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Mulcahy and Co. Financial Planning

Investment Seminar
12 July 2011

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CommSec - Wholesale Advisory

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FINANCIAL PLANNING

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Important Information

This presentation has been prepared by CommSec for wholesale, AFSL holding clients only. No individuals objectives, financial situation or needs have been considered.

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Examples used in this presentation are for illustrative purposes only.

Presentation Overview

– Is now a good time to get into Equities?

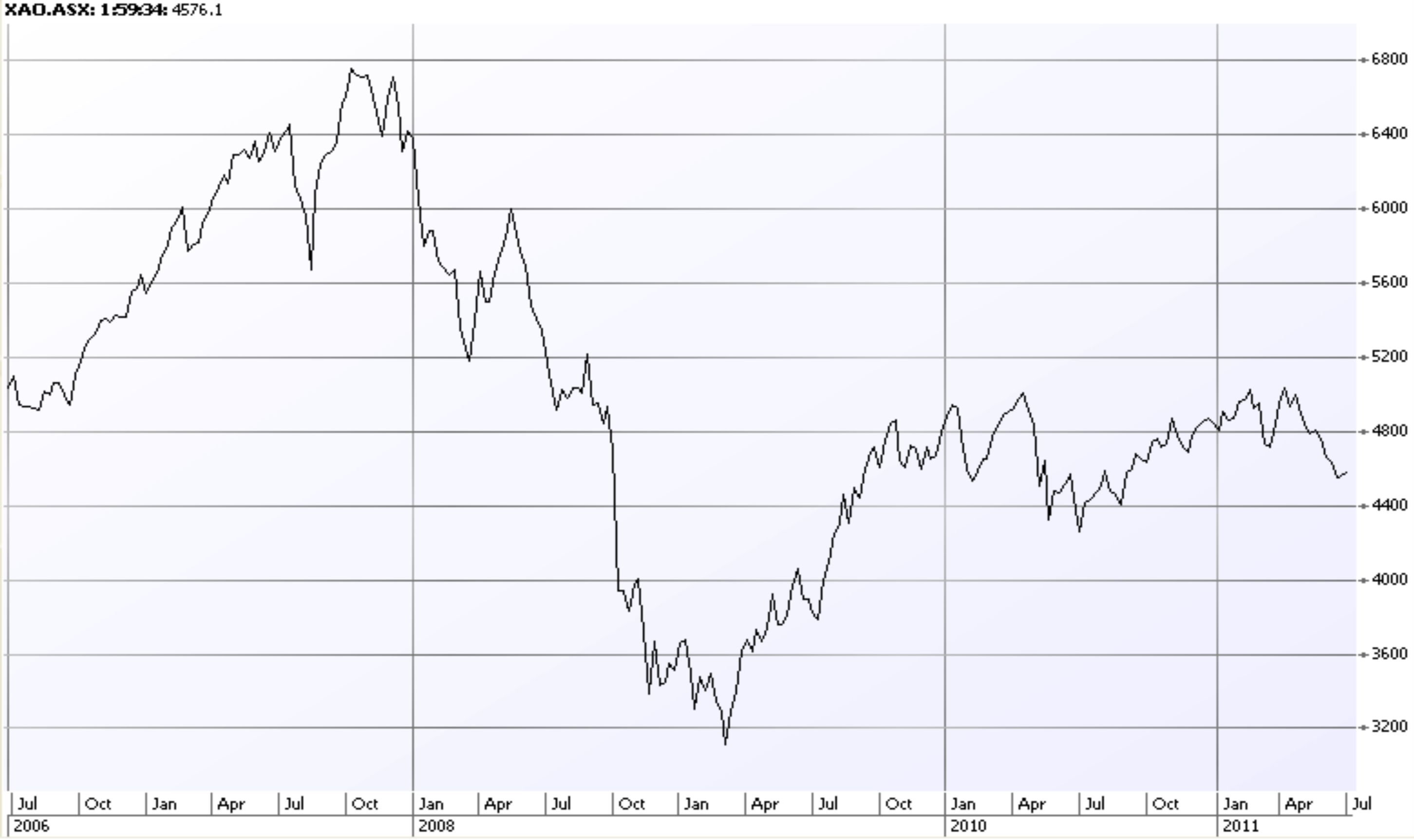
– Portfolio Construction

– Stock Comparisons

– Research Reports

– Conclusion

ASX 200 – *last 5 years*



Is it a good time to get into Equities?

HURDLES to Overcome:

- **EURO concerns**
  - Greek Debt Issues – Government owned assets
  - Contagion Effect
- **CHINA**
  - Raising Interest Rates
  - Slowing Inflation / Growth – Prudent Model
- **USA**
  - Jobs Growth – slowing or increasing?
  - QE2 ceasing – QE3 or not to be?
  - US Slowing or Mid-Cycle Slowdown – Japanese effect?
- **AUSTRALIA**
  - RBA – rate rises? ***"CPI tracking close to target next 12 months"***
  - Government Influence – New Tax's ?

Is it a good time to get into Equities?

Australian Sharemarket

MACRO issues holding back market

Rare Occasion – Company Profits are increasing; BUT Share Prices are decreasing

Market is not prepared to pay for Future Growth – Short Term Views

Companies:

BHP - FY11 earnings result should be up ~ 80%
- But share price only up around12%...FY12 PE: 8x.... 20 yr average: 15x

QBE - Should report profit up 50 – 60% as a result of higher investment returns
- Reason stock sold off in Feb 2010 was because of lower investment returns
- Share price sold off because of Catastrophe claims; Still within provisions
- Insurance margins still strongest in the Industry

TLS, Banks - P/E ratios......

Is it a good time to get into Equities?

<u>**Outlook for 2011-2012:**</u>

- ***GREECE / CHINA / USA / RBA***

- ***Australian Consumer***

  AUD to settle back to parity off strengthening US Economy?
  Rates possibly staying on hold – provide more confidence?
  Online Leakage to slow-down after goods not as cheap online?
  Consumer moves from inherent saver to spender again – albeit slowly!?
  Unemployment Rate: Under 5% - STRONG!

- ***Trading Range to Continue:*** *strong lead into Christmas*

  Will we break 5000 points?

- ***Hurdles to overcome;*** however can't deny **value in key Australian Companies** at present......

Portfolio Construction

"INVESTMENT PHILOSOPHY?"

Clear Methodology:

- **Diversification:** Helps to avoid single **sector** risk
- **Weightings:** Ideally between 4 and 15%; helps to avoid single **stock** risk
- **Number of Stocks:** Between **10 and 15** dependant on portfolio size
- **Ratio analysis:** Debt / Equity Ratio and Interest Cover – next slides...
- **Consensus View:** Determine research ratings on stocks then make own decision
- **Forecast Numbers:** Use these numbers to tailor portfolio to clients objectives

Portfolio Construction

Company Fundamentals

a) Use 2 Major ratios

1) Debt / Equity Ratio (D/E)

- Net Debt / Total Equity = D/E ratio
- Indicate the companies level of borrowings
- High D/E represents the aggressive borrowing nature of the company
- Since 2008, companies with high D/E have raised capital, sold assets or demerged
- Prior to 2008 this was a different story....

2) Interest Cover (IC)

- EBIT/Interest Expense = Interest Cover
- Ability of the company to pay interest commitments. All stocks must have a minimum interest cover of 2.5 times.
- The lower IC ratio the more concerned we are about the interest expense.

Portfolio Construction

b) Consensus View

- Consensus is where Aegis has pooled other recommendations together
- We compare the consensus data to the Aegis recommendations
- If data is contradicting, we then do a full analysis

  e.g./ Aegis has a Buy and Consensus is Sell

  We will analyse the company from scratch

  1/ We look at the balance sheet

  2/ We look at other brokers assumptions

  3/ We look at the company's history and chart movements

  4/ We make a full assessment

- *Consensus is important because it explains what market perceptions and valuations are like*

Portfolio Construction

c) Forecast Numbers

- We only use forecast numbers to formulate the portfolio – ***Income / Balanced / Growth clients***

1) Earning Per Share Growth (%)

- Increase in EPS growth can mean higher profit and better return to shareholders.

2) Dividends

- Most companies will pay out a percentage of earnings and keep some for a rainy day
- Higher yielding stocks are generally in the Financial Sectors
- Resource stocks generally have lower yield

3) Franking Credits

- The company has paid the tax for you in Australia
- Franking credits may be good for Super funds and high marginal tax individuals

Stock Comparison

JBH vs HVN

- JBH: One of the lowest 'Cost of Doing Businesses' in Sector: No Warehouses.
- JBH: Lower margins: High Volume = Cheap Price Products!!
- JBH: Proven throughout GFC; can increase Dividends
- HVN: Franchise Model not working; one stop shop not working; whitegoods suffering
- HVN: Idle Inventory
- HVN: Decreased Dividend throughout GFC

QBE vs IAG

- QBE: Globally diversified
- QBE: Insurance Margins nearly double IAG – prudent risk management policy
- QBE: One of few companies in ASX 100 with a team solely focussed on acquisitions.
- IAG: Locale predominantly Australia and New Zealand: impacts of QLD/NZ disasters
- IAG: Decreased dividend in 2008 / QBE maintained or increased

Stock Comparison

BHP vs BSL

- Iron ore is a subset of Steel production
- China demanding large amounts of Iron Ore, thus producing Steel; HOWEVER....

- BSL: China have their own steel mills producing steel; so BSL need to look to the domestic market...
- BSL: And there is not a huge amount of demand for construction at present = BSL struggling

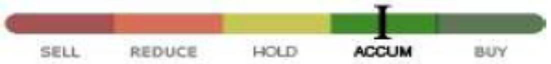
- BHP: Coverage across most base metals and commodities
- BHP: Where iron ore prices may decrease, BHP may benefit from increase in Oil
- BHP: Have what China want
- BHP: May look to more capital management (more Buy-Backs), due to large amount of surplus cash they should generate

Research Report

07 July 2011

BHP Billiton Limited (BHP) $44.45

Recommendation:



Company Overview

BHP Billiton Limited (BHP) is the world's largest diversified resources group with a global portfolio of quality assets. Core activities comprise of production and distribution of minerals, mineral products and petroleum.

Investment View

BHP is a well managed global resource leader with a balanced portfolio of world class, long life assets, and a full suite of conventional energy products. The world´s largest diversified resources company has many prime assets well located to service Asia. The key is low cost operations and a strong balance sheet. Most revenue comes from the relative safe havens of Australia/NZ, North America and Europe. Production covers major commodities including petroleum, alumina, copper, gold, iron ore, coking coal, energy coal, nickel, and diamonds. Diversification lends comfort from a sovereign and commodity risk perspective. BHP is a foundation resource investment for conservative portfolios.

Peer Comparison

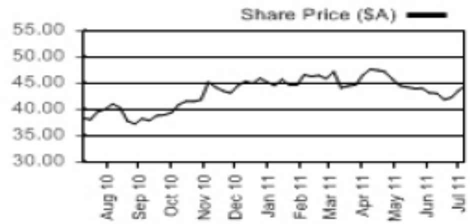
			P/E(x)			Dividend Yield (%)		
Company	Code	Reco	11	12	13	11	12	13
BHP Billiton Limited	BHP	ACCUM	11.0	8.1	n/a	2.3	2.8	n/a
Rio Tinto	RIO	BUY	8.5	8.8	n/a	1.5	1.7	n/a
Iluka Resources	ILU	BUY	15.5	8.0	n/a	3.2	6.2	n/a
Equinox Minerals	EQN	HOLD	15.5	12.0	n/a	0.0	0.0	n/a
OZ Minerals Limited	OZL	HOLD	11.7	10.2	n/a	5.2	5.2	n/a

Detailed financials and recommendations are only shown for securities that you have access to.

Key Information

Recommendation:	ACCUM
Business Risk	Medium
Pricing Risk	Medium
Moat Rating	Narrow
Intrinsic Valuation ($):	53.50
Market Cap ($M):	142,751
Shares (M):	3,211
% of All Ords:	11.04
12 Month Range ($):	36.34 - 49.81
Last Chg in Reco.:	13-May-11 (from HOLD)
Last Update:	07-Jul-11

Price Performance



Consensus Recommendations

Research Report

BHP Billiton Limited

Recommendation: ACCUM | Valuation: $53.50 | Business risk: Medium | Pricing risk: Medium

Year end Jun. All figures in A$M

Profit & loss summary	2009A	2010A	2011F	2012F
Sales Revenue	62,121	62,100	74,706	90,074
EBITDAX	28,717	30,343	39,784	49,925
EBITDA	27,355	28,835	38,560	48,598
Depreciation & Amort	(4,771)	(5,584)	(5,236)	(5,684)
EBIT	22,584	23,251	33,324	42,914
Net Interest Expense	(806)	(653)	(367)	842
Profit Before Tax	21,778	22,598	32,957	43,756
Tax	(7,449)	(7,631)	(10,390)	(14,221)
Adjusted NPAT	13,761	14,630	22,195	29,145
Reported NPAT	7,243	14,927	23,200	29,145

Cashflow summary	2009A	2010A	2011F	2012F
Funds From Operations	n/a	n/a	35,735	47,831
Net Operating Cash Flow	23,248	21,026	27,234	35,318
Capex	(13,404)	(12,602)	(14,822)	(17,601)
Acquisitions & Investments	n/a	n/a	(4,790)	n/a
Net Investing Cashflow	(13,620)	(12,924)	(19,612)	(17,601)
Proceeds from Issues	36	407	9,771	n/a
Dividends Paid	(6,124)	(5,743)	(5,204)	(5,842)
Debt Issuance	5,637	(551)	(1,122)	(2,232)
Net Financial Cashflow	(1,454)	(6,227)	3,445	(8,073)
Net Increase Cash	8,174	1,875	11,067	9,643
Cash At Beginning	5,143	12,708	14,095	23,972
Exchange Rate Adjust	32	31	(1,189)	(1,231)
Cash At End	13,349	14,613	23,972	32,384

Balance sheet	2009A	2010A	2011F	2012F
Cash & Equivalent	13,351	14,615	23,972	32,384
Total Assets	97,079	104,250	120,157	135,621
Interest Bearing Debt	20,235	18,496	15,348	12,342
Total Shareholder Equity	50,174	57,878	78,789	98,573

Ratio analysis	2009A	2010A	2011F	2012F
Price/Earnings (x)	14.1	14.4	11.6	8.5
EV/EBITDA (x)	7.3	7.4	6.2	4.7
Dividend Yield (%)	3.2	2.7	2.2	2.7
EBITDA Margin (%)	44.0	46.4	51.6	54.0
EBIT Margin (%)	36.4	37.4	44.6	47.6
Net Profit Margin (%)	22.1	23.6	29.7	32.4
ROE (%)	28.0	25.7	28.7	30.0
ROA (%)	15.1	14.7	27.8	31.6
ROIC (%)	27.2	25.9	29.2	34.6
Net Debt/Equity (%)	13.7	6.7	n/a	n/a
Interest Cover (x)	28.0	35.6	90.8	n/a

Per Share	2009A	2010A	2011F	2012F
Earnings (c)	246.8	262.0	403.4	545.9
Dividends (c)	101.1	102.1	101.5	124.3
Franking (%)	100.0	100.0	100.0	100.0

Growth	2009A	2010A	2011F	2012F
Sales Revenue (%)	0.5	0.0	20.3	20.6
EBIT (%)	(10.9)	3.0	43.3	28.8
EPS (%)	(13.5)	6.2	54.0	35.3
DPS (%)	39.1	1.0	(0.6)	22.5

Conclusion

- Hurdles and Opportunities
- Methodology and Portfolio Construction
- Stock Comparisons
- Research
- Next Steps........

Next Steps

*Contact **Thayne Turley or Angela Quarrell** to have your Portfolio reviewed*

MULCAHY & CO
FINANCIAL PLANNING

Thayne Turley – Financial Planner
Angela Quarrell – Financial Planner

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