.1	122	126	139	26.3	28.0	29.0	4.5	4.8	4.9	100	100	100	N
Goodman Fielder Ltd	GFF	Jun	1.48	28	194	220	167	183	210	2.1	14.7	16.6	12.6	13.8	15.8	-16	10	15	11.7	10.7	9.3	85	87	86	13.5	13.5	14.8	9.2	9.2	10.0	41	48	49	N
GrainCorp Ltd	GNC	Sep	7.40	(20)	12	45	(20)	12	45	(31.6)	17.9	69.3	(31.8)	17.8	69.3			288		41.5	10.7		340	99	0.0	10.8	41.0	0.0	1.5	5.5	0	100	100	N
Lion Nathan Ltd	LNN	Sep	8.99	272	312	350	279	310	349	50.9	58.4	65.5	52.2	58.1	65.4	4	11	13	17.2	15.5	13.7	126	127	127	42.0	48.0	56.0	4.7	5.3	6.2	100	100	100	OW
Tassal Group Ltd	TGR	Jun	2.29	21	29	34	21	29	34	17.1	21.2	25.2	17.1	21.2	25.2	22	25	19	13.4	10.8	9.1	98	88	84	5.8	8.5	12.6	2.5	3.7	5.5	0	0	0	OW
Timbercorp Ltd	TIM	Sep	0.64	66	49	54	66	49	54	19.3	14.2	15.8	19.3	14.2	15.8	-15	-27	12	3.3	4.5	4.0	24	37	37	7.0	6.0	6.0	11.0	9.4	9.4	100	100	100	N
Health Care Equipment & Services																																		
Cochlear Ltd	COH	Jun	58.20	115	131	162	116	132	164	206.6	233.6	290.4	215.5	235.7	292.6	13	9	24	27.0	24.7	19.9	197	202	184	150.0	166.2	206.0	2.6	2.9	3.5	100	100	100	OW
Primary Health Care Ltd	PRY	Jun	5.39	50	109	155	50	109	155	2.5	29.0	41.1	18.2	29.0	41.1	-49	59	42	29.6	18.6	13.1	216	152	122	27.0	17.2	26.7	5.0	3.2	5.0	100	100	100	N
Ramsay Health Care Ltd	RHC	Jun	10.80	95	108	118	104	118	126	54.6	62.2	68.2	59.7	67.6	72.8	11	13	8	18.1	16.0	14.8	132	131	137	32.5	37.2	39.7	3.0	3.4	3.7	100	100	100	UW
Resmed Inc (USD)	RMD	Jun	5.89	110	135	165	121	143	174	142.5	178.1	216.6	153.5	184.8	222.4	6	20	20	30.9	25.7	21.3	225	210	197	0.0	0.0	0.0	0.0	0.0	0.0				OW
Sonic Healthcare Ltd	SHL	Jun	13.20	245	290	346	245	290	346	73.5	83.7	101.7	73.5	83.7	101.7	12	14	22	18.0	15.8	13.0	131	129	120	52.0	59.6	71.4	3.9	4.5	5.4	100	80	56	OW
Sigma Pharmaceuticals Ltd	SIP	Jan	1.37	77	91	99	96	91	99	8.3	10.4	11.3	10.4	10.4	11.3	-10	-0	9	13.2	13.2	12.1	97	108	112	7.0	7.6	8.2	5.1	5.6	6.0	100	100	100	UW

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		End	A$[1]	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	Rating[6]
Insurance																																		
AMP Ltd	AMP	Dec	6.58	675	841	940	674	841	940	35.7	43.9	49.0	35.7	43.9	49.0	-31	23	12	18.5	15.0	13.4	135	123	124	46.0	44.0	45.0	7.0	6.7	6.8	85	85	85	OW
AXA Asia Pacific Holdings Ltd	AXA	Dec	5.15	372	664	712	388	647	730	21.8	39.0	41.8	22.8	38.0	42.9	-40	67	13	22.6	13.5	12.0	165	111	111	22.3	22.8	25.0	4.3	4.4	4.9	40	40	40	N
Insurance Australia Group Ltd	IAG	Jun	4.16	(261)	505	574	146	560	625	(14.2)	26.5	29.9	7.9	29.4	32.5	-78	271	11	52.5	14.2	12.8	383	116	118	22.5	22.5	22.5	5.4	5.4	5.4	100	100	100	UW
NIB Holdings Limited	NHF	Jun	0.85	1	38	44	27	38	44	0.1	7.7	8.9	6.4	7.4	8.9	-11	16	19	13.2	11.4	9.5	96	93	88	2.1	3.8	4.1	2.5	4.4	4.9	1	1	1	OW
QBE Insurance Group Ltd	QBE	Dec	24.12	1836	1896	1921	1860	1920	1945	203.0	208.2	209.6	205.4	210.6	212.0	-6	3	1	11.7	11.5	11.4	86	94	105	127.0	133.0	139.0	5.3	5.5	5.8	23	25	25	N
Suncorp-Metway Ltd	SUN	Jun	8.86	556	851	1106	864	1202	1345	59.8	86.8	108.4	92.9	122.5	131.7	-47	32	7	9.5	7.2	6.7	70	59	62	107.0	107.0	107.0	12.1	12.1	12.1	100	100	100	OW
Tower Ltd (NZD)	TWR	Sep	1.57	41	45	49	42	45	49	21.8	23.4	25.9	22.0	23.4	25.9	7	7	11	8.7	8.1	7.4	63	67	68	6.0	12.0	12.0	3.1	6.3	6.3	0	0	0	N
Materials																																		
Adelaide Brighton Ltd	ABC	Dec	3.39	127	153	173	127	153	173	23.1	27.4	31.1	23.1	27.4	31.1	11	18	14	14.7	12.4	10.9	107	101	101	17.0	19.0	21.0	5.0	5.6	6.2	100	100	100	OW
Amcor Ltd	AMC	Jun	6.41	259	368	435	369	368	435	29.8	43.7	51.7	42.5	43.7	51.7	-2	3	18	15.1	14.7	12.4	110	120	115	34.0	32.0	36.0	5.3	5.0	5.6	0	0	0	N
Alumina Ltd	AWC	Dec	3.33	252	451	281	360	451	281	17.7	31.6	19.7	25.2	31.6	19.7	-11	25	-38	13.2	10.5	16.9	96	86	156	24.0	24.0	24.0	7.2	7.2	7.2	100	100	100	UW
Boral Ltd	BLD	Jun	6.45	243	243	326	243	243	326	41.2	41.4	55.5	41.2	41.4	55.5	-17	0	34	15.6	15.6	11.6	114	128	108	34.0	34.0	35.0	5.3	5.3	5.4	100	100	100	UW
BlueScope Steel Limited	BSL	Jun	8.00	597	1073	763	817	877	763	79.8	141.2	100.4	109.2	115.4	100.4	20	6	-13	7.3	6.9	8.0	53	57	74	49.0	53.0	60.2	6.1	6.6	7.5	100	100	100	OW
Fortescue Metals Group Ltd	FMG	Jun	5.22	(963)	1474	2889	37	1474	2889	(35.4)	52.6	103.1	1.4	52.6	103.1			96	382.5	9.9	5.1		81	47	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	N
Iluka Resources Ltd	ILU	Dec	4.69	23	74	134	(7)	74	134	6.7	19.4	35.1	(2.0)	19.4	35.1			81		24.2	13.4		198	124	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	N
Incitec Pivot Ltd	IPL	Sep	6.92	582	880	746	584	880	746	1099.0	1448.8	1227.8	1101.4	1448.8	1227.8	174	32	-15	0.6	0.5	0.6	5	4	5	585.0	796.0	737.0	84.5	115.0	106.5	100	100	100	OW
James Hardie Industries NV (USD)	JHX	Mar	5.21	(72)	108	139	170	108	139	(15.7)	23.8	30.5	37.2	23.8	30.5	-25	-36	29	11.3	17.7	13.7	82	145	127	20.0	18.0	18.0	4.8	4.3	4.3	0	0	0	UW
Lihir Gold Ltd (USD)	LGL	Dec	2.14	140	245	238	193	316	295	6.8	11.2	10.9	9.5	14.5	13.5	51	53	-7	18.2	11.9	12.8	133	97	118	0.0	0.0	3.6	0.0	0.0	2.1	0	0	0	OW
Newcrest Mining Ltd	NCM	Jun	21.39	134	317	348	494	564	555	29.5	69.8	76.8	108.4	124.1	122.3	87	15	-1	19.7	17.2	17.5	144	141	162	10.0	20.0	25.0	0.5	0.9	1.2	100	100	100	OW
Nufarm Ltd	NUF	Jul	15.56	132	230	259	148	214	243	75.8	124.3	139.9	83.9	115.9	131.5	38	38	14	18.6	13.4	11.8	135	110	110	36.0	45.0	51.0	2.3	2.9	3.3	100	100	100	OW
Orica Ltd	ORI	Sep	22.79	542	684	769	535	669	742	171.9	194.8	219.1	169.7	190.5	211.3	13	12	11	13.4	12.0	10.8	98	98	100	98.0	105.0	116.0	4.3	4.6	5.1	36	36	36	OW
OneSteel Ltd	OST	Jun	5.85	245	568	688	315	582	688	29.3	64.7	78.2	37.7	66.2	78.2	9	76	18	15.5	8.8	7.5	113	72	69	21.5	32.0	38.0	3.7	5.5	6.5	100	100	100	OW
OZ Minerals Limited	OZL	Dec	1.38	(274)	732	570	229	732	570	(8.8)	23.6	18.4	7.4	23.6	18.4	-55	219	-22	18.7	5.9	7.5	136	48	70	10.0	11.0	12.0	7.2	8.0	8.7	100	100	100	OW
PaperlinX Ltd	PPX	Jun	2.26	72	107	132	46	80	106	9.9	17.4	23.0	9.9	17.4	23.0	-39	76	33	22.9	13.0	9.8	167	107	91	6.5	10.0	12.0	2.9	4.4	5.3	0	0	0	OW
Sims Group Ltd	SGM	Jun	31.30	433	476	387	407	476	387	305.9	263.5	214.1	284.6	262.4	213.2	41	-8	-19	11.0	11.9	14.7	80	98	136	130.0	133.7	117.8	4.2	4.3	3.8	33	15	8	UW
TFS Corporation Ltd	TFC	Jun	1.16	23	28	32	23	28	32	12.4	14.8	17.1	12.4	14.8	17.1	37	19	15	9.3	7.8	6.8	68	64	63	7.4	8.3	12.6	6.4	7.2	10.9	100	100	100	OW
Media																																		
Austereo Group Ltd	AEO	Jun	1.50	49	48	51	49	48	51	13.9	13.7	14.7	13.9	13.7	14.7	9	-2	7	10.7	10.9	10.2	78	89	94	10.0	9.6	10.3	6.7	6.4	6.9	100	100	100	OW
APN News & Media Ltd	APN	Dec	3.20	160	157	181	138	150	171	32.6	32.0	36.7	28.0	30.5	34.8	-7	9	14	11.4	10.5	9.2	83	86	85	31.5	32.0	33.0	9.8	10.0	10.3	0	0	0	N
Austar United Communications Ltd	AUN	Dec	1.20	26	65	89	71	93	127	2.0	5.0	6.8	5.5	7.2	9.8	134	31	36	21.9	16.7	12.3	160	137	114	0.0	0.0	0.0	0.0	0.0	0.0				OW
Fairfax Media Limited	FXJ	Jun	2.77	361	407	464	370	407	464	23.5	25.8	29.4	24.5	26.9	30.7	6	9	14	11.3	10.3	9.0	82	84	84	20.5	23.3	26.5	7.4	8.4	9.6	75	75	75	OW
Macquarie Communications Infrastruct	MCG	Jun	2.69	(103)	(89)	(53)	(103)	(89)	(53)	(20.0)	(16.8)	(9.8)	(20.0)	(16.8)	(9.8)										46.0	51.0	55.0	17.1	19.0	20.4				OW
Macquarie Media Group	MMG	Jun	3.24	256	77	83	28	56	59	120.7	35.8	38.1	13.1	25.7	27.4	-65	96	7	24.7	12.6	11.8	180	103	110	47.0	46.1	48.9	14.5	14.2	15.1	0	0	0	OW
Prime Media Group Limited	PRT	Jun	2.65	32	35	34	32	35	34	11.2	27.3	26.7	24.6	27.3	26.7	0	11	-2	10.8	9.7	9.9	79	79	92	17.5	19.5	21.0	6.6	7.4	7.9	100	100	100	N
Seven Network Ltd	SEV	Jun	7.28	142	208	227	125	118	128	48.9	85.6	94.3	56.2	57.1	61.8	-26	2	8	13.0	12.8	11.8	95	104	109	29.0	30.0	31.0	4.0	4.1	4.3	100	100	100	N
Sky Network Television Limited (NZD)	SKT	Jun	3.97	98	122	147	98	122	147	25.1	31.3	37.7	25.1	31.3	37.7	25	24	21	19.2	15.4	12.8	140	126	118	14.0	15.0	17.0	2.9	3.1	3.5	0	0	0	OW
Ten Network Holdings Ltd	TEN	Aug	1.59	287	118	139	105	119	140	31.0	12.8	15.1	11.4	12.9	15.2	-12	13	18	13.9	12.3	10.5	102	101	97	13.5	12.0	12.5	8.5	7.5	7.9	100	100	100	N
West Australian Newspapers Holdings	WAN	Jun	8.60	110	132	140	125	132	140	52.5	63.1	66.7	59.9	63.1	66.7	-2	5	6	14.3	13.6	12.9	105	112	119	52.5	63.1	66.7	6.1	7.3	7.8	100	100	100	N
Pharmaceuticals & Biotechnology																																		
CSL Ltd	CSL	Jun	40.25	702	971	1176	702	971	1176	126.8	162.6	195.1	126.8	162.6	195.1	32	28	20	31.7	24.7	20.6	232	203	191	46.0	53.9	65.3	1.1	1.3	1.6	50	33	33	OW
QRxPharma Ltd	QRX	Jun	0.50	(15)	(18)	(28)	(15)	(18)	(28)	(20.3)	(23.5)	(34.9)	(18.9)	(21.9)	(32.7)										0.0	0.0	0.0	0.0	0.0	0.0				OW

Source: Company Data, JPMorgan Estimates

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JPMorgan Company Forecasts

17 September, 2008

Company	Ticker	Year	Price	Reported Profit ($m) [2]			Normalised Profit ($m) [3]			Reported EPS (¢) [4]			Normalised EPS (¢)			Nor EPS Growth (%)			P/E Nor (x)			Relative P/E (%) [5]			DPS (¢)			Yield (%)			Franking (%)			Current
		End	A$[1]	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010	Rating [6]
Real Estate																																		
Abacus Property Group	ABP	Jun	1.05	92	83	86	92	83	86	14.6	12.8	13.0	14.6	12.8	13.0	1	-12	2	7.2	8.2	8.1	53	67	75	13.3	12.8	13.0	12.7	12.2	12.4				OW
APN/UKA European Retail Trust	AEZ	Jun	0.23	26	29	29	26	29	29	4.8	5.4	5.4	4.8	5.4	5.4	-38	12	1	4.8	4.3	4.2	35	35	39	6.1	6.1	6.2	26.6	26.7	26.9				UW
Babcock & Brown Communities Limitec	BBC	Jun	0.41	41	40	47	41	40	47	9.4	8.4	10.0	9.4	8.4	10.0	844	-11	18	4.3	4.9	4.1	32	40	38	6.3	5.6	7.5	15.4	13.7	18.3				OW
Babcock & Brown Japan Property Trus	BJT	Jun	0.71	58	62	61	58	62	61	11.1	12.3	12.3	13.0	13.0	13.2	6	-0	1	5.5	5.5	5.4	40	45	50	13.1	13.1	13.2	18.4	18.4	18.5				OW
Bunnings Warehouse Property Trust	BWP	Jun	1.79	40	42	45	40	42	45	13.3	13.6	14.2	13.3	13.6	14.2	2	2	5	13.5	13.2	12.6	98	108	117	13.3	13.6	14.2	7.4	7.6	7.9				N
Challenger Diversified Property Group	CDI	Jun	0.66	45	40	42	40	40	42	8.4	7.4	7.8	7.4	7.4	7.8	38	0	5	8.9	8.9	8.5	65	73	79	8.5	7.5	7.3	12.8	11.4	11.1				OW
Carindale Property Trust	CDP	Jun	3.90	18	19	20	18	19	20	25.4	26.5	28.1	25.4	26.5	28.1	3	4	6	15.3	14.7	13.9	112	121	129	25.7	26.8	28.3	6.6	6.9	7.3				OW
Centro Retail Group	CER	Jun	0.12	256	293	282	256	293	282	15.1	12.8	12.3	15.1	12.8	12.3	8	-15	-4	0.8	0.9	0.9	6	7	9	1.4	3.4	8.0	12.2	29.5	69.3				OW
CFS Retail Property Trust	CFX	Jun	2.23	261	271	287	261	271	287	11.6	11.9	12.5	11.6	11.9	12.5	5	3	5	19.3	18.7	17.8	141	154	165	12.0	12.3	13.0	5.4	5.5	5.8				N
Charter Hall Group	CHC	Jun	0.91	50	57	64	50	57	64	12.2	12.7	13.8	12.2	12.7	13.8	28	4	9	7.5	7.2	6.6	54	59	61	12.6	12.5	12.4	13.8	13.7	13.6				N
Centro Properties Group	CNP	Jun	0.09	242	219	193	242	219	193	28.6	25.9	22.9	28.6	25.9	22.9	-29	-9	-12	0.3	0.3	0.4	2	3	3	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0	UW
Commonwealth Property Office Fund	CPA	Jun	1.42	147	150	148	144	150	148	9.1	9.3	9.3	9.0	9.3	9.3	-1	4	-1	15.8	15.2	15.3	116	125	142	9.2	9.2	9.3	6.5	6.5	6.6				UW
DEXUS Property Group	DXS	Jun	1.44	355	368	391	355	368	391	12.1	12.1	12.9	12.1	12.1	12.9	6	0	6	11.9	11.9	11.2	87	97	104	11.9	12.1	12.2	8.3	8.4	8.5				N
Galileo Japan Trust	GJT	Jun	0.32	32	30	31	26	28	28	7.8	7.4	7.6	8.6	8.6	8.7	116	0	0	3.6	3.6	3.6	27	30	34	8.0	8.0	8.1	25.5	25.4	25.8				N
Goodman Group	GMG	Jun	2.64	239	566	598	567	566	598	14.3	33.8	35.7	34.0	33.8	35.7	8	-1	6	7.8	7.8	7.4	57	64	68	34.0	25.1	26.4	12.9	9.5	10.0				OW
GPT Group	GPT	Dec	1.61	466	486	494	466	486	494	21.2	21.1	21.4	21.2	21.1	21.4	-28	-0	2	7.6	7.6	7.5	56	63	70	20.4	19.0	19.2	12.7	11.8	12.0				UW
ING Industrial Fund	IIF	Jun	1.52	39	205	216	200	205	216	3.5	17.5	18.1	17.9	17.5	18.1	7	-2	4	8.5	8.7	8.4	62	71	78	17.9	17.1	17.2	11.8	11.2	11.3				UW
ING Real Estate Community Living Fur	ILF	Jun	0.31	47	41	44	47	41	44	10.7	9.2	10.0	10.7	9.2	10.0	1	-13	8	2.9	3.4	3.1	21	27	29	11.0	5.9	6.4	35.5	19.1	20.7				N
ING Office Fund	IOF	Jun	1.39	166	148	151	135	148	151	10.9	11.5	11.8	10.9	11.5	11.8	2	6	2	12.8	12.1	11.8	93	99	109	10.7	10.9	10.9	7.7	7.8	7.9				N
Macquarie CountryWide Trust	MCW	Jun	1.02	100	194	197	193	194	197	7.3	13.7	13.5	14.4	13.9	13.5	-6	-3	-3	7.1	7.3	7.5	52	60	70	15.0	10.9	10.7	14.7	10.7	10.5				UW
Macquarie DDR Trust	MDT	Jun	0.34	91	73	73	91	73	73	9.8	7.7	7.5	9.8	7.7	7.5	-0	-22	-2	3.5	4.4	4.5	25	36	42	9.3	6.7	7.4	27.2	19.7	21.7				OW
Mirvac Group	MGR	Jun	2.49	172	269	287	352	269	287	16.3	24.0	24.3	33.4	23.9	24.3	1	-28	2	7.4	10.4	10.3	54	85	95	32.9	20.0	22.2	13.2	8.0	8.9	0	0	0	N
Mirvac Industrial Trust	MIX	Jun	0.26	29	18	21	29	18	21	8.0	5.0	5.8	8.0	5.0	5.8	-19	-37	15	3.3	5.2	4.5	24	43	42	8.0	5.0	5.8	30.7	19.2	22.2				N
Macquarie Leisure Trust Group	MLE	Jun	1.78	40	49	58	45	49	58	17.8	21.2	24.6	20.3	21.2	24.6	4	4	16	8.7	8.4	7.2	64	69	67	19.6	20.0	23.2	11.0	11.3	13.1				OW
Macquarie Office Trust	MOF	Jun	0.87	279	215	194	234	215	194	13.8	10.5	9.5	11.3	10.5	9.5	1	-6	-10	7.7	8.2	9.2	56	68	85	11.2	9.0	8.5	12.9	10.3	9.8				N
Mirvac Real Estate Investment Trust	MRZ	Jun	0.53	75	47	41	57	43	41	11.9	7.5	6.6	9.1	6.9	6.6	13	-24	-4	5.8	7.7	8.1	42	63	75	10.6	6.5	6.5	20.0	12.3	12.3				N
Stockland	SGP	Jun	5.36	705	691	762	674	691	762	48.4	46.6	50.0	46.2	46.6	50.0	5	1	7	11.6	11.5	10.7	85	94	99	46.5	46.2	49.0	8.7	8.6	9.1				OW
Tishman Speyer Office Fund	TSO	Jun	1.01	43	65	67	43	65	67	12.6	18.9	19.6	12.6	18.9	19.6	-30	50	4	8.0	5.3	5.1	58	44	47	17.0	10.0	10.6	16.9	10.0	10.6	17	17	18	OW
Valad Property Group	VPG	Jun	0.37	(248)	104	112	150	104	112	(16.2)	6.4	6.8	11.1	7.4	7.8	0	-33	6	3.3	5.0	4.7	24	41	44	11.1	5.4	5.8	30.0	14.7	15.7				N
Westfield Group	WDC	Dec	17.38	1991	1950	2142	1901	1945	2107	90.6	97.6	108.2	97.9	98.4	106.5	-8	0	8	17.8	17.7	16.3	130	145	151	106.5	106.8	112.6	6.1	6.1	6.5				UW
Retailing (non Food)																																		
Clive Peeters Limited	CPR	Jun	0.43	10	11	16	10	11	16	8.1	8.5	12.5	8.1	8.5	12.5	-24	5	46	5.3	5.0	3.4	39	41	32	4.5	4.3	6.3	10.5	9.9	14.5	100	100	100	UW
Fantastic Holdings Ltd	FAN	Jun	2.52	19	20	23	19	20	23	19.6	21.3	24.5	19.6	21.3	24.5	6	9	15	12.9	11.8	10.3	94	97	95	12.4	12.8	14.7	4.9	5.1	5.8	100	100	100	UW
Harvey Norman Holdings Ltd	HVN	Jun	3.40	358	296	328	297	297	330	33.7	27.7	30.7	27.9	27.9	30.9	34	-0	11	12.2	12.2	11.0	89	100	102	14.0	14.0	15.0	4.1	4.1	4.4	100	100	100	OW
JB Hi-Fi Ltd	JBH	Jun	13.53	65	81	94	66	81	95	60.7	74.9	87.0	61.3	75.3	87.4	60	23	16	22.1	18.0	15.5	161	147	143	26.0	31.0	36.0	1.9	2.3	2.7	100	100	100	OW
Pacific Brands Limited	PBG	Jun	2.25	117	117	117	114	115	116	23.2	23.3	23.4	22.7	22.9	23.1	11	1	1	9.9	9.8	9.7	72	80	90	17.0	18.3	18.5	7.6	8.1	8.2	100	100	100	N
Warehouse Group Ltd (NZD)	WHS	Jul	2.66	91	77	82	76	77	82	29.3	24.8	26.4	24.4	24.8	26.4	-18	2	6	13.2	13.0	12.3	97	107	113	21.0	19.5	19.5	6.5	6.0	6.0	100	100	100	UW
Software & Services																																		
Computershare Ltd (USD)	CPU	Jun	9.04	282	315	345	290	315	345	49.9	56.7	62.1	51.4	56.7	62.1	40	10	9	14.2	12.8	11.7	103	105	109	18.3	20.6	23.2	2.5	2.8	3.2	25	30	30	N
IRESS Market Technology Ltd	IRE	Dec	6.12	35	41	49	47	54	57	29.5	34.2	40.9	38.3	43.3	46.0	18	13	6	16.0	14.1	13.3	117	116	123	29.0	36.0	39.0	4.7	5.9	6.4	100	100	100	OW
Telecommunication Services																																		
Hutchison Telecommunications Aust.	HTA	Dec	0.10	(156)	(74)	(1)	(156)	(74)	(1)	(23.0)	(10.9)	(0.2)	(23.0)	(10.9)	(0.2)										0.0	0.0	0.0	0.0	0.0	0.0				N
iiNET Ltd	IIN	Jun	1.41	20	22	24	18	23	24	15.5	14.8	16.0	12.8	14.9	16.1	5	16	8	11.0	9.5	8.8	80	78	81	7.0	9.0	10.0	5.0	6.4	7.1	100	100	100	N
Singapore Telecommunications (SGD)	SGT	Mar	2.82	3961	4085	4425	3573	3919	4281	24.9	25.7	27.8	22.5	24.6	26.9	25	10	9	14.4	13.2	12.1	105	108	112	12.5	15.3	16.7	3.9	4.7	5.1				N
Telecom Corp of New Zealand (NZD)	TEL	Jun	2.30	713	533	474	720	533	474	38.1	29.2	26.0	38.5	29.2	26.0	-7	-24	-11	7.3	9.6	10.8	53	78	100	28.0	24.0	24.0	10.0	8.6	8.6	0	0	0	N
Telstra Corp Ltd	TLS	Jun	4.14	3692	3702	4052	3637	3702	4052	29.7	29.9	32.7	29.3	29.9	32.7	1	2	10	14.1	13.9	12.7	103	114	117	28.0	28.0	28.0	6.8	6.8	6.8	100	100	100	UW

Source: Company Data, JPMorgan Estimates

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JPMorgan Company Forecasts

17 September, 2008

Company	Ticker	Year End	Price A$[1]	Reported Profit ($m)[2] 2008	2009	2010	Normalised Profit ($m)[3] 2008	2009	2010	Reported EPS (¢)[4] 2008	2009	2010	Normalised EPS (¢) 2008	2009	2010
Transportation															
Auckland International Airport (NZD)	AIA	Jun	1.64	113	117	136	109	117	136	9.2	9.6	11.1	9.2	9.6	11.1
Australian Infrastructure Fund	AIX	Jun	2.52	207	129	121	21	46	55	54.2	34.0	31.7	5.6	12.0	14.4
BrisConnections Ltd	BCSCA	Jun	0.05		(34)	(88)		(34)	(88)		(6.7)	(15.7)		(6.9)	(16.0)
Connecteast Group	CEU	Jun	0.84	(11)	(140)	(107)	(11)	(140)	(107)	(0.7)	(8.1)	(5.7)	(0.7)	(8.3)	(5.9)
Macquarie Airports	MAP	Dec	2.58	(363)	(75)	(74)	(274)	(25)	(24)	(21.1)	(4.4)	(4.3)	(16.0)	(1.5)	(1.4)
Macquarie Infrastructure Group	MIG	Jun	2.05	914	508	473	(106)	(101)	(59)	38.0	21.1	19.7	(4.4)	(4.2)	(2.5)
Qantas Airways Ltd	QAN	Jun	3.55	970	567	691	955	524	691	49.8	29.6	35.4	49.1	27.3	35.4
Transurban Group	TCL	Jun	5.45	(161)	(43)	(14)	(161)	(43)	(14)	(13.2)	(3.4)	(1.1)	(13.2)	(3.4)	(1.1)
Toll Holdings Ltd	TOL	Jun	7.52	(695)	305	347	284	331	374	(107.8)	47.8	54.1	44.9	51.9	58.2
Virgin Blue Holdings Limited	VBA	Jun	0.50	98	(15)	73	141	16	73	9.3	(1.4)	6.9	13.4	1.6	6.9
Utilities															
AGL Energy Limited	AGK	Jun	14.49	351	378	510	356	378	510	81.6	84.8	113.8	81.5	84.8	113.8
APA Group	APA	Jun	3.41	71	86	99	67	86	99	18.3	18.3	21.0	17.3	18.3	21.0
Babcock & Brown Infrastructure Group	BBI	Jun	0.26	(135)	199	309	(153)	199	309	(6.0)	8.1	12.5	(6.8)	8.1	12.5
Babcock & Brown Power	BBP	Jun	0.09	(428)	(27)	10	(28)	(27)	10	(65.1)	(3.7)	1.3	(3.6)	(3.7)	1.3
Challenger Infrastructure Fund	CIF	Jun	2.61	(142)	43	48	(48)	43	48	(31.8)	12.6	13.2	(13.9)	12.6	13.2
DUET Group	DUE	Jun	2.95	52	123	126	63	123	126	8.7	19.9	19.9	10.5	19.8	19.9
Envestra Ltd	ENV	Jun	0.69	164	15	20	10	15	20	19.0	1.6	1.8	1.2	1.6	1.8
Spark Infrastructure Group	SKI	Dec	1.65	20	28	22	20	28	22	1.9	2.8	2.2	1.9	2.8	2.2
SP AusNet	SPN	Mar	1.07	151	169	179	167	169	179	7.2	8.1	8.6	8.0	8.1	8.6

Company	Ticker	Nor EPS Growth (%) 2008	2009	2010	P/E Nor (x) 2008	2009	2010	Relative P/E (%)[5] 2008	2009	2010	DPS (¢) 2008	2009	2010	Yield (%) 2008	2009	2010	Franking (%) 2008	2009	2010	Current Rating[6]
Transportation																				
Auckland International Airport (NZD)	AIA	-51	3	16	21.5	20.8	17.9	157	170	166	8.2	9.8	11.1	4.1	4.9	5.6				N
Australian Infrastructure Fund	AIX	-45	115	19	45.1	20.9	17.6	329	172	163	16.5	16.5	16.5	6.5	6.5	6.5	0	0	0	N
BrisConnections Ltd	BCSCA											15.3	23.3		339.3	518.4				OW
Connecteast Group	CEU										8.5	10.5	10.5	10.1	12.5	12.5	0	0	0	OW
Macquarie Airports	MAP										27.0	28.0	29.0	10.5	10.9	11.2				OW
Macquarie Infrastructure Group	MIG										20.0	20.0	20.0	9.8	9.8	9.8	0	0	0	OW
Qantas Airways Ltd	QAN	26	-44	30	7.2	13.0	10.0	53	106	93	35.0	22.0	28.0	9.9	6.2	7.9	100	100	100	N
Transurban Group	TCL										57.0	22.0	28.0	10.5	4.0	5.1	0	0	0	N
Toll Holdings Ltd	TOL	-6	16	12	16.8	14.5	12.9	122	119	120	25.0	27.5	30.9	3.3	3.7	4.1	100	100	100	N
Virgin Blue Holdings Limited	VBA	-37	-88	323	3.7	30.1	7.1	27	247	66	2.0	0.0	4.0	4.0	0.0	8.1	100	100	100	N
Utilities																				
AGL Energy Limited	AGK	0	4	34	17.8	17.1	12.7	130	140	118	53.0	55.0	59.0	3.7	3.8	4.1	100	100	100	N
APA Group	APA	-14	6	15	19.7	18.7	16.3	144	153	151	29.5	31.0	32.5	8.7	9.1	9.5	0	0	0	OW
Babcock & Brown Infrastructure Group	BBI			55		3.2	2.0		26	19	10.0	10.0	10.4	39.2	39.2	40.8	0	0	0	N
Babcock & Brown Power	BBP						7.0			65	13.0	0.0	0.0	141.3	0.0	0.0				UW
Challenger Infrastructure Fund	CIF			5		20.7	19.7		169	182	34.0	34.0	35.7	13.0	13.0	13.7	0	0	0	N
DUET Group	DUE	-14	88	1	28.1	14.9	14.8	205	122	137	28.0	28.5	29.9	9.5	9.7	10.1				OW
Envestra Ltd	ENV		28	16	56.5	44.0	38.1	412	361	353	9.5	8.7	8.0	13.8	12.6	11.6				UW
Spark Infrastructure Group	SKI	-43	44	-23	84.8	58.8	76.7	619	482	711	18.5	19.4	20.4	11.2	11.8	12.4	0	0	0	OW
SP AusNet	SPN	1	1	6	13.4	13.2	12.4	98	108	115	11.6	11.9	12.1	10.9	11.1	11.4	3	2	3	N

MARKET AVERAGES	Reported Profit Growth(%) 2008	2009	2010	Normalised Profit Growth(%) 2008	2009	2010	Reported EPS Growth(%) 2008	2009	2010	Normalised EPS Growth(%) 2008	2009	2010	P/E Reported (x) 2008	2009	2010	P/E Normalised (x) 2008	2009	2010	Net Yield (%) 2008	2009	2010	Gross Yield (%) 2008	2009	2010	Franking (%) 2008	2009	2010
Arithmetic Average	8.2	18.6	12.1	16.1	17.0	13.7	1.5	16.5	11.4	8.2	13.4	13.0	14.0	12.0	10.8	13.7	12.2	10.8	7.7	8.9	10.9	7.3	7.7	8.7	68.8	69.7	70.1
Arithmetic Average (ex Financials)	15.1	21.4	14.2	19.2	21.7	16.6	8.5	19.6	13.7	11.8	18.5	16.0	16.1	13.8	12.2	16.2	14.1	12.1	6.3	8.4	10.7	6.1	6.6	7.5	60.5	62.2	62.0
Arithmetic Average (ex Resources)	6.2	17.1	12.9	12.9	14.2	14.2	-0.4	15.2	12.2	5.3	10.7	13.5	13.7	11.8	10.6	13.2	12.1	10.7	8.3	9.6	11.8	5.9	6.1	6.9	53.3	54.2	54.5
Arithmetic Average (ex Financials) (ex Resources)	13.1	19.5	15.8	14.9	18.4	17.9	6.6	18.1	15.3	7.8	15.3	17.3	15.9	13.9	12.1	15.9	14.2	12.1	7.0	9.5	12.0	6.7	7.1	8.1	62.9	65.1	64.9
Weighted Average[7]	-13.1	14.7	4.1	5.9	6.7	8.2	-6.5	12.5	6.0	6.0	4.1	8.7	12.3	10.7	10.3	11.9	11.1	10.2	6.1	6.2	6.5	8.1	8.1	8.6	62.5	60.5	61.0
Weighted Average (ex Financials)	-10.1	22.1	1.0	14.8	8.2	9.5	-2.4	18.6	6.7	11.6	7.0	11.1	13.5	10.9	10.8	12.8	11.7	10.7	4.9	5.0	5.5	6.5	6.7	7.4	76.1	73.5	74.3
Weighted Average (ex Resources)	-15.9	17.2	5.1	5.7	6.4	9.1	-10.1	15.9	7.0	5.8	3.7	9.4	12.7	10.7	10.2	11.8	11.1	10.2	6.2	6.2	6.6	8.1	8.2	8.6	61.6	59.6	60.0
Weighted Average (ex Financials) (ex Resources)	-16.1	28.6	2.8	14.9	7.7	11.3	-8.3	24.8	8.2	11.4	6.6	12.3	14.3	11.0	10.7	12.8	11.8	10.6	4.9	5.1	5.5	6.5	6.7	7.4	75.3	72.6	73.4

Notes

1. All prices are in Australian dollars. Stocks with a suffix of USD or NZD or SGD are forecast in these currencies.

2. Reported earnings for financial years startingafter 31 Dec 2004 are forecast according to International Accounting Standards (IFRS). The main differences between IFRS forecasts and earlier numbers are that goodwill amortisation is not deducted and staff options are expensed.

3. Normalised earnings exclude goodwill in all periods along with P&L on FX movements, asset disposal and some other non-operational items.

4. Per share figures are calculated on a weighted average capital basis.

5. Normalised P/E relative to the arithmetic average of the market.

6. OW = Overweight, N = Neutral, UW = Underweight

7. Weighted averages are calculated using 100% market capitalisation

Source: Company Data, JPMorgan Estimates

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