

Daily Research Notes

15 December 2009

OVERNIGHT NEWS

Easing concerns over global credit problems and more signs of corporate deal making gave stocks a moderate boost. Major stock indexes rose following news that Abu Dhabi had extended US\$10B to Dubai to help the Middle Eastern city-state stay afloat. Markets had been worried in recent weeks that debt problems in the struggling former boomtown could send ripples through global credit markets. Investors were also encouraged by Exxon Mobil Corp.'s US\$31 B purchase of XTO Energy, which sent energy stocks sharply higher. The deal will help Exxon tap into the growing supply of natural gas in the US and could signal more consolidation.

European indices rallied across the board, supported by the region's financial stocks after Abu Dhabi pledged US\$10B to prevent Dubai's Nakheel PJSC defaulting. HSBC, which had US\$1 5.9B in loans to customers in the UAE, climbed 2.4%; Standard & Chartered was up over 4% after a broker upgrade; and the National Bank of Greece recovered almost 6% after last week's fall.

Dow Jones Industrial Average	+29.55	10,501
Nasdaq Composite Index	+21.79	2,212
FTSE 100 Index	+53.77	5,315
ASX 200	+18.8	4,668
ASX SPI 200 Futures	-7	4,667

The Australian market slid for most of the day despite a positive lead from overseas markets on Friday, until the late-afternoon news that Abu Dhabi had agreed to bail out Dubai prompted it to spike back into the black. The All Ordinaries ended Monday 17 points up at 4,668. The S&P/ASX 200 closed 19 points up at 4,654. Today's Futures Contracts are pointing down 7 points to 4,667. The only sectors to go backwards were Energy and IT. The Consumer Staples sector benefited from Woolworths, Wesfarmers and Foster's closing in the black. The Industrials and Consumer Discretionary sectors saw Qantas and News Corp strengthen. Winners in the Healthcare sector included Sonic and Cochlear. The Materials sector benefited from gains in BHP Billiton, Rio Tinto, Newcrest and Fortescue, with Incitec Pivot and BlueScope also putting on a strong performance. In the Financials sector, Commonwealth Bank, Westpac and Westfield fared better than National Australia Bank and ANZ. The Energy sector saw selling in Santos and WorleyParsons.

INFLUENTIAL STOCKS

Company	Close (\$)	Chg (cents)	Chg (%)
AMP	6.23	0	0.00
ANZ	21.16	(14)	-0.65
BHP	40.65	15	0.37
BXB	6.33	(1)	-0.15
CBA	52.80	30	0.57
CSL	30.38	(10)	-0.32
FGL	5.48	9	1.66
MQG	47.60	(29)	-0.60
NAB	27.97	(24)	-0.85
NCM	35.18	16	0.45
ORG	15.78	(2)	-0.12
QBE	23.17	21	0.91
RIO	70.51	33	0.47
SUN	8.54	(12)	-1.38
TLS	3.50	3	0.86
WBC	23.71	15	0.63
WDC	12.13	21	1.76
WES	29.59	36	1.23
WOW	27.27	44	1.63
WPL	47.18	0	0.00

BIGGEST MOVERS OF THE DAY (ASX 200 INDEX)

By Vol	Vol (,000)	By % Gain	Chg %	Close	By % Loss	Chg %	Close \$
BLY	63,138	AWC	6.39	1.67	SBM	-4.84	0.30
GPT	52,914	KAR	5.73	8.67	CIF	-4.34	1.77
AXA	32,600	MOF	5.36	0.30	MQCPA	-4.22	104.50
TLS	28,978	MGX	4.65	1.58	ESG	-3.85	0.75
MOF	25,887	PIH	4.55	3.91	MCR	-3.83	1.76
QAN	22,898	MML	4.20	3.97	SDL	-3.45	0.14
DXS	22,893	IPL	3.85	3.24	EXT	-3.38	8.00
GMG	22,625	GWT	3.78	3.02	BKN	-2.96	6.89
SBM	22,581	AJA	3.70	0.42	CDU	-2.86	5.09
LGL	20,344	CEU	3.70	0.42	MRE	-2.78	0.70

COMPANY RESEARCH**AXA Asia Pacific (AXA)****\$5.72**
Neutral**Takeover Offer Looks Compelling at \$6.22**

AMP and AXA SA have increased their takeover proposal for AXA Asia Pacific (AXA AP) to an implied \$6.22 per share. The AXA AP board has until 21 December to accept and recommend the proposal to minority shareholders. The scrip ratio remains unchanged at 0.6896 AMP shares for each AXA AP share, with the cash component increasing to \$1.92, up from \$1.38. The revised bid represents a 53% premium to the closing prices on 5 November 2009. AMP would take the Australian and NZ businesses, whilst AXA SA would acquire the Asian operations. AMP and AXA SA have delivered an attractive offer for AXA AP, representing a premium of 53% to the share price prior to the launch of the initial proposal on 5 November 2009. We expect AXA AP's independent directors to accept and recommend the proposal, subject to an independent expert's report and no superior alternative offer being made. The revised proposal is "best and final" and values AXA AP at about A\$14.0B on an enterprise value basis (A\$4.4B un-g geared for Australia/NZ and A\$9.6B for the Asian business, including Asian debt). Should the independent directors of AXA AP accept and recommend the proposal, it remains contingent on the approval by AXA AP's minority shareholders via a scheme of arrangement. The scheme and customary regulatory approvals are expected to complete in the second quarter of 2010. Owing to the pricing and structure of the offer (with AXA SA currently holding around 54% of AXA AP stock), we do not expect to see higher bids from other parties. We have made minor changes to our valuation and price target for AXA and retain our Neutral recommendations on both a short-term and a long-term basis.

AMP (AMP)**\$6.23**
Buy**AMP/AXA SA Up the Ante**

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Alumina Ltd (AWC)**\$1.67**
Add**Alumar Alumina Refinery Expansion**

The Alumar alumina refinery expansion in northern Brazil has been officially opened. The capacity increase from 1.5Mtpa to 3.6Mtpa will place the refinery in the lowest-cost quartile globally. Production is expected to be ramped up to reach full capacity by the end of 1Q10. The ownership structure is 54% AWAC, 36% BHP and 10% RIO. AWC owns 40% of AWAC. AWAC's share of refinery expansion will be supplied by the recently expanded Juruti bauxite mine. The Brazilian expansions are expected to enhance AWC's stable of cost operations. Commodity prices continue to improve. Aluminium prices appear set to average US\$85c/lb during 2H09, up around 32% on the previous half. Alumina prices have climbed 45% HoH to around US\$288/t. The current spot price of ~US\$1.00/lb for aluminium and US\$305/t for alumina bode well for FY10. The only dampener is the weakness of the USD. We have updated assumptions for commodity prices, exchange rates, interest rates and unit costs. We have upgraded our FY09 EPS from 1.1cps to 1.8cps and increased FY10 and FY11 EPS by 2.3% and 3.0%, respectively. Our 12-month share price target is \$2.09. We have maintained our Add recommendation on both time horizons.

Woodside (WPL)**\$47.18**
Add**Firms up Balance Sheet with \$2.5B in Equity**

WPL has announced it plans to raise \$2.5B through a fully underwritten 1-for-12 accelerated, renounceable entitlement offer. The issue price will be \$42.10/share, representing a 10% discount to the theoretical ex-rights price based on the last traded closing price. The funds are to be used to strengthen WPL's balance sheet and to increase liquidity in preparation for further LNG developments. While we believe WPL had sufficient capacity to fund the final stages of the development of the foundation Pluto train, we had highlighted that the company had not ruled out tapping equity markets for LNG expansion projects, including additional Pluto trains, Browse and Sunrise. The \$2.5B to be raised is modest when one considers the enormity of capital expenditure required for an LNG project; however, the amount does ease concerns over WPL's financial metrics. We have included the equity raising in our model, with 60% of the funds assumed to be raised before the end of year via the institutional component and 40% raised in 1H10 through the retail component. The dilutive impact of the additional shares on issue has been somewhat offset by a reduction in our net interest forecasts. Our 12-month target price has reduced only 2% to \$57.19/share, as the dilutive impact has been largely offset by the decrease in WPL's value of debt. We expect its share price will initially trade somewhere below its previous close of \$47.18 and above the minimum \$42.10 price of the new equity. We have retained our 12-month and LTAdd recommendations. We will reassess our position following the resumption in trading in WPL stock.

MARKET INSIGHTS

Santos (STO) (\$13.56) STO has responded to an ASX query related to the omission of a slide indicating updated guidance; however, the company does not believe the omission was the cause of the decline in the value of its shares. STO is not aware of any reason for its share price decline. STO stated its decline was in line with that of OSH's share price following the approval of the PNG LNG Project and that production guidance for FY09 was unchanged.

Recommendation: Neutral

Photon (PGA) (\$1.60) PGA has agreed with ANZ to extend its two debt facilities due in CY10. An undrawn \$38M facility has been extended to 30-Apr-12 and a fully drawn \$120M facility has been extended to 31-Oct-12. After adjusting for abnormal losses associated with its discontinued Geekiversity business (~\$5.5M in 1H10), and in light of the strength of the Australian economy and A\$, PGA expects FY10 EBITDA to be in line with normalised FY09 EBITDA (this is broadly consistent with our assumptions). PGA has extended its offer period for Dark Blue Sea (DBS) from 14 December to 21 December 2009. As at the date of the extension, PGA and its associates had a relevant interest in 85.01% of DBS shares.

Recommendation: Buy

GPT Group (GPT) (\$0.56) GPT announced finalisation of the sale to Internos of GPT Halverton for €2, with additional working capital, of approximately €7M. The Group's guidance of \$365 million in realised operating income for 2009 remains unchanged.

Recommendation: Neutral

Beach Petroleum Limited (BPT) (\$0.87) The Paralana 2 well has been successfully cased and cemented to a depth of 3,725m. As expected no hydrocarbons or traces of CO₂ or H₂S were encountered. Next steps include temperature measurements, well logging and fluid geochemistry. Following this a work program for 2010 will be determined.

Recommendation: Add

Energy Developments (ENE) (\$2.78) The non-Infratil nominee directors of ENE have recommend shareholders reject the \$2.75 per share offer from Greenspark. The primary reason for rejection is that the directors believe the offer is inadequate, particularly given the Independent Expert valuation of between \$3.17 and \$4.09 per share. ENE also said it intends to increase its FY10 dividend to 17cps. The Greenspark offer is currently scheduled to close on 15 January 2010. We will issue our recommendation on the offer in due course.

Recommendation: Neutral

Fortescue Metals (FMG) (\$4.36) Test pit bulk sampling results have supported all key technical and mining assumptions at the Nullagine iron ore project. FMG has now confirmed its commitment to move ahead with development activities in the JV with BC Iron (BCI) that include securing final regulatory approvals, awarding construction and mining contracts, building a heavy haul road to Christmas Creek and commencing village and mine construction. First stage development is targeting 3Mtpa, double the original plans.

Recommendation: Neutral



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