



4 March 2010

**Yesterday's markets**

Indices	Mvnt	Close
S&P/ASX 200	0.72%	4,735.7
S&P/ASX 200 Industrials	0.42%	6,498.9
S&P/ASX 200 Resources	1.47%	5,155.3
Dow Jones	-0.09%	10,396.8
S&P 500	0.04%	1,118.8
NASDAQ	0.00%	2,280.7
FTSE 100	0.90%	5,533.2
Hang Seng	-0.14%	20,876.8
Nikkei	0.31%	10,253.1

**Commodity prices**

Aluminium (US\$/tn)	3.2%	2,178.3
Copper (US\$/tn)	2.4%	7,548.0
Lead (US\$/tn)	3.2%	2,214.0
Nickel (US\$/tn)	6.5%	22,765.0
Tin (US\$/tn)	1.8%	17,270.0
Zinc (US\$/tn)	4.6%	2,294.8
Gold (US\$/oz)	0.5%	1,139.2
Silver (US\$/oz)	1.5%	17.2
Oil WTI (US\$/bbl)	1.6%	80.9

**Currencies**

AUD/USD	0.23%	0.9055
AUD/STG	-0.66%	0.5996
AUD/EURO	-0.36%	0.6611
AUD/NZD	0.45%	1.3042

I hope you enjoy today's Bulletin for Thursday 4 March 2010.

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**Recommendation changes****Earnings Revisions**

↑ ASX

↓ PAN

**Overnight market action**

Wall Street gave up an early advance to end little changed after the Federal Reserve said the economy continues to grow at a slow pace. European stock markets were buoyed by positive US economic data and the latest Greek austerity package, which received a positive European Union response. The Australian sharemarket is expected to open relatively flat as Wall Street edged into the red at its close as the Federal Reserve said the economy continues to grow at a slow pace.

**Today's articles****ASX Ltd ? Earnings upgraded**

ASX Ltd (ASX) released trade activity statistics for February 2010.

**Panoramic Resources ? Earnings downgraded**

Panoramic (PAN) has announced a maiden reserve for the Savannah Lower Zone.

**Incitec Pivot Limited - Sulphur, ammonia follow DAP higher**

We refresh our views on Incitec Pivot (IPL).

**James Hardie Industries - Take me back for some R&R**

We have had a closer look at the recent Fourth Quarter 2009 results for Home Depot and Lowes.

**Australian Economics - Responding to stimulus**

The economy grew by 0.9% in Fourth Quarter 2009 and by 2.7% year on year.

**Giralia Resources NL - Many irons in the fire**

We recently initiated coverage of Giralia Resources NL (GIR) with a Neutral

recommendation.

### **Kiwi Lineout - Maintaining high spirits**

**Business confidence, building approvals and migration data were released in the last week.**

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Thursday, 4 March 2010

# Overnight Market Action

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Wall Street gave up an early advance to end little changed after the Federal Reserve said the economy continues to grow at a slow pace. The Dow Jones industrial average lost 9.22 points, or 0.09 per cent, to 10,396.76. The broader Standard & Poor's 500 index gained 0.48 points, or 0.04 per cent, to 1,118.79 and the Nasdaq composite index dropped 0.11 points to 2,280.68.

European stock markets were buoyed by positive US economic data and the latest Greek austerity package, which received a positive European Union response. Dealers said news that the massive US services sector grew faster than expected in February and that the US private sector shed the smallest number of jobs in two years in the same month, boosted confidence. Remarks by EU officials on Greece's latest measures to trim its public deficit back to eurozone norms were taken positively, suggesting European powerhouse Germany will now agree to some form of EU aid for Athens. The news leads combined helped push Wall Street higher, setting the example for the European markets to follow in the afternoon. In London, the main FTSE 100 index closed 49.15 points higher, up 0.9 per cent, to 5,533.21 points.

Japanese stocks rose for a fourth straight day, led by a jump in Toyota Motor Corp, which posted a smaller-than-expected fall in US sales, but caution over Greece's debt woes capped overall gains. The benchmark Nikkei 225 stock index gained 31.3 points, or 0.3 per cent, to 10,253.14. The broader Topix index added 0.3 per cent to 905.65.

The Australian sharemarket is expected to open relatively flat as Wall Street edged into the red at its close as the Federal Reserve said the economy continues to grow at a slow pace. At 0825 AEDT on the Sydney Futures Exchange, the March share price index contract was eight points higher at 4,758. In economic news on Thursday, the Australian Bureau of Statistics releases data on international trade in goods and services for February. In company news, defence technology company Metal Storm Ltd holds a general meeting. On Wednesday the market closed higher supported by a buoyant resources sector and data showing the economy grew at its fastest pace in two years in the December quarter. The benchmark S&P/ASX200 index closed up 33.8 points, or 0.72 per cent, at 4,735.7 points, while the broader All Ordinaries index gained 33.9 points, or 0.72 per cent, to 4,743.8 points.

Oil prices rose above \$US80 a barrel for the first time in a week as the dollar weakened and refineries increased production ahead of the traditionally busy summer driving season. Benchmark crude for April delivery on Wednesday climbed \$US1.19 to settle at \$US80.87 a barrel on the New York Mercantile Exchange. Prices increased early in the day after Greece announced a stripped-down budget to tame its massive deficit, and the euro pushed higher against the US dollar. Crude is priced in U.S. currency, and it tends to rise in price as the dollar falls and makes oil barrels easier to buy for investors holding foreign currency. Oil prices rallied despite an Energy Information Administration report that said US oil and gasoline supplies grew more than expected last week. Oil and gasoline supplies remain well above average for this time of year.

Metal prices got a boost from the cheaper US dollar. April gold, which often trades opposite the dollar, rose \$US5.90 to settle at \$US1,143.30 an ounce. Silver for May delivery rose 26.5 cents to \$17.329 an ounce, while May copper climbed 2.35 cents to settle at \$3.435 a pound.

Source: AAP news

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# ASX Ltd

## Earnings upgraded

**Volatility Index:** Medium  
**Recommendation:** Neutral

**Price 3 Mar 10** \$35.86

### Event

ASX Ltd (ASX) released trade activity statistics for February 2010.

### Impact

**Seasonal rebound in trade activity statistics in February.** With the reporting season in full swing, average daily value traded in cash equities rose to \$5.4bn, up 58% on prior corresponding period and up from \$4.6bn the prior month. SFE volumes, which benefited from interest rate speculation and increased debt issuance, were up 42% on prior corresponding period to an average of 302,880 contracts per day, consistent with the YOY growth experienced in January. Capital raisings totalled \$3.0bn down from \$10.2bn prior corresponding period, comprising of \$0.2bn in initial public offerings (IPOs) with 11 new listings during the month. The remainder was secondary capital raisings, of which 40% (\$1.2bn) was from a large retail jumbo issue from Woodside Petroleum.

**ASX may be \$5m worse off when supervision shifts.** Although staff numbers are expected to drop when the supervisory responsibilities are transferred to ASIC, we estimate that the ASX could be more than \$5m worse off based on recent draft legislation tabled and released by Hon Chris Bowen. As discussed overleaf, ASIC has estimated that the supervisory responsibilities are expected to be \$53.5m over the next five years, which will be fully recoverable from the market operators. This equates to \$10.7m per annum or \$8.6m if the alternative operators capture 20% market share. Even after considering the savings that the exchange may have from staff, occupancy and software, the ASX is likely shoulder a burden of at least \$5m per annum of additional costs when the supervisory responsibilities switch to ASIC. This is expected to be by the third quarter of this calendar year.

**New rebate design sees 15% instant disqualification.** As highlighted in our *Essentials* note on the ASX First Half 2010 result, we said the quantum of rebates paid to brokers was less than half of theoretical, at \$3.8m versus \$8.9m theoretical. We highlight that at least 15% of fee paying clients - the listed entities which pay for the CHESSE statements - do not qualify for the rebates. Although that is part of the discrepancy, the new rebate system has still seen more brokers not qualify for the rebate pool anymore with calculations now done on a per participant basis. This resulted in lower than expected rebates being paid to brokers in First Half 2010.

### Earnings and target price revision

Financial Year 2010 +0.1% Financial Year 2011 +0.2% Financial Year 2012 +0.2%. Earnings per share revisions predominantly reflect downgrades to ASX daily trade volumes offset by higher growth rate assumptions in SFE trade activity.

### Price catalyst

12-month price target: \$38.51.

Catalyst: March trading data

### Action and recommendation

No change to Neutral recommendation.

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Thursday, 4 March 2010

# Panoramic Resources

## Earnings downgraded

**Volatility Index:** Very high  
**Recommendation:** Neutral

**Price 2 Mar 10** \$2.12

### Event

Panoramic (PAN) has announced a maiden reserve for the Savannah Lower Zone.

### Impact

**The reserve:** The Savannah Lower Zone refers to ore below the 500 fault at Savannah. The initial reserve is 3.67mt, grading 1.17% nickel and 0.64% copper, containing 43.2kt nickel and 23.5kt copper, extending to a depth of 900m below surface. Above the 500 fault PAN has a reserve of 1.8mt, grading 1.26% nickel and 0.61% copper as at 31 Dec 2009. The reserve represents an 86% conversion rate of contained nickel tonnes on the lower zone resource of 3.4mt, grading 1.48% nickel, containing 50.1kt nickel; however, the grade is lower, allowing for mining dilution. The complexity of the ore body increases at depth and understandably a conservative approach has been taken. Looking at the upper zone, the reserve grade of 1.26% nickel compares to a resource grade of 1.63% and we note that mined grades at Savannah have exceeded reserve grade in four out of the past five quarters.

**Life of mine (LOM) extension in line with expectation:** The aggregate Savannah reserve appears sufficient to support an LOM at Savannah out to 2018, remembering that the decline in capacity is 700-750 thousand tonnes per annum (ktpa) and mining is the bottleneck with plant capacity of 900kt. We had been factoring in development of the Savannah Lower Zone with an LOM out to June 2018; however, the reserve grade is lower than our 1.30% mined grade assumption.

**Giving some more back to shareholders:** PAN declared an interim 5 cents per share fully franked dividend and a one-off 5 cents per share dividend (also fully franked) with the release of the financial results on 25 Feb. The combined dividend represents a around \$20m return to shareholders. At 31 Dec, PAN had cash of \$113m with no corporate debt.

### Earnings and target price revision

We have lowered our net present value by \$0.11ps to \$1.91ps on the back of lower throughput grade assumptions at Savannah. Our discounted cashflow valuation assumes LOMs based on reserves at Savannah (2018) and at Lanfranchi (2016) and does not include any exploration upside, which we believe is conservative. No change to our target price.

### Price catalyst

12-month price target: \$2.06.

Catalyst: Nickel price trading materially above our forecasts for Calendar Year 2010/11.

### Action and recommendation

We maintain our Neutral recommendation and \$2.06ps price target. Nickel prices are trading significantly above our forecast for Calendar Year 2010 (US\$10.05/lb versus US\$8.00/lb) and more so for Calendar Year 2011, where we are forecasting US\$7.25/lb. We expect the near-term momentum for PAN to be positive, particularly coming off a strong First Half 2010 result that had free cashflow generation of A\$40m. Under a spot nickel price scenario, our Financial Year 2010E earnings per share is increased by 44% and Financial Year 2011E earnings per share is up 94%.

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# Incitec Pivot Limited

## Sulphur, ammonia follow DAP higher

**Volatility Index:** High  
**Recommendation:** Outperform

**Price 3 Mar 10** \$3.55

### Event

We refresh our views on Incitec Pivot (IPL).

### Impact

**Diammonium phosphate (DAP) price strength continues.** DAP spot prices have continued to rise over the last few months to US\$500/t (free on board (FOB) Tampa) with a number of producers in the US and Morocco fully committed over the next couple of months on the back of strong demand from the US and Latin America, renewed buying interest out of India and Pakistan, and historically low producer inventories. Global DAP prices in the March quarter will determine Australian DAP prices for the upcoming winter crop season, which are set on an import parity basis.

### Rising raw material prices add support to DAP price strength and reinforce IPL's integration advantage.

Ammonia prices have increased circa 50% in the past three months to US\$450/t (cost and freight (CFR) Tampa) and sulphur is also moving up with Abu Dhabi National Oil Co (Adnoc) increasing its March price to US\$210/t (FOB), up 90% on the US\$110/t price achieved in January. Rising raw material costs are positive for DAP as the high cost non-integrated producer sets the DAP price in a tight market. We note the current non-integrated cash cost is US\$450/t versus spot DAP at US\$500/t. Rising raw material prices also reinforces IPL's low-cost manufacturing advantage due to its full rock/ammonia integration and partial sulphur integration.

**Recent merger and acquisition (M&A) activity suggests the US fertiliser market has bottomed.** CF has raised its offer for Terra following Yara's \$41.10/sh agreed deal. Transaction multiples re CF's offer for Terra are 7.6x Financial Year 2010 earnings before interest, tax, depreciation and amortisation and 16x Financial Year 2010 price to earnings ratio versus IPL trading on 14.3x Financial Year 2010 price to earnings ratio and 9.3x Financial Year 2010 earnings before interest, tax, depreciation and amortisation. We believe IPL deserves a higher multiple than Terra due to its exposure to DAP rather than nitrogen. Phosphate and potash multiples tend to be higher than for nitrogen due to higher levels of integration (from mining through to finished product) and higher barriers to entry and capital costs re new capacity.

### Falling US coal stockpiles positive for Dyno Nobel (50% of IPL's earnings, with North America accounting for 80% of this).

Genscape reports that coal stockpiles in the US have fallen around 40m tonnes (c20%) over the last three months, well above the 7m tonne average draw for the December-February period over the last five years. This is positive for IPL's Dyno Nobel business as improving coal demand/supply (35% of IPL's North American ammonium nitrate (AN) exposure) should eventually translate into improved AN demand.

### Earnings and target price revision

No change.

### Price catalyst

12-month price target: \$4.00.

Catalyst: Soft commodity price recovery, First Half 2010 result in May

### Action and recommendation

We maintain an Outperform recommendation and \$4.00 target price.

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Thursday, 4 March 2010

# James Hardie Industries

Take me back for some R&R

**Volatility Index:** High  
**Recommendation:** Outperform

**Price 3 Mar 10** \$7.39

### Event

We have had a closer look at the recent Fourth Quarter 2009 results for Home Depot and Lowes, whose same store sales tend to be a reasonable bellwether for activity in the repair and remodel (R&R) market for James Hardie Industries (JHX).

### Impact

**The R&R market remains in focus for JHX:** The ongoing decline in new housing activity has seen R&R increase as a proportion of overall sales for US fibre cement, with the new housing/R&R split likely to move from 45:55 in Financial Year 2009 towards 40:60 in Financial Year 2010. While low homeowner equity, and fragile household sentiment remain big issues for the recovery in R&R, JHX seems to be making up plenty of ground with market share increasing from 8% to 10% between Financial Year 2008 and Financial Year 2009. JHX aims to achieve a 35% (or possibly higher) market share in R&R in the longer term, with the strategy focusing heavily on switching consumer preference from vinyl to JHX products.

**Fourth Quarter 2009 same store sales were 1-2% weaker year on year for Lowes and Home Depot in the US but the extent of decline appears to be moderating.** Both companies saw positive quarter on quarter comps with the North/Northeast region a standout. Poor weather appeared to have an impact on the sales numbers in February, and together with higher prices for inputs such as pulp, is likely to mean a tough March quarter for JHX. However, we continue to believe the downside risk to the Fourth Quarter of Financial Year 2010 is adequately captured in our numbers.

**Better-than-expected bigger ticket transactions also a common feature:** The slight single-digit decline in bigger ticket items was a significant improvement from the double-digit falls we have been accustomed to in prior quarters. Re-siding a house is certainly classified as a bigger ticket item, and these types of projects can be delayed by homeowners. Any recovery in bigger ticket transactions will be a positive for JHX in terms of consumers becoming more willing to take on larger, more discretionary projects.

**Lowes and Home Depot expect 2-3% year on year growth in Financial Year 2010E for same store sales:** Both companies expect Second Half 2010 will be better than First Half as macro variables continue to stabilise and support home improvement demand. We currently forecast reasonably flat volume growth in R&R in 2010 for JHX before returning to growth in 2011.

### Earnings and target price revision

No change.

### Price catalyst

12-month price target: \$9.92.

Catalyst: Financial Year 2010 result on Thursday, 27 May.

### Action and recommendation

Outperform with an \$9.92 target. The business model has held up extremely well through the US housing downturn, and the stock continues to offer investors strong operational leverage to the eventual recovery in US housing.

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# Inner circle

FORWARD thinking

Macquarie Private Wealth Premium Research



## Inner Circle

Thursday, 4 March 2010

# Australian Economics

## Responding to stimulus

### Event

The economy grew by 0.9% in Fourth Quarter 2009 and by 2.7% year on year.

### Impact

The buoyant growth in Fourth Quarter was heavily influenced by the Federal Government's fiscal stimulus. The strength of business equipment investment and surging public spending (both rose by more than 10% quarter on quarter) were directly related to government policies, while the resilience of consumer spending in Fourth Quarter is indirectly related to the employment-generating effects of those schemes and the confidence they have bestowed on consumers.

But just as a crucial element in the success of the fiscal stimulus was the speed with which it was introduced, so too must it be withdrawn in a timely fashion now that it has served its purpose. And while the Treasurer has taken the pre-emptive step to argue that that is already occurring, this issue is likely to be heavily scrutinised when the Commonwealth Budget is brought down in May.

### Analysis

The overwhelming message emanating from the National Accounts data is that the Global Financial Crisis is history as far as the Australian economy is concerned.

Certainly the strength of domestic spending - up 2.0% quarter on quarter - is a good reflection of the degree of confidence that has returned to both consumers and businesses. However, it is the consistency of growth that is just as remarkable.

Consumption, housing, business investment and public spending all contributed to growth in Fourth Quarter, while 14 of the 19 industry sectors expanded in the December quarter. This indicates that the rebound in activity was broadly based. In addition, all three measures of GDP - the spending, production and income measures - grew by 0.9%. No longer can there be any debate about the quality of the growth that is now coming through.

To be sure, the remarkably strong performance of the Australian economy at the end of 2009 owed significantly to the Federal government's fiscal stimulus, with a 10% quarter on quarter rise in public investment and an 11% jump in equipment investment the clear standouts. This reflected the government's school building programme as well as the bonus tax depreciation allowance for firms purchasing equipment.

But the data also provided reasons to be optimistic that a timely withdrawal of that stimulus will not interrupt activity in 2010. A good example of this is consumer spending.

In Second Quarter 2009, households received \$33.2 billion in social assistance benefits (ie cheques in the mail) from the government, compared to just \$25.5 billion in Fourth Quarter 2009. But while this meant that household income fell sharply, consumer spending actually rose by almost \$5 billion over the same period.

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## Inner Circle

Thursday, 4 March 2010

# Giralia Resources NL

## Many irons in the fire

**Volatility Index:** Very high  
**Recommendation:** Neutral

**Price 2 Mar 10** \$1.68

### Event

We recently initiated coverage of Giralia Resources NL (GIR) with a Neutral recommendation and a price target of \$1.80.

### Impact

**Short-term upside and long-term potential:** GIR has assembled a diverse exploration portfolio of seven iron ore exploration prospects, including four in the Pilbara, two in the Midwest and one in southern WA. GIR has completed a scoping study of its Dalton's / Mt Webber project that envisages trucking material around 150km to Port Hedland. This project provides capital light potential for early cash flow generation, with a timeframe of 18 months to first production.

**Exploration potential:** GIR offers longer-term exploration potential, with resource upside to its McPhee's Creek, Western Creek and Earraheedy prospects.

- McPhee's Creek, some 220km from Port Hedland, currently has 52mt resource with Fe of 62% (calcined). GIR's initial exploration target is 100- 150mt, to be achieved by drilling along strike. Further resource potential exists should the ore body prove to be continuous down dip.
- Western Creek has an exploration target of 100mt, with current resource of 52mt with 62.2% calcined Fe.
- Earraheedy, where GIR has 130km strike length, is a prospective but remote region. GIR has an exploration target of around 1bnt DSO at Earraheedy.

**Several hurdles remain:** Several hurdles need to be crossed in order for this value to be realised, including GIR realising its resource exploration targets, GIR accessing third party rail and port infrastructure / entering a haulage agreement and GIR transforming itself from an explorer to a producer.

**Leverage to third party haulage:** GIR's Daltons and Western Creek projects are located close to existing iron ore infrastructure. Declaration of third party infrastructure access or a haulage agreement could provide project valuation upside, as GIR could move from trucking to rail. GIR's Western Creek resource is an extension of BHP's Marra Mamba resources. This opens opportunity for mine gate sale or haulage arrangement with BHP.

### Earnings and target price revision

No change.

### Price catalyst

12-month price target: \$1.80.

Catalyst: Resource targets achieved; agreement on port and /or rail infrastructure access or haulage.

### Action and recommendation

Neutral recommendation and a price target of \$1.80. We keep a watching brief on GIR's exploration portfolio and its project development activities.

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## Recommendation Definition

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Strong outperform - return >10% in excess of benchmark return

Outperform - return 5-10% in excess of benchmark return

Market perform - return within 5% of benchmark return

Underperform - return 5-10% below benchmark return

Strong underperform - return >10% below benchmark return

Recommendations - 12 months

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## Volatility Index Definition

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This factor has been calculated from the volatility of historic price movements.

**Very High** - Highest Risk - Stock should be expected to move up or down 60 - 100% in a year - Investors should be aware this stock is highly speculative .

**High** - Stock should be expected to move up or down at least 40 - 60% in a year - Investors should be aware this stock could be speculative.

**Medium** - Stock should be expected to move up or down at least 30 - 40% in a year.

**Low/Medium** - Stock should be expected to move up or down at least 25 - 30% in a year.

**Low** - Stock should be expected to move up or down at least 15 - 25% in a year.

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