

2008 Australian Market Strategy

: upside limited , volatility unlimited

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Agenda

- Global Investment Environment
- Australian Market Outlook
- Share Market Strategy
- Major Investment Themes
- Favoured Stocks

Global Investment Environment

- Is it the same boom/burst cycle or is it different this time?
- Positives : growth, interest rates, valuation.
- Negatives : inflation, liquidity, sentiment.
- Global Economic Forecast
- Australian Economic Forecast

Major Market Events

- **World economy dominated by two major themes**
 - **US sub prime crisis**
 - **China's continuing strong growth**
- **Very strong equity markets fuelled by strong earning results, M & A by private equity funds & Buy-back by Companies**
- **Interest rate rises in Australia backed by CPI influences**
 - **Record high prices for commodities**
 - **Increasing labour shortage**
- **Petrol price keep making new highs**
- **Gold price broke US\$1000 before correction back to US\$870**
- **Australian Labour Government voted in**
- **High AUD which reduced profits for exporters and hold import prices down**

A Typical Boom/Burst Cycle

- After making new highs in most major stock markets in Oct/Nov 2007, the financial markets finally woke up to the fact that the virtuous circle of easy credit and rising asset prices leading to increased consumption and incomes could not go on indefinitely
- The reversal of this liquidity cycle caused by the near collapse of Bear Stern caused a sharp drop in the stock market all over the world
- US S&P 500 down 20.2% from peak
- US Dow Jones down 18.1% from peak
- US Nasdaq down 24.7% from peak
- Australia ASX200 down 26.4% from peak
- Hong Kong Hang Seng down 35.6% from peak
- Shanghai Composite down 51% from peak

Is it different this time?

- There is a view out there arguing that it was not a bear market, just a very big correction
- Citing the stronger for longer thesis for resources
- And a new paradigm theory of China (or BRIC) decoupling from the world economy

US Economic Worries

- **Slowing economic growth**
 - **Sub prime fall out and risks of further losses to the US financial sector**
 - **US Housing is contributing to poor economic growth and reducing consumer spending**
- **Inflation pressures**
 - **Record oil prices**
 - **Weak USD is increasing the costs of imported goods**
 - **Chinese import prices are rising due to their own inflation pressures**
- **Exchange rate pressures**
 - **Falling interest rates while Aus rates are rising**
 - **Increasing inflation devalues the USD**

US Dow Jones – Have we seen the worse in US sub prime credit crunch ?



Global market valuations after the sell-off

- Global sharemarket valuations attractive : PER approx 13X (long term average 17X)
- Expectation of a slower economic and corporate profit growth fully priced in
- Very strong financial health of global non-financial corporate sector
- Net debt to equity only 41% and interest cover a high 15x

Australian market valuations after the sell-off

- PER 13.5x – based on EPS growth forecasts of 9.0% and 11.9% in fiscal 2008 and 2009 respectively
- 2008 growth could be lower (6% to 7%) however investors seem to have discounted this news already
- Equities are very reasonably priced relative to bond yields
- Ratios at current levels point to good equity performance (provided interest rate rise not excessive)

Australian Share Market Outlook

- Short term – Australia is unlikely to exhibit a strong and sustainable upwards move
- Volatile base building more likely in coming months
- In recognition of the following issues:
 - Clarity about the length, depth of the global economics slowdown especially in the US
 - Extent of profit downgrades
 - Losses on global debt securities
 - Questions about the health of banking and financial sectors
 - Concerns about this tight credit conditions will have on most major economy
 - Worry about this high inflation and slow growth will mean stagflation for the rest of the world

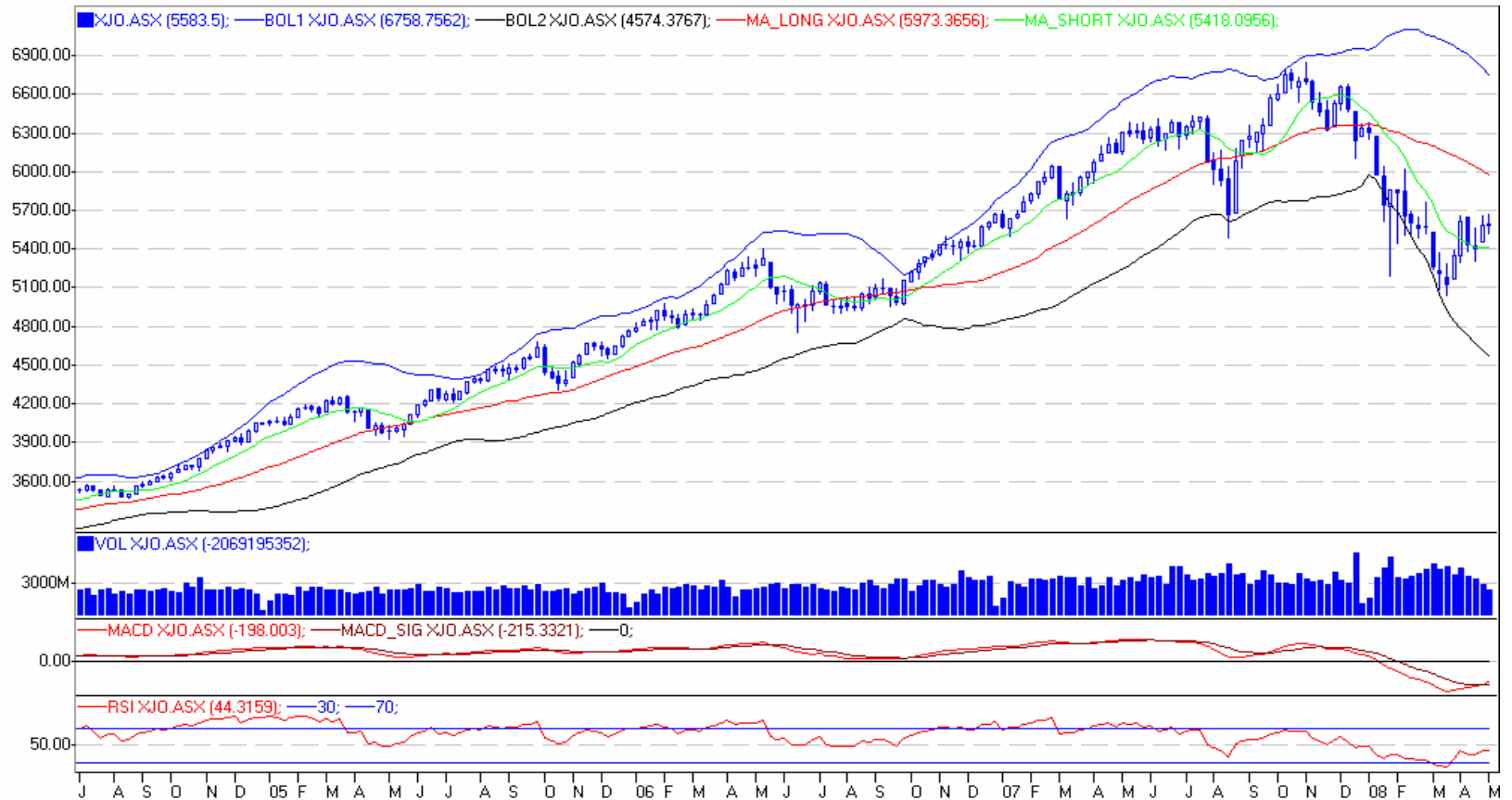
Australian Share Market Outlook

- On a more positive note, evidence of more than 20 years of data indicates that the cutting of interest rates by the US Federal Reserve against the backdrop of slowing growth or even a recession, has nearly always resulted in a considerably higher US sharemarket well within 12 months

Major Investment Themes for 2008

- Banks and financial stocks to recover from an oversold position.
- Gold & Energy sector remain in bull trend.
- Resources sector may under-perform as US dollar set to recover.
- Aging of the population – opportunities for airlines and healthcares sectors
- Food to feed the world and clean water are in strong demand.
- Infrastructure spending – survival of the fittest.
- Beneficiaries of the new Government.

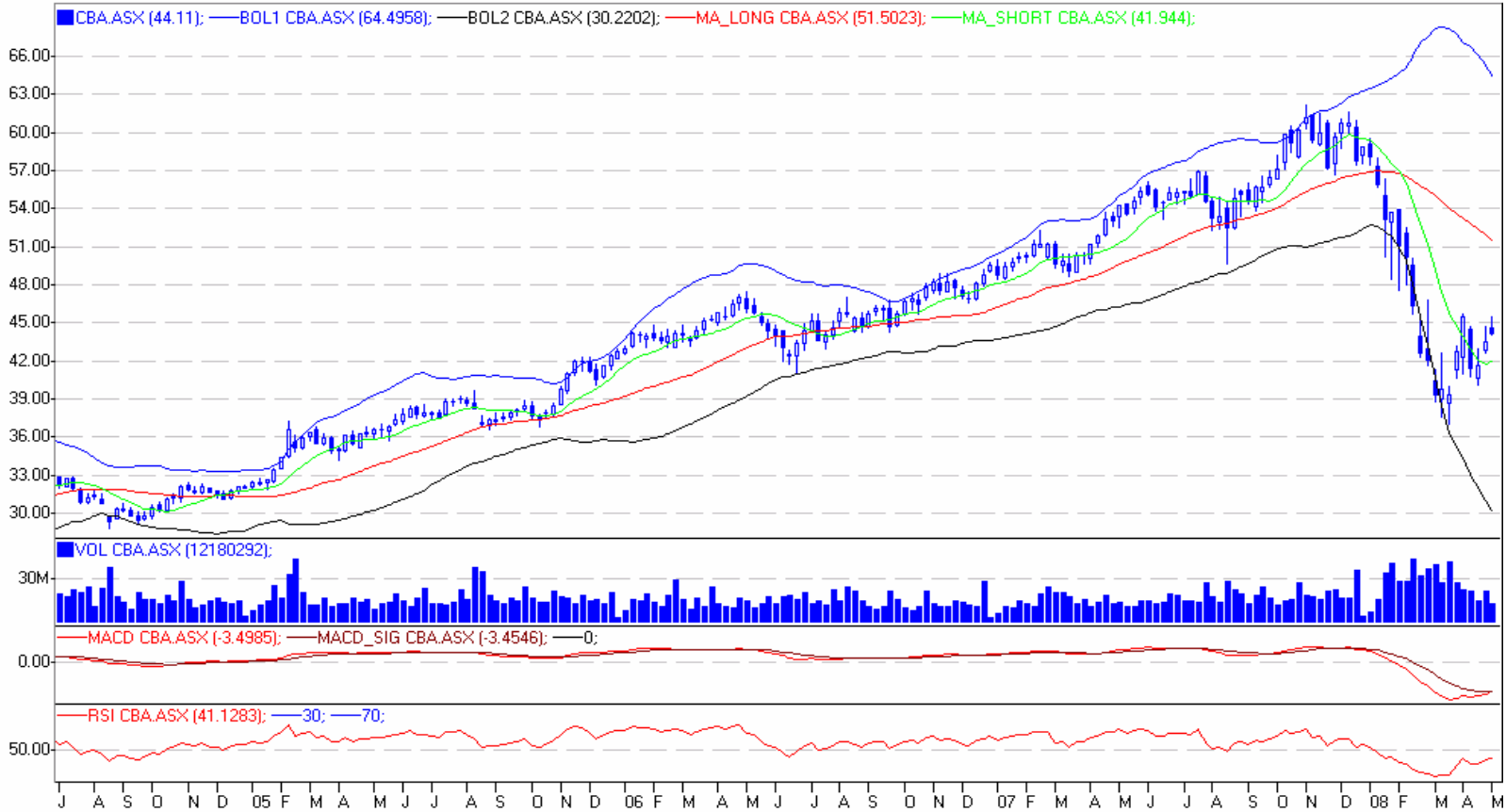
Limited upside, Unlimited volatility



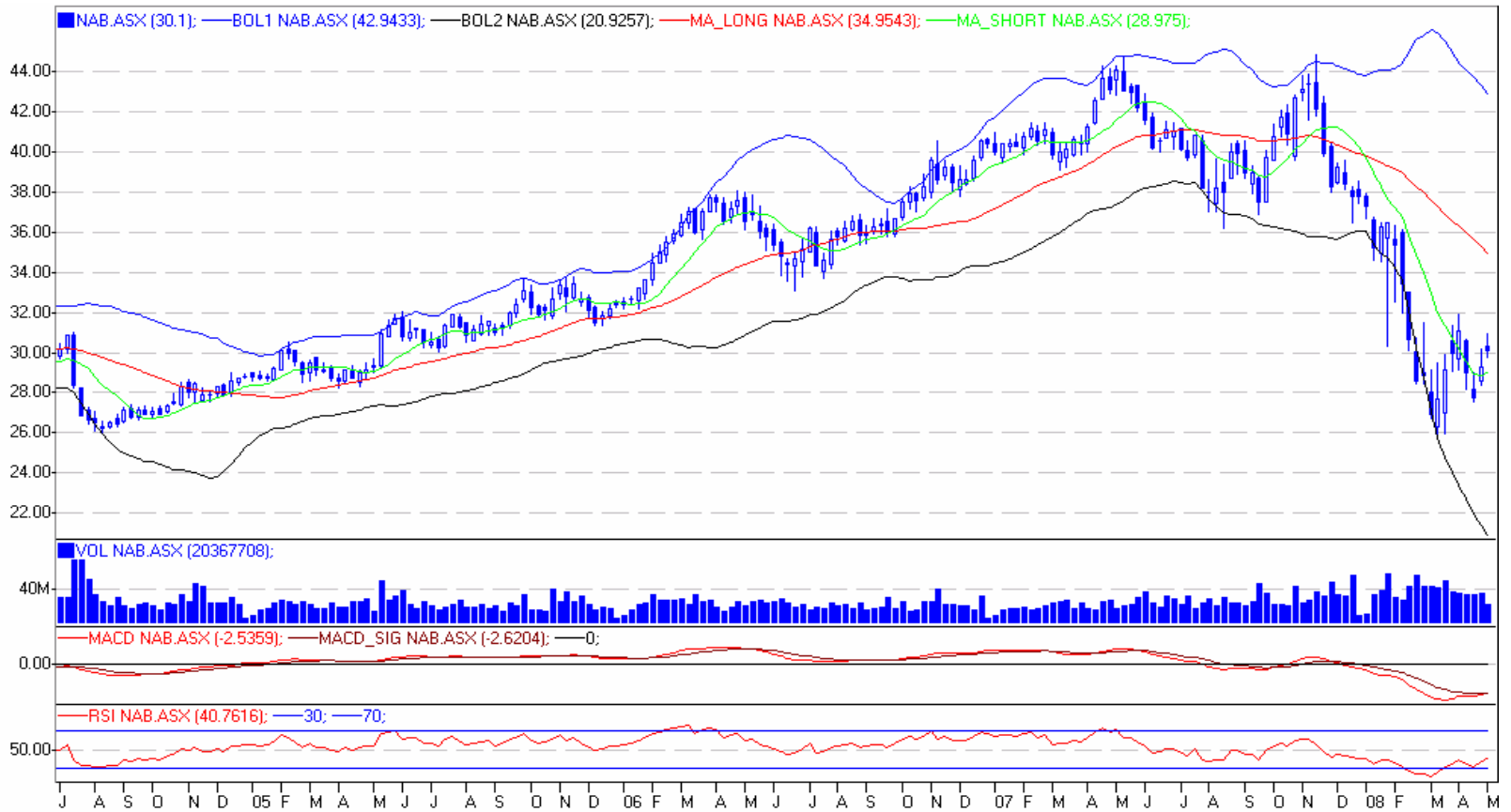
ANZ Bank – Someone may have heard of Opes Prime long b4 us



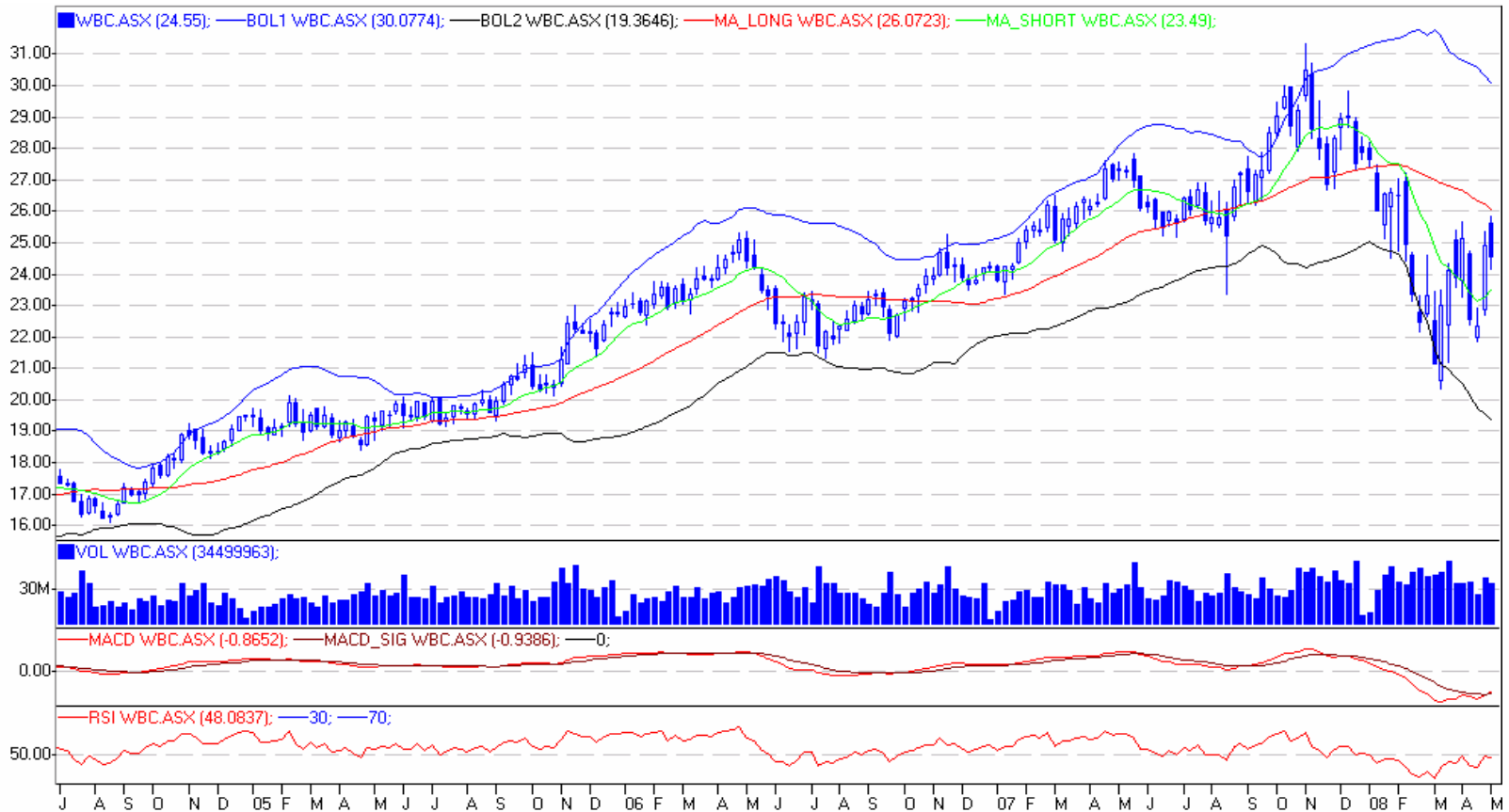
CBA – was it a case of guilty by association?



NAB – Market still expect further bad news from its UK exposure



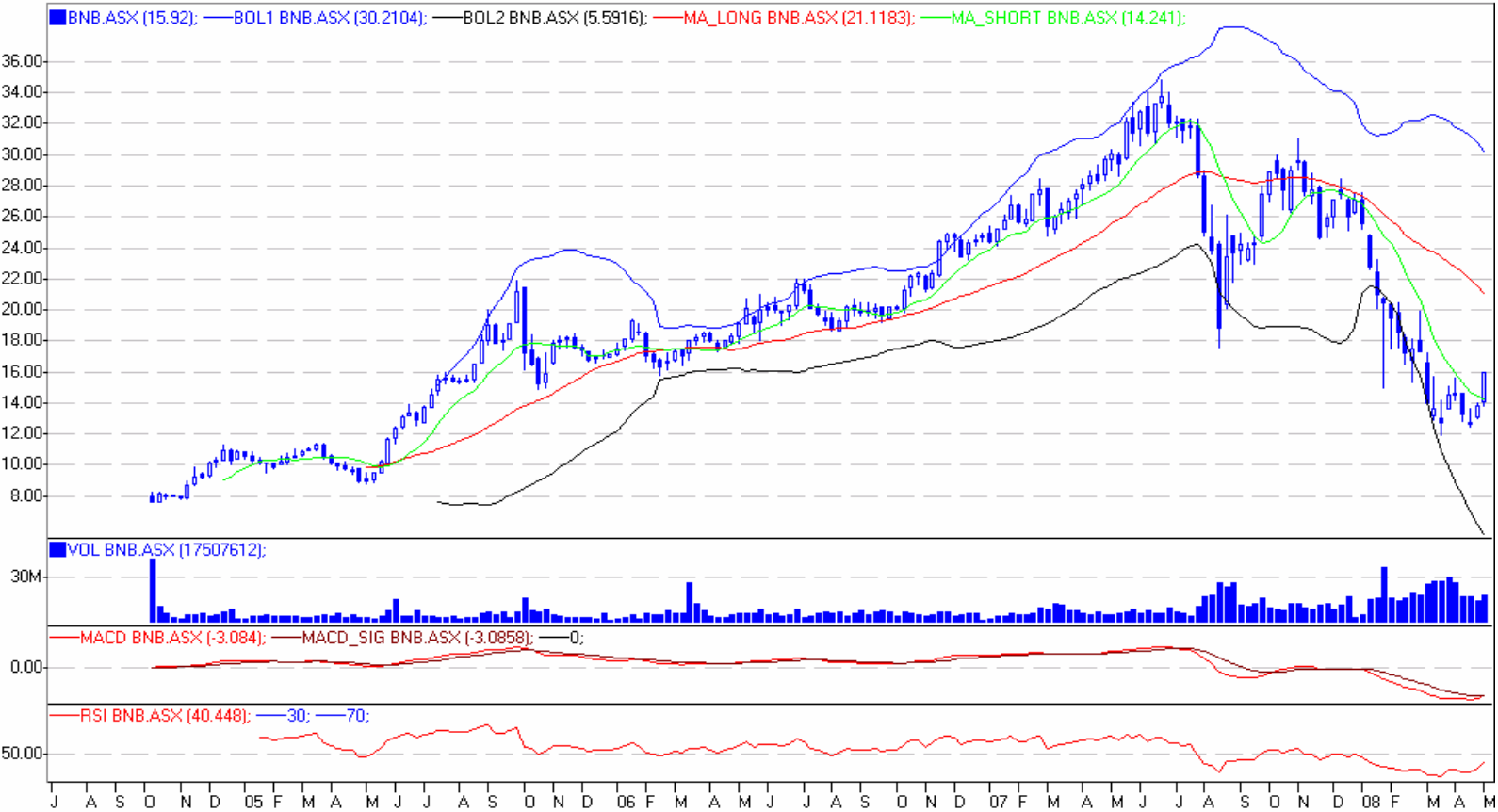
WBC – Market rewarded its low risk strategy



Macquarie Group – Not much exposure to sub prime credit



Babcock & Brown – reported immaterial exposure to sub-prime



ASX – Low debt and strong pricing power



CPU – A very well managed business



Gold – bull trend still intact



NCM – strong support around \$25



Lihir – strong leverage to gold price



WPL – oil price will stay high longer than most would believe



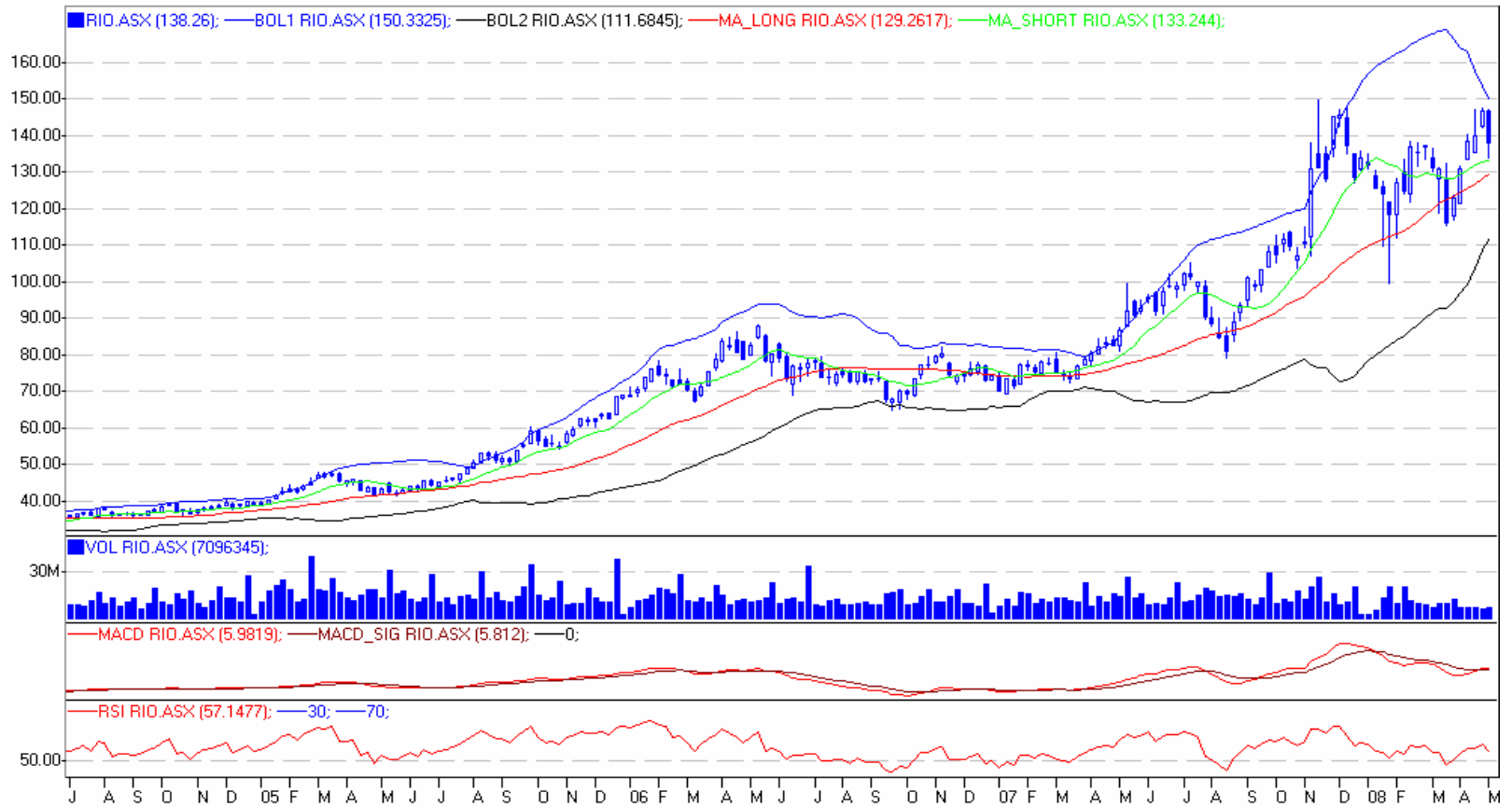
KAR – exploration success will give it Woodside like LNG resource



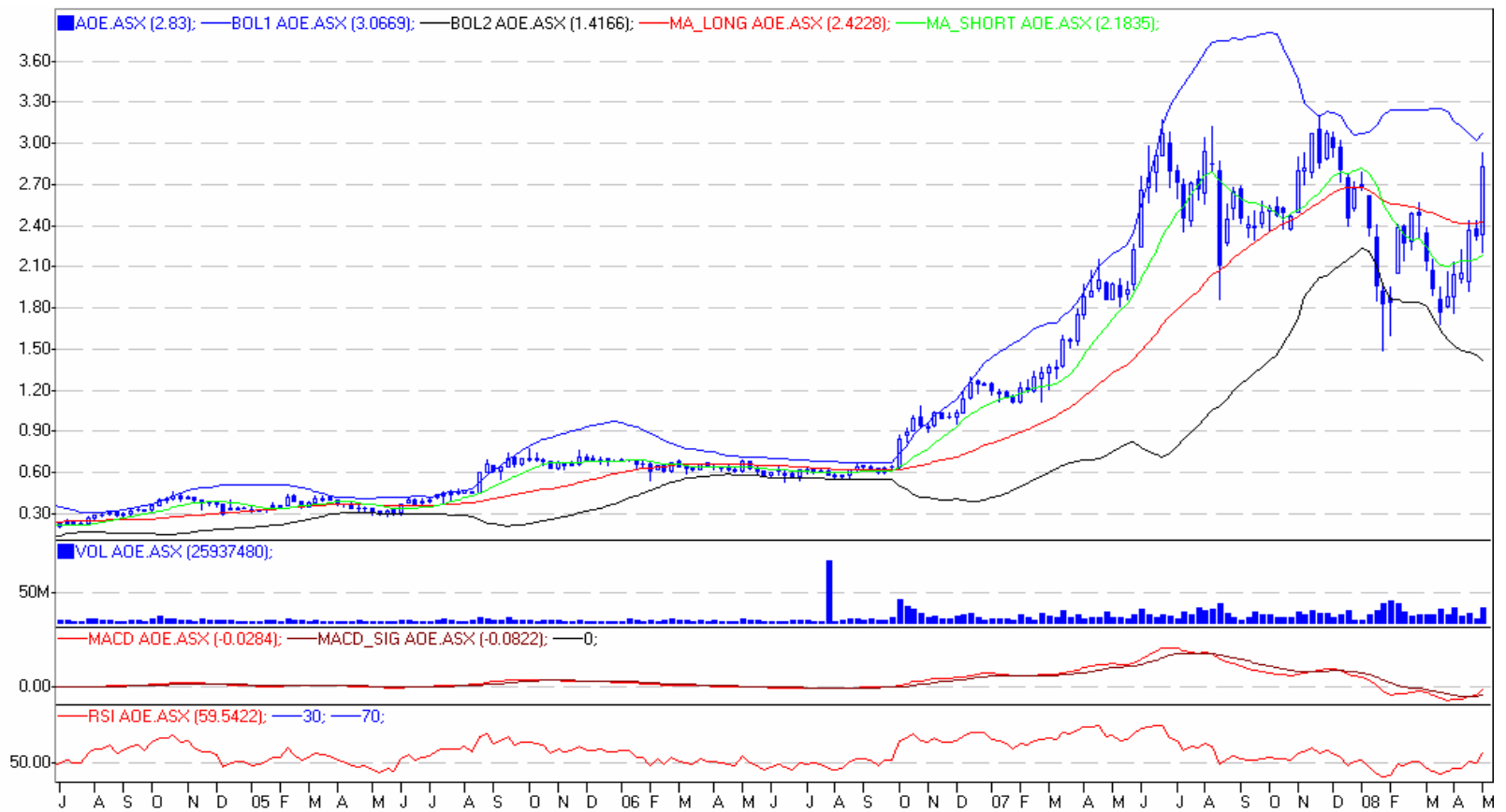
BHP – It will ranked 4th or 5th if merger go through



RIO – Management try hard to bargain the best price for s/holders



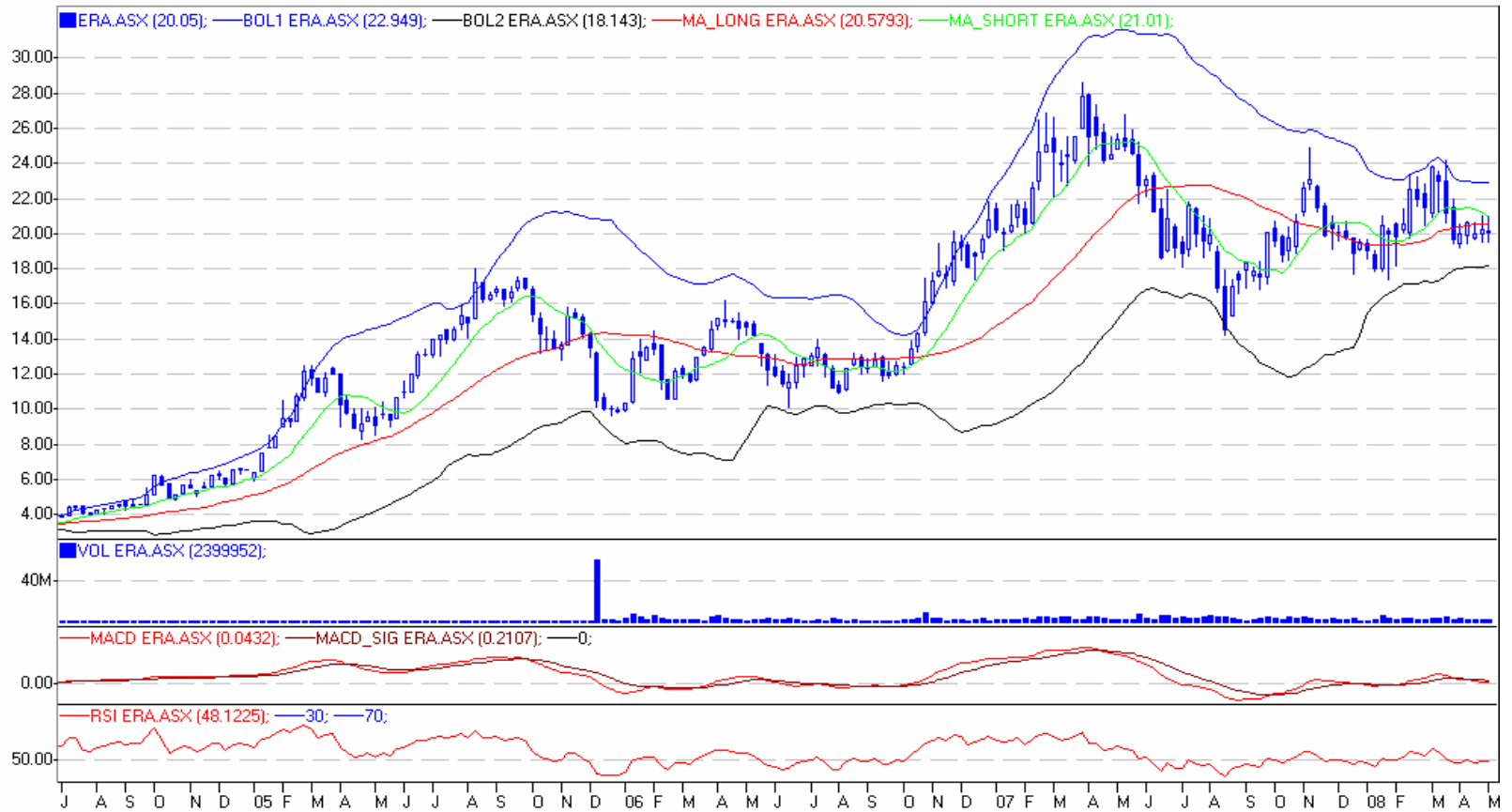
Arrow Energy (AOE)



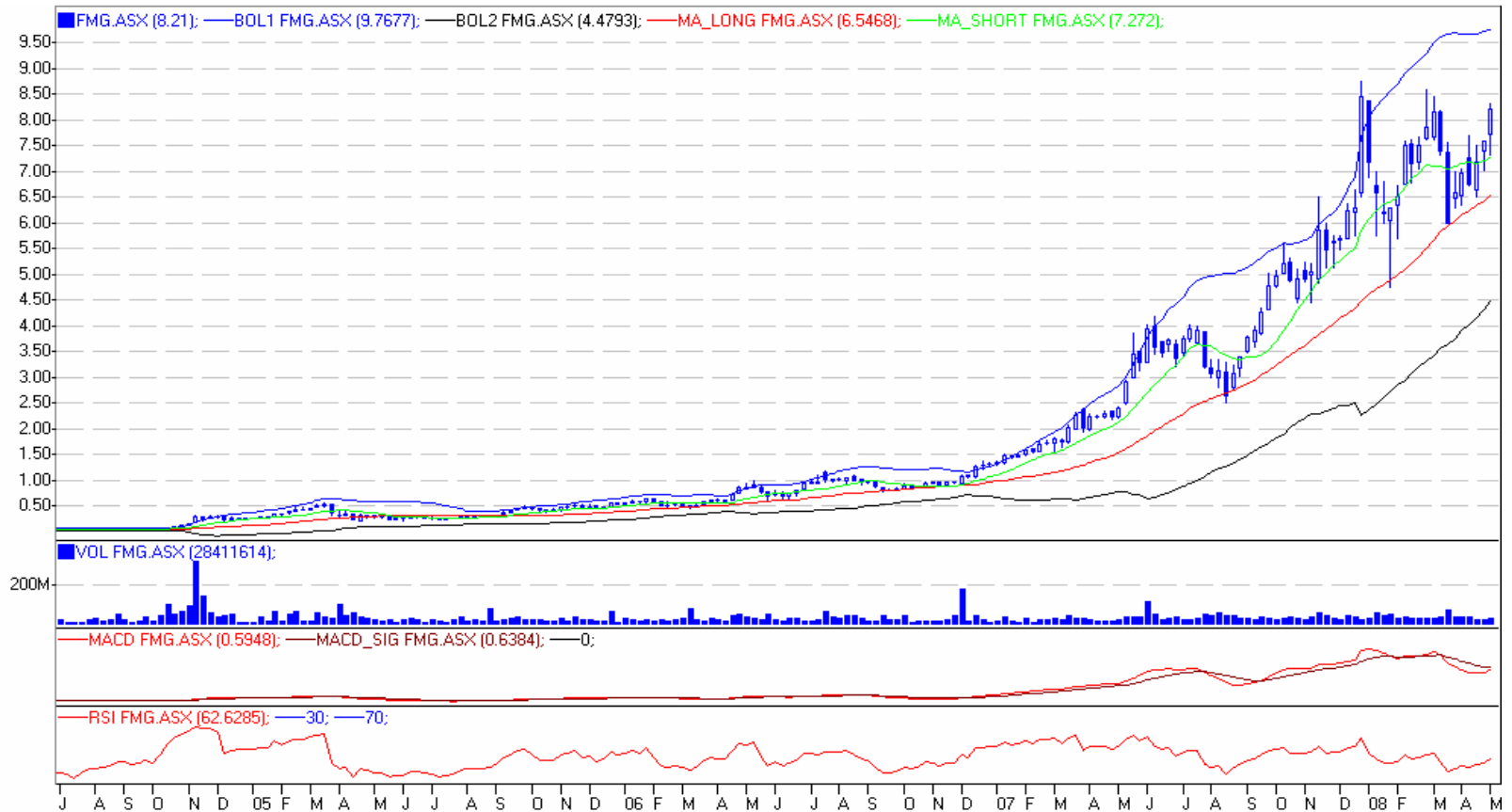
Macarthur Coal (MCC)



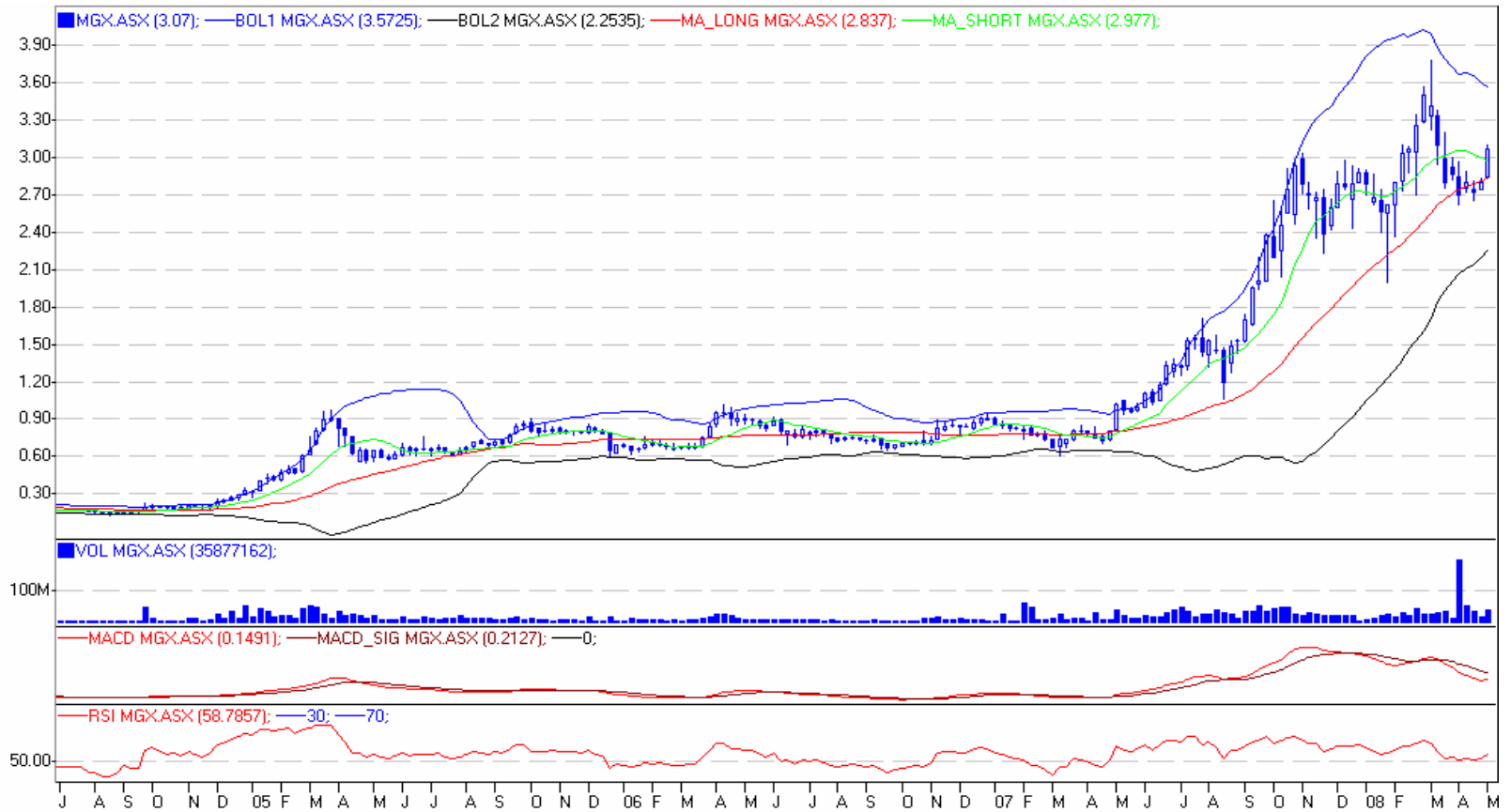
Energy Resources (ERA) - Uranium



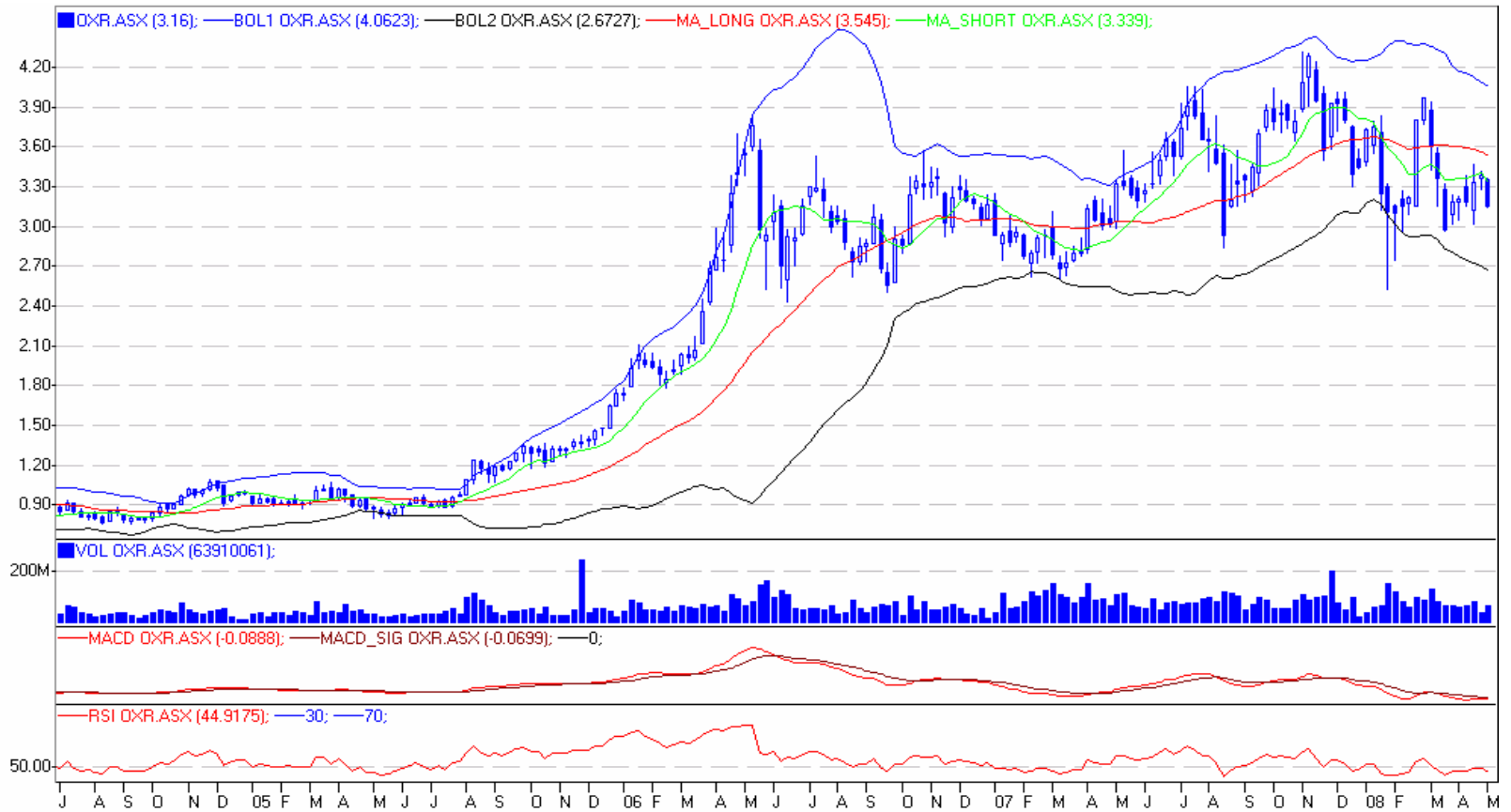
Fortescue Metals (FMG) – Iron ore



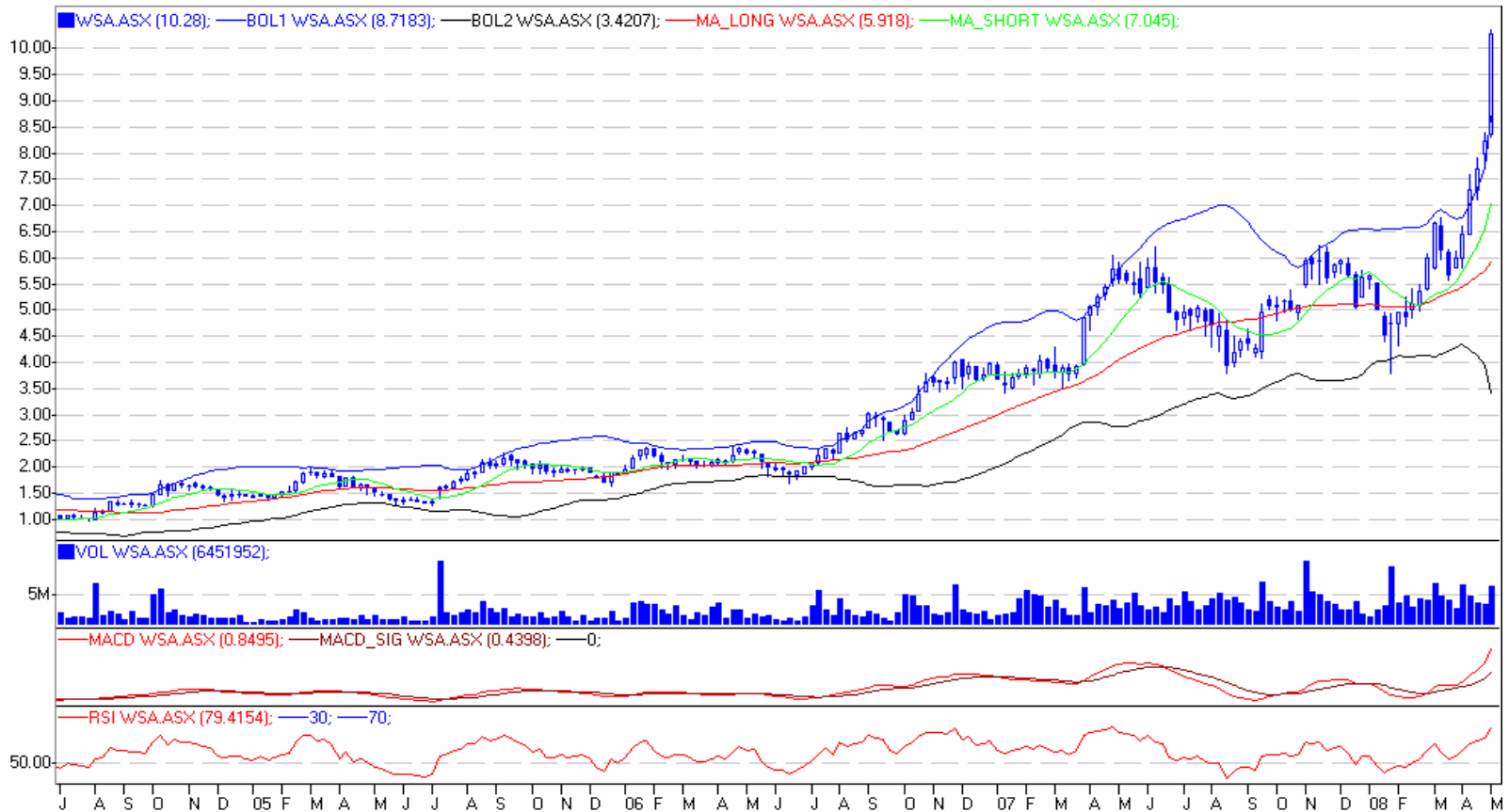
Mt Gibson Iron (MGX)



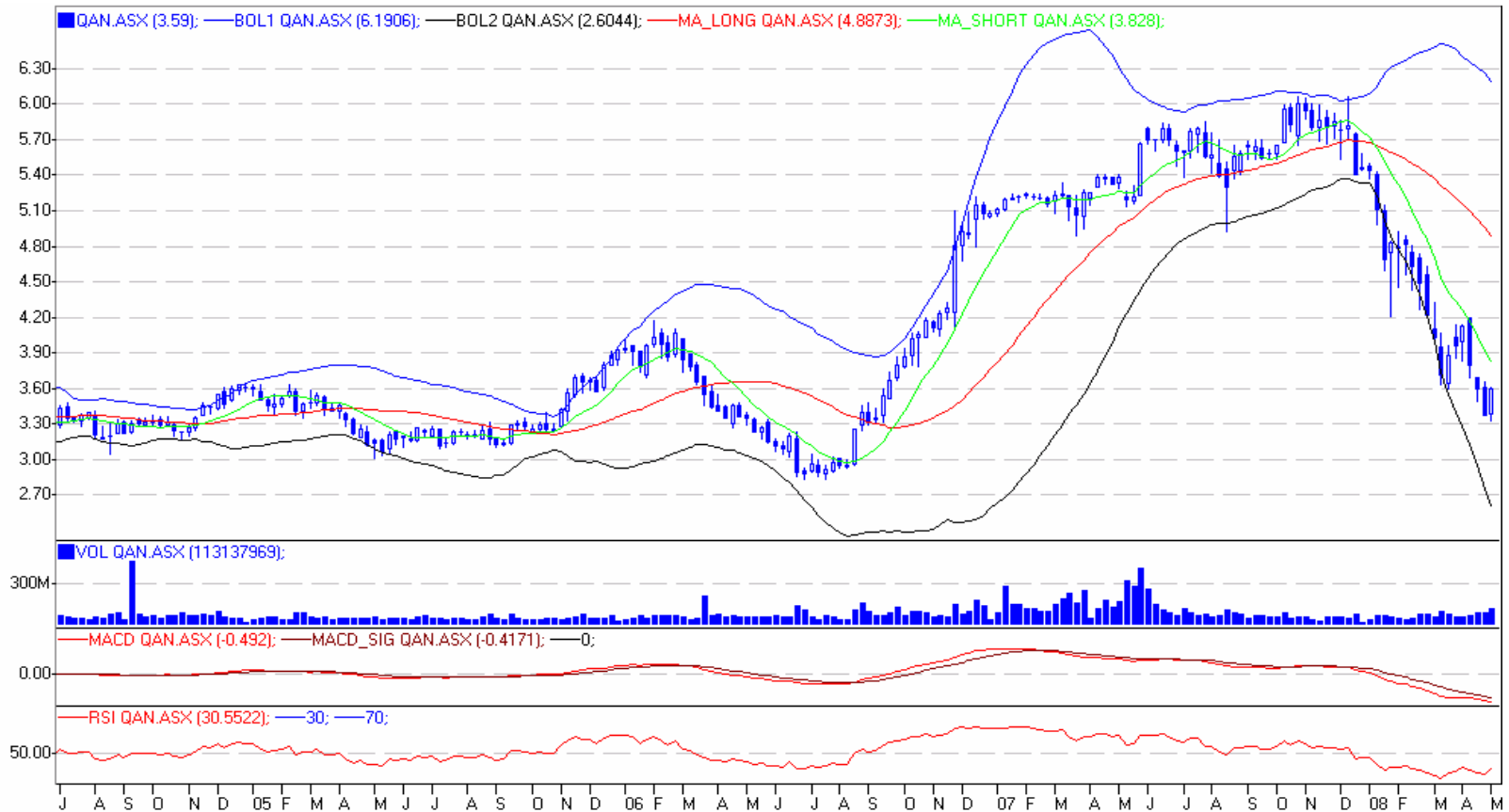
OXR – strong growth prospect after its merger with ZFX



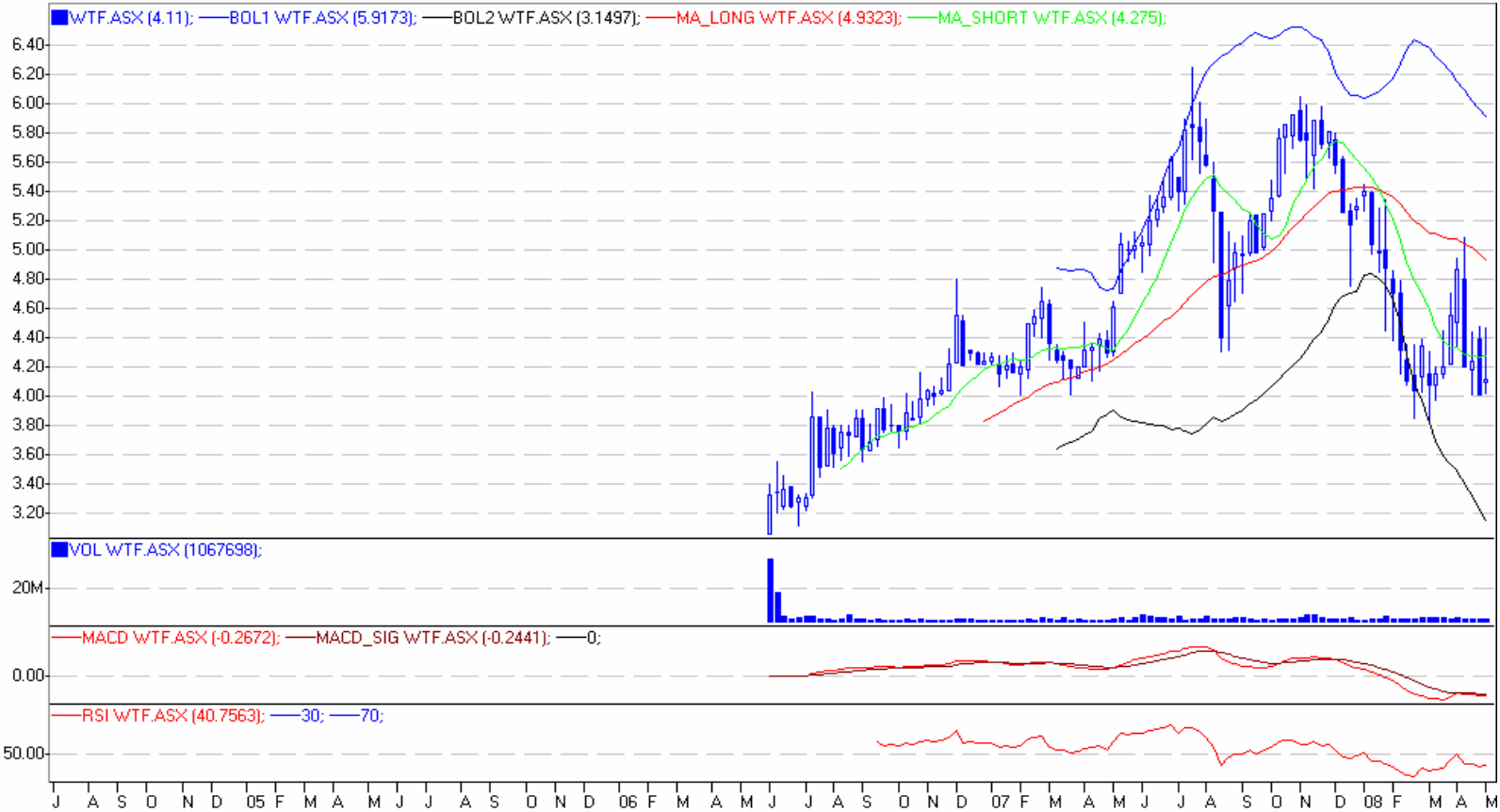
WSA – emerging nickel producer



QAN – well managed good yield



Wotif (WTF) – strong growth business



Agflation is a new problem for us to address

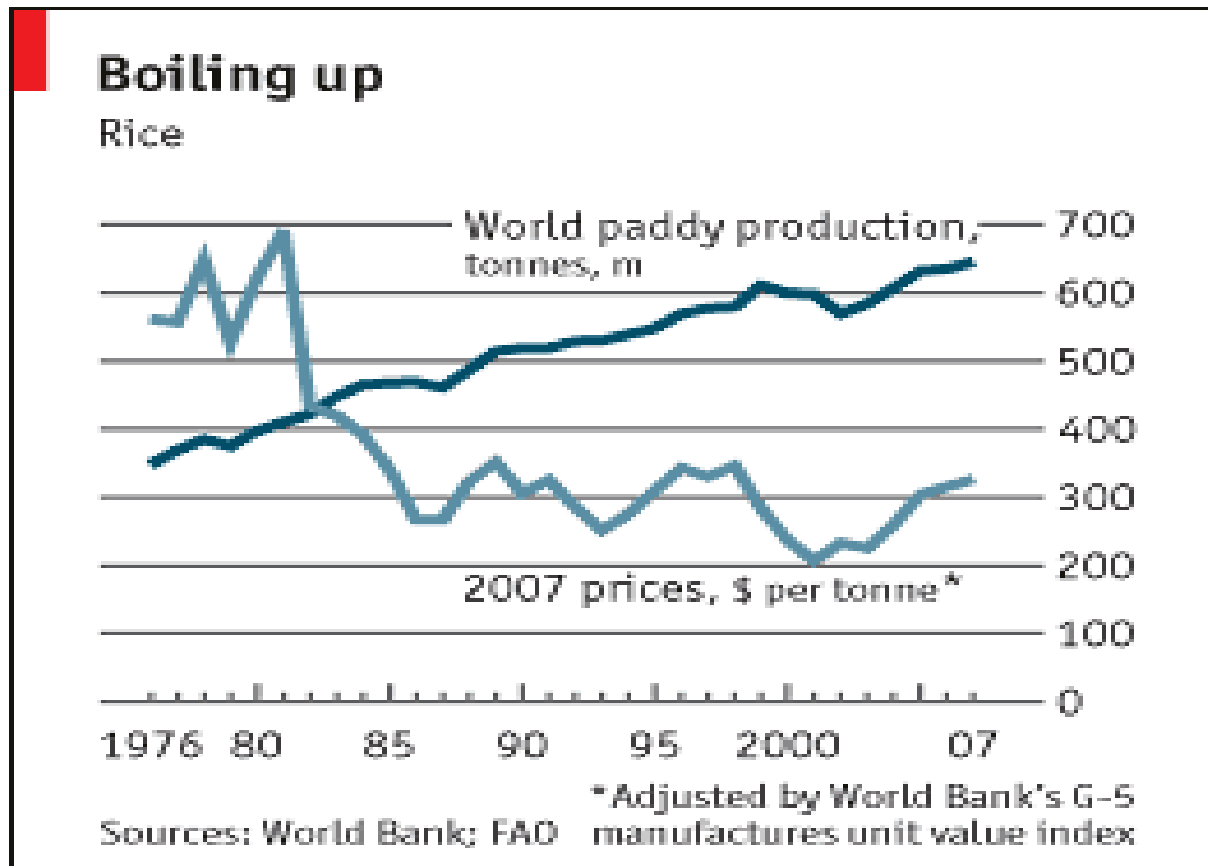
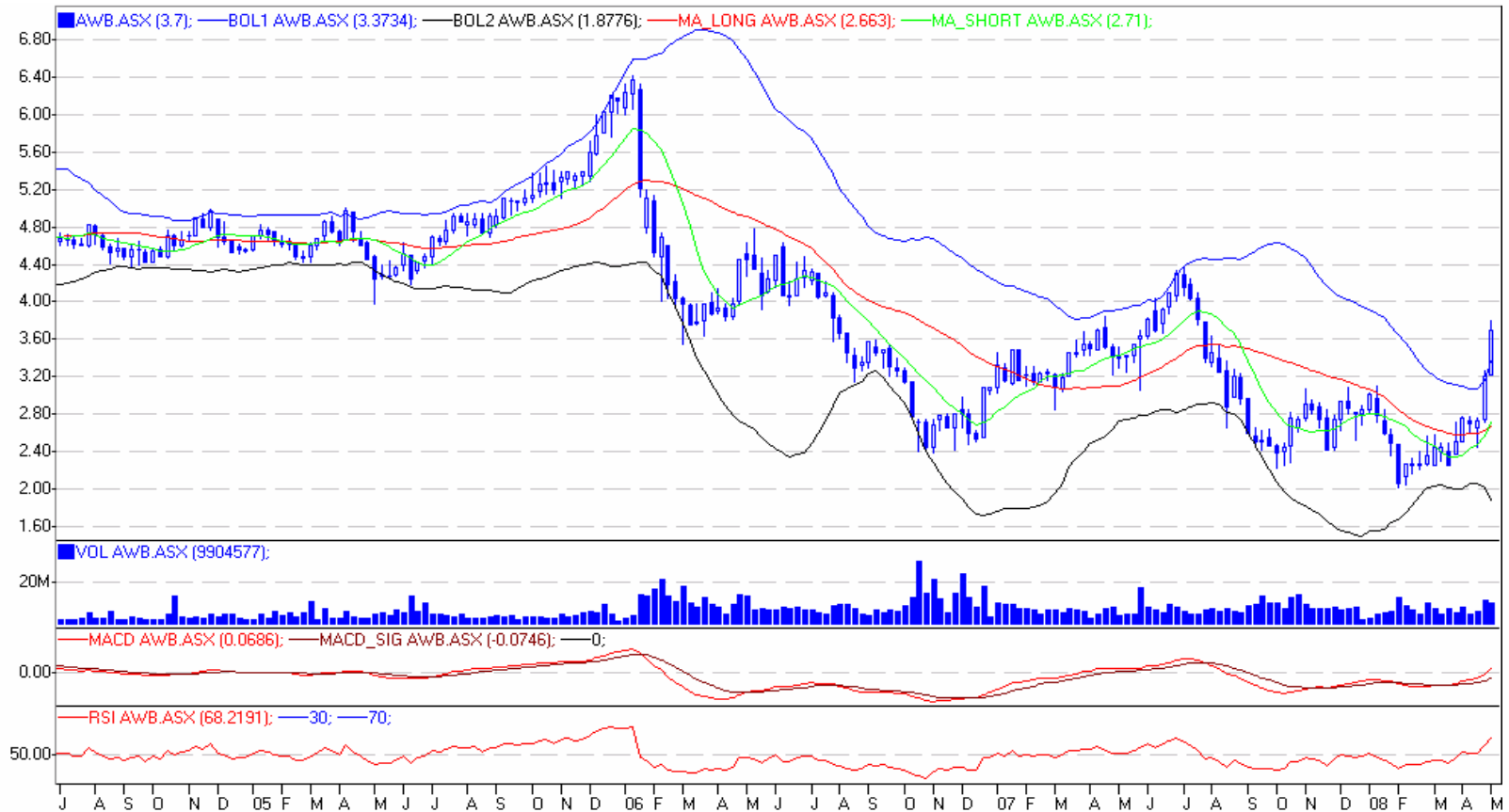


ABB – Wheat and grain in strong demand



AWB – Are we getting good price from our wheat export



PAG – A new force in agri investment



TCL – recovering from concerns over high gearing



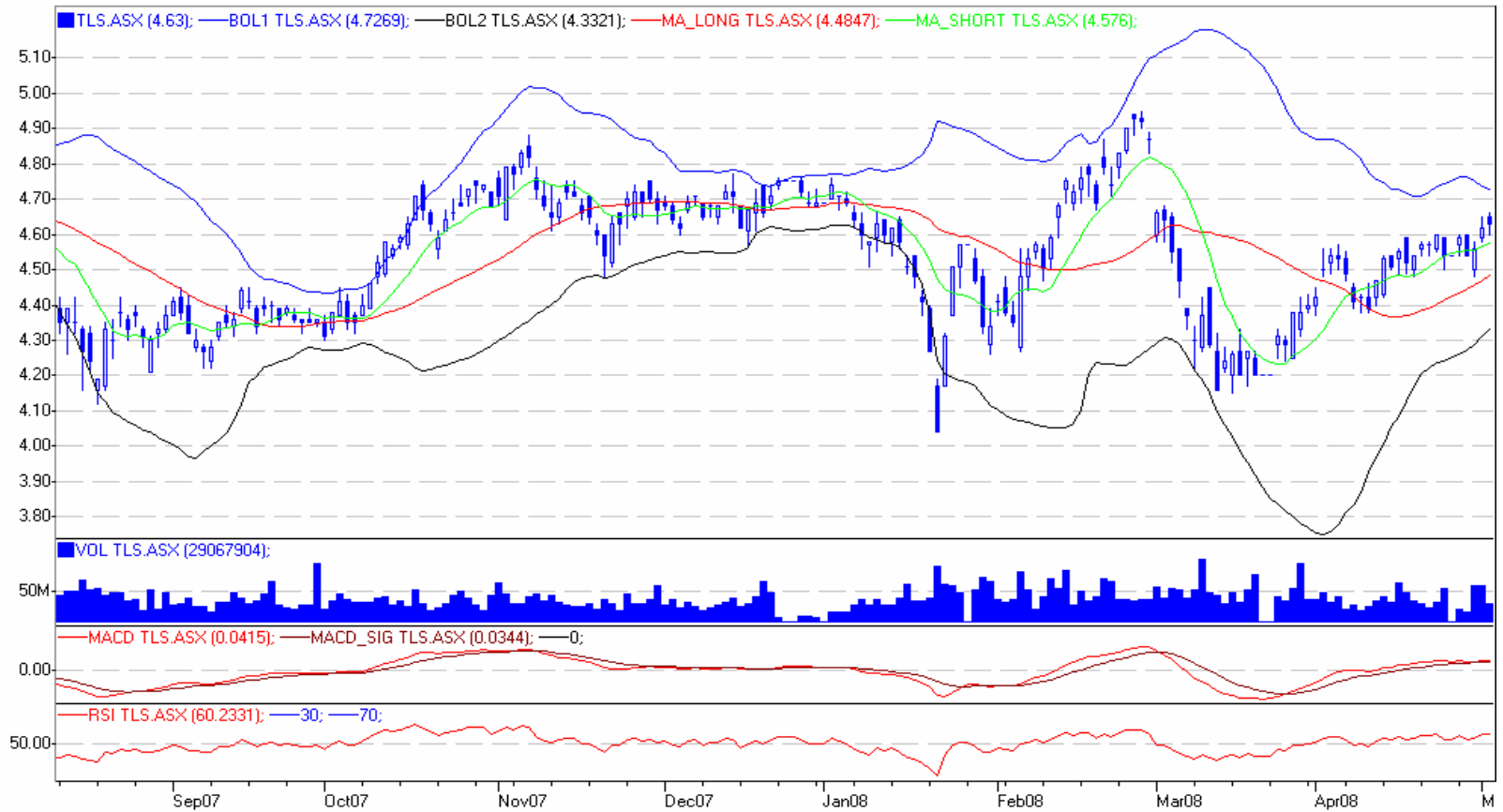
BBI – are their business model still working



CSL – IVIG prices going up



Telstra (TLS) – will it be a beneficiary of the new communication policy



WOR – A leader in providing services to mining cos



LEI – Mining contract still going strong

