

Economic and Market Commentary

Market rebounds despite poor economic data

The Dow recovered earlier losses to end up 83pts to 11616 Thursday, with investors buying homebuilders, financials and select industrials following the last two day 230pt decline. Wal-Mart earnings topped estimates, while sales missed forecasts. The July CPI rose 5.6% annually, a 17-year high and above expectations. Core CPI was reported at 2.5% vs. a year ago and 0.3% for June. A July reading on home for closures showed an 8% rise in July, up 55% from a year ago. Jobless claims were reported to have fallen slightly from 6yr highs, however less than expectation. Friday brings reports on manufacturing and consumer sentiment. **GM**

Idea of the Day

BHP Billiton (BHP)

Buy

Analyst: TJL

Recommendation @ \$38.70

Key Points

- BHP to generate US\$37b in excess cash over the next 3 years.
- Scope to either lift dividends substantially or do massive share buyback.

YE June	2008F	2009F	2010F
NPAT (US\$M)	15,826	25,240	25,290
PE (X)	13.9	7.4	7.4
Yield (%)	1.5	2.7	2.7
Franking	100.0	100.0	100.0
Target (12 mth) (\$ps)			\$50.00

What will BHP do with US\$37b in excess cash?

BHP has now entered a phase of massive cash generation despite its significant capital expenditure program. BHP's cash build phase is approximately three years ahead of RIO. Potential alternative uses we see for the estimated US\$37 billion that will accumulate over the next 3 years are:

- Higher dividends (+US\$21.8b) – up 20% payout to 50%, 6.8% ff yield.
- Share buybacks (US\$37.1b) – 6.5% pa over 3 yrs, EPS up 18% by the 3rd yr.
- Maintain peak capex (+US\$4.4b) – capex spend of US\$8.7b pa for 3 yrs.
- Cash sweetened RIO bid (US\$13.6b) – removes discount to current offer.

We argue that BHP should reconsider their dividend policy particularly in the absence of share buybacks during the RIO takeover period. We see the potential for BHP to more than double its payout ratio going forward which equates to a 6.8% ff yield at current prices. Alternatively, BHP could do a totally cash funded 6.5% pa buyback for 3 years which would see an 18% EPS uplift in FY11.

We don't believe capex spend should be increased above the estimated US\$8.7b peak in FY09 given industry development cost pressures (cheaper to buy). Adding a cash sweetener to the BHP bid for RIO only benefits RIO shareholders. In any event, we believe the bid will be blocked by the EC.

We recommend BHP as a BUY because either capital management alternative would be a very attractive investment characteristic. We also have a preference for BHP over RIO based on likely capital management initiatives mentioned, stronger earnings growth, greater diversity, higher quality balance sheet and the likelihood that RIO's share price would correct if BHP's proposed bid were to be blocked by regulators.

Please full report published yesterday for full details

Equity Indices

	14-Aug	13-Aug	Move
All Ordinaries	5 039.0	4 995.9	0.86%
S&P/ASX 200	4 981.1	4 951.6	0.60%
ASX 200 Industrial	6 734.9	6 821.5	-1.27%
ASX 200 Resource	5 576.4	5 312.0	4.98%
DJ Industrial (US)	11 615.9	11 533.0	0.72%
NASDAQ (US)	2 453.7	2 428.6	1.03%
Hang Seng (HK)	21 392.7	21 293.3	0.47%
FTSE 100 (UK)	5 497.4	5 448.6	0.90%
Nikkei (Japan)	12 956.8	13 023.0	-0.51%
Shanghai (China)	2 437.1	2 446.3	-0.38%

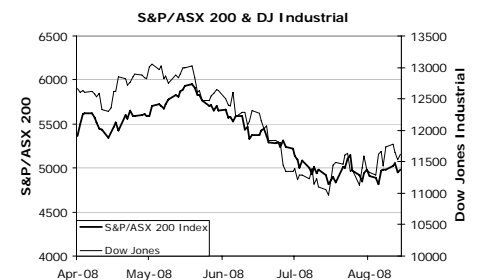
Rates and Currencies

	14-Aug	13-Aug	Move
US 10 Year Bond	3.89	3.94	-1.20%
Aust 10 Year Bond	5.90	5.86	0.80%
A\$ (TWI)	68.00	67.40	0.89%
A\$:Euro	0.5880	0.5865	0.26%
A\$:US\$	0.8722	0.8745	-0.27%

Commodities

	14-Aug	13-Aug	Move
Gold Comex \$/oz	810.7	827.6	-2.04%
Oil Nymex \$/bbl	115.2	116.0	-0.73%
Copper LME \$/t	7 442.0	7 479.0	-0.49%
Zinc LME \$/t	1 649.0	1 649.5	-0.03%
Aluminium LME \$/t	2 724.8	2 756.5	-1.15%
Nickel LME \$/t	19 088.0	19 500.0	-2.11%

S&P / ASX 200 & DJ Industrials



Today's Events

Ex Dividend: ALF BKN
 Ex Interest: ADBHD CTKHA CTKHB HYPHA
 IMEHD IMEHE IMEHF KFWHI POGHA
 RMFHA RMFHB RMFHC
 Aust Economic Releases: None today.
 Company Announcements: FY result for NCK & SAI.

David Jones (DJS)

Buy

Key Points

- FY08 total sales were up 5.8% on the pcp.
- Same store sales rose 4.5%.
- FY08 profit guidance raised to between \$135m and \$137m.
- DJS says the first 3 quarters of FY09 will see 'flat to negative' same store sales growth.

YE 31 Jul	2007(A)	2008(F)	2009(F)
NPAT (\$M)	109.5	136.9	152.1
PE (X)	17.5	14.2	12.8
Yield (%)	5.4	5.9	6.4
Franking			100%
Target (12 mth) (\$ps)			\$4.90

DJS operates as a department store throughout Australia.

Analyst: GPF

Recommendation @ \$4.04

FY08 Sales. Profit Guidance Upgraded.

DJS reported 4Q08 sales of \$509.1m, virtually in line with the pcp. That brought FY08 total sales to \$2,098m, up 5.8% on FY07. On a same store basis, FY08 sales were 4.5% ahead of last year.

DJS has raised its profit guidance for FY08 from \$130.5m-\$132.5m to \$135m-\$137m.

The company's key statement in regard to the sales outlook is:

- Same store sales growth in FY09 and FY10 will be 0-1% per annum and will include two to three quarters of flat to negative growth.

On the basis of work provided by Access Economics, DJS now believes those 3 quarters of 'flat to negative' growth will occur from 1Q09 through to 3Q09. Access Economics observed that consumer psychology shows that 'shoppers lack confidence, not money' and that higher interest rates and petrol prices were the major factors.

DJS has been planning its sales performance around this scenario and reported that inventories were down by 8% compared to FY07. CEO Mark McInnes commented that clearance activity had taken advantage of colder weather and the school holidays. He added that the short term strategy was to manage the cyclical downturn through inventory and cost management.

Even with sales struggling in the current environment, DJS is confident it can deliver 5-10% net profit growth. Its management of costs has been the key to delivering this growth and has focused mainly on the 'back of house' issues rather than customer-facing elements – other than managing the hours of staff required in each category.

DJS is already looking ahead to when the economy improves and is well underway with refurbishments of its high value stores (such as Bourke St in Melbourne, Elizabeth St and Market St in Sydney, Bondi Junction and Robina). The new Doncaster store in Melbourne will open in October and a further store on the Sunshine Coast has previously been announced.

In addition, a greater focus on high margin categories in these new and refurbished stores will support operating profit growth. DJS has completed negotiations with its 2,700 vendors and the benefits of those agreements will begin to flow from FY09.

DJS transferred its store card receivables to American Express on 1 August in preparation for the pre-Christmas launch of the new David Jones American Express card.

We have increased our FY08e forecast by 3.1% in line with the company guidance. Our target price remains \$4.90 per share.

Bradken (BKN)

Accumulate

Key Points

- Revenues up 19% to \$763m, EBITDA up 24% to \$127m, NPAT up 18% to \$58m and EPS up 18% to 54.7cps.
- Potential to exceed forecasts based on exposure to the mining sector, Chinese operations and recent Americast acquisition boost earnings.
- PE premium of 25% points to a period of share price consolidation.

YE Jun	2008	2009	2010
NPAT (\$M)	60.7	89.7	107.8
PE (X)	17.3	13.4	11.4
Yield (%)	3.5	3.8	4.2
Franking	100	100	100

BKN is a supplier of differentiated consumable products to the resources and freight rail industries.

Analyst: CB

Recommendation @ \$9.91

BKN supplies consumable products, capital equipment and associated maintenance and refurbishment services to the resources and freight rail industries supported by 20 manufacturing facilities across Australia, NZ, the UK and China. For the 12 months ended 30 June 2008, BKN reported revenues up 19% to \$763m, EBITDA up 24% to \$127m, NPAT up 18% to \$58m and EPS up 18% to 54.7cps. An increased final dividend of 22c ff was declared (17c pcp) taking the full year dividend to 37c ff (31.5 pcp), up 17%.

EBITDA growth was due to continued improvement in operating margins of its foundry businesses supplying consumables to the resources sector offsetting the adverse change in revenue mix (ie increased contribution from Rail Division) and the problem contract in Power and Cement Division, which pole axed its 1h08 earnings. The improvement in operating margins in 2H-08 reflected BKN exercising its pricing strength, changes in product mix and cost control. The cost control is reflected in BKN increasing its overheads by \$2m in 2H-08 despite the 16% growth in revenue.

BKN's earnings were 5% ahead of our forecast due to margin expansion through the exercise of pricing power, cost control and the increased contribution from Rail Division. These factors overcame the 1H08 earnings setback experienced by the Power and Cement Division. BKN's net debt increased \$54m since Jun-07 due in part to the acquisition of Cast Metal Services (\$17m plus debt), a \$7m increase in capex spend to \$48m, a \$24m increase in inventory and a \$28m increase in receivables. Gearing (net debt/EBITDA) was 1.96x at Jun-08 and below the company's target 2.5x. Gearing post the acquisition of AmeriCast this month has risen to 2.2x.

BKN is trading at a PE premium of 25% and may be entering a period of share price consolidation. The company has the potential to exceed near-term profits forecasts, which assume 20% EPS growth due to growth in mining activity, the immaturity of BKN's investment in China and its ability to continue to make accretive bolt-on acquisitions. Further efficiency gains from BKN's \$50m capex spend are expected increase both capacity and efficiency. The acquisition of Americast looms large as a catalyst for profit growth as a strategic review is completed early in 2009.

Specialty Fashion Group (SFH)

Hold

Key Points

- Revenues up 3% to \$538m, EBITDA up 7% to \$50.8m, and NPAT down 8% to \$23m.
- With minimal revenue growth in FY09, momentum will come from gross margin which will be influenced by sourcing of product from low cost jurisdictions and IT system efficiencies. Costs will again constitute a brake on how this feeds down to the EBIT line.
- PE discount of 40% seems overdone given leverage to an economic recovery.

YE Jun	2008	2009	2010
NPAT (\$M)	24.6	25.0	28.1
PE (X)	6.4	6.2	5.6
Yield (%)	12.2	12.2	13.4
Franking	100	100	100

SFH operates in Australia and New Zealand retail market, specialising in women's clothing.

Analyst: LP

Recommendation @ \$0.82

For the 12 months ended 30 June 2008, SFH reported revenues up 3% to \$538m, EBITDA up 7% to \$50.8m, and NPAT down 8% to \$23m. A final dividend of 2 cps ff and was declared taking the full year dividend to 10 cps ff (vs. 16 cps ff in the pcp, which included a 3.5cps "special" dividend).

NPAT was below our estimate (of \$24.6m) due to higher than expected depreciation charges and funding costs related to Project Revitalise, a business improvement program that encompasses the brand repositioning strategy, store refurbishments and an IT upgrade to improve inventory management and productivity. EBITDA was a tale of two halves with H1 posting an 8% revenue increase and a 366bp increase in gross margin to 56.3%. H2 saw sales decline due to deteriorating retail environment.

Revenue growth was provided by the rollout program which saw a net opening of 29 outlets (on a base of 784) complemented by the annualised contribution of the 70 sites secured in the prior period. Collectively, these influences offset the 2.5% decline in comp store sales (vs. negative 3% in pcp). The increase in gross margin was afforded by the brand repositioning strategy, an increase in direct sourcing from Asia, and improved inventory management. Net debt was \$38m as at Jun-08. Capex in FY09 is expected to continue at 2x depreciation and can be comfortably accommodated.

Comp store sales are likely to remain in the very low single digits while a rollout of 35 stores will not provide much of an overlay. This leaves again the gross margin to boost FY09 results. This will be afforded by sourcing of product from still lower cost jurisdictions and driving lower markdowns from the recently installed IT system. Costs will again constitute a brake on how this feeds down to the EBIT line. The benefits of a stronger A\$ has been denied due to an ill-fated hedging policy which saw the group take cover out for a period of 2 years at US76c. With 12 months cover still to go, this is an FY 10 story but if the A\$ retains its present position, then the gross margin would be supported.

The retailing sector is out of investor favour and presents a mixed outlook at best. SFH is trading at a PE discount of 40% to the Small Industrials index for FY09. With leverage to a recovery when it comes, and an attractive dividend yield, it is not hard to make a case.

Credit Corp Group (CCP)

Buy

Key Points

- Revenues up 11% to \$150m, EBITDA down 2% to \$88m, and NPAT down 46% to \$10.4m.
- Productivity (as measured by revenue per direct collector hour) is the key variable in reaching guidance for FY 09.
- PE discount of 61% and an NTA of \$1.45 provide attractive investment metrics.

YE Jun	2008	2009	2010
NPAT (\$M)	11.3	14.5	19.3
PE (X)	3.3	2.6	1.9
Yield (%)	4.7	9.3	11.6
Franking	100	100	100

CCP is a specialist purchaser and manager of debt ledgers, acquiring them from a variety of financial institutions and other credit providers.

Analyst: SB

Recommendation @ \$0.86

For the 12 months ended 30 June 2008, debt ledger purchasing company CCP reported revenues up 11% to \$150m, EBITDA down 2% to \$88m, and NPAT down 46% to \$10.4m. Final dividend of 2c (ff) for a full year of 4cps (vs 24c eps on a pre-significant items basis). The SI of -\$6m pre tax primarily related to writedown of goodwill and fittings, provisions taken against leases no longer required, and loan establishment costs.

CCP intends to buy \$50m of books in FY 09 (vs \$80m in FY 08) and has provided guidance of EBITDA of \$85 - \$89m (\$88m in FY 08) and NPAT \$8 - \$10m (\$10.4m in FY 08). Productivity is the key variable in reaching guidance for FY 09. This has been progressively building over the past six months (as measured by revenue per direct collector hour) from \$179 in Feb-08 to an underlying \$216 in June. The guidance is predicated on an outcome of \$210 - \$220.

There has also been an increase in the number of accounts on repayment schedules with 54% of revenues coming from such plans. The book was otherwise valued using a discount rate of 15% applied to the (after cost) expected recoveries over a 6 year timeline. Gross recovery of 2.3x cost over the 6 year life of a book is targeted with the group running ahead of the curve on recently purchased books.

Book purchasing fell back to \$80m vs \$124m pcp. Debt at Jun-08 was \$125m against a ledger carrying value of \$203m. The interest margin is 3.35% over bank bill swap. Cost savings of \$6m were reached by reducing support function headcount. FY 09 presents as a consolidation year with higher interest costs and flat NPAT. Productivity should be up on FY 08, the cost base has been reduced, and the older components of the book are being addressed to now constitute more than 70% of recoveries.

CCP is trading at a PE discount of 61% to the Small Industrials index for and has an NTA of \$1.45 providing plenty of cover even if the book were valued at a rate well ahead of 15%. Such is the disparity with asset backing, the undeniably attractive conventional investment metrics (notwithstanding the vagaries associated with the calculation of profit), and the signs that the operations are building back, that we have taken the recommendation to a BUY.

Aevum (AVE)

Accumulate

Key Points

- NPAT up 24% to \$28.5m, EPS up 4.0% to 24.1¢, and NTA up 20% to \$2.17.
- During FY08, AVE added 5 villages to its Retirement Village portfolio, which increased unit numbers to 2,220 units.
- Continues to trade well below its stated NTA of \$2.19 but value won't be realised until the redevelopment program gains greater traction.

YE Jun	2008	2009	2010
NPAT (\$M)	27.9	33.0	38.7
PE (X)	7.2	6.4	5.4
Yield (%)	5.9	6.5	7.4
Franking	-	-	-
Target (12 mth)			\$2.32

AVE is involved in the ownership, management and operation of retirement living and aged care facilities.

Analyst: CB

Recommendation @ \$1.70

For the 12 months ended 30 June 2008, retirement accommodation operator AVE reported NPAT up 24% to \$28.5m, EPS up 4.0% to 24.1¢, and NTA up 20% to \$2.17. An increased 4.5c unfranked final dividend (4c pcp) was declared.

The Retirement Division again was the driver of AVE's growth with a net \$35m revaluation of its Retirement Village portfolio, based on the undertaking of internal and external valuation. During FY08, AVE added 5 villages to its Retirement Village portfolio, which increased unit numbers by 520 units versus the 1,590 unit portfolio at Jun-07 strengthening AVE's presence in the Central Coast/Sydney (NSW) and Perth markets. The acquired villages also possess development opportunities for at least a further 140 units.

The Development Division saw expansion at Waratah (16 villas) and Golden Ponds (8 villas) completed with Cardinal Freeman (36 units) due Sep-08, each generating profits and cashflow. AVE report they have \$22m in reservations and presales. AVE is preparing Development Applications for a further 11 villages which will add a further 700 units.

AVE continues to trade well below its stated NTA of \$2.19 and well short of the implied value if it relaxed the "conservative" input assumptions it adopts in its valuation of its property portfolio and the redevelopment potential within the portfolio was booked. We estimate AVE's underlying NTA could total near \$2.80 per share. AVE declined to provide guidance due to the prevailing "abnormal market conditions". That value won't be realised until the redevelopment program gains greater traction. The market has become somewhat jaundiced by the story as the key elements were identified at AVE's IPO in late-04. The development delays are largely due to third party procrastination but AVE is reporting significant progress. Resolution of the ownership of Babcock & Brown Communities will assist given that it will give greater definition to property values and trigger the removal of BNB's 14% shareholding in AVE, which is proving to be an overhang.

ASG Group (ASZ)

Hold

Key Points

- Revenues up 46% to \$111m, EBITDA up 46% to \$16.3m, NPAT up 28% to \$9.0m and EPS up 22% to 7.1 cents.
- Recent contract wins amounting to \$100m underpin FY09 revenues.
- A robust capex cycle led by banks and utilities are yet to stand possible budgetary cuts in the light of deteriorating conditions.

YE Jun	2008	2009	2010
NPAT (\$M)	9.3	12.0	13.8
PE (X)	13.8	11.0	9.8
Yield (%)	5.3	6.3	6.8
Franking	100	100	100

Analyst: SB

Recommendation @ \$0.95

For the 12 months ended 30 June 2008, IT services provider ASZ reported revenues up 46% to \$111m, EBITDA up 46% to \$16.3m, NPAT up 28% to \$9.0m and EPS up 22% to 7.1 cents. A (final) dividend of 3c was declared (pcp 2.5c). Revenues were impacted by a full 12 month contribution of Vindaloo (acq Nov-06 for \$7.2m) but, more particularly, the success the group has had in bidding for outsource contracts (\$100m won in the Jun-08 half) which will all but guarantee further revenue growth in FY 09

The shareprice has been heavily sold-off over the past 8 months much in line with that of OKN and SMX. This was a little surprising really, given that it is less tied into a capex cycle than its bigger peers. If the latter two are to be believed, the capex cycle is alive and well with banks and utilities planning major system upgrades. These are yet to stand possible budgetary cuts in the light of deteriorating conditions, but the thinking is that at least this part of the market will hold up. The issue is whether the rest of the client base will be as robust as cash flows are pinched. ASZ should stand a little aloof from this debate: once IT service provision is outsourced it is unlikely to be brought back in house, and in the meantime the company is able to win still further contracts. While intuitively this group should weather the storm better than most, we have not seen it stand the test of time; while strong growth itself carries its own risks (and costs; if the cash drain associated with 'Capitalised Costs' and 'Development Costs' is anything to go by).

The PE rating, at around that of the market, can be justified by the discernible momentum, the annuity like nature of the work (the contracts tend to be of medium-term duration), and the solid balance sheet. Better insight is needed as to the capability of management in managing the growth, the nature of the costs being capitalised on the balance sheet and how this industry performs in what is likely to be an increasingly difficult environment.

CSL (CSL)

Hold

Key Points

- Completes \$1.75b placement at \$36.75 ps.
- Maintain Hold with post acquisition price target of \$44 ps.

YE June	2008(F)	2009(F)	2010(F)
Profit (\$m)	702	887	1093
PE (x)	28.5	24.9	20.6
Yield (%)	1.2	1.4	1.7
Franking (%)	50	25	25
Target Price			\$44.00

Note: Forecasts are post placement, but before Talecris acquisition

A developer, manufacturer & distributor of human plasma, vaccine, pharmaceutical & diagnostic products.

Analyst: BCM

Recommendation @ \$37.65

Completes Placement

CSL completed its \$1.75b placement (47.5m shares) at \$36.75 ps, mid-range, signalling good institutional demand. This will be followed by a share purchase plan at \$36.75, ex entitlement 19/8, expected to raise between \$64m and \$96m.

Our forecasts have been updated for the placement, which will eliminate debt & create net cash of around \$0.8m before SPP, creating a minor reduction in EPS.

As the acquisition of Talecris is subject to regulatory approval, which is not certain, we have not incorporated these into our forecasts. If regulatory approval is not received, funds raised will be refunded, with CSL paying a \$75m break fee (14¢ ps).

However, assuming EBIT of US\$285m, US\$325m & US\$351m for Talecris in FY 09, FY10 & FY 11, we believe this would increase EPS for CSL by 4%, 10% & 12%.

We have increased our Price Target from \$39 to \$44 on the assumption the acquisition meets regulatory approval & proceeds.

Comment – We believe the Talecris acquisition raises CSL to a new level, as important as the prior ZLB & Aventis Behring acquisitions. This view is based on the profit impact, operational improvements & the strong market position, being a close No 2 globally (market share of 32%) to Baxter(39%), but the no.1 in the key US IVIG market (48%).

Futuris (FCL)

Accumulate

Key Points

- FY Profit fall of 20% in line with recent guidance. Reaffirms FY 09 guidance.
- Strong growth in Elders to record levels a major positive.
- Needs to complete divestment & invest in core businesses for a sustained recovery.

YE Jun	2008(A)	2009(F)	2010(F)
Profit (\$m)	84.2	88.4	97.4
PE (x)	11.2	11.0	10.0
Yield (%)	7.6	7.6	7.6
Franking (%)	100	100	100
Target Price:			\$1.50

A diversified group mainly across a spread of rural services, telecommunications, timber processing & automotive components

Analyst: BCM

Recommendation @ \$1.30

Full Year Result

As expected, following recent guidance, FCL reported a Net Underlying Profit -21% to \$84.2m & EPS -25% to 11.1¢, on Revenue+5% to \$3.4b. Fin Div Flat at 5.5¢, FY Div flat at 9.5¢ FF. The reported Profit Result -65% to \$36.4m include one-off of -\$47.8m, mainly termination of the OPEL contract (-\$3.7m), divestment of some automotive (-\$15.8m) & Elders write-downs (-\$25.4m).

The underlying profit fall was mainly due sale of property division (\$21.5m in FY 07), a \$9.3m reduction from Aust Ag & a \$16.9m increase in interest. On the positive side Elders (adjusting for Aust Ag), EBIT increased by 23% to \$60.7m, with a 43% increase from the distribution, especially fertiliser & grain, partly offset by weak livestock & wool sales. Automotive grew strongly (+175%) with improvement in China, giving a good base for divestment.

FCL reaffirmed previous guidance of Net Profit of between \$85m and \$90m for FY 09 weighted to 2H, before FEA equity earnings adjustment, subject to normal seasonal conditions & MIS sales.

Outlook - FCL reaffirmed previous guidance for Net Profit of between \$85m and \$90m for FY 09 weighted to 2H, subject to normal seasonal conditions & MIS sales.

We expect divestment of assets, including Amcom, automotive & Aust Ag over next 12 mths, but probably not till after appointment of new MD. Non-core assets are around \$500m, comprise a 50% of market capitalisation and 40% of net assets, but don't contribute significantly to profit.

Our rationale for investment in FCL is the current demand and expected growth in soft commodities, driven by the 4 Fs (Food, Feed, Fuel & Fibre), which will benefit its client base & opens opportunities for further expansion & the potential from the changed strategy, supported by the valuation.

However, given the time horizons & limitations above, we see FCL more as a longer term opportunity. Accordingly we have maintained our Accumulate & \$1.50 price target.

Stockland (SGP)

Outperform Sector

Key Point

- FY08 Result.

YE Dec	2007(A)	2008(F)	2009(F)
DPS (cps)	44.3	46.5	46.5
Yield (%)	9.5	9.9	9.9
Target (\$ps)			\$7.30

SGP is a global property development and investment management group, founded in 1952.

Analyst: SEM

Recommendation @ \$4.68

Solid result, Strong Financials

For the year to June 2008 SGP reported strong profit growth, but a cautious outlook statement for FY09.

FY08, normalised profit increased by 10.3% to \$674M. The final distribution was 23.9 cps (record date 30 June, payment date 29 August). The full year distribution of 46.5 cps, 5% higher than FY07. SGP will pay out 100% of trust earnings (a requirement under Tax legislation), and 90% of company tax. The components of the full year distribution were trust distribution 45.5 cps, and company dividend 1.0 cps.

Gearing remains very low, and at 28.9% provides some funding flexibility ahead. SGP sold \$787m of properties, which helped to fund development activity during the year.

Outlook: SGP is cautious about the current year (FY09), indicating flat profit. The group is more optimistic about FY10, where profit growth is expected.

For further details please refer to the SHAW report dated 14 June, 2008.

Leighton (LEI)

Buy

Key Points

- Exceeds consensus, boosted by a strong resources & infrastructure sector.
- Undertakes \$700m rights issue to repay debt & fund equipment purchases.
- Further strong growth underpinned by an expanding order book.

Analyst: BCM

Recommendation @ \$42.36

Full Year result

Exceeded expectations, after adjustments of -\$15m, with Profit & EPS +35% to \$608m & 219¢ ps, on Revenue +23% to \$14.5b, Fin Div +20¢ to 85¢, FY Div +35¢ to 145¢ FF.

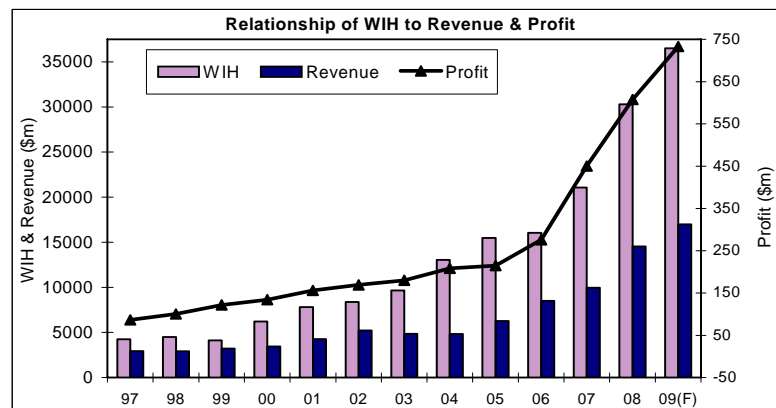
YE Jun	2008(A)	2009(F)	2010(F)
Profit (\$m)	608	744	894
PE (x)	19.4	16.8	14.1
Yield (%)	3.4	4.0	4.2
Franking (%)	100	100	100
Target Price:			\$49.50

Region	EBIT			Margin		Work In Hand			WIH:Revenue	
	2007	2008	% Ch	2007	2008	2007	2008	% Ch	2007	2008
Australia	516	763	48.0	5.0	6.2	17452	22791	30.6	1.7	1.8
Asia	65	97	50.4	3.9	4.5	3633	7512	106.8	2.2	3.5
Total	580	860	48.2	4.9	5.9	21085	30303	43.7	1.8	2.1

The result was due to strong profit growth across all sectors in both Australia & Asia, particularly the Gulf Region, with inclusion of 9 mths from Al Habtoor (LEI 45%).

Civil engineering, project management, contract mining & property development in Australia, Asia & Gulf region.

WIH has also grown strongly, particularly the Gulf region & India, currently \$34b with further \$3b in process & over \$5b of bid opportunities. Also an additional \$5.6b beyond 5 years not included.



Rights Issue - LEI has announced a \$700m 1:14 Rights Issue at \$35.35 ps Ex Div under RAPIDS format, resulting in the issue of 19.9m shares. The proceeds will be used to redeem \$200m in notes in 12/08 & for part of the equipment purchases over the next 6 months. Hochtief will subscribe for its 55% entitlement & will sub-underwrite \$75m of any Retail shortfall.

While LEI's current gearing doesn't necessarily indicate a need for capital raising, LEI considers this a prudent step, given it has over \$3.6b in bonding, substantial bid costs & capex requirement, as well as giving it flexibility for expansion or acquisitions.

Outlook - LEI has provided guidance of revenue growth of 15% & 10% in FY 09 & 10, with profit growth of over 15% in FY 09. As LEI already has committed revenue of 90% of forecast FY 09 revenue (70% for FY 08 at 8/07), we believe this is conservative, especially as LEI has "more opportunities than it can sensibly respond to"

LEI also signalled further expansion in Middle East into Kuwait & into facilities management, & looking at entering contract mining in Mongolia & is considering Russia & North Africa. Also looking at bolt-on acquisitions in residential development & defence.

Recommendation - We maintain our positive view & BUY on LEI, due to the size of the order book, abundant growth opportunities, its strong market position & Balance Sheet, & an excellent performance record, with Total Shareholder Return of 44% pa from FY 04 – 08 & a Return on Equity of 41% for FY 08. The major risk is execution, given the larger & more diverse order book & the shortage of physical & human resources.

ING Industrial Fund (IIF)

Outperform Sector

Key Point

- Asset Revaluations.

Analyst: SEM

Recommendation @ \$1.40

YE Jun	2007(A)	2008(A)	2009(F)
DPS (cps)	16.7	17.9	18.5
Yield (%)	11.9	12.8	13.2
Target (\$ps)			\$2.90

Valuations Down by 10%

IIF has revalued its property portfolio as at June 30.

In summary, the Australian portfolio (55% of the total) was valued down by 2.8%, the European portfolio (15%) was valued down by 5.5%, and the Canadian portfolio (30%) was valued down by about 10%. In total, the IIF property portfolio was valued down by 10%.

The negative impact of higher cap (valuation) discount rates was offset by higher lease rates in Australia, however European lease rates have not moved, and the Canadian market was downgraded in anticipation of worse occupancy levels ahead.

The target price is exposed to any reduction in distribution policy announced by IIF.

At this stage we have not changed our distribution forecasts, however clearly NTA will fall by more than 10%. Gearing is 38%, so NTA could fall by 15% to 200 cps.

IIF invests in industrial properties in key global markets.

ING Office Fund (IOF)

Sector Perform

Key Point

- Asset revaluations.

Analyst: SEM

Recommendation @ \$1.36

YE Jun	2007(A)	2008(A)	2009(F)
DPS (cps)	11.6	10.8	11.0
Yield (%)	7.4	6.8	7.0
Target (\$ps)			\$1.50

Valuations Up by 1%

IOF has revalued its property portfolio. 55% were externally valued, and the balance 45% was valued by directors based on the results of the independent sample.

In summary, the value of the property portfolio was upgraded by 1%, with strong lease rates in some markets offsetting the impact of higher cap (valuation discount) rates. IOF expects NTA to increase marginally from both the revaluations, and the currency hedging profile in place.

We have not changed our distribution outlook.

ASX Ltd (ASX)

Accumulate

Key Points

- FY08 Result.

- Impacted by lower trading volumes, and subdued outlook for FY09 at this early stage.

YE 30 Jun	2008(A)	2009(F)	2010(F)
NPAT (\$M)	365.9	368.0	445.5
PE (X)	16.7	16.6	13.7
Yield (%)	5.4	5.4	6.4
Franking			100%
Target (\$ps)			\$38.00

ASX provides stock exchange and ancillary services in Australia.

Analyst: SEM

Recommendation @ \$35.66

Volatile market; Preparing for Better Times

FY08 profit increased by 16.9% to \$365.9M. Final dividend increased by 2.6% to 93.9 cps (record date 26 August, payment date 17 September), with full year dividend up 17.5% to 192.4 cps. ASX outlook statement: "remain cautiously optimistic about the prospects for ASX over the medium term"

Revenue by segment:

Listing (20% of total) +2.3%. 236 new stocks, but secondary listing fees (placements, rights issues, etc) down 20.6%

Cash Market ("equities", 31% of total) up 21.2%, in line with the 22% growth in value of equities traded.

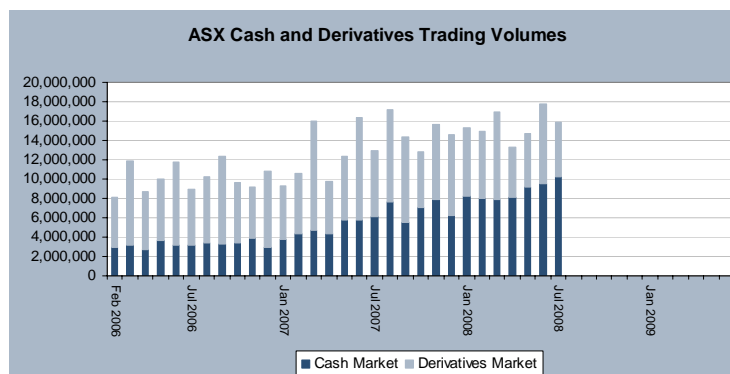
Derivatives ("SFE", 27% of total) up 7.8%, better than the flat volume indicated.

Information services (11% of total) up 10.8%.

The result was just below our expectation, but with the HY up 50% and trading activity sharply lower in H2 forecasting H2 accurately was going to be difficult.

It is difficult to forecast the trading volume outlook for the FY. We may at this stage be conservative with our forecast, basically expecting the H2 08 to be continued through FY09.

The following chart shows historic monthly trading volumes for cash market and derivatives, in combination almost 60% of group revenue.



We are currently forecasting 5% revenue growth with the stronger segments being Cash Market, Derivatives and Information Services. Depending on how trading activity recovers through the year, we are likely to upgrade our assumptions on Cash Market revenue growth.

ASX paid out 90% of earnings, in line with previous company commentary and our forecasts.

Investment Strategy

Key Points

- US Pending home Sales Index.
- Some sign of stability?
- Source: National Association of Realtors.

Analyst: SEM

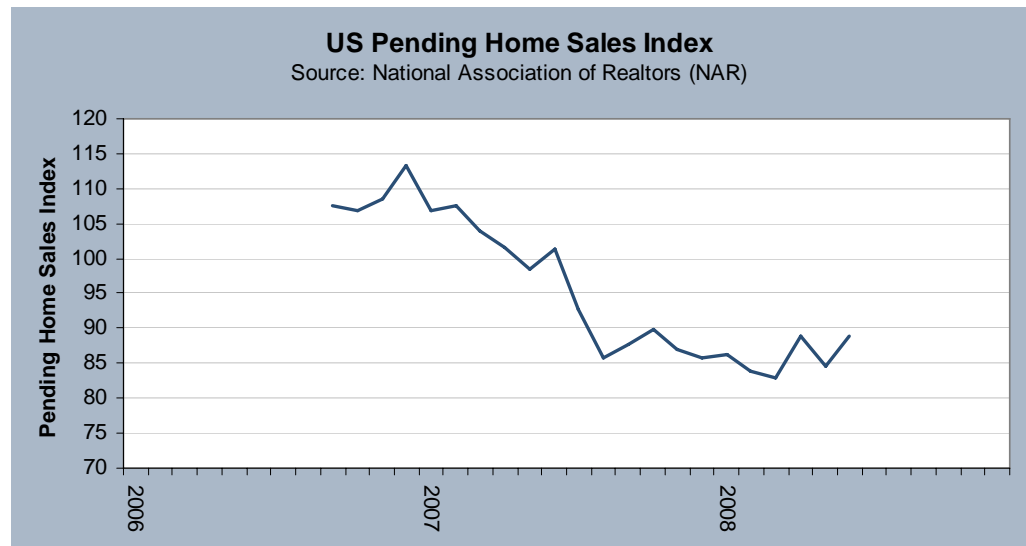
Some improvement is projected for existing-home sales in the months ahead, with broader gains seen by the fourth quarter as buyers take advantage of new provisions provided through the recently passed housing stimulus bill, according to the latest forecast by the National Association of Realtors®.

The Pending Home Sales Index rose 5.3 percent to 89 in June.

The rise in pending home sales was broad-based with all four regions showing gains. With a tax credit now available to first-time home buyers, increases in home sales could be sustained with the momentum carrying into 2009.

The pickup in contract signings appears to be broadening with many affordable markets in mid-America now showing year-over-year gains. With roughly 2.5 million first-time home buyers taking advantage of the temporary tax credit, existing-home sales are likely to rise 7.0 percent to 5.51 million in 2009 from a expected total of 5.15 million this year, according to NAR.

In addition, rising commodity prices and higher construction costs have resulted in a very unusual market today with existing-home prices being less than replacement building costs in some areas. Home prices are projected to increase 3 to 6 percent in 2009.



Is this a sign of stability in the US housing market?

Recent Reports Published

Date	Company	Title
24-July	Emissions Trading Scheme & its Impact on Stocks	
28-July	Orica (ORI)	
29-July	Sundance Resources (SDL)	World class iron ore project
31-July	Alumina (AWC)	HY result
01-Aug	Austar United (AUN)	HY result
01-Aug	Alesco Corp (ALS)	FY result
05-Aug	Argo Investments (ARG)	FY result
06-Aug	Seven Network (SEV)	FY result
07-Aug	Retail Sector	ACCC Grocery Inquiry
07-Aug	AXA Asia Pacific Holdgs (AXA)	HY result
08-Aug	Corporate Express Aust (CXP)	HY result
08-Aug	News Corporation (NWS)	FY result
11-Aug	Bunnings Warehouse (BWP)	FY result
12-Aug	Keybridge Capital (KBC)	FY result
12-Aug	Navitas (NVT)	FY result
12-Aug	Aust Foundation (AFI)	FY result
12-Aug	Milton Corp (MLT)	FY result
12-Aug	Djerriwarrh Investments (DJW)	FY result
12-Aug	Tabcorp (TAH)	FY result
13-Aug	APN News & Media (APN)	HY result
13-Aug	Crane Group (CRG)	FY result
13-Aug	Bendigo & Adelaide Bnk (BEN)	FY result
13-Aug	Listed Investment Co's	
14-Aug	BHP Billiton & RIO Tinto	Diversified Update #5

Definitions

ST	Short Term (<6months)	FF	Fully Franked
LT	Long Term (>6months)	PF	Partially Franked
PCP	Previous Corresponding Period	EBIT	Earnings Before Interest and Tax
MOM	Month on Month	DY	Dividend Yield
UF	Unfranked	PE	Price Earnings Ratio
YOY	Year on Year	QOQ	Quarter on Quarter
PT	Pre Tax	CY	Calendar Year
		FY	Full or Fiscal Year

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GPF	Greg Fraser	PRP	Paul Pickering
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LM	Luke Maffei	CB	Clarke Beaton
GM	Geoff Muers	LP	Lisa Perl

Recommendations

Buy	Can be added to the portfolio immediately
Accumulate	Buy, but we believe time to finesse entry
Hold	Fair value at current price
Lighten	Sell, but we believe time to finesse exit
Sell	Divest as fundamentally overpriced, or risk profile outweighs potential reward
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation
Out / Under Perform Sector	The security is expected to Outperform or Underperform its sector by 10% over the next 12 months

Movement of Australian Stocks Listed as ADR on NYSE

For Overnight Trades Before Australia Market Open On

Friday, 15 August 2008

Market:	ADR on NYSE	ExRate A\$: US\$			0.8697
Company	Close ADR Price	ADR Move	ADR Move	Shares Per ADR	A\$ Equiv
Alumina Ltd	16.01	-1.18	-7.4%	4	\$4.60
BHP Billiton	66.4	-0.2	-0.3%	2	\$38.17
James Hardie	20.76	0.1	0.5%	5	\$4.77
Lihir Gold	19.38	-1.15	-5.9%	10	\$2.23
Rio Tinto	48.528	1.42	2.9%	1	\$104.20
Rio Tinto	353	-9.72	-2.8%	4	\$101.47
Santos	60.92	-1.08	-1.8%	4	\$17.51
Westpac	99.31	-5.19	-5.2%	5	\$22.84

Notes

- ADR price moves are from previous ADR close
- Source: IRESS Technology. SHAW does not warrant the accuracy of this information

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Morning Comments



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