

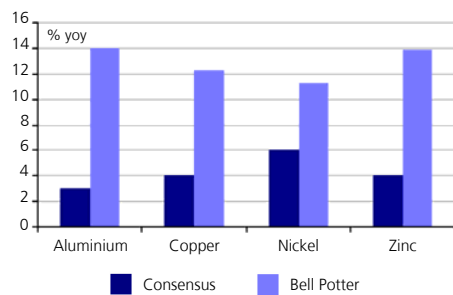
## Strategic Themes

### The power of the inventory cycle

Peter Quinton

In our Resources Spotlight report (21 December 2009) titled "Will reflation and restocking cause a resources squeeze in 2010?", we concluded that the aggregate demand for commodities from BRIC (Brazil, Russia, India, and China), the developed countries, and investment funds will exceed consensus expectations by a wide margin.

Commodity demand forecasts for 2010

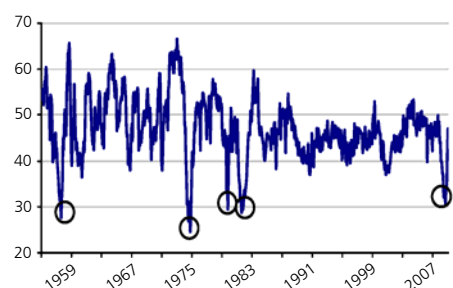


Since then, the evidence continues to mount of the strong demand for commodities in the developing countries and a potential restocking event in the developed countries.

But to be absolutely clear, the current data still show that the destocking in the developed countries has not yet ended, albeit that the inventory rundown is now much less severe.

In this regard, the following chart shows the ISM diffusion index of inventories in the USA since 1955. An index level below 50, which is currently the case even though it has increased from 30 to around 47, indicates that destocking is still in play.

ISM index of US inventories



However, the chart also shows that the scale of the recent massive inventory rundown has only happened five times in the past 55 or so years. This historical record clearly points to the ample scope for a major upside surprise in the demand for commodities even with only little improvement in consumer demand.

Against this backdrop, we introduce our new "Reflation and Restocking Indicator", which consists of loan growth in BRIC, automotive and house sales in BRIC, Chinese exports and imports, lead times at metal distributors in the USA, railcar loadings in the USA, the CRB spot price index of 22 economically sensitive commodities, and global foreign exchange reserves.

Reflation and Restocking Indicator



This indicator of commodities demand has already shown a marked upturn since the early months of calendar 2009 and we anticipate further gains over the current calendar year.

#### Beware LME inventories

The current high level of inventories on the London Metal Exchange (LME), especially aluminium and nickel, can often be a misleading indicator because the "invisible" inventory along the supply chains is the dominant driver of metal prices.

## CONTENTS

<b>Strategic Themes</b>	<b>1</b>
The power of the inventory cycle	
<b>Fifty Leaders News</b>	<b>4</b>
<b>Stock Reviews</b>	<b>6</b>
APN News & Media	
Fairfax Media	
GPT Group	
Boart Longyear	
<b>Quant Stock Rankings</b>	<b>8</b>
<b>Hybrid Securities</b>	<b>9</b>
<b>Property Trusts</b>	<b>10</b>

[www.bellpotter.com.au](http://www.bellpotter.com.au)

TOLL FREE 133 788

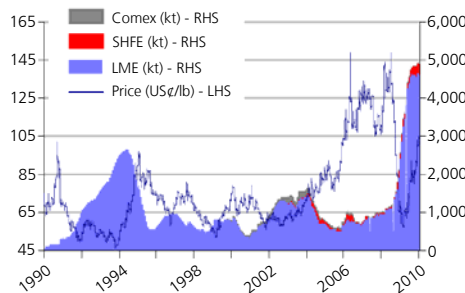
ABN 25 006 390 772

AFS Licence No. 243480

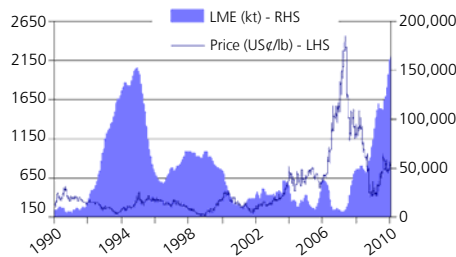
**Bell Potter**  
SECURITIES LIMITED

## The power of the inventory cycle (continued...)

**Aluminium price and exchange inventories**



**Nickel price and exchange inventories**



The LME inventories are currently high because the commodity supply chains have very low inventory levels. When the supply chains begin to pull through more metals to meet improving demand and, at the same time, replenish inventories in response to rising orders, the LME inventories will then draw down and metal prices will rise.

### Down in the wine cellar

It is not easy for investors to fully grasp the power of extreme destocking and restocking cycles on the demand for commodities and, therefore, prices.

An excellent way to illustrate the impact is to put these cycles into the context of a personal wine cellar.

Assume in year one, that you have a wine cellar at home with 100 bottles. You drink 100 bottles during the year and you buy 100 bottles to replace the ones you have drunk. You have a neat equilibrium – 100 bottles of stock at the beginning and end of the year, 100 bottles of purchases, and 100 bottles of consumption.

Then, in year two, you see some clouds on the horizon. So you cut down your consumption by 10 to 90 bottles. And you decide to consume 40 bottles out of your cellar without replacing them. So, in year two, your consumption is down a bit at 90 bottles – not too much of a hardship. Your cellar has 60 bottles in it by year-end

versus 100 bottles at the start – not a major problem as you are happy to have boosted your cashflow even at the expense of a smaller wine cellar. But your bottle purchases have gone from 100 in year one to 50 in year two (consumption of 90 less destocking of 40).

### The wine cellar



## The power of the inventory cycle (continued...)

Now to your wine merchant, that is shocking. His bottle sales have fallen by 50% and he has no idea that a lot is destocking – it could be that demand is collapsing. As the merchant tries to stay in business, he will sell down his own inventory and slash orders from the vineyards. He may go several months without ordering at all.

But now it is year three. The clouds on the horizon have started to lift. You decide to drink 95 bottles and not shrink your wine cellar any more. Your consumption is only up five bottles, a little better but nothing too noticeable. Your wine cellar starts the year with 60 bottles and ends with 60 bottles. But your purchases go from 50 to 95 bottles, which is a 90% year-on-year increase. For the wine merchant, this is huge. Having worried that his business was about to go under, he is almost back to where he was in year one. Except his stock levels are now too low to meet demand, so he has to order extra from the vineyards to replenish.

And that is just because you stopped running down your cellar. What happens if you decide to replenish your cellar by 20 extra bottles – half the amount you ran it down in year two? Well, then you purchase 115 bottles during year three, which is a 130% increase on year two.

Turning back to the resources sector, it is the length of the commodity supply chains – with, for example, as many as 12 separate stages at which inventories are stored along the aluminium and steel supply chains - that has concealed from many players just how much destocking has taken place, and how much of a rebound is due.

The first sign that companies have underestimated demand is when they get a surprise improvement in orders. And that is exactly what we have started to see over recent weeks.

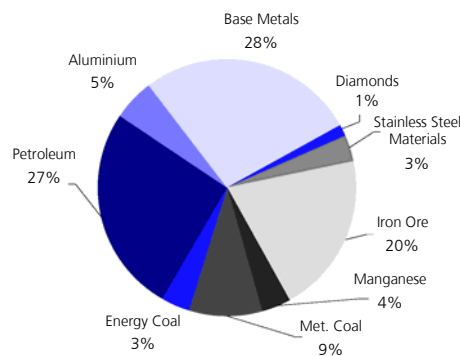
### Summing up

Looking into 2010 and beyond, we anticipate the most resource intensive recovery since the early 1970s and therefore a world of commodities scarcity in the months and years ahead.

This will provide a very positive, albeit still volatile, outlook for mining stocks and our call is to stay firmly invested in resource equities and commodities.

As we have previously highlighted, we prefer the larger diversified resource companies such as BHP Billiton and Rio Tinto to gain exposure to this theme.

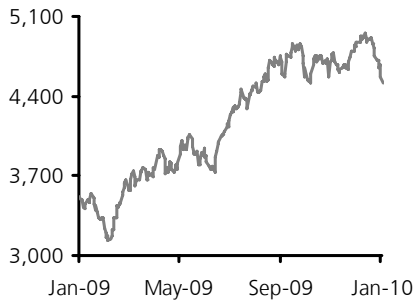
BHP earnings split 2010(e)



RIO earnings split 2010(e)



## 50 Leaders Index



## Latest News on Some of the 50 Leaders

Stock	Price \$	Rating	Comments
ANZ Banking Group	21.73	Neutral	<p>Acquired the Landmark Financial Services loan book of \$2.4 billion and deposit book of \$300 million for around \$160 million in capital.</p> <p>At the AGM, the group said that "the outlook is for an improvement in profits in 2010 and for a strong 2011".</p>
AMP	6.26	Restricted	<p>Announced a revised joint proposal with AXA SA to acquire AXA Asia Pacific comprising a fixed cash component of \$1.92 and 0.6896 AMP shares per AXA Asia Pacific share.</p>
Woodside Petroleum	42.33	Buy	<p>Announced a fully underwritten accelerated renounceable 1-for-12 entitlement offer at \$42.10 per share to raise \$2.5 billion.</p>
Lend Lease Corporation	9.44	Buy	<p>A consortium including Lend Lease managed funds has been appointed the preferred bidder to acquire the \$1.4 billion ING Retail Property Fund.</p> <p>Selected by the Western Australian Government as the preferred proponent for the first stage of the 710 hectare Alkimos Community development.</p>
Orica	24.15	Neutral	<p>At the AGM, the Managing Director reiterated "that we expect continued earnings growth in 2010".</p>
Westpac	23.86	Buy	<p>At the AGM, the CEO said that the group has "started 2010 with strong momentum across all our businesses".</p>
National Australia Bank	26.37	Restricted	<p>Announced a proposed offer to AXA Asia Pacific minority shareholders of \$6.43 in cash or \$1.59 in cash plus 0.1745 NAB shares for each AXA Asia Pacific share. The Independent Directors of AXA Asia Pacific have recommended the proposal.</p>
Foster's Group	5.34	Neutral	<p>In an update on first half earnings for fiscal 2010, the group said that Carlton &amp; United Breweries is performing in line with expectations but the wine performance is below expectations.</p>
GPT Group	0.57	Buy	<p>The group will propose a 1-for-5 consolidation of its securities on issue at the AGM in 2010.</p>
Macquarie Infrastructure Group	1.21	Buy	<p>The group proposed and implemented a restructure into two separate listed toll road groups - Intoll and Macquarie Atlas Roads.</p>

## Latest News on Some of the 50 Leaders

Stock	Price \$	Rating	Comments
Telstra Corporation	3.34	Buy	The group reduced the fiscal 2010 revenue growth guidance from low single-digit to "flattish" but retained the earnings before interest and tax growth guidance of low single-digit.
Qantas Airways	2.84	Buy	The group expects to achieve a pre-tax profit between \$50 million and \$150 million in the first half of fiscal 2010.  Announced a non-equity alliance between Jetstar and AirAsia to reduce costs and pool expertise.
WorleyParsons	23.59	Neutral	Acquired CNEC Engenharia, which is an engineering and project management operation based in Sao Paulo, Brazil.  Management downgraded the fiscal 2010 net profit guidance from \$320/335 million to \$280/320 million.  The 50/50 joint venture, Transfield Worley Services, has signed contracts to provide brownfield project and maintenance services to Woodside Energy.
Commonwealth Bank	53.23	Buy	The group expects to report a net profit of approximately \$2.9 billion for the six months ended 31 December 2009.
AXA Asia Pacific	6.57	Restricted	Management advised that the calendar 2009 net profit (before non-recurring items) is expected to be around \$618 million versus a loss of \$125.9 million in 2008.
Woolworths	25.86	Buy	Management reiterated the fiscal 2010 net profit growth guidance of 8% to 11%.
BHP Billiton	39.40	Buy	Agreed to acquire Athabasca Potash, which owns the Burr Project and potash exploration properties in Canada, for US\$320 million.
Macquarie Group	50.16	Neutral	The group is in discussions with Charter Hall regarding the potential acquisition of parts of Macquarie's real estate funds management platform.

### Stock Reviews: Ratings Definitions

<b>Buy</b>	Forecast stock return is 6% or more above the market return assumption
<b>Neutral</b>	Forecast stock return is within +/- 6% of the market return assumption
<b>Sell</b>	Forecast stock return is 6% or more below the market return assumption

**Market return assumption** is 12 month interest rate plus 5%

## INVESTMENT DATA

Share Price	\$2.30
Issued Capital	595.3m shares
Market Cap	\$1,369m
52 Wk Low/High	\$0.87/\$2.61

Year end Dec		08a	09e	10e
NPAT	\$m	137.2	94.6	131.1
EPS	¢	28.0	16.8	22.0
PER	x	8.2	13.7	10.5
DPS	¢	22.5	1.9	11.0
Yield	%	9.8	0.8	4.8
Franking	%	0	0	0

Data excludes abnormals and is fully diluted.

### Share price chart - APN



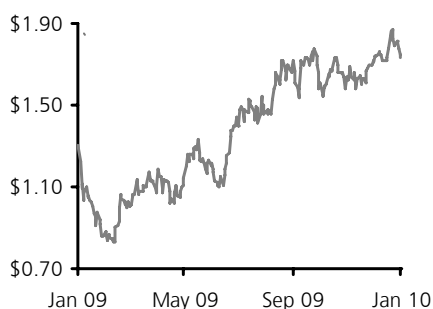
## INVESTMENT DATA

Share Price	\$1.73
Issued Capital	2,352.0m shares
Market Cap	\$4,069m
52 Wk Low/High	\$0.80/\$1.88

Year end Jun		09a	10e	11e
NPAT	\$m	226.4	270.6	318.1
EPS	¢	12.4	10.4	12.2
PER	x	14.0	16.6	14.2
DPS	¢	2.0	2.3	10.8
Yield	%	1.2	1.3	6.2
Franking	%	75	75	75

Data excludes abnormals and is fully diluted.

### Share price chart - FXJ



## APN News & Media (APN)

**BUY**

### Set for recovery

**\$2.30**

Our view on the Australian media sector has become more positive as we believe it offers excellent exposure to an economic recovery.

We view the expected upturn in advertising spending in 2010 alongside greater cost control, as media companies re-emerge as leaner entities from the global financial crisis, as the key drivers of this theme.

For example, recent ANZ job ads data reveal that employment classifieds are now showing positive year on year growth as of December 2009.

APN has reduced its cost base by around 11% since 2007, including a 13.5% reduction in headcount. This reduced cost base has enhanced the company's operating leverage as revenues lift.

We therefore believe APN is well placed to benefit from improved advertising and as such have lifted our earnings forecasts to the top end of company guidance for calendar 2009 and 10-14% above consensus estimates for 2010 and 2011.

The continued focus on cost management, which we expect will remain a key theme across the media sector during 2010, will see the potential for further upside to our earnings forecasts. We expect every 1% upgrade to our revenue estimates to result in a 4.5% upgrade to earnings per share for APN.

### Outlook

With a focus on calendar 2010 and 2011, we believe APN provides an inexpensive exposure to an economic recovery as it benefits from the cyclical upswing in its advertising revenues, particularly print classifieds and outdoor advertising.

APN remains the cheapest media exposure, trading on an undemanding price earnings ratio of only 10.5x in calendar 2010 despite, in our view, offering better revenue diversification and more attractive market characteristics than some of its peers.

We maintain our Buy rating.

## Fairfax Media (FXJ)

**BUY**

### Set for recovery

**\$1.73**

Another media company, which we believe will benefit from the cyclical advertising recovery, is Fairfax. Traditionally a Sydney and Melbourne newspaper centric company, Fairfax has over the past few years, through a number of acquisitions, diversified into regional newspapers, radio, and the online sector.

### Upturn in advertising spend

In the first half of fiscal 2010, we are forecasting advertising spend to contract by 5.8% before rebounding strongly in the second half by 11.2%. And by fiscal 2011, we expect advertising to have returned to the fiscal 2008 level of \$12 billion. We do, however, believe there will be a different mix in the spending going forward, when online and the outdoor sectors will be the bigger beneficiaries and the newspaper and magazine businesses will be the lesser beneficiaries.

Fairfax is well positioned to benefit from this cyclical recovery in advertising and, in addition, the group has been focussing on lowering costs through the

implementation of improved technologies and changing business processes.

The group, which has high operating leverage owing to the fixed cost nature of its business, reduced its cost base by 4.3% over fiscal 2009, with costs in the second half alone down 13.6% on the same period in the previous financial year.

### Outlook

While print media revenue is exposed to the longer term structural migration to on-line media, the cyclical advertising recovery and lower operating costs should outweigh these concerns in the medium term.

Our dividend yield forecasts are for only 1.3% in fiscal 2010 before lifting substantially to 6.2% in fiscal 2011.

Our Buy rating is reiterated.

## GPT Group (GPT)

**BUY**

### Bringing it home

**\$0.57**

In August 2009, GPT Group laid out its new strategy to transform from a highly leveraged global property trust to a more traditional domestic property trust.

The group has now sold the remainder of its US assets and is now one of Australia's largest diversified property trusts. The group owns, develops, and manages a portfolio of high quality commercial office, industrial, and retail properties throughout Australia.

In a December statement, the group's CEO commented on the final foreign asset sales - "Having completed this process and the divestment of the GPT Halverton business this month, we are entering 2010 with a simplified and more transparent business, with our focus now firmly on Australia".

GPT has also closed out its excessive offshore interest rate and foreign exchange hedging and while this is dilutive in the longer term, the reduced complexity of the business is a positive in our view.

The group is now looking to diversify its debt funding sources (currently 73% bank funding) and lengthen the duration (currently 3.6 years) and it also intends to manage its gearing (debt/tangible assets) within a range of 25-35%, (as at September 2009, gearing was around 22%).

### Outlook

GPT's revised distribution policy will distribute the greater of 70-80% of realised operating income or taxable income. We believe the group is likely to retain around \$80 million per year in order to fund maintenance capital expenditure.

GPT is currently trading at a 20% discount to its net tangible assets of 71 cents per security and our distribution yield forecast is 5.6% for calendar 2010.

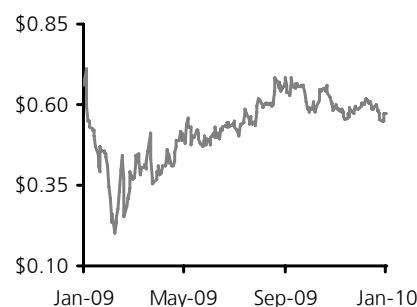
We maintain our Buy rating.

### INVESTMENT DATA

Share Price	<b>\$0.57</b>
Issued Capital	<b>9,277.6m securities</b>
Market Cap	<b>\$5,288m</b>
52 Wk Low/High	<b>\$0.19/\$0.71</b>

Year end Dec	08a	09e	10e
DPS	¢ <b>8.5</b>	<b>4.5</b>	<b>3.2</b>
Yield	% <b>14.9</b>	<b>7.9</b>	<b>5.6</b>
Tax Def	% <b>25</b>	<b>100</b>	<b>100</b>

### Share price chart - GPT



## Boart Longyear (BLY)

**BUY**

### Mining expenditure rebound

**\$0.335**

Boart Longyear is the largest global exploration drilling company with more than a 20% market share. It is, therefore, highly leveraged to our forecast turnaround in exploration activity within the mining sector as companies step up capital expenditure over the coming years.

In response to our forecast higher commodity prices, we are expecting a 45% lift in mining-related capital expenditure in calendar 2010. This will directly benefit volumes in Boart's minerals and energy drilling division, where fleet utilisation was less than 50% in the first half of 2009. We forecast that utilisation will recover from an average of 58% during 2009 to 75% in 2011.

We expect the group's products division will take longer to recover after its earnings suffered a sharp slide in 2009. However, volume growth and higher pricing following the significant destocking over the past 12 months should see earnings strengthen again in 2010.

Boart's net debt to shareholders' funds has fallen to 21% following the completion of the recent equity raising and we are forecasting the group will be in a net cash position in calendar 2010.

In our view, this removal of capital risk will allow the share market to refocus on Boart's ability to generate free cash flow.

### Outlook

The group has substantially underperformed its global peers over the past 12 months and it is currently trading on an undemanding 7x calendar 2011 earnings before interest and tax (EBIT), which places it at a major discount to the 11x EBIT trading average of global drilling services and product companies.

We maintain our Buy rating.

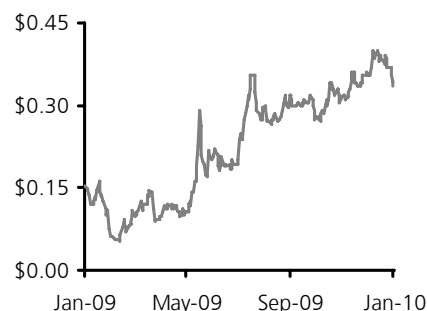
### INVESTMENT DATA

Share Price	<b>\$0.335</b>
Issued Capital	<b>4,611.6m shares</b>
Market Cap	<b>\$1,545m</b>
52 Wk Low/High	<b>\$0.05/\$0.41</b>

Year end Dec	08a	09e	10e
NPAT	\$m <b>204.2</b>	<b>25.0</b>	<b>95.0</b>
EPS	¢ <b>13.6</b>	<b>1.0</b>	<b>2.1</b>
PER	x <b>2.5</b>	<b>33.5</b>	<b>16.0</b>
DPS	¢ <b>2.8</b>	<b>0.0</b>	<b>0.4</b>
Yield	% <b>8.4</b>	<b>0.0</b>	<b>1.2</b>
Franking	% <b>35</b>	<b>0</b>	<b>0</b>

Data excludes abnormals and is fully diluted.

### Share price chart - BLY



# QuantStockRankings

## Preferred Quant EPS Growth Stocks

Company	ASX Code	Price \$	EPS ¢			EPS Growth %			P/E		Rating
			09a	10e	11e	10e	11e	Avg	10e	11e	
APN News & Media *	APN	2.30	16.8	22.0	24.1	31.0	9.5	<b>20.2</b>	10.5	9.5	Buy
Boart Longyear *	BLY	0.34	1.0	2.1	3.1	110.0	47.6	<b>78.8</b>	16.0	10.8	Buy
Commonwealth Bank of Australia	CBA	53.23	286.8	368.5	433.0	28.5	17.5	<b>23.0</b>	14.4	12.3	Buy
Insurance Australia Group	IAG	3.79	12.5	28.6	31.9	128.8	11.5	<b>70.2</b>	13.3	11.9	Buy
JB Hi-Fi	JBH	20.17	85.9	109.4	136.3	27.4	24.6	<b>26.0</b>	18.4	14.8	Buy
Perpetual	PPT	35.05	154.7	176.3	221.1	14.0	25.4	<b>19.7</b>	19.9	15.9	Neutral
Primary Health Care	PRY	5.52	33.2	45.6	51.5	37.3	12.9	<b>25.1</b>	12.1	10.7	Buy
Salmat	SLM	3.93	20.7	28.0	30.9	35.3	10.4	<b>22.8</b>	14.0	12.7	Buy
Seek	SEK	6.49	19.7	21.8	34.2	10.7	56.9	<b>33.8</b>	29.8	19.0	Neutral
Ten Network Holdings	TEN	1.54	5.8	8.7	10.4	50.0	19.5	<b>34.8</b>	17.6	14.8	Neutral

### Please note

**Preferred Quant Growth Stocks:** Are the result of a qualitative overlay being applied to purely quantitative stock rankings based on forecast EPS Growth.

**Preferred Quant Yield Stocks:** Are the result of a qualitative overlay being applied to purely quantitative stock rankings based on forecast Gross Dividend Yield.

**Preferred Quant PEG Ratio Stocks:** Are the result of a qualitative overlay being applied to purely quantitative stock rankings based on forecast Growth at a Reasonable Price ratios.

Stocks are sorted alphabetically.

Clients should contact their adviser to obtain a full copy of the latest Bell Potter Quantitative Stock Rankings including methodology. The 'Preferred Quant Stocks' presented in this report are drawn from Issue # 42.

The 'Preferred Quant Stocks' are based on a medium term outlook and may differ from the stock rating, which is based on a 12 month outlook.

Our 'Preferred Quant Stocks' do not purport to be the best stocks within the Bell Potter universe, nor do they constitute model portfolios. They also do not, by themselves, constitute an appropriately balanced and diversified way for investors to participate in the Australian equity market.

All share prices in Investor Report are as at 29 January 2010.

\* These companies have not reported their FY09 results.

## Preferred Quant Growth at a Reasonable Price Stocks (PEG)

Company	ASX Code	Price \$	P/E		EPS Gth %		Gross Yield %		PEG Ratio 09	Rating
			09a	10e	10e	11e	10e	11e		
APN News & Media *	APN	2.30	13.7	10.5	31.0	9.5	4.8	8.4	0.68	Buy
BHP Billiton	BHP	39.40	15.0	16.4	-8.4	47.6	3.5	3.6	0.77	Buy
Commonwealth Bank of Australia	CBA	53.23	18.6	14.4	28.5	17.5	7.2	8.6	0.81	Buy
Insurance Australia Group	IAG	3.79	30.3	13.3	128.8	11.5	6.6	7.2	0.43	Buy
JB Hi-Fi	JBH	20.17	23.5	18.4	27.4	24.6	4.5	5.6	0.90	Buy
Myer Holdings	MYR	3.20	14.0	12.0	16.6	12.7	10.4	12.0	0.95	Buy
Primary Health Care	PRY	5.52	16.6	12.1	37.3	12.9	8.4	9.4	0.66	Buy
Salmat	SLM	3.93	19.0	14.0	35.3	10.4	8.7	9.5	0.83	Buy
Seek	SEK	6.49	32.9	29.8	10.7	56.9	2.2	4.5	0.98	Neutral
Ten Network Holdings	TEN	1.54	26.5	17.6	50.0	19.5	4.9	9.6	0.76	Neutral

## Preferred Quant Dividend Yield Stocks

Company	ASX Code	Price \$	DPS ¢			Franking %			Grossed Up Yield %			Rating
			09a	10e	11e	09a	10e	11e	10e	11e	Avg	
Adelaide Brighton *	ABC	2.47	12.5	12.5	16.0	100	100	100	7.2	9.3	8.2	Buy
Commonwealth Bank of Australia	CBA	53.23	228.0	267.0	320.0	100	100	100	7.2	8.6	7.9	Buy
David Jones	DJS	4.76	28.0	31.0	33.0	100	100	100	9.3	9.9	9.6	Neutral
Goodman Fielder	GFF	1.56	10.5	11.3	12.1	25	25	25	8.0	8.6	8.3	Neutral
Metcash	MTS	4.25	24.0	25.0	27.0	100	100	100	8.4	9.1	8.7	Neutral
Primary Health Care	PRY	5.52	14.0	32.6	36.3	100	100	100	8.4	9.4	8.9	Buy
TABCORP Holdings	TAH	7.03	65.0	55.0	55.0	100	100	100	11.2	11.2	11.2	Buy
Tatts Group	TTS	2.30	21.0	21.0	22.0	100	100	100	13.0	13.7	13.4	Buy
Telstra Corporation	TLS	3.34	28.0	30.0	32.0	100	100	100	12.8	13.7	13.3	Buy
Westpac Banking Corporation	WBC	23.86	116.0	132.0	151.0	100	100	100	7.9	9.0	8.5	Buy

## Introduction of the Bell Potter Model Hybrid Portfolio

For investors looking for a diversified portfolio of hybrid securities, we have constructed a \$100,000 portfolio of our preferred securities. Our methodology is to generate a portfolio with a balance of yield and capital gains potential.

The themes we have used in constructing this portfolio include:

- Weighting of at least 50% of the portfolio into hybrids with low risk ratings, in order to provide capital stability of the portfolio.
- Preference for floating rate hybrids over fixed rate hybrids, given that we are at the early stages of the interest rate hike cycle.
- Selectively choosing hybrids with a medium or high risk rating that provide capital gain opportunities given the excessive discount to face value relative to our assessed risk. This in turn typically provides an attractive risk adjusted gross yield to maturity as well as a gross running yield.
- Hybrids must be paying distributions.

Overall, the portfolio generates a forecast income of \$4,500 assuming current bank bill rates remain constant (assuming no income on cash holdings). On the \$92,567 invested, this represents a dividend yield of 4.9% fully franked (6.9% grossed up).

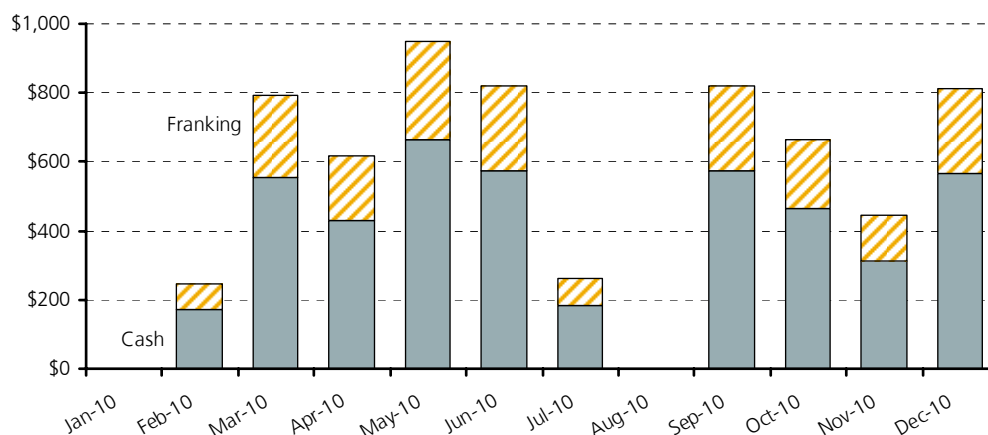
Note that one hybrid selected is SEVPC, which has a 31 May 2010 step-up date when we expect there is a reasonably high probability this security will either be redeemed for \$100 cash or converted into SEV ordinary shares at a 2.5% discount. As such, we have only included one SEVPC distribution in our income forecasts. Excluding SEVPC from the portfolio increases the yield to 5.3% fully franked (7.6% grossed up).

We will provide regular updates as to performance and recommended changes to this portfolio in our Hybrid Review publication.

### Model Hybrid Portfolio

ASX Code	Price	Units	Market Value	Weight %	Cash Income	Franking Credits	Gross Income	Issue Margin Over BBSW	Maturity Reset	Gross Run Yld	Yld to Mat (incl Conv Disc)	Risk Rating
ANZPA	\$99.84	200	\$19,968	20.0%	\$1,011	\$433	\$1,444	310bp	Dec-16	7.23%	7.74%	Low
BENPA	\$96.00	100	\$9,600	9.6%	\$616	\$264	\$880	Fixed 6.16%	Nov-12	9.17%	12.43%	Medium
BENPB	\$82.55	100	\$8,255	8.3%	\$399	\$171	\$570	150bp	Jun-15	6.91%	10.83%	Medium
CBAPB	\$191.00	100	\$19,100	19.1%	\$715	\$307	\$1,022	105bp	Oct-12	5.36%	7.98%	Low
IANG	\$98.75	150	\$14,813	14.8%	\$862	\$369	\$1,231	400bp	Dec-19	8.31%	8.93%	Low
SEVPC	\$94.48	150	\$14,172	14.2%	\$360	\$154	\$515	250bp	May-10	7.26%	35.55%	Medium
TPAPA	\$66.60	100	\$6,660	6.7%	\$537	\$230	\$767	350bp	Oct-11	11.49%	42.88%	High
Cash			\$7,433	7.4%								
<b>Total</b>			<b>\$100,000</b>	<b>100%</b>	<b>\$4,500</b>	<b>\$1,929</b>	<b>\$6,429</b>					

### Model Hybrid Portfolio Projected Monthly Income



## The year ahead

After the roller coaster ride of calendar 2009, with the year's total return of 7.9% for the Australian Listed Property Trust (LPT) sector, we expect quieter waters ahead in 2010, albeit with similar total returns of 8-9% including an estimated 5.5% distribution yield.

Generally, we do not expect LPTs to increase dividends meaningfully in 2010 as the effects of higher debt costs, dilutive asset sales, and rebasing payout ratios closer to adjusted funds from operation (AFFO) continue to offset any potential underlying rental growth. Even in 2011, we are expecting only a modest 2.0% distribution growth.

Balance sheets within the sector have largely been recapitalised, with the traditional measure of Net Debt to Gross Assets now down to 27.5% and an interest cover of 2.5x across the sector. However, given that many stocks are trading at discounts to stated net asset backing, Net Debt to Equity Market Capitalisation is a lot higher at 58.2%.

### Valuations stabilising

The LPT sector is trading at a 4.0% premium to our discounted cash flow (DCF) valuation, a 6.2% premium to our net asset value (NAV), and a 1.5% premium to net tangible assets (NTA).

In our view, the premium to DCF valuation is largely driven by the share market pricing in 2011 and 2012 AFFO growth ahead of our discount rates. Our NAV reflects our assumption of further capitalisation rate softening and we believe that NTA is a secondary valuation tool as we note some capitalisation rate disparity across the sector. Furthermore, property valuers do not take into consideration the through-the-cycle cost of capital and balance sheet constraints of LPTs, which investors need to, but instead rely on recent transactions without differentiating between the source of funding.

### Consolidation activities

We do not see consolidation at the big end of town, although groups like Orchard, Becton and APN Property Group have opportunities to restructure their suite of listed and unlisted funds with continued demand from offshore investors to take strategic positions, similar to Cromwell and Abacus.

We believe Stockland (SGP) will allow its swap over its 13% stake in GPT Group (GPT) to lapse. More confidence in the housing construction sector could lead to consolidation where scale is an obvious benefit for groups like GEO Property Group (GPM), Devine (DVN), and AV Jennings (AVJ).

### Initial public offering activities

We think IPOs will be limited to strategic portfolio repositionings, while attempts to just sell assets into an IPO will be met with heavy scrutiny to ensure that the longer term strategy and management proposition as well as relative pricing are compelling.

### Domestic exposure should outperform

We still believe that investors should weight their listed property trust portfolios towards a higher exposure to domestic versus foreign portfolios eg. Commonwealth Property Office Fund (CPA) is preferred over ING Office Fund (IOF) and CFS Retail Property Trust (CFX) is preferred over Westfield Group (WDC).

Australia's relative economic strength continues to lead to more certain rental cashflows. LPTs with overseas assets are unlikely to be talking up occupancy levels, rent growth, reduced incentives, or foreign exchange translation benefits, thereby leading to potential downgrades of earnings expectations even if the USA is now technically out of a recession. The UK property market (which was the most depressed) is the only mature overseas market where there is a demonstrable improvement in capital values.

### Key themes for 2010

- Lower security price volatility as the sector has largely recapitalised and deleveraged. In addition, the proportion of "active business" cash flows has reduced in favour of low risk rent collection, thus de-risking operational cash flows.
- Low distribution growth in 2010 and 2011 driven by higher debt costs, forced dilutive asset sales to repair balance sheets, the impact of dilutive capital raisings, and continued rebasing of payout ratios closer to AFFO.

## The year ahead (cont...)

- Domestic property is expected to continue to outperform overseas assets underpinned by the stronger Australian economy, leading to healthier rent growth, faster recovery in occupancy levels and, ultimately, asset valuations. That said, while Premium and A-grade valuations are at or near the bottom, B-and-C-grade assets are likely to experience further moderate devaluation.
- The retail sector should outperform the industrial and office sectors. The historical evidence suggests that office only outperforms retail in the latter stages of a bull market and we do not expect this cycle to be any different. However, current high running yields of around 9% from industrial are likely to attract investors.
- Falling housing affordability is expected to weigh on the housing recovery with expected interest rate increases and the structural undersupply of housing. Price points will be key, with affordably priced residential product a key segment.
- Consolidation and further recapitalisation activity is expected to occur in the mid-to-small capitalisation end of town with some fund

managers taking the opportunity to rationalise their holding of listed and unlisted funds, aided by demand from offshore investors looking to take strategic stakes.

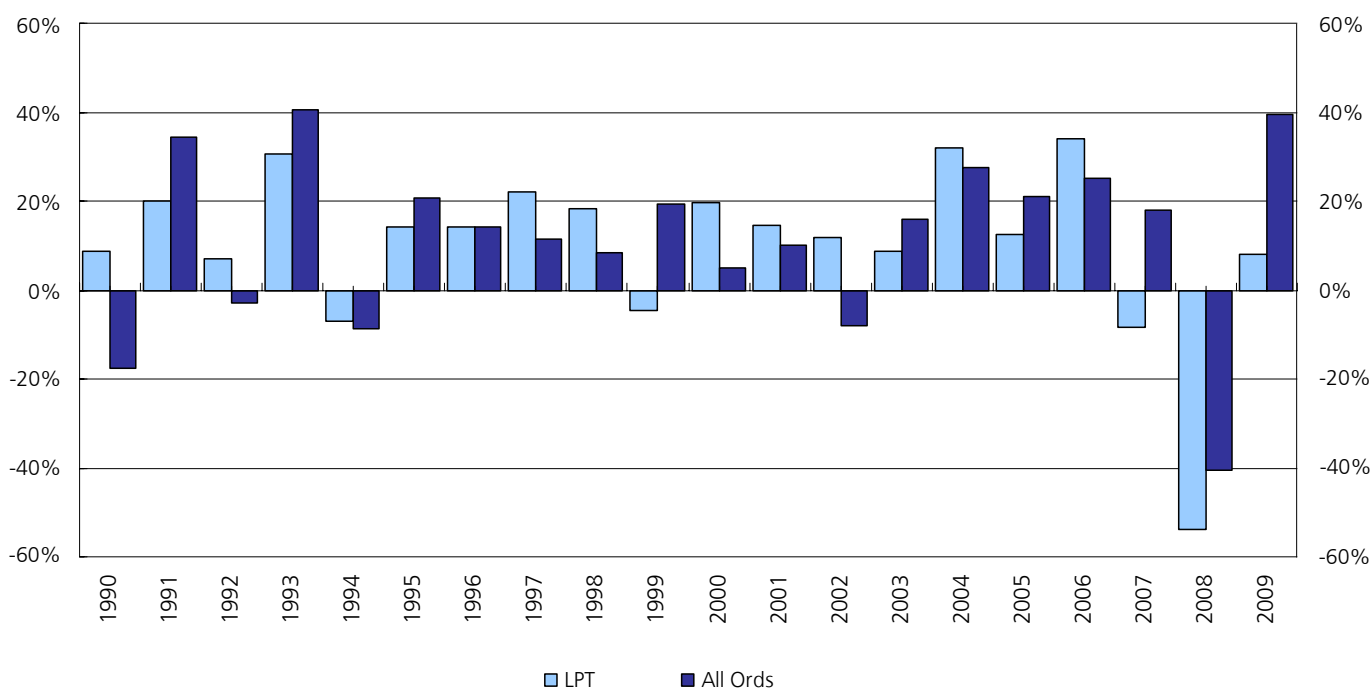
- The hurdle for bringing an initial public offering to market is expected to be higher than previously seen. We expect this activity to be driven by strategic portfolio positioning, with issuers having to justify the long term strategic positioning of the portfolio and offer a strong management proposition as well as delivering compelling pricing.

### Key picks

As we head into the results season, our key picks are CFS Retail Property Trust (CFX) and Stockland (SGP). We would be underweight Westfield Group (WDC) and Dexu Property Group (DXS) owing to their US risk, and Mirvac Group (MGR) due to its earnings visibility risk.

With Goodman Group's (GMG) detailed fiscal 2010 guidance, foreign exchange will be the only key variability and GPT Group (GPT) has now undertaken its substantial repositioning with few surprises expected.

LPT sector vs ASX All Ordinaries annual returns



## BELL POTTER OFFICES

### ADELAIDE

LEVEL 6, DA COSTA BUILDING  
68 GRENFELL STREET  
ADELAIDE SA 5000  
TEL: 08 8224 2722  
FAX: 08 8224 2799

### BRISBANE

LEVEL 17, 10 EAGLE STREET  
BRISBANE QLD 4000  
TEL: 07 3295 2600  
FAX: 07 3295 2688

### CAIRNS

2 MCLEOD STREET  
CAIRNS QLD 4870  
TEL: 07 4047 4188  
FAX: 07 4047 4199

### GEELONG

LEVEL 1, 122 YARRA STREET  
GEELONG VIC 3220  
TEL: 03 5227 7000  
FAX: 03 5227 7099

### GOLD COAST

LEVEL 8, 50 CAVILL AVENUE  
SURFERS PARADISE QLD 4217  
TEL: 07 5554 4333  
FAX: 07 5554 4399

### HOBART

LEVEL 9, AMP BUILDING  
86 COLLINS STREET  
HOBART TAS 7000  
TEL: 03 6231 1677  
FAX: 03 6231 3744

### MACKAY

CITY COURT, 78 VICTORIA STREET  
MACKAY QLD 4740  
TEL: 07 4957 6996  
FAX: 07 4951 4114

### MELBOURNE

LEVEL 29, 101 COLLINS STREET  
MELBOURNE VIC 3000  
TEL: 03 9256 8700  
FAX: 03 9256 8787

### MORNINGTON

SUITE 1, 330 MAIN STREET  
MORNINGTON VIC 3931  
TEL: 03 5970 0101  
FAX: 03 5970 0199

### PERTH

LEVEL 37, EXCHANGE PLAZA  
2 THE ESPLANADE  
PERTH WA 6000  
TEL: 08 9326 7666  
FAX: 08 9326 7676

### SYDNEY

LEVEL 33, 225 GEORGE STREET  
SYDNEY NSW 2000  
TEL: 02 9255 7200  
FAX: 02 9255 7227

### TOOWOOMBA

3 DUGGAN STREET  
TOOWOOMBA QLD 4350  
TEL: 07 4638 5988  
FAX: 07 4639 2608

### WARRNAMBOOL

8/182 FAIRY STREET  
WARRNAMBOOL VIC 3280  
TEL: 03 5562 0981  
FAX: 03 5227 7099

**Important Disclaimer—This may affect your legal rights:** Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives, a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the proper authority of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be consulted before any investment decision is made. While this document is based on the information from sources which are considered reliable, Bell Potter Securities Limited, its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect any of the information contained in this document. This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. This is general investment advice only and does not constitute advice to any person.

**Disclosure of Interest:** Bell Potter Securities Limited receives commission from dealing in securities and its authorised representatives, or introducers of business, may directly share in this commission. Bell Potter Securities and its associates may hold shares in the companies recommended.

**Additional Disclosure:** Bell Potter Securities Limited was Co-Manager to the issue of Commonwealth Bank Perpetual Exchangeable Resaleable Listed Securities (CBAPB) in May 2007 and received a fee for this service.

**Bell Potter**  
SECURITIES LIMITED