

Friday 11 February 2005

Overseas Market Report - Dow Jones Hits 05 High With Help From AIG and Exxon

The Dow Jones Industrial Average closed at its high of the year on Thursday with assistance from American International Group and Exxon Mobil.

The Dow industrials gained 85.50 points (0.8%) to 10,749.61, now 33 points away from being positive for the year. The Nasdaq Composite Index rose just 0.55 points (0.03%) to 2,053.10 and the Standard & Poor's 500 Index added 5.02 points (0.42%) to 1,197.01. On the New York Stock Exchange, there were 1,822 issues advancing, 1,463 declining and 154 unchanged. The market advanced despite a jump in the price of oil and a weaker US dollar.

American International Group was the best performer on the Dow industrial average, rising \$3.28 (4.7%) to \$72.59. The gain came after a 2.3% advance on Wednesday when the insurer issued a solid earnings report.

Exxon Mobil gained 80 cents (1.4%) to \$56.34 as crude topped \$47 a barrel, up \$1.64.

Aetna gained \$5.43 (4.2%) to \$133.98. The health insurer posted a 21% increase in fourth-quarter profit and raised its earnings projections for 2005 as it won more new business from rivals.

Sara Lee rose 95 cents (4.1%) to \$23.92. The maker of consumer products that include Sara Lee-branded baked goods and Ball Park hot dogs announced a new chief executive and a sweeping restructuring.

The American depositary shares of Ericsson (Nasdaq) lost \$2.56 (8.2%) to \$28.83. The world's largest maker of mobile telecommunications equipment reported a jump in fourth-quarter earnings but remained cautious about future growth.

Dell (Nasdaq) rose 58 cents (1.4%) to \$41.57 ahead of posting fourth-quarter results after the closing bell. The computer maker earned 37 cents a share when analysts were looking for 36 cents, but revenue slightly missed expectations.

Activision (Nasdaq) plunged \$3.49 (15%) to \$20.41. Some directors, officers and employees sold about 7.1 million shares of their holdings in the video game maker's common stock.

Cognizant Technology Solutions (Nasdaq) leapt \$6.38 (17%) to \$43.09. Fourth-quarter profit surged 73%, as the provider of information technology services continued to expand existing client relationships and experienced strong overall

growth.

Boyd Gaming gained \$5.61 (13%) to \$48.06. Fourth-quarter profit jumped as the casino operator benefited from the acquisition of Coast Casinos in July and growth in gambling in native Las Vegas.

The US deficit in international trade of goods and services shrank 4.9% to \$56.40 billion in December from a downwardly revised gap of \$59.33 billion in November, according to the Commerce Department. The November deficit was previously reported at \$60.30 billion.

Weekly initial jobless claims decreased by 13,000 to 303,000, after seasonal adjustments, in the week that ended Feb. 5 from an unrevised 316,000 in the Jan. 29 week, the Labor Department reported. The four-week average fell by 16,000 to 315,500. Economists say averages below 350,000 are evidence of net job creation.

Base metals on the LME finished up. Copper rose by its biggest margin in 12 weeks, as a gauge of inventories fell and the dollar declined against the euro, making the metal cheaper for buyers in Europe. Stockpiles monitored by the Comex division of the New York Mercantile Exchange dropped 199 tons to 45,618 tons, the first change since Jan. 27. All of the other metals followed suit, with nickel firming above US\$15,000/t and zinc hitting a 7-year high as production trailed demand and Nippon Mining Holdings Inc said it will shut a mine in Japan by the end of March next year.

Spot gold rose by its biggest level in two weeks after the U.S. trade deficit widened to a record in 2004, boosting the appeal of the precious metal as an alternative investment to U.S. assets.

Crude oil surged above \$47 a barrel after the International Energy Agency said global demand is increasing faster than expected. Oil consumption is predicted to be 84 million barrels a day this year, or 120,000 barrels more than the agency forecast last month. That would be a rise of 1.8%, after a 3.4% jump last year, which was the fastest oil demand growth since 1976. The agency also said inventories of oil and fuel held by industrialized nations fell in December.

Equities	Close	% change	Commodities	US\$	Close	% change
Dow Jones (US)	10749.61	0.80	Aluminium	US\$/t 3mth	1845.0	1.82
S&P 500	1197.01	0.42	Copper	US\$/t 3mth	3053.0	1.80
NASDAQ	2053.1	0.03	Nickel	US\$/t 3mth	15340.0	1.25
FTSE 100 (UK)	5000.0	0.19	Gold	US\$/oz	417.5	-0.07
Nikkei 225 (Japan)	11553.56	0.70	Oil	US\$/bbl	47.11	3.61

Australian Market Report - Positive Lead from Wall Street

US stocks provide a positive lead for local markets, with better than expected labour data and American International Group and Exxon Mobil as strong gainers. Ahead of the local open the SPI futures were 13 points (0.31%) higher at 4,167.

The Australian share market ended mixed Thursday, with the All Ords down slightly and the ASX 200 up a notch. Banking stocks were the biggest movers following CBA's strong result Wednesday. This is despite the release of stronger than expected employment figures which add to the likelihood of an early interest rate rise.

The All Ordinaries lost 3.2 points (0.08%) to 4,160 while the ASX 200 added 2.8 points (0.07%) to 4174.9. The ABS said the economy added another 44,500 jobs in January, beating consensus market expectations of 5,000 new jobs. Unemployment remained at 5.1%.

The Banking sector was up strongly with CBA continuing its strong rise from yesterday, adding \$1.33 (3.72%) to \$37.09, ANZ surging 91 cents (4.35%) to \$21.83, NAB climbing 65 cents (2.18%) to \$30.45 and Westpac (WBC) rising 61 cents (3.13%) to \$20.13.

Telco giant Telstra Corporation (TLS) reported underlying NPAT of \$2.32b for the half year ended 31 December 2004, up from \$2.13b in the pcp. Revenues from ordinary activities grew 4.5% on the pcp to \$10.95b. Growth was led by Pay TV up 86%, mobiles up 9%, Internet & IP up 33% and Sensis up 8.3%. These were partially offset by weak ISDN, specialised data and PTSN. Underlying diluted EPS was 18.5 cps, up from 16.6 cps in the pcp. Telstra advised underlying operating expenses rose 3.8% to \$5.5b, due to an increase in goods and services purchased supporting revenue growth. A fully franked interim dividend of 14 cps was declared along with a previously announced 6 cps special dividend. TLS said its focus is on domestic revenue growth trending towards industry levels and customer service improvement. TLS added 6 cents (1.15%) to \$5.30.

Beverage company Coca-Cola Amatil (CCL) delivered its fourth consecutive year of double-digit earnings growth for FY04. It reported net profit pre significant items rose 16.4% to \$278m and EPS adjusted increased by 15.2% to 39.5 cps. Return on capital employed improved by 1.1 basis points to 11.3%. The result was driven by a 12.1% EBIT growth in Australian operations from product and package innovation, growth in non-carbonated beverages, continued cold drink equipment placements, new outlet expansion and improved in-market execution. South Korea pre significant items recorded a decline in EBIT to \$4m with consumer confidence remaining poor throughout 2004. CCL added that following completion of the proposed SPC Ardmona acquisition, CCA will undertake a detailed strategic review of both SPC

Ardmona and CCA's existing beverage business in order to activate the immediate opportunities as well as assess the medium term direction. CCL shed 23 cents (2.81%) to \$7.95.

Leighton Holdings Limited (LEI) CEO & CFO Dieter Adams said full year net profit forecasts are around \$180m and the outlook for the next few years remains very solid. He commented the outlook is underpinned by an Australian construction market that's in the midst of a strong upswing, strong global demand for Australian exports and a diverse spread of work through Asia. He added that work in hand is around the \$15b mark and LEI is burning up work at the rate of about \$600m a month. LEI expects work in hand to vary from \$13b to \$15b over the next year. LEI lost 52 cents (4.41%) to \$11.26.

Materials company Adelaide Brighton Ltd (ABC) record adjusted NPAT of \$67.5m up 17% on the pcp. Sales revenue were \$703.9m, an increase of 10.5% on the back of increased cement volumes from the non residential sectors and Lime volumes as a result of additional demand from the resource sector. EPS not adjusted for a tax benefit was 12.5 cps, up from 10.7 cps. ABC said demand for cement is expected to remain at similar levels to 2004, however January sales were soft due to extended holidays and a general softening in the residential sector. ABC finished 5 cents (2.69%) lower at \$1.81.

Futuris Corporation (FCL) recorded profit before non-recurring items of \$28.3m, up 32% with sales up 15% to \$1,392.7m. Elders lifted underlying EBIT by 22% to \$25.5m. Insurance operations contributed investment interest of \$4.6m compared with \$3.4m in the 2004 first half. Air International lifted operating performance, with underlying EBIT up 28% to \$12.5m and Australian Agricultural Company (AAC) contributed earnings of \$2.5m. FCL added it expects underlying profit for 2005 to fall within the range of current market expectations. FCL added 8 cents (3.69%) to \$2.25.

Print Media company Rural Press (RUP) announced a record half year NPAT of \$58.4m, an increase of 39% over the pcp. Sales rose 17% to \$251.7m driven by Australian publishing and printing operations on the strength of the economic conditions in regional and rural Australia. Australian advertising volume growth of 9% was achieved over the prior period. Adjusting the benefit of acquisitions, on a like-for-like basis revenues jumped 10% and underlying NPAT rose 20%. An interim dividend of 13 cps and 14.3 cps fully franked was declared for ordinary and Preferred shares respectively. A new second interim dividend was introduced of 6 cps and 6.6 cps per ordinary and preferred share, fully franked. RUP gained 31 cents (2.98%) to \$10.70.

Australian Agricultural Company (AAC) reported preliminary NPAT of \$6.2m for the December 2004 half year, compared to a \$2.9m loss in the pcp. AAC changed year end balance date from June to December. Revenue rose 44% to \$79.7m and included \$62m of SGARA cattle revenue. AAC said the average closing cattle net market value per head rose 11.7% to \$679 at 31 December 2004, compared with \$608 at 31 December 2003. This reflects trading cattle increasing in value over the course of the year. Diluted EPS was 3 cps, up

from -1.4 cps in the pcp. Net operating cash outflow was \$16.1m, compared to an outflow of \$18.7m in the pcp. AAC declared a 70% franked interim dividend of 6 cps. AAC added it continues pursuit of appropriate acquisition opportunities. AAC added 1 cent (0.54%) to \$1.86.

Equities/Fixed Interest	Close	% change	Currency	Close	% change
All Ordinaries	4160.0	-0.08	AUD/USD	0.783	-0.03
S&P/ASX 200	4174.9	0.07	AUD/GBP	0.419	-0.07
10-year Bond Rate	5.35%	1.71	AUD/YEN	82.92	0.02
5-year Swap rate	5.83%	0.52	AUD/EUR	0.608	--
90-day Bank Bill Rate	5.64%	0.41	AUD/NZD	1.101	0.01

Industrial

Alesco Corporation (ALS)

Growth Delivered, Dividend Up

Accumulate **\$8.80**

Event

The conservative management team is delivering EPS growth across a diversified asset base. A maiden contribution from B&D Doors, continuing building and renovations activity and margin gains through productivity improvement drove NPAT 63.4% higher to \$17.5m for the half year to 30 November 2004.

The franked interim dividend was lifted to 20¢ from 15¢. The payout ratio is increased from 60-65% to 70% of pre-amortisation EPS, allowing excess franking credits to be used up.

The \$90.5m proceeds from the 31 December sale of the Automotive division went to pay down debt. Net debt/equity falls to less than 25% with a comfortable interest cover over six times.

Impact

The business mix has shifted toward cyclical property where the slowdown will be more prevalent in the second half. Continued activity through renovations and replacements and growth in Scientific & Testing should ensure sales remain ahead of last year, albeit moderately.

Management has shown its portfolio management skills, creating value through acquiring growth businesses with key positions in niche markets, improving productivity and selling under-performing businesses. Operating margins lifted above 10% from closer to 5% only a few years ago.

Guidance is for 15% EPS (pre-amortisation) growth in FY05. Currently trading on an FY06 pre-goodwill EPS of 12 times (figures below are, as usual, after amortisation) understates the prospects and the franked yield above 5% also attracts.

Cyclicality remains in the cash flows and the acquisition-seeking bent adds to risk through the potential for overpayment and possible integration complications.

However the company is not capital intensive and is likely to be a reasonable generator of cash. A stock suitable for long term yield portfolios.

FYE May		2003A	2004A	2005E	2006E
Reported NPAT	\$m	12.7	19.8	30.7	36.0
EPS	c	32.2	40.2	44.6	52.2
P/E	x	12.5	14.6	19.7	16.9
EPS Growth	%	17.5	24.8	10.9	17.0
DPS	c	26.0	33.0	44.0	48.0
Yield	%	5.6	5.6	5.0	5.5
Franking	%	100	100	100	100

Source: Intersuisse estimates

Commonwealth Bank (CBA)

Which New Bank starts to deliver

Buy Today for Dividends **\$37.09**

Event

CBA Reported Statutory NPAT Up 49.6% to \$1,859m for the six months ended 31 December 2004.

Compared with the pcp, EPS on an 'Underlying' basis increased by 9.7% from 115.1¢ to 126.3¢; on a 'Cash' basis by 39.8% from 95.5¢ to 133.5¢; and on a 'Statutory' basis by 48.0% from 95.7¢ to 141.6¢.

The franked dividend was increased from 79¢ to 85¢ with the cover on a 'Cash' basis up from 1.2 to 1.6 times and on an 'Underlying' basis steady at 1.5 times.

Banking performance was solid with net interest income up 9.8% to \$2.93bn on a 16.7% lift in average interest earning assets (volume) offset by a 16 point decline in net interest margin from 2.60% to 2.44%. Notably this margin only slipped by 2 basis points from the prior half's 2.46%.

Housing continued to dominate volume growth with group housing loans up 19.7% to \$134.3bn and in Australia up 18% to \$115.3bn.

Non-interest income was 2.7% higher than in the pcp at \$1.4bn, with fees and commissions up 3.5% to \$797m and lending fees up 4.7% to \$358m.

Housing loans now account for 64% of total gross loans and

advances and in Australia 65.4%. Growth in housing accounted for over 75% of the increase in group average lending assets. At 31 December, 56% of Australia home loan balances were Owner Occupied, 35% Investment and 9% Line of Credit. Some 32% of loans in the period were originated by third parties, up from 28% at June 30, 2004. No break down was provided for growth in mortgages and Home equity-type loans. We suggest the growth rate of the Home equity loans outpaced that of vanilla mortgages. Almost 72% of gross loans and advances were Housing and Personal with Business and Corporate just 28%.

The banking underlying expense ratio improved from 50.7% to 49.7%.

At this stage the Which New Bank initiative is delivering benefits ahead of plan. WNB benefits for the period were \$301m comprising \$117m in revenue benefits and \$184m in cost benefits. Forecast pre tax savings and benefits for FY05 are \$620m.

Credit quality remains strong with provision for Bad & Doubtful Debts at \$146m compared with \$150m in the pcp. The General Provision/Risk Weighted assets ratio was 0.76%, down from 0.86% at 31/12/03 and 0.82% at 30/6/04.

Funds Management improved but is still short of our expectations. Funds under administration (FUA) increased by 11.3% to \$117.4bn with operating income up 5.3% to \$620m. NPAT contribution increased 35% to \$170m. Expenses to average FUA improved from 0.85% to 0.74%.

Insurance NPAT was steady at \$67m while pre tax underlying profit was up 27%. In force premiums were 8.8% higher at \$1.2bn. Operating income increased by 12%. General insurance operations were impacted by higher claims associated with storms in the eastern states.

Impact

On the outlook the directors have indicated that FY05 'Cash' EPS will increase by 25-30% suggesting 258-268 cents compared with 206.5¢ for FY04. The compound annual growth rate for the years 2003-2006 is now expected to exceed 12% compared with previous guidance of 10%. courtesy of the strong FY05 performance. This suggests an FY06 'Cash' EPS circa 290¢.

Our current year 'Cash' NPAT estimate has been increased to \$3.37bn as the execution risk of WNB eases with the strong delivery in H1. Statutory NPAT has been increased from \$3.09bn to \$3.42bn. Statutory EPS has been increased from 243¢ to 269¢. Dividend expectation is increased from 202¢ to 205¢ with a payout ratio on 'Cash' NPAT of 77%.

'Cash' NPAT for FY06 has been increased from \$3.05bn to \$3.65bn and EPS to 287¢ while Statutory NPAT has increased from \$3.28bn to \$3.62bn and EPS from 255.9¢ to 285.0¢. DPS has been increased from 210 to 220 cents.

All NPAT measures were above expectation with the major positive swing factors being the extent of the reduction in the drag of Which New Bank and a \$100m jump in Appraisal Value Uplift.

CBA is a major provider of banking and financial services

throughout Australia and New Zealand. It has a powerful retail and business franchise in both countries. After a period of nirvana-like conditions in the banking sector the near term environment is less favourable. Consequently it is critical that the forecast FY05 benefits from 'Which new Bank' initiative is achieved. Management remains confident of achieving solid growth in cash EPS over the next three years which should continue to support increasing dividends.

Market share increased slightly in Home Loans to 19.6%, Credit Cards to 23.2% and Retail Funds management to 14.7%, while sliding slightly in Retail Deposits to 23.4% and Business Lending to 13.5%.

Brokers increased estimates and target prices in the light of the strong result and David Murray's forecast of 12%+ per annum growth over the next three years, up from a 10% target. CBA moved to be Australia's largest bank by market cap. eclipsing NAB as it moved to a record price. The bank goes ex-dividend on Monday for its 85¢ franked interim payable on 31 March. Even at these prices CBA is very attractive for its dividend yield (three in the next 13 months) and prospects and we recommend it as a Buy Today.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	\$m	1976.0	2535.0	3420.0	3620.0
EPS	c	157.3	196.8	269.0	285.0
P/E	x	17.9	15.3	13.8	13.0
EPS Growth	%	-24.8	25.1	36.7	5.9
DPS	c	154.0	183.0	205.0	220.0
Yield	%	6.1	6.1	5.5	5.9
Franking	%	100	100	100	100

Source: Intersuisse estimates

Coca-Cola Amatil (CCL)

Another solid result for FY04 ...

Accumulate **\$7.95**

Event

CCL's CY04 NPAT continued its excellent four year track-record. In a commendably clean result, underlying NPAT rose 16% to \$278m.

EPS rose by a solid 15% to 39c, slightly above forecasts. As expected, the final dividend is fully franked. Dividends will be franked for at least the next 2-3 years.

Korea is still to improve, with poor consumer confidence.

Reported statutory NPAT rose 44% to \$280.3m, including a minor one-off in CY04 and adjusting for the unusual tax payment in CY03.

Australia contributed 58% of group revenue, 83% of EBIT. This is mainly from 'more of the same', excellence in product innovation and customer focus. Excluding Neverfail, CCL lifted volume 4% and price 2.4%. Non-Coke products, mainly water and juice, formed 20% of divisional revenue, with Neverfail's high 28% EBIT margin lifting divisional EBIT over 1% to a solid 21.2%.

CCL's main growth distribution channels are convenience and leisure, rather than supermarkets. CCL will continue to spend around 6% of revenue on new coolers.

New Zealand growth was as positive, for similar reasons. CCL also lifted EBIT margins in Oceania and Indonesia by 1% to 18% and 6.9%. Indonesia will benefit from the cut in the luxury goods tax. CCL is more committed to Indonesia, playing its role in tsunami relief rebuilding. Korea is still to improve, with poor consumer confidence. CCL believes it now has the right strategy, sales team and longer-term parental commitment and advertising spend. Further discussions with The Coca Cola Company are planned soon, to raise its support in Korea.

SPC Ardmona will sensibly be included as a separate business unit from March.

The main change in the move to IFRS accounting - apart from the \$1.9bn write-down in intangibles - will be CCL's reporting gearing using net debt/ net debt plus equity. CCL confirms its underlying business, credit rating and dividend-paying ability will not change.

Impact

CCL is trying to pass on 5% higher costs, mainly aluminium and resin, with an equal price rise in December. This should stick, given CCL's premium branding.

CCL will probably re-set its next three year double-digit NPAT target after a strategic review, including SPC, disclosing its targets in June. CCL can arguably make packaged breakfast and snack fruit more appealing, but jam, beetroot and spaghetti may be more challenging.

CCL is a well-managed bottler of Coke and other non-alcoholic beverages, with a strong three year track record. After re-vitalising the mature Australian market, CCL has still to improve its Indonesian and Korean operations. CCL's mild diversification into packaged fruit, acquiring SPC, is still to be digested and optimised. Moves into other non-Coke markets have also been a highlight, with Neverfail a key move into bottled water. Gearing is relatively high. CCL is suitable for Accumulation by growth portfolios, with franked dividends now flagged to continue.

FYE Dec		2002A	2003A	2004A	2005E
Reported NPAT	\$m	206.3	238.8	278.0	310.0
EPS	c	29.6	34.1	39.0	41.8
P/E	x	19.9	17.0	20.4	19.0
EPS Growth	%	19.4	15.2	14.4	7.2
DPS	c	18.5	23.0	27.0	29.0
Yield	%	4.0	4.0	3.4	3.6
Franking	%	50	64	100	100

Source: Intersuisse estimates

Futuris (FCL)

1H05 Improving, All Parts Performing

Accumulate **\$2.25**

Event

FCL reported a moderately upbeat interim result.

Rural Services (Elders) contributed 55% of group EBIT and Auto (Air International) 27%. The two growth divisions, Property and Forestry, formed an encouraging 22%, compared to just 8% in FY03.

The interim dividend is maintained at 4¢ but fully franked, compared with 75%.

A major change in the period was the sale of 65% of Air International's Heating Ventilating and Air Conditioning business, Global Thermal Systems, to JP Morgan Partners. This realised a \$80.6m pre-tax profit, \$70.6m post tax. Other non-recurring items were a net provision of \$25m for an amended tax assessment a \$2.1m loss on sale of a hospital property and a \$5.2m write-down on the 47% owned Kareelya property group.

Other defining events of the period include the strategic partnership between Elders and AWB with WMR on fertiliser distribution and particularly FCL's rapid development in the hardwood industry via Integrated Tree Cropping (ITF) with the acquisition of Neville Smith Timber Industries, a stake in Forest Enterprises Australia and the acquisition of Australian Plantation Timber (APL).

Impact

As FCL's EBITDA margins are relatively low, small changes in its businesses have impact. FCL cannot offset low margin with high volumes, instead building diverse income streams. FCL investors have to accept this business model, with constant small changes.

Highlights included solid contributions within Elders from merchandising, banking and insurance, with fertilisers improving. Auto suffered from weak China motor vehicle sales. The stronger Property contribution will increase in the second half. The performance of 45% owned Australian Agricultural Company was strong and appears likely to continue so.

Gearing and cashflow is still heavily seasonal. Cashflow was negative \$193m but will correct in the second half. Gearing, using net debt/ net debt and equity, will similarly return to a strong level of 5% from 25%. This will be assisted by the \$180m cash receipt for the now concluded Global Thermal sale.

FCL is moving to become a diversified agribusiness- Elders and Forestry- with residual industrial interests in Auto Components. The corporate structure is complex with frequent changes, but improving under new management. Investing requires confidence in management's ability, in which we and the market have a growing belief. Balance sheet fundamentals are strong.

The group has made a good move with Air and as its remaining vehicle seating and other businesses develop profitability this long term strategic investment can be further realised. The move into timber has similar hallmarks of a sound long-term strategy. An earnings update will be provided when the next rural season trends are established, by June, but meanwhile, subject to the weather, FCL is well positioned to address its full year targets. Accumulate.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	\$m	19.6	62.8	78.0	91.0
EPS	c	3.1	9.6	11.7	13.7
P/E	x	44.7	16.2	19.2	16.4
EPS Growth	%	-50.8	209.7	21.9	17.1
DPS	c	8.0	8.0	8.3	8.5
Yield	%	5.2	5.2	3.7	3.8
Franking	%	75	75	100	100

Source: Intersuisse estimates

Southcorp (SRP)

All traveling to plan but more than discounted in price

Switch to Foster's \$4.36

Event

SRP's interim was a reassuring result emphatically confirming that the new management has made good progress in restoring the financial health of the company.

At the EBITA level profit firmed an impressive 28% to \$96.3m. NPAT, assisted by lower interest payments, grew an even more impressive 42.6% to \$60.6m.

Net debt has fallen by \$147m since 30 June 2004 and by \$390m from its peak of \$842m in July 2003.

EPS grew at the same rate as NPAT to 8.1¢.

Strong cash generation continued with \$121.9m of net operating cash flow recorded, 35% higher than in the pcp.

Impact

We have raised our estimates and valuation marginally. While the business is back on track, SRP is still priced for acquisition and discounts future improvements. Foster's price thus still looks attractive. SRP will release its Target Statement next week which will contain extensive detail about the business metrics and forecasts for FY05 and FY06.

Foster's takeover bid for SRP, pitched at \$4.17 cash per share, will now be worth \$4.14 following the 'show-off' unfranked 3¢ interim prematurely declared by SRP. While aggressive investors might continue to hold SRP in anticipation of a higher or competitive bid emerging, the market has marked down the price from the excessive \$4.76 touched on 17 January and is steadying at the current level. A 20¢ uplift is probably the most Trevor O'Hoy could squeeze from a board pressed by shareholders in impressed by the high cost of this acquisition, which is well above our \$3.15 fundamental valuation.

On 19 January we recommended investors sell part holdings in SRP at \$4.51. We now expect FGL to succeed and given SRP's highly desirable portfolio of iconic Australian brands, likely synergies and indications that some institutions are underweight FGL, we recommend a switch from SRP into FGL which has and will gain more upside and future.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	\$m	40.3	108.9	120.0	145.0
EPS	c	5.4	14.6	16.1	19.5
P/E	x	77.6	20.6	27.1	22.4
EPS Growth	%	-77.1	170.4	10.3	21.1
DPS	c	10.0	--	6.0	12.0
Yield	%	--	--	1.4	2.8
Franking	%	80	--	--	50

Source: Intersuisse estimates

Telstra (TLS)

Rings up a better than expected result

Accumulate for Yield up to current levels \$5.30

Event

TLS reported a better than expected result for the six months to 31 December 2004. Underlying NPAT increased by 8.8% from \$2.134bn to \$2.322bn following a 4.8% lift in sales revenue from \$10.45bn to \$10.95bn.

As previously indicated a special dividend of 6¢ was declared as part of the three year capital management program, in addition to the interim of 14¢, raised from 13¢.

Operating expenses rose by 4.4% to \$5.55bn and were in line with expectations. Group EBITDA margin declined slightly from 50.3% to 50.1% and EBIT margin edged higher from 33.1% to 33.4%.

Impact

Mobiles performed strongly with services revenue up 9.0% to \$1.896bn with almost one million new services added since 31 December 2003 and currently almost eight million services in operation.

Total internet and IP Solutions revenue rose by 33% to \$624m boosted by a 66% lift in BigPond broadband and a 77% jump in wholesale broadband revenues.

Revenue from the traditional Public Switched Telephone Network (PSTN), the copper wire network, fell 1.9% to \$3.972bn

Operating cash flow increased by 36.5% to almost \$4.0bn, however free cash flow was down 12% to \$1.61bn.

TLS will trade ex-dividend (both interim and special) on 24 March. Dividends are payable on 29 April.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	\$m	4528.0	4154.0	4280.0	4450.0
EPS	c	35.2	32.6	34.0	35.8
P/E	x	12.7	14.7	15.6	14.8
EPS Growth	%	23.9	-7.4	4.3	5.3
DPS	c	27.0	26.0	28.0	30.0
Yield	%	5.4	5.4	5.3	5.7
Franking	%	100	100	100	100

Source: Intersuisse estimates

Resources

Breakaway Resources (BRW)

Exploration Update

Speculative Buy \$0.04

Nickel Exploration To Commence on Miranda JV

The recent high-grade nickel drilling results that JBM has obtained from its emerging Prospero nickel prospect, just 4.5km south of its Cosmos mine in WA, are potentially very significant for BRW.

JBM has advised that recent drilling work at Prospero has returned spectacular intercepts of 11.3m @ 10.7% Ni and 10.15m @ 6.5% Ni. The results are significant as they suggest the emergence of the Prospero prospect as another high-grade nickel deposit to rival the spectacular grades at Cosmos.

From BRW's perspective these results are significant as it holds exploration ground through a joint venture with Gold Fields of South Africa, located just 3km south of the Prospero discovery. The Miranda Joint Venture as it is known, comprises acreage traditionally explored for gold, although recent work has indicated that nickel sulphide occurrences do occur on the acreage.

High resolution aeromag work has confirmed that the Cosmos ultramafic structure runs from the Cosmos mine in the north, southwards into the JV ground. Analysis of past shallow RAB drilling has also confirmed that anomalous nickel values of up to 0.7% have been returned.

Impact

We anticipate a significant exploration program by the joint venture on its Miranda Project, given its proximity of just a few km to both the emerging prospero deposit and the high-grade Cosmos mine, just a few km to the north. It is quite an outstanding exploration address and we rate BRW as a Spec Buy. The company is well positioned cash-wise with \$3.1m on hand following a placement to Lion Ore during 2004.

Hardman Resources (HDR)

Situation Update

Accumulate **\$1.86**

Chinguetti Development Continues on Track

Development of the Chinguetti project continues on track for first production in 1Q06. Initially the project will comprise six production wells. The Floating Production Storage & Offload (FPSO) ship arrived in Singapore for conversion works. The vessel will be leased not owned. The partners agreed to a sixth water injector well, increasing the project capital cost by \$25m to \$625m including contingencies. HDR secured a US\$100m project facility which will be used to cover 80% of its share of costs. The Mauritanian government took a 12% equity position which reduced HDR's interest on a pro-rata basis from 21.6% to 19.01%. We value HDR's share of the 140mmbo Chinguetti field at A\$0.40ps.

Approximately 25km to the north of Chinguetti, four Tiof appraisal wells were completed with Tiof-3 yielding a 134m gross oil column, Tiof-4 (113m), Tiof 5 (23m) and Tiof-6 (123m). Tiof-3 was successfully cored but mechanical problems meant that the well could not be flow tested to its potential. T-4 and T-5 were not planned for flow testing. T-6

will be tested in the near future. We value HDR's share of the Tiof discovery at A\$0.51ps.

Cash levels decreased by A\$44.3m to A\$243.8m with the predominant use of funds comprising Chinguetti development activities and other Mauritanian exploration and appraisal work.

Impact

HDR is the most leveraged of the three Australian listed players in Mauritania. It has five times the leverage of WPL and 1.5 times the leverage of ROC.

An indicative 7-9 well exploration program in the Woodside JV Mauritania areas will start in mid -005. We retain an Accumulate recommendation on HDR.

FYE Jun		2003A	2004A	2005E	2006E
Reported NPAT	\$m	-5.7	-47.7	1.2	35.8
EPS	c	-1.3	-9.3	0.2	5.4
P/E	x	--	--	930.0	34.4
EPS Growth	%	--	--	--	2600.0

Source: Intersuisse estimates

WMC Resources (WMR)

2004 Full-Year Results

Hold/Reduce Above \$7.80 **\$7.49**

Strong Result As Expected

WMR's record headline profit of \$1,326.9m was more than five times the CY03 result, in line with the target statement forecast of \$1,327m. Headline EPS rose similarly to 114.3c.

A number of one-off items boosted the result. After tax abnormals included \$529.4m in tax benefits from consolidation and unrealised losses, \$50.3m in insurance proceeds and \$29.4m in gains from the sale of tenements.

Normalised NPAT rose threefold \$736.0m. Target Statement guidance was for \$697m. Normalised EPS was up to 63.5c.

Sales revenue increased by 27.6% to \$3.83bn, underpinned by stronger production and A\$ commodity prices. Average CY04 A\$ prices advanced 27.5% for Ni, 41.9% for Cu and 9.0% for DAP.

Nickel EBIT was up 82.9% to \$867m on higher prices.

Olympic Dam EBIT lifted from -\$97m to \$244m on record copper production and increased prices.

Fertiliser division EBIT improved from -\$26m to \$2m.

Impact

The result was in line with our expectations, as flagged in the Target Statement.

The outlook for WMR's key products is strong, driven by Chinese consumption.

In the webcast, WMR stated a number of parties were looking at Olympic Dam and the company. Rising industry-wide cost pressures are now a reality.

WMR is one of the few remaining Australian-based, diversified mining houses. The company boasts a world class nickel mining and smelting business in Western

Australia. Olympic Dam in South Australia hosts significant copper/uranium/gold operations, the world's fourth largest remaining copper and gold resource and the largest global uranium resource. The company has a number of top shelf growth options, however, management has been criticised over a number of years for its inability to extract value from assets. Nickel and copper prices are the main earnings drivers.

WMR is cyclical, suitable for investors with an appetite for commodity exposure and an understanding of the inherent risks. We maintain our Hold recommendation with a view to potential third party bidders. In the absence of a counter bid we would look to reduce above \$7.80.

FYE Dec		2003A	2004E	2005E	2006E
Reported NPAT	\$m	235.9	736.0	680.5	737.8
EPS	c	20.8	63.5	57.8	62.6
P/E	x	20.3	11.8	13.0	12.0
EPS Growth	%	--	205.3	-9.0	8.3
DPS	c	6.0	37.0	27.0	30.0
Yield	%	4.9	4.9	3.6	4.0
Franking	%	--	--	--	100

Source: Intersuisse estimates

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