

Monthly Market Watch – April Issue 2009

MARKET COMMENTS – MARCH

The Australian sharemarket rallied off its lows in March, registering its first positive monthly return since August 2008 and its strongest monthly gain since April 1995. The All Ordinaries index rose 7.1%, but is still down 34.7% over the past 12 months.

These gains came after the All Ordinaries Index tested a new low on 6 March 2009, reaching 3,111, down 54.6% from its peak on 1 November 2007. Renewed concerns over the US financial sector, with AIG reporting a \$US61.7 billion quarterly loss, led sharemarkets lower. The functionality of the UK banking system was also called into question, with additional capital needed for some banks. Since the low on 6 March, the All Ordinaries Index rallied 13.5% to the end of month.

The announcement of the Public Private Investment Program (PPIP) by the US Treasury buoyed markets. The plan will use a combination of government and private money to purchase between \$US500 billion and \$US1 trillion in legacy (i.e. bad) loans and securities. The aim is to take the 'toxic assets' off bank balance sheets and find a market price for legacy loans by creating an investment fund to purchase these troubled assets. This should reduce uncertainty within the banking system and encourage confidence.

This helped the Australian Financials ex-Property sector rise 14.0% in March. The major banks rose, with ANZ Banking Group (+18.3%), Commonwealth Bank of Australia (+16.5%), Westpac Banking Corporation (+13.0%) and National Australia Bank (+12.4%) appreciating. Some signs of risk taking returned to the market, with Macquarie Group gaining 59.3%.

Among the sectors, Industrials (+15.4%) was the best performer, offsetting recent falls, on hope that financing conditions were improving and as some businesses considered restructuring. Asciano Group (+104.5%), Macquarie Infrastructure Group (+42.7%) and United Group (+24.1%) were the better performers. The Materials sector (+9.4%) also had a strong month, assisted by gains in commodity prices and renewed investor interest in the sector. Healthcare (-8.2%) and Telecoms (-4.8%) both fell, as defensive sectors moved out of favour over the month.

Some hints of optimism returned to sharemarkets in March and while this has provided the market with hope, caution is needed. Economic data in Australia is likely to get worse over coming months, reflecting the force of the global recession. While the sharemarket appears to have factored in much of the expected bad news, low confidence and risk aversion may take over and the sharemarket could retreat again. Nevertheless, recent aggressive policy actions in the US and UK are positive and should make a difference over time and help the global economy recover in 2010.

Overseas sharemarkets recovered in March, with major policy announcements in the US and UK and suggestions that some economic indicators were bottoming. Gains were particularly strong across parts of Asia and in the US, with European markets more muted.

US sharemarkets rose during the month, despite predictions by Standard & Poor's that aggregate dividends by S&P 500 companies will fall 23% this year, the biggest decline since 1938. The Dow Jones Industrial Average was up 7.7%, the S&P 500 rose 8.5% and the NASDAQ was up 10.9%.

European markets moved higher, although less so than indices in the US. European economies continue to work through very weak conditions, with the policy response muted compared to some other regions.

Australia's economic growth figures (as measured by gross domestic product, GDP) made news in March. Economic growth was weaker than expected at -0.5% for the December quarter 2008 (versus +0.1% for the September quarter). This took the annual pace of growth to just 0.3%, the lowest rate since the end of 1991 (the last recession).

Of note, non-farm GDP growth (which covers just under 98% of the total economy) fell 0.8% in the December quarter, following on from a 0.2% fall in the September quarter, meeting one of the technical definitions of a recession, being two consecutive negative quarters of economic growth. The expectation by the market is that the broad economy will meet this definition when March quarter 2009 GDP figures are released in early June.

The International Monetary Fund (IMF) released updated forecasts for global economic growth. The IMF now believes the global economy is set to experience a negative year of growth in 2009 for the first time in 60 years, describing the current environment as "the great recession". In releasing its latest forecast, the IMF now expects the global economy to contract between -1.0% and -0.5% in 2009 before recovering in 2010, with positive growth of between 1.5% and 2.5%.

STOCKS TO THE NEWS

Bendigo Community Telco Limited (BCT)

The directors have reported on the company's half-year results. The company has recorded a reduction in revenues and half-yearly profit which was due to aggressive competition and repricing in the local telecommunications market, investments in infrastructure and, reduced investment income.

An interim dividend of 5 cents per share has been declared. Full details of their half-year results can be found at www.bendigotelco.com.au

STOCKS TO CONSIDER

Westpac Banking Corporation Limited (WBC) - BUY

The St George Bank merger has been well timed and the integration is expected to be successfully completed over the next few years. The \$2.5B capital raising in December 2008 is expected to underpin business growth as the bank continues to consolidate its strong market position and at the same time cope with slowing economic conditions. Westpac is expected to leverage its brand and distribution strengths to support earnings growth.

Earnings forecasts have been impacted by increased bad-debt expenses and elevated funding costs. The slowdown in economic activity is also a concern. However, recent capital raisings will support business growth and provide some short term buffer. Westpac is considered to be well positioned to take advantage of market conditions and strong earnings recovery is expected in 2009/10, following softness in 2008/09.

Price as at 9 April 2009 \$20.00

Crown Limited (CWN) - BUY

Crown is a listed entity born out of the demerged PBL. The company houses the gaming interests of PBL and has set about building a position as a global provider of gaming services. Melbourne's Crown Casino and Perth's Burswood

Casino are the key assets, while holding stakes in Macau as well as minority stakes in several offshore gaming assets make up the balance of the portfolio.

Long term, it is expected that Crown will position itself as a global gaming business, with operations established in several continents.

Crown is expected to expand locally and overseas via a combination of its internal development pipeline and acquisition. The company's Australian assets are liked however caution remains about the company's overseas ventures. The termination of the Cannery acquisition is favourable for the company and restores balance sheet flexibility.

Price as at 9 April 2009 \$6.35

United Group Limited (UGL) - BUY

United Group is a well-run contractor with a diversified sector exposure. The company is exposed to the long-term growth trend for outsourcing in property services, facilities management and asset maintenance. United Group is also well positioned to participate in various business sector cycles, such as resources and engineering construction. Long-term growth is also supported by government investment in infrastructure, water and defence, and aided by a pursuit of increased recurring revenue streams.

It is noted that there are components of United Group's business, mainly within the resources and rail divisions, that are exposed to the weaker outlook to mining volume growth. That said, the company's diversified sector exposure eases cyclicality concerns in any one sector. It's exposure to long-term rail and industrial maintenance contracts provide further shield.

Price as at 9 April 2009 \$9.62

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