ABN·AMRO Morgans

Investment Watch

September 2007

Table 1: Key Movements for August 2007

Indicator	Close at 31-08-07	Monthly Change (%)	Year to Date (%)*
ASX 200	6247	1.7	25.3
Dow Jones	13358	1.1	19.4
S & P 500	1474	1.3	15.5
Nasdaq	2596	2.0	24.1
FT100	6303	-0.9	6.3

Source: ABN AMRO Morgans, IRESS. * Rolling Year to date as at 31-Aug-2006

Another Strong Reporting Season

The Australian sharemarket (ASX200) gained strength in August (1.7%) and significantly outperformed other world markets, with the MSCI ex-Australia index down -0.2%. The index has now recovered most of the losses caused by the correction in July and is now up 22.1% in absolute performance terms for the year ending 31 August 2007.

The local reporting season was once again a strong one and we believe that the results are testament to the overall strength of the Australian economy. Forty percent of stocks reported in line with our expectations, whilst 37% reported earnings that surprised on the upside. The level of earnings surprise matched previous years. Page 2 and 3 give an overview of the key highlights from this year's reporting season and some key picks (coming out of it).

August saw the Australian cash rate increase by 25 basis points to 6.50%, its highest level in ten years. Given the recent market volatility, more defensive income yielding investments are receiving greater attention. On page 4 we highlight some dividend paying investments and on page 5 we look at the infrastructure sector as a safe haven for income investors.

We also feature in this edition:

- The consolidation activity in the smaller end of the banking sector on page 6;
- Page 7 provides updates on the Coles Group (CGJ) takeover by Wesfarmers (WES) and potential bids for Brambles (BXB), Dyno Nobel (DXL) and Coates Hire (COA);
- Our preferred portfolio picks update – stocks in each category that we believe offer the best value in current market conditions on pages 8 and 9.

Table 2: Sector Performance for August 2007

Sector	31 July-07	31 Aug-07	Change (%)	Major Companies
Telecommunications	1647	1555	-5.6%	TLS, TEL
Property Trusts	2251	2418	7.4%	WDC, GPT, SGP
Consumer Discretionary	2823	2731	-3.3%	NWS, TAH, PBL, FXJ
Utilities	7387	7241	-2.0%	AAN, AGK
Financials	6863	7064	2.9%	NAB, CBA, ANZ, WBC, AMP
Industrials	6819	6941	1.8%	WES, QAN, BXB
Information Technology	597	600	0.6%	VSL, IFM, ERG
Energy	14241	14271	0.2%	WPL, STO, ORG
Materials	13425	13541	0.9%	BHP, RIO, AMC, CSR
Consumer Staples	7814	8225	5.3%	WOW, FGL, CGJ
Healthcare	8433	8911	5.7%	CSL, SYB, COH

Source: ABN AMRO Morgans, IRESS

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

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Reporting Season Wrap Up

Even the most bearish of market commentators would have to agree that the recent reporting season was a good one, solidly beating market expectations. Leading up to the season, consensus expectations for overall market earnings growth were only slightly above 16%, our own expectation was for 18.7% growth, and the market delivered 21%.

A breakdown of our expectations for the season compared to what was reported is tabled below. We also show a comparison to other recent reporting seasons.

Table 3: Aggregated company results, June 2007

Reporting period	In line with expectations	Surprise v expectations	Disappoint v expectations
June 2007 (215 stocks)	40%	37%	23%
December 2006	27%	37%	36%
June 2006	43%	33%	24%
December 2005	28%	44%	28%
June 2005	32%	44%	24%

In line = +/-2.5% of ABN AMRO forecast Source: ABN AMRO earnings forecasts vs normalised results

In terms of the split between large caps and small caps, the results were similar but overall 5% more small caps than large caps surprised on the upside. This is testament to the strength of the Australian economy as small caps are a more likely indicator of tougher operating conditions. Also encouraging was the tone of management outlook comments which for the most part were for similar results in FY08 with one third of companies having a more positive tone (see table below). The number of companies with a negative outlook was less than half those from the previous reporting season.

Table 4: Aggregated management outlook comments

Reporting period	Positive outlook	Neutral outlook	Negative outlook	Net positive
June 2007 (215 stocks so far)	33%	61%	6%	**27%**
December 2006 results	36%	51%	13%	**23%**
AGM - November 2006	26%	64%	11%	**15%**
June 2006 results	39%	42%	19%	**20%**

Source: Company data, ABN AMRO

A key surprise that came out of reporting season was the ongoing high level of cash on balance sheets which (ex the Financials sector) totalled a record $54 billion. A breakdown of cash by sector is provided below. Corporate gearing remains at comfortable levels (<30% net debt to total assets) and the announcement of capital management initiatives such as higher dividends and/or buybacks was positive.

Table 5 : ASX 200 aggregated sector cash & deposits

Sector	2006 (A$b)	2007 (A$b)	2008 (A$b)	Change yoy (%)
Consumer Discretionary	11.6	17.6	17.3	-1.7
Energy	2.6	2.2	2.7	23.1
Financials ex property	56.9	77.2	87.2	13.0
Healthcare	1.8	1.6	1.5	-3.4
Info Technology	0.3	0.3	0.4	17.2
Materials	7.3	8.9	22.4	151.0
Industrials	10.1	12.8	11.0	-14.4
Property	1.0	1.3	1.0	-23.8
Consumer Staples	2.9	2.6	2.1	-17.9
Telecoms	0.9	2.7	1.1	-57.1
Utilities	1.2	1.5	1.4	-10.2
S&P/ASX 200	**96.6**	**128.8**	**148.2**	**15.1**
ex Financials	**42.2**	**54.6**	**64.7**	**18.6**

Source: Company data, ABN AMRO forecasts2006 actual, 2007 actual & forecast, 2008 forecast

Reporting Season Wrap Up Continued

Our expectations for earnings growth in FY08 by sector is summarised in the table below:

Table 6: Summary earnings forecasts by sector (%)

Sector	2005	2006	2007A	2008F	2009F
Consumer Discretionary	12.2	23.8	16.6	12.8	14.4
Energy	47.4	23.2	2.4	18.0	-3.7
Healthcare	28.4	34.1	31.8	31.3	16.4
Info Technology	31.3	10.1	43.0	16.6	13.0
Materials	68.8	46.7	19.5	14.0	-2.0
Industrials	7.8	12.0	28.2	0.0	13.4
Property	68.2	6.2	6.9	19.7	7.8
Consumer Staples	12.1	7.2	12.6	17.7	10.2
Telecoms	4.4	-26.1	2.2	6.8	13.5
Utilities	18.1	-52.4	18.4	44.4	24.3
Financials ex Property	16.6	16.3	15.6	12.5	9.8
S&P/ASX 200	**28.2**	**20.9**	**16.4**	**13.3**	**5.5**

Source: Company data, ABN AMRO forecasts

Many of the themes we have been highlighting for the past 12 months remain in tact. Firstly, the resources sector continues to prove its resilience with diversified miners such as **BHP (BHP, Buy, $44.48 price target)** and **RIO (RIO, Buy, $106.00 price target)** delivering record profits and reiterating their positive outlook. We believe that the China growth story will continue to keep demand for resources at healthy levels.

Infrastructure and non-residential construction sectors produced very strong results on the back of continued capital expenditure. We believe that being an election year, infrastructure investment will remain a focus and thus maintain our preference for this sector. Stocks that performed well in FY07 and upgraded their outlook for FY08 include **Leighton (LEI, Buy, $51.10 price target), Transfield Services (TSI, Buy, $2.50 price target), Ausenco (AAX, Buy, $10.73 price target), Macmahon (MAH, Buy, $1.69 price target), Sedgman (SDM, Hold, $3.49 price target) and Hastie (HST, Buy, $4.60 price target).**

The financial services sector also reported strong results supported by the recent superannuation tax law reforms which we believe will continue to see mandated growth in the sector in future reporting periods. Our key picks include **AMP (AMP, Buy, $11.45 price target), AXA Asia Pacific Holdings (AXA, Buy, $8.65 price target), Challenger Financial Services (CGF, Buy, $6.15 price target)** and **Australian Wealth Management (AUW, Buy, $3.21 price target).**

Client portfolios should stay with large blue chip names and we highlight companies coming out of the reporting season that once again proved the quality of their earnings. Our key picks are **Woolworths (WOW, Buy, $32.95 price target), Toll Holdings (TOL, Buy, $15.75 price target) Brambles (BXB, Buy, $14.00 price target)** and **QBE Insurance (QBE, Buy, $35.95 price target)** while other solid performers include **Lend Lease (LLC, Buy, $21.50 price target) Suncorp (SUN, Buy, $22.99 price target) Harvey Norman (HVN, Buy, $6.26 price target) CSL (CSL, Hold, $96.00 price target) and Cochlear (COH, Hold, $67.50 price target)**

To read the full reports for these companies please logon to our website at www.abnamromorgans.com.au or ask your adviser for a copy.

Dividends Pay Their Way

In times of market volatility the market tends to increase its appetite for defensive stocks. One characteristic that makes a stock defensive is its ability to pay dividends. Often investors neglect to account for the benefit of dividend returns instead focusing on share price movements.

August and September are two key months of the year for dividend payments and we highlight the opportunity for investors to buy stocks at this time to access an immediate return on their investment, which can sometimes act as a hedge to any capital movements.

This can be particularly true if a share price does not fully adjust for a dividend and its franking component after it has gone ex this entitlement. The franking component is often overlooked as many institutional and offshore investors do not place a value on it. But all retail investors can use franking credits either to offset income tax payable or to receive cash back where it can not be fully utilised.

In the table below we list companies who are paying dividends over the coming two months for investors who wish to take advantage of the income these stocks can provide during periods of market volatility.

Table 7: Stocks going ex dividend in the coming months

Company	ASX Code	Dividend Per share	Dividend Yield (%)*	Franking	*Ex Date*	Gross Div Yield (%)*
AMP Ltd	AMP	$0.22	4.2	85%	10 Sep 07	5.7
BHP Billiton	BHP	$0.336	1.5	100%	10 Sep 07	2.1
Leighton Holdings	LEI	$0.65	2.3	100%	10 Sep 07	2.7
OneSteel	OST	$0.105	2.9	100%	10 Sep 07	4.1
Tattersall's	TTS	$0.10	4.1	100%	10 Sep 07	5.9
Toll Holdings	TOL	$0.11	2.3	100%	11 Sep 07	3.2
Oxiana	OXR	$0.04	2.8	0%	14 Sep 07	4.0
Brambles	BXB	$0.17	1.2	20%	17 Sep 07	1.3
CSL Ltd	CSL	$0.55	1.0	0%	17 Sep 07	1.2
Gunns	GNS	$0.08	4.3	100%	17 Sep 07	6.2
Symbion Health	SYB	$0.05	2.2	100%	18 Sep 07	3.1
Challenger Financial Services	CGF	$0.075	2.2	100%	20 Sep 07	2.2
Billabong International	BBG	$0.27	3.3	100%	24 Sep 07	4.7
BlueScope Steel	BSL	$0.26	4.5	100%	24 Sep 07	6.4
Oil Search	OSH	$0.04	2.7	0%	24 Sep 07	2.7
Publishing & Broadcasting	PBL	$0.25	3.0	100%	24 Sep 07	4.3
Futuris Corporation	FCL	$0.055	3.8	100%	2 Oct 07	5.4
David Jones	DJS	$0.125	4.2	100%	5 Oct 07	5.9
Coles Group	CGJ	$0.23	2.9	100%	15 Oct 07	4.1
Seven Network	SEV	$0.17	2.5	100%	17 Oct 07	3.5
Wesfarmers	WES	$1.40	5.8	100%	29 Oct 07	8.3
Zinifex	ZFX	$0.70	9.6	100%	30 Oct 07	13.7
Harvey Norman Holdings	HVN	$0.06	1.9	100%	2 Nov 07	2.7
Westpac Banking Corporation	WBC	$0.68	4.8	100%	6 Nov 07	6.9
ANZ Banking Group	ANZ	$0.77	4.8	100%	8 Nov 07	6.8
Bank of Queensland	BOQ	$0.34	3.6	100%	9 Nov 07	5.2
CSR Ltd	CSR	$0.06	4.7	100%	14 Nov 07	6.7
National Australia Bank	NAB	$0.96	4.6	100%	16 Nov 07	6.5
Macquarie Bank	MBL	$1.325	4.4	90%	19 Nov 07	6.1

*Includes stock covered by ABN AMRO and ABN AMRO Morgans. *Yields are on a full year basis.*
Source: ABN AMRO earnings forecasts vs normalised results

Infrastructure plays provide safe haven in volatile markets

Despite a recent sell-off, one sector that should not be overlooked in times of market volatility is infrastructure. This sector boasts defensive characteristics such as stable and predictable earnings and strong yields with the possibility of asset growth.

When interest rates rise the infrastructure sector is often impacted due to its benchmarking against bond yields and a misconception that the high level of borrowings will be impacted by higher interest rates. The benchmarking to bond yields is due to the sector having the bond-like characteristics of steady and regular cash flow with regular distributions. Consequently, infrastructure yields tend to look less attractive when compared to a rise in the 'risk free' rate government bond yield. In terms of the impact of higher interest rates on costs it is true that due to the reliability of long term cash flows infrastructure assets tend to have relatively high gearing (sector average is roughly 60% debt). But the vast majority of infrastructure companies have in place high levels of hedging to mitigate changes in interest rates. Owners of regulated assets (and therefore regulated cash flows) often align their interest rate hedges with each regulation (cash flow) period, mitigating cash flow loss or impact on their debt servicing ability.

We also believe that investors should recognise that while the yield earned on infrastructure assets may look less competitive in comparison to fixed interest stocks in a higher interest rate environment, infrastructure assets have the potential for capital growth.

Our preferred plays include **Babcock & Brown Infrastructure (BBI, Buy, $2.00 price target)** which has 98% of its principal debt hedged for the term of the debt to the extent that even a 1% increase in interest rates would only result in 0.25 cent per share reduction in distribution. **Macquarie Communications (MCG, Buy, $7.00 Price target)** where assets are over 95% hedged for the next four years, so will be minimally impacted from rising interest rates. Cashflows in the underlying assets are expected to grow strongly over the next 2-3 years as Airwave ramps up and the National Grid synergies are realised. **Babcock & Brown Power (BBP, Buy, $3.80 price target)** which is set to benefit from rising electricity prices and value-accretive greenfield developments. It currently has 80-85% of its debt hedged. **Transfield Services Infrastructure (TSI, Buy, $2.50 price target)** which has interest rates roughly 75% hedged for the next five years with a 0.5% increase only reducing distributable cash flow by $0.5 million. This is one of the cleanest stories in the current market with an undergeared balance sheet and strong cash flow cover. We also expect positive results from Loy Yang A and new accretive investments to be unveiled before too long. **Rivercity Motorway (RCY, Buy, $1.10 price target)** which has its debt 100% hedged until 2010 so rising interest rates will have no impact on the 7.5% yield. RCY also has upcoming catalysts including delivery of the Tunnel Boring Machines and updated traffic counts. Finally, **APA Group (APA, Buy, $4.65 price target)** is close to fully hedged for the next 12 months with a high level of hedging thereafter. The diversified asset base has a range of long-term contracts and regulated revenue streams that offer a very high level of cashflow reliability. Importantly, free cashflows cover the distribution by roughly a 1.2X ratio.

To read the individual company reports please logon to our website at www.abnamromorgans.com.au or ask your adviser for a copy.

Banking on consolidation

The smaller end of the banking sector has been the most recent corner of the market to become embroiled in corporate activity. This has coincided with our increased coverage of the sector, the reasons for which are outlined below.

Key investment highlights include:

- Competition in the banking sector is increasing as illustrated by the recent and aggressive entry of UK-owned BankWest. The increasing regulatory and information technology costs mean that consolidation is inevitable and that competitiveness and costs savings will be sought through consolidation to increase economies of scale.
- **Bank of Queensland (BOQ, Hold, $17.50 price target)** is actively seeking acquisition opportunities. BOQ's Managing Director David Liddy said BOQ sees itself "as a natural consolidator (of) building societies. Given the growth in the Queensland economy, we're (reviewing) our footprint and are likely to expand."
- Building societies offer similar yields to the major banks and we believe that smaller product offerings mean substantial earnings growth is more achievable (due to lower revenue bases) and the potential for corporate activity substantially increases returns.

Last month we initiated research coverage on three building societies which offer direct access to the Queensland growth story where FY07 economic growth of 4.7% is expected to exceed the national average of 3.6%. In order of preference they are **Wide Bay Australia (WBB, Buy, $14.64 price target); The Rock (ROK, Hold, $5.43 price target);** and **Mackay Permanent Building Society (MPB, Hold, $8.20 price target).**

Recent corporate developments in the sector

Just one week after we initiated coverage on these building societies, Wide Bay made an offer for Mackay Permanent only to be trumped by a rival proposal to merge with Bank of Queensland. BOQ's offer for WBB was made at the same time as a proposal for the company to merge with West Australian-based Home Building Society (HME). The boards of both groups have recommended shareholders accept the offer from BOQ. BOQ will not raise any new capital for the offers and believe it will be earnings accretive in years 1 and year 2 respectively. The company highlighted that both mergers will increase their exposure to the booming Queensland and West Australian property markets.

Meanwhile, BOQ's attempted merger with **Bendigo Bank (BEN, Hold, $15.50 price target)** has been rejected by BEN's board of directors in favour of pushing ahead with its plans to merge with **Adelaide Bank (ADB, Hold, $14.00 price target)** via a Scheme of Arrangement. The ADB merger is a scrip offer and is due to be implemented by November 2007, subject to regulatory clearance and approval by ADB shareholders.

We believe that further consolidation among the banks is inevitable. For this reason we recommend investors have an overweight exposure to the sector due to the attractiveness of the average dividend yield available.

Please note: the major banks reporting season and dividend payment period is in October/November (with the exception of Commonwealth Bank).

For full coverage of the banking sector please logon to our website: www.abnamromorgans.com.au or contact your adviser.

Investment Update

Coates Hire/National Hire

After putting itself up for sale earlier this year on the back of poor results, Australian equipment hire firm **Coates Hire (COA, Hold, $6.10 price target)** has rejected a revised second offer of $6.40 per share from a consortium consisting of private equity firm Carlyle Group and **National Hire Group Ltd (NHR, Hold, $1.81 price target)**. The Coates Hire board has unanimously rejected the offer on the basis that they believe it undervalues the potential synergies or inherent strategic value of their assets. Although Coates is currently conducting an internal strategic review, it is still in the very early stages and as yet no major changes have been implemented. There has been plenty of press on the offer, specifically from the point of view of disgruntled investors who believe the offer is attractive and should be accepted particularly as the offer price is at a major premium to its listed competitors and is significantly above pre-offer prices. Following this recent activity, we retain our Hold rating on the stock on a longer term view, although we believe that on a shorter-term basis the stock should be well supported on the back of continuing corporate activity at around the $6.40 per share level.

Wesfarmers/Coles Group Update

Wesfarmers' (WES, Hold, $43.50 price target) has recently revised the offer terms of its takeover bid for **Coles Group (CGJ, Hold, $16.26 price target)**. The revised terms of the WES bid include the issue of a new class of WES securities which will be known as WPPS (Price Protected Securities). This new class of shares effectively means that if by 2012 the WES share price is not above $45.00, holders of the WPPS will be offered an additional 0.25 WES shares by way of compensation. The new proposal was designed to give Coles shareholder greater certainty about the value of the Wesfarmers' offer particularly in light of the recent spate of market volatility. Coles shareholders will therefore be offered cash of $4.00 per share plus 0.14215 WES Ordinary Shares; plus 0.14215 WPPS (WES Price Protected Shares). The option to mix and match a greater cash or scrip component to the offer will only apply to the non-WPPS proportion of the offer. Coles Group shareholders will also be entitled to retain the final fully franked dividend of $0.25 per share. Shareholders will be receiving the new Scheme Booklet in early October with the Scheme meeting likely to be held in November to finalise the deal.

Incitec Pivot/Dyno Nobel

Dyno Nobel (DXL, Hold, $2.45 price target) looks like the latest takeover target with **Incitec Pivot (IPL, Buy, $83.84 price target)** recently announcing that it had acquired a 13% stake in the company. Expectations are that it will make a full bid for DXL in the range of $2.45-2.55. We believe this would be a good result for DXL shareholders as we note the risk in this stock has increased with its recent announcement of a capital expenditure blowout at its Moranbah plant. We also believe a bid by IPL would make strategic sense and deliver long term benefits.

Brambles/Toll Holdings

Meanwhile, speculation has increased that **Brambles (BXB, Buy, $13.80 price target)** will also become subject to a takeover bid as **Toll Holdings (TOL, Buy, $15.75 price target)** and **Asciano (AIO)** have both announced recently acquiring a stake in the company. Asciano was recently spun-out of TOL and is primarily an owner of transport infrastructure assets. Despite their historical connection, the two companies have said they are not acting together in their interest in BXB. Shareholders should stay alert to further developments.

Preferred Portfolio Picks: September 2007

We have switched our two Core bank picks from National Australia Bank (NAB) and ANZ to Commonwealth Bank (CBA) and Westpac (WBC). This recommendation is for new, not existing, investments. We have removed Tabcorp (TAH) from our Income list citing difficult conditions at present. We have also switched our Cyclical resource exposure from Alumina (AWC) to Oxiana Resources (OXR) for a more diversified approach and removed Dyno Nobel (DXL) after its recent run up on corporate activity and replaced it with Boart Longyear (BLY).

In our small caps, we have removed two Growth picks – Hastie Group (HST) after strong share price movement and Candle (CAN) due to potential liquidity constraints. We retain BUYs on both stocks. We have added IRESS (IRE), Cabcharge (CAB) and Mortgage Choice (MOC) after recent pullbacks which have made these high growth stocks more attractively priced. Finally, our small cap Resource picks have been switched to Kagara Zinc (KZL), Aust. Worldwide Exploration (AWE) and Jubilee Mines (JBM).

Core: These are longer term holdings which form the basis of a diversified portfolio.

Table 8: Core

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Commonwealth Bank	CBA	$55.15	Hold	14.2	5.1	6.1
Westpac	WBC	$27.20	Buy	14.4	4.8	6.9
BHP Billiton	BHP	$38.42	Buy	13.1	1.5	2.1
Foster's Group	FGL	$6.32	Buy	18.5	3.8	5.4
Woolworths	WOW	$29.92	Buy	27.5	2.5	3.5
AGL Energy	AGK	$15.40	Hold	19.9	4.0	5.7
Telstra Corporation	TLS	$4.37	Buy	16.7	6.4	9.2
Wesfarmers	WES	$38.56	Hold	18.3	5.8	8.3

Growth: Focus on quality earnings growth rather than yield.

Table 9: Growth

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Fairfax Media	FXJ	$4.64	Buy	20.0	4.3	6.2
QBE Insurance Group	QBE	$34.85	Buy	16.0	3.4	4.2
Origin Energy	ORG	$9.97	Hold	22.6	2.1	3.0
Toll Holdings	TOL	$13.60	Buy	20.9	2.4	3.4
Macquarie Bank	MBL	$73.30	Buy	13.7	4.3	6.0
AXA Asia Pacific Holdings	AXA	$7.54	Buy	18.9	2.8	3.2

Income: Quality, high yielding stocks with sustainable dividends.

Table 10: Income

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Babcock & Brown Infrast.	BBI	$1.71	Buy	59.9	8.3	8.3
APA Group	APA	$3.72	Buy	21.2	7.5	8.8
Suncorp	SUN	$20.10	Buy	11.8	5.3	7.6
Goodman Fielder	GFF	$2.60	Buy	15.8	5.2	6.6

Cyclical: Short to medium term themes – including resources and rural.

Table 11: Cyclical

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Rio Tinto	RIO	$93.52	Buy	12.6	1.4	2.0
Oxiana Resources	OXR	$3.32	Buy	13.0	2.7	3.2
Orica	ORI	$28.64	Buy	19.6	3.1	3.5
Boart Longyear	BLY	$2.21	Buy	17.5	1.1	1.2

Preferred Portfolio Picks: September 2007 Continued

Contrarian: Short term issues and potential turnaround stories, but have risk.

Table 12: Contrarian

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Lend Lease Corporation	LLC	$19.21	Buy	18.6	4.0	4.6
PaperlinX	PPX	$3.38	Buy	20.5	3.3	3.3

Property: Focus on property trusts with high total returns and solid growth outlooks.

Table 13: Property

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY08 Gross Dividend Yield (%)
Mirvac Group	MGR	$5.38	Buy	16.4	6.0	6.0
Mirvac Real Estate	MRZ	$1.395	Buy	13.9	7.6	7.6
GPT Group	GPT	$4.78	Buy	16.8	5.9	5.9

Fixed Interest: Best of the hybrid and debt securities.

Table 14: Fixed Interest

Stock	Code	Share Price 31-08-07	Recomm	Gross Yield to Maturity (%)
BBI EPS	BEPPA	$0.88	Buy	11.5
Transpacific SPS	TPAPA	$103.50	Buy	10.3
PaperlinX SPS	PXUPA	$98.70	Buy	9.9
CBA Perls II	PCBPA	$201.60	Buy	8.3

Small Cap Portfolio

Table 15: Income/Defensive

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
QM Technologies	QMT	$3.30	Buy	16.1	6.5	9.3
Macquarie Media Group	MMG	$4.56	Buy	11.6	10.0	10.0

Table 16: Growth

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (X)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
ChemGenex Pharmaceuticals	CXS	$0.89	Buy	n/m	0.0	0.0
Australian Wealth Mgt	AUW	$2.54	Buy	22.3	3.7	5.3
IRESS Market Technology	IRE	$8.21	Buy	24.8	3.3	4.2
Cabcharge	CAB	$9.94	Buy	18.4	3.5	4.5
Motgage Choice	MOC	$2.49	Buy	16.3	6.0	7.8

Table 17: Cyclical

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (X)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Cardno	CDD	$7.25	Buy	22.0	3.1	4.4
Ausenco	AAX	$10.65	Buy	22.8	2.5	3.4
Macmahon Holdings	MAH	$1.53	Buy	24.2	2.0	2.8
Sedgman	SDM	$3.18	Hold	26.0	2.1	3.0

Table 18: Contrarian/Value

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
ABB Grain	ABB	$8.26	Buy	61.1	1.1	1.6

Table 19: Resources

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Kagara Zinc	KZL	$5.10	Buy	7.3	3.9	5.0
Aust Worldwide Exploration	AWE	$3.28	Buy	8.9	0.0	0.0
Jubilee Mines	JBM	$15.42	Buy	10.9	4.9	6.3

Table 20: Property

Stock	Code	Share Price 31-08-07	Recomm	FY07 PE (x)	FY07 Dividend Yield (%)	FY07 Gross Dividend Yield (%)
Australian Education Trust	AEU	$1.71	Buy	8.4	8.6	8.6
Cromwell Group	CMW	$1.24	Buy	15.6	7.3	7.5

Source: ABN AMRO Morgans, IRESS. N/M indicates that figures are not meaningful. N/A indicates not applicable.

Corporate Update

UBS Absolute Return Asian Government Bond Portfolio

Description: UBS Absolute Return Diversified Asian Government Bond Portfolio securities ("DABs") are a 5 year principal protected investment providing exposure to the performance of up 6 regional bond markets including Australia. The issue price is $100, with a maturity date of 6 September 2012. Coupons are paid half yearly based on the performance of the underlying exposures. Coupons will be locked in at 9.00% p.a. for the remaining life of the investment if certain performance hurdles are met.

Closing Date: 14 September 2007

Cloncurry Metals

Description: Cloncurry Metals has established a portfolio of projects primarily in the Cloncurry region of Queensland. This region is host to a number of world class projects, including BHP Billiton's Cannington lead-zinc mine and Xstrata's Ernest Henry mine, and is globally recognised for its rich and diverse mineral endowment.

Offer: 40,000,000 fully paid Shares in the Company at an issue price of $0.25 per Share to raise $10,000,000.

Closing Date: 26 September 2007

Research Update

Initiation of Coverage in August

Wide Bay Australia (WBB, Buy, $14.64 price target)

Wide Bay Australia Limited (WBB) provides financial services to members, operating throughout Australia. WBB's 5.5% yield offers an attractive return with the potential to benefit from Queensland growth and potential corporate activity. Recent corporate activities have included BOQ's attempted merger with BEN (rejected); Bank of Queensland's (BOQ) successful takeover of Pioneer Permanent Building Society and merger offers for Mackay Permanent (MPB) and Home Building Society (HME).

The Rock (ROK, Hold, $5.43 price target);

The Rock Building Society (ROK), based in Rockhampton, Central Queensland is a specialist provider of retail banking services, home loans, insurance services and everyday banking including an Internet site. We believe the Rock represents an attractive turnaround story with current initiatives likely to increase profitability substantially from FY09. Recent turnaround initiatives include changes to senior management; an alliance with St George Bank; and the development of a new banking platform which is expected to be operational in late FY08.

Mackay Permanent Building (MPB, Hold, $8.20 price target)

Mackay Permanent Building Society (MPB) offers personal banking, business banking and insurance and is heavily exposed to Queensland's regional residential property market. We estimate that 80% of MPB's income is derived from property loans, with 3% derived from commercial property and 15% mortgage broker originated.

Research Update

Recommendation changes made during August

Table 21: Monthly recommendation changes

Stock	Code	Previous Recom	Current Recom
Portman	**PMM**	Hold	Sell
GRD Ltd	**GRD**	Buy	Hold
Foster's Group	**FGL**	Hold	Buy
Devine	**DVN**	Hold	Buy
Lion Nathan	**LNN**	Sell	Hold
Pipe Networks	**PWK**	Buy	Hold
Brambles	**BXB**	Hold	Buy
Downer EDI	**DOW**	Buy	Hold
Rio Tinto	**RIO**	Hold	Buy
Australian Agricultural Company	**AAC**	Hold	Buy
Corporate Express Australia	**CXP**	Sell	Hold
Trinity Group	**TCQ**	Hold	Buy
Coca-Cola Amatil	**CCL**	Sell	Hold
Sonic Healthcare	**SHL**	Hold	Buy
United Group	**UGL**	Buy	Hold
Energy Developments	**ENE**	Buy	Hold
Reckon	**RKN**	Buy	Hold
Australian Securities Exchange	**ASX**	Hold	Buy
BOOM Logistics	**BOL**	Hold	Buy
Watpac	**WTP**	Hold	Buy
Geodynamics	**GDY**	Hold	Buy
Orica	**ORI**	Hold	Buy
OneSteel	**OST**	Hold	Buy
Downer EDI	**DOW**	Hold	Buy
Seven Network	**SEV**	Buy	Hold
Publishing & Broadcasting	**PBL**	Hold	Buy
DWS Business Solutions	**DWS**	Hold	Buy
Jubilee Mines	**JBM**	Hold	Buy
Babcock & Brown	**BNB**	Hold	Buy
Dyno Nobel	**DXL**	Buy	Hold
Iluka Resources	**ILU**	Sell	Hold
Flight Centre	**FLT**	Hold	Buy
Centennial Coal Company	**CEY**	Sell	Hold
Sedgman	**SDM**	Buy	Hold
Challenger Financial Services	**CGF**	Hold	Buy
Spark Infrastructure	**SKI**	Buy	Hold
Transfield Services Infras. Fund	**TSI**	Hold	Buy
Energy Developments	**ENE**	Hold	Buy
Blackmores	**BKL**	Hold	Buy
Suncorp	**SUN**	Hold	Buy
Gloucester Coal	**GCL**	Hold	Buy
GRD Ltd	**GRD**	Hold	Buy
Aevum	**AVE**	Hold	Buy
Macquarie Media Group	**MMG**	Hold	Buy
Transpacific Industries Group	**TPI**	Hold	Buy
Perilya	**PEM**	Hold	Buy
Macquarie Capital Alliance	**MCQ**	Hold	Buy
Devine	**DVN**	Buy	Hold
Wellcom Group	**WLL**	Hold	Buy

Source: ABN AMRO Morgans

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