

## Monthly Market Watch – March Issue 2010

### **MARKET COMMENTS – FEBRUARY**

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Equity markets posted positive performance for the month of February, despite rising concerns over the sovereign risk of Greece and surrounding European countries such as Spain, Portugal and Italy. Positive economic data was released throughout the month, indicating that the recovery from the global financial crisis is continuing in the US and other major economies. However, there is still apprehension amongst investors in regard to the sustainability of the recovery, as central banks proceed to remove their accommodative policy settings.

Australian equities gained 2.0% in February, as December profit results showed a return to profits for the majority of Australian companies. Profits for industrial companies rose 3.8 per cent compared to a year earlier, with around 80% of all Australian company results in line with expectations and approximately 10% better than expected. The mining industry was hit by lower commodity prices and a higher Australian dollar, with average results declining by 23%. One of the major positives to come out of December's results was the forecasts for earnings growth, which on average is expected to be around 6% for the 2010 financial year.

Global equities also posted positive returns in February. The MSCI World Index rose 1.5% in Australian dollar terms, which was negatively affected by the appreciating Australian dollar. Macro economic events such as unemployment levels, rate rises and GDP figures were the driving factors behind sentiment and caused shorter term volatility.

Performance of smaller companies was mixed, with global small caps rising by 2.6% and Australian small caps decreasing by 3.2% for the month, largely due to the resources sector.

Australia has weathered the global financial crisis, thanks to timely fiscal and monetary policy management by the RBA and Federal Government, as well as stronger than expected growth in China. This recovery has led to the RBA increasing the official cash rate up to 4.00%, with the RBA likely to progressively raise the rate to around 4.5% to 5.0% by the end of the 2010 calendar year.

### **STOCKS IN THE NEWS**

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#### **Toll Holdings (TOL)**

Toll Holdings share price dropped 18% in a single day following the release of its first half profit results, released on 25 February 2010. The transport and logistics company booked a 32% decline in its profits for the first half of the 2010 financial year from the previous corresponding period, and also reported that it expected the second half results to be broadly in line with the first half.

Market conditions did not live up to the positive expectations of Toll, as projected in its 2009 results announcement. Toll managing director Paul Little stated that Toll has experienced one of the toughest trading environments for the logistics sector in many years. Toll's Asian businesses also continued to experience flat trading conditions.

Many investors sold down in the stock as a number of analysts' downgraded their earnings forecasts, given Toll's projections that the next half's results would not provide a significant improvement on profits from the first half. Our major research provider Aegis Equity Research reduced their rating from "Add" to "Neutral", and lowered their valuation and 12 month price target. Despite these devaluations, Aegis still state that Toll has sound growth prospects, and will benefit once trade activity recovers.

*Price as at 12 March 2010 \$7.07*

#### **QBE Insurance Group (QBE)**

QBE reported its 2009 full year results on 26 February 2010, showing a rise in net profit of 6% from the previous year. Whilst this result was only slightly below market expectations, QBE's share price fell 7% on the announcement.

The reason for QBE's punishment on the sharemarket lay in the growth outlook announced by the company in its reports. QBE stated that the rising Australian dollar would continue to negatively impact the company's income derived from overseas, whilst profit margins were expected to be maintained. Around 75% of QBE's premium revenue is generated internationally, making QBE highly sensitive to an appreciating Australian dollar.

QBE will continue to pursue its expansion policy by growing its business and looking for acquisition opportunities, which should support near term earnings growth. QBE increased their final dividend payment by 1 cent to 66 cents per share. QBE continue to be well rated by our research, with Aegis Equity Research currently rating the stock as a "Buy".

*Price as at 12 March 2010 \$21.15*

## **STOCKS TO CONSIDER**

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### **Woolworths Ltd (WOW) – BUY**

Woolworths is an Australian retail company with more than 2,400 stores across Australia and 200 supermarkets in New Zealand. Woolworths' major brands include Woolworths, Safeway, Dick Smith Electronics, Tandy Electronics, Woolworths Liquor, BWS, Dan Murphy's, Plus Petrol, Big W and more. Supermarkets generate 80% of Woolworths' total annual sales.

Given Woolworths' superior retail structure, the company continues to be well rated, and is expected to deliver above average earnings growth over the medium to long term. The company is very well managed, operates a solid balance sheet with little debt and is in a strong competitive position.

Earnings growth is expected to be underpinned by Woolworths' leading position in supermarkets, petrol and liquor. The development of the new 2010 store formats, which is currently 50% implemented, is set to be a long term positive for the company, also adding to growth prospects.

*Price as at 12 March 2010 \$28.50*

### **BHP Billiton (BHP) - ADD**

BHP is a supplier of a broad range of commodities across the globe. The company has over US\$45 billion in high quality assets that include iron ore, coke and thermal coal, nickel, alumina/aluminium, copper and petroleum. There are also strategic positions in a number of other types of metals and commodities. BHP's new projects under development and approved amount to US\$14 billion.

BHP operates a portfolio of long-life, low-cost assets and a string of major commodity projects that will add to the company's underlying value and production base over the medium to long term. BHP has a proven track record in being able to successfully deliver low-operating cost projects.

The company's strong financial position will enable it to maintain its current momentum in exploration and development. Commodity prices have started to increase as the global recession

has eased and economic activity partially restored. BHP continues to be well positioned to benefit from any further upswings in commodity demand driven by the developing economies such as China and India.

Short term costs may begin to rise and eat into margins; however BHP is still an attractive long-term investment opportunity.

*Price as at 12 March 2010 \$42.85*

### **Newcrest Mining (NCM) - ADD**

Newcrest Mining is a major Australian gold-copper producer, with mining and exploration projects in Australia, Indonesia and Papua New Guinea. The company is Australia's largest independent domestic gold producer, with core assets being the world-class Cadia copper-gold mineral complex in NSW and the Telfer mine in WA. Newcrest is looking to grow its business by developing these two projects primarily, whereas other major gold companies have secured growth by acquisition.

In the short term, Newcrest has to progress from naturally declining open pit operations to new underground mines and continue to pursue a number of improvement initiatives focused on lowering costs and maximising throughput of existing plant and equipment for all its sites.

Newcrest operates the best asset suite of the few remaining independent Australian gold producers. The company's future developments will continue to add earnings growth potential over the long term. Aegis Equity Research state that Newcrest is a solid core portfolio gold stock, and is currently rated as "Add".

*Price as at 12 March 2010 \$34.21*

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