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The Round Up

12 March 2010

Issue No. 290

The Round Up is a comprehensive daily note produced by the RBS Warrants team providing an overview of market movements along with quality ideas for warrant traders and investors.

Global Market Action	Scoreboard, commentary
Aussie Market Action	SPI Comment, Events & Dividends
News Corp. (NWSKZJ)	**MINI Trading Buy** - 2Q result drives higher guidance
Equinox (EQNKZA)	**MINI Trading Buy** – Favoured copper play
QBE (QBEKZM)	**MINI Trading Buy** – Valuation looks compelling
Australian Strategy	**Reporting a surprise result**

Equities

	Move	Last	% Move	Range	Volume
ASX 200	-5.8	4814.2	-0.1%	-6 to -6.u.c	$0.0 bn(L)
SPI - yesterday	+8.0	4827.0	+0.2%	-12 to +10	3,473(L)
Dow Jones	+44.4	10611.7	+0.4%	-60 to +44	Avg
S&P 500	+4.6	1150.2	+0.4%	-7 to +5	Avg
Nasdaq	+9.5	2368.5	+0.4%	-11 to +10	Avg
FTSE	-23.3	5617.3	-0.4%	-46 to +2	Low

Commodities

	Move	Last	% Today	% Past Month	
Oil-WTI spot	+0.14	82.23	+0.2%	+9.2%	
Gold Spot	+0.37	1108.78	+0.0%	+1.2%	
Nickel (LME)	-10.12	962.62	-1.0%	+15.5%	
Aluminium (LME)	+0.15	100.03	+0.2%	+8.9%	
Copper (LME)	+1.13	337.08	+0.3%	+7.4%	
Zinc (LME)	-1.61	104.88	-1.5%	+5.8%	
Silver	+0.13	17.16	+0.8%	+9.6%	
Sugar	-0.42	19.27	-2.1%	-30.0%	

Equity Structured Products and Warrants

Dual Listed Companies (DLC's)

	Move	%Move	Last	AUD Terms	Diff to Aus
NWS (US)	-0.06	-0.4%	16.67	18.22	-4.3 c
RIO (UK)	-59.0 p	-1.6%	£37.01	60.92	-1463.2 c
BLT (BHP UK)	-47.5 p	-2.1%	£22.000	36.21	-679.8 c
BXB (UK)	-10.0 p	-2.2%	£4.460	7.34	-12.9 c

American Depository Receipts (ADR's)

	Move	%Move	Last	AUD Terms	Diff to Aus
BHP (US)	-0.77	-1.0%	78.32	42.79	-21.7 c
AWC (US)	-0.15	-2.4%	6.02	1.64	-1.0 c
TLS (US)	+0.43	+3.1%	14.22	3.11	+3.8 c
ANZ (US)	+0.13	+0.6%	22.03	24.07	+1.4 c
WBC (US)	-1.64	-1.3%	123.95	27.09	-140.0 c
NAB (US)	+0.10	+0.4%	24.50	26.77	+2.3 c
LGL (US)	-0.07	-0.3%	26.76	2.92	+2.4 c
RMD (US)	+0.32	+0.5%	60.50	6.61	-0.9 c
JHX (US)	-0.15	-0.4%	34.29	7.49	-2679.6 c
PDN (CAN)	+0.01	+0.3%	3.46	3.69	-2.9 c

Overnight Commentary

United States Commentary

The Dow is again flat with strength in financials countered by weakness in material stocks following strong Chinese inflation which may lead to cooling efforts. Currently the Dow is up 25pts, the S&P has added 0.2% with the Nasdaq also up 0.2%.

Financials - On the big board BoA and JP's are flat but Citi, up 3%, has had another good night with the CEO saying the bank is well positioned to return to profitability. US Bancorp is 1.3% stronger, Capital One is up 1.1% and Regions Financial rose 0.6%.

Eco - Initial Jobless claims were above expectations, 462k vs 460k, but below the previous reading of 468k. The US Trade Balance was smaller than expected though -$37.3bn vs -$41bn despite a rising oil price.

Commodities - The material and energy sector was hurt by the China data. Caterpillar dropped 0.5% in quiet trade whilst Exxon and Chevron were off 0.3% and 0.4% respectively. Devon Energy added 0.6% after announcing an asset sale deal with BP

United Kingdom & Europe Commentary

The FTSE dropped 23 points today after hitting 20 month highs on Wednesday. Miners, banks and energy plays were the biggest laggards as investors cashed in some recent profits. The market finished the day -0.4%, the DAX -0.1% and the CAC -0.4%.

UK Banks - Banks were off today as profit takers entered the market following a stellar run. HSBC, Standard Chartered and Barclays all off 0.6% to 1.6% shedding over 10 points from the market.

Eco - Investor fears were reignited last night on concerns China may tighten monetary policy on the back of a 2.7% increase in CPI (yoy).

Commodities Commentary

Miners - Miners were off today as metals were mixed on the back of Chinese CPI data. Kazakhmys, Fresnillo, Randgold, BHP and RIO all off 2.1% to 3.1% taking 10 points from the broader market.

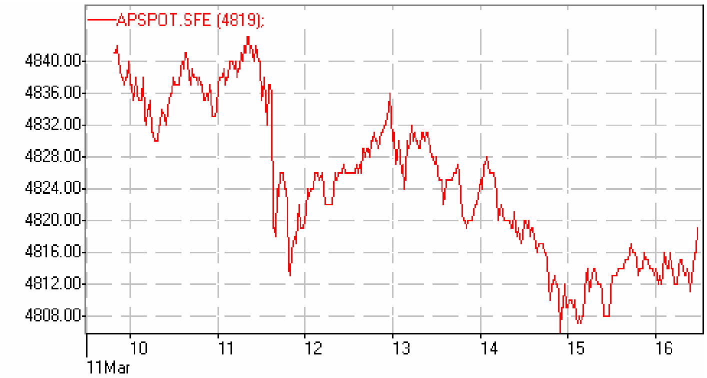
Equity Structured Products and Warrants

Energy - BG, BP and Royal Dutch all weaker today off 0.2% to 1% as crude fell below $82. Although the main focus was on BP as it announced a deal to buy $7b worth of assets from Devon Energy and create a joint venture to develop BP's Kirby oil sands in Canada. This will be BP's first investment in Brazil and will "add a major position in another attractive deep water basin".

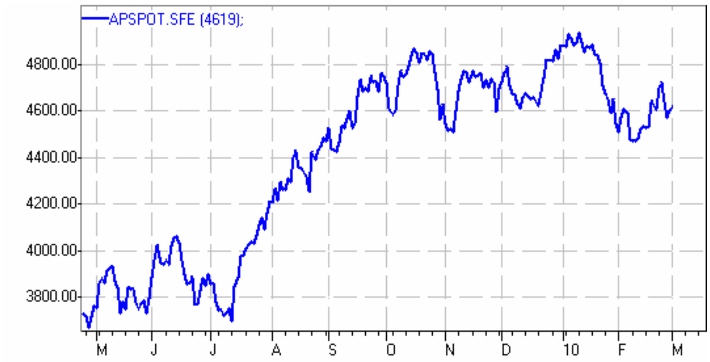
SPI Commentary

The SPI traded flat to 4819. Open at 4819 with a high of 4857 and a low of 4806. Volume 32,179. Overnight the SPI traded up 14pts 4828.

SPI Intraday



SPI Daily



**SPI report taken from the 9:50am open to the 4:30pm close on the previous trading day. Charts taken from IRESS*

Upcoming Economic Events for the Week

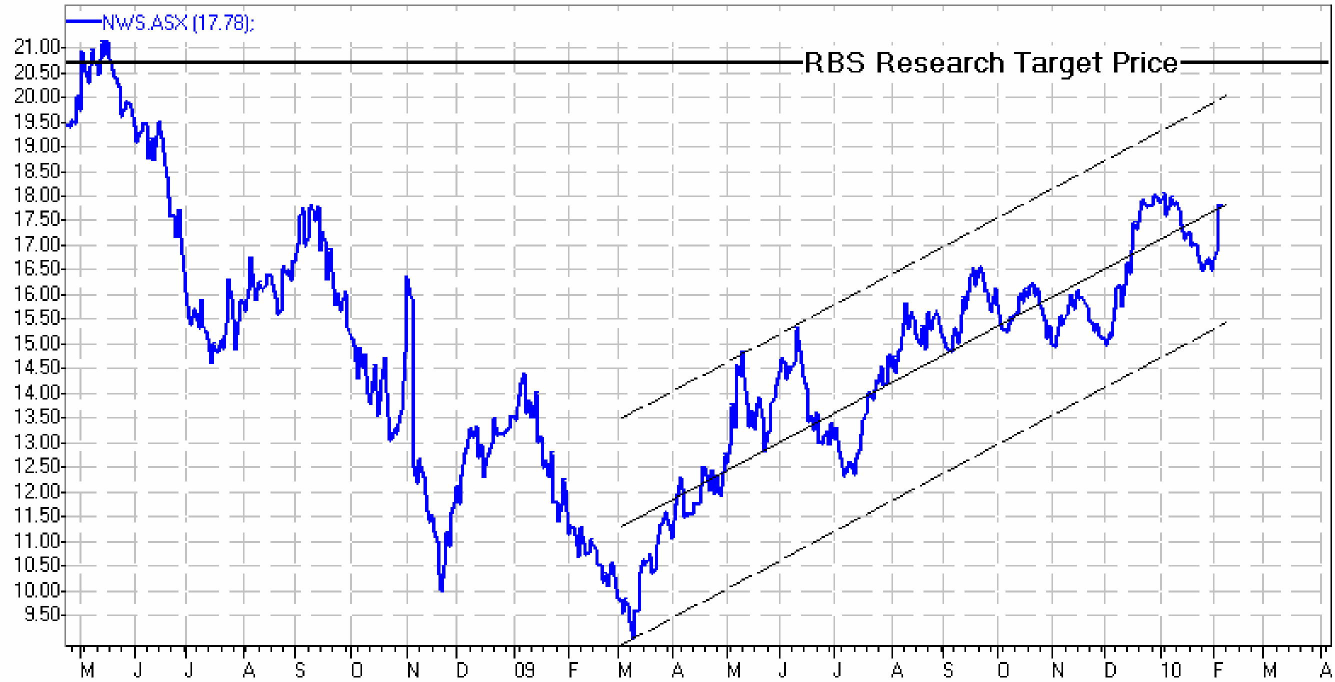
Monday	AUS	
	US	
Tuesday	AUS	**Aus NAB business survey, Aus ANZ job ads,**
	US	
Wednesday	AUS	**Aus housing finance,**
	US	
Thursday	AUS	**Aus RBA Bulletin, Aus employment and unemployment, US trade balance**
	US	
Friday	AUS	
	US	**US retail sales, Feb, US Michigan consumer confidence**

**Dates are indicative only and may change*

MINI Trading Buy:

News Corp (NWSKZJ) – 2Q result drives higher guidance

News Corp reported a strong 2Q10 result and raised FY10 guidance. We expect the focus to now turn to FY11 earnings, with RBS Research FY11F EPS of US$1.13 c13% ahead of Bloomberg consensus of US$1.00. We see the return to ad growth at the WSJ as a key positive for sentiment towards News Corp's newspaper assets.
RBS Research has a $20.87 Target Price on NWS which represents a healthy 17.4% upside. **Get Long NWS with NWSKZJ.**



Source: IRESS

2Q10 result strong and upgrade to guidance; raise FY11F EPS to US$1.13
2Q10 operating profit of US$1,212m was above RBS Research's US$983m forecast and up 44% on the pcp. 2Q10 normalised EPS of US$0.25 was ahead of RBS Research's US$0.20 forecast (consensus US$0.20). The company doubled its FY10 op profit growth guidance to 'low 20's' from 'high single to low double digit'. We believe this guidance remains conservative in light of the 26% growth already delivered in the first half and pcp's getting easier. RBS has raised FY10F op profit to US$4,340m or 26% growth (vs +20% previously).
Cable continues to power ahead
Cable had another very strong quarter, with op profit up 35%. RBS raise FY10F cable op income 9% to US$2.23bn. Cable makes up over 50% of News Corp's op profit and is the key driver of earnings growth. Filmed earnings were also strong, with very strong Avatar profits still to come.

WSJ delivers advertising growth – a key positive for sentiment
A key positive was an improved Newspaper performance, with the Wall Street Journal print ad revenue up 5%. This sets the WSJ apart from its US newspaper peers, which continue to report big declines in ad revenues. TV op profit stayed weak, but stations returned to revenue growth (+6% in 2Q10) and News Corp said 3Q10 station revenue was up 18-19%. Sky Italia was the main disappointment, with subscribers falling 63,000.

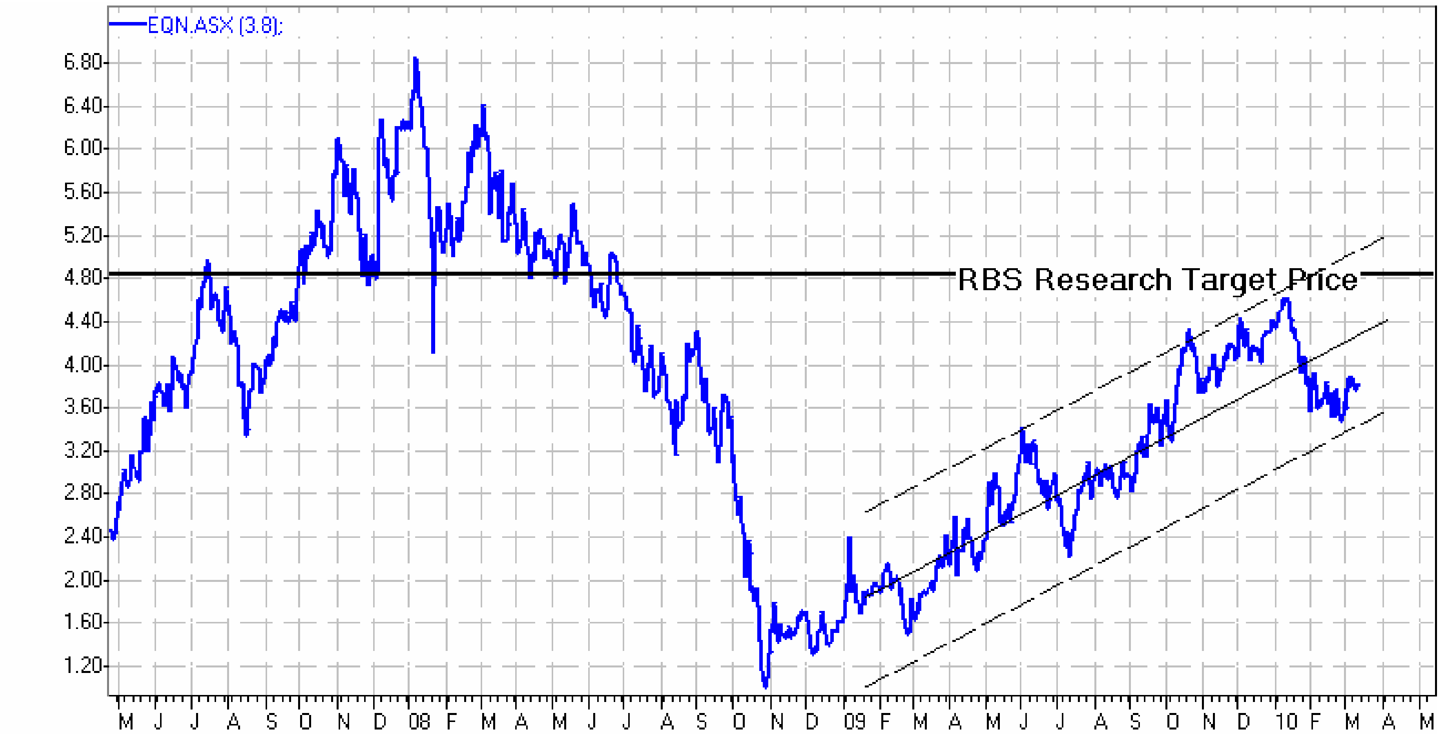
RBS MINIs over NWS

Security	ExPrc	Stop Loss	CP	ConvFac	Delta	Description
NWSKZJ	1167.76	1281	Long	1	1	MINI Long

MINI Trading Buy:

Equinox (EQNKZA) – Wet season almost over, still favoured copper play

Now that the wet season is almost over and guidance is still intact, we expect the market to become more comfortable with the outlook. We believe EQN continues to have the greatest expansion potential of the copper stocks; maintain Buy.
Buy Long MINI EQNKZA



Source: IRESS

Result below forecast on debt refinancing charges
The reported net loss of US$183m was skewed by a non-cash mark-to-market hedge loss of US$329m. The underlying profit of US$38m (ex non-cash derivative loss) was lower than RBS Research expected, mostly due to higher financing costs related to refinancing the Lumwana project debt (not forecast). Cash costs of US$1.53/lb in 4Q09 were also above RBS estimate of US$1.35/lb owing to additional expenses preparing for the wet season.

2010 guidance maintained at 135kt
The company has reconfirmed its guidance of 135kt at a cash cost of US$1.35/lb for CY10, which factors in lower production in 1Q10 due to the wet season impacts. Management did not elaborate on how much production was down, only noting the wet season had been neither good nor bad. The worst of the rains are expected to stop over the next few weeks.

On track to hit 20Mtpa in 2H10
Ramp up to a nameplate capacity of 20Mtpa is on track for 2H10. The company expects to continue the ramp up process over the next two years, with the aim of achieving a 24Mtpa rate within18 months or reaching full production. We are more conservative and don't expect a consistent throughput of 24Mtpa until 1Q13. An expansion beyond 20Mtpa in the near term may also require opening up of the Chimiwungo pit, which could incur additional capex.

Investment view – wet season uncertainty evaporating
EQN continues to have the greatest expansion potential of the copper stocks RBS cover, in our view, and trades at a significant discount to our NPV. We see this discount correcting as production results improve through 2010 and expansion plans move closer to reality. RBS Research maintain Buy call on a 12-month view. There is still some risk that 1Q production may disappoint the market, but long term we believe the stock should rerate significantly once the ramp up is complete.

RBS MINIs over EQN

Security	ExPrc	Stop Loss	CP	ConvFac	Delta	Description
EQNKZA	210.37	252	Long	1	1	MINI Long

MINI Trading Buy:

QBE Insurance (QBEKZM) – Valuation looks compelling

QBE has now fallen 13% since its FY09 result compared to a rise in the All Ords of 3%. We believe that this reaction is overdone and with the stock offering a 6.5% dividend yield we switch to a Buy (from Hold). The main catalyst for QBE remains rising interest rates but further acquisitions should also boost growth. We maintain our Buy call.

Get long QBE with QBEKZM for a rebound to RBS Target Price of $23.50.

Source: IRESS

Share price – 16% underperformance since the result
QBE has underperformed the ASX All Ordinaries by 16% over the past week with the stock now down 13% since the day before the result compared to the market which has risen 3%. Last year's result delivered a similar reaction, although this was compounded by the global financial crisis (GFC), with the stock falling 21% in the two weeks after its full year result versus the market down 3%. In the month after, QBE bounced back 26% against a market recovery of 16%. So underperformance of 18% was quickly followed by outperformance of 10%.

Valuation looks more compelling – PE, PER and dividend yield
QBE is trading below its historical PE and PER since listing. On a PE basis, the stock is on 11x Bloomberg consensus one-year forward estimates, only slightly behind its long-term average of 12x. However, on a PE relative basis the stock is trading on 78% versus its longterm average of 88%. More importantly, the dividend yield is now 6.5% compared to its historical yield of 4.0%, which we believe should provide good support for the stock.

Catalysts – rate rises and further acquisitions
The main catalyst for QBE appears to be rising global interest rates, which we anticipate will start coming through in 2H10. Management has calculated that a 1% rise in global interest rates would add A$316m to FY10 NPAT. Other potential catalysts include further acquisitions, a softer AUD and evidence of a hardening in overseas insurance markets.

Investment view – switch to a Buy recommendation (from Hold)
In our view, QBE's track record in underwriting and acquisition execution remains strong. Furthermore, the company retains a strong balance sheet with cA$1bn of debt capacity available for acquisitions. The valuation appeal is just too strong and so we switch to a Buy recommendation (from Hold).
QBE last traded $21.10, BUY QBEKZM for 1-for-1 upside towards RBS Target Price of $23.50

RBS MINIs over QBE

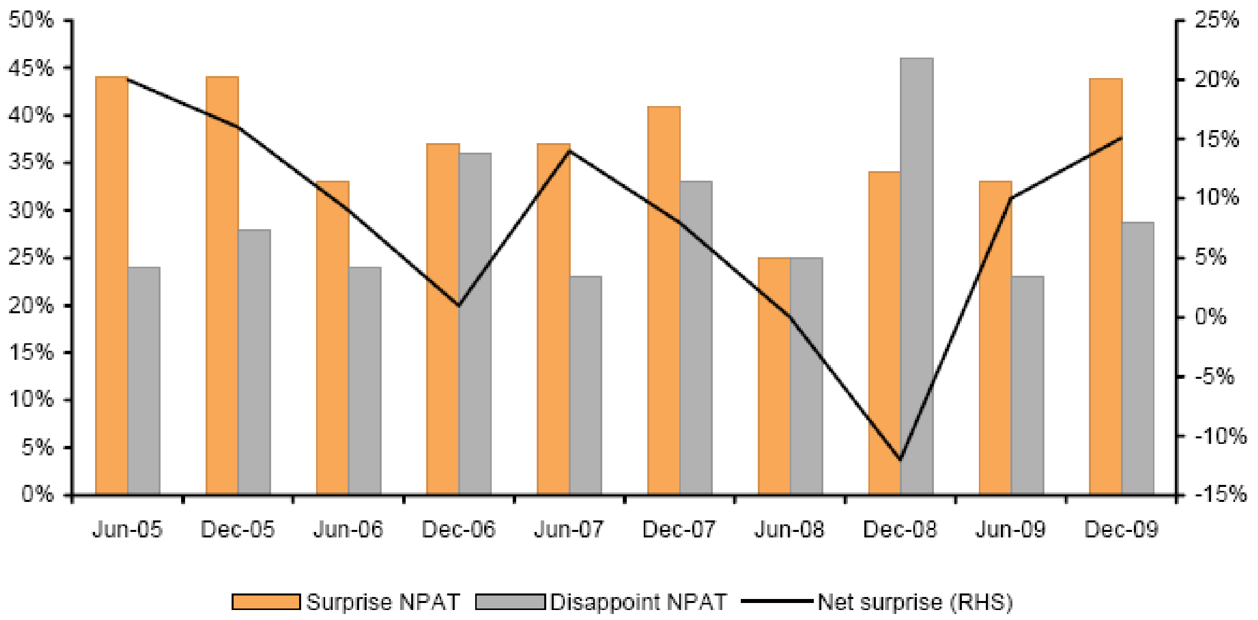
Security	ExPrc	Stop Loss	CP	ConvFac	Delta	Description
PDNKZK	290.98	334	Call	1	1	MINI Long

RBS Round Up Corner:

Reporting a surprise result

Reporting season played out largely as we expected. A solid level of earnings surprise allied with generally positive outlook commentary triggered an upward earnings revision cycle. Dividends also surprised. The 12-month-forward market PE is now down to 13.8x and conservative capital structures dominate.

Chart 1 : Surprise/disappoint NPAT results (by stock count)



Note: in line: +/-2.5% of RBS normalised forecast NPAT.
Includes stocks covered by RBS and reporting to close of business 26 February 2010.
Source: RBS, company data

Economic recovery continuing but not universally felt across all businesses
Reporting season delivered a solid set of results with generally positive outlook commentary reflecting economic recovery. This was evident in the bank results, where bad debts look to have peaked, as well as strong results in stocks such as Wesfarmers, News Corp and Harvey Norman. Woolworths also delivered a solid result. However, it was also apparent that the recovery was not universal across all sectors. Toll Holdings disappointed due to weak volumes, while BlueScope and Qantas delivered soft results.

Surprising results and positive outlook commentary
The current net surprise of 15% is improved on June 2009 (+10%), but masks a big divergence between large caps (net surprise of +22%) and small caps (+11%). Management outlook comments were much improved on the November AGM season, tracking at a netpositive 28%.

Broker earnings upgrade cycle emerging; we have upgraded FY1 by 0.7% so far
The market as a whole, both here and in the US, appears to have moved into an earnings upgrade cycle – an important tailwind for the market and something we were looking for from reporting season.

Market valuations now look much more appealing: 12-month-forward Aussie PE 13.8x
The recent market correction, emerging earnings upgrade cycle and approaching 2011 earnings year (for which our EPS growth forecast is 26.9% [IBES consensus 22.1%]) have seen the 12-month-forward PE for the market contract to a much more appealing 13.8x.

Conclusion: recovery progressing, but the effects are not universal
Our key observations from reporting season are as follows:

- **Economic recovery continuing but not universally felt** – Reporting season delivered a solid set of results with generally positive outlook commentary suggesting to us the economic recovery is ongoing. This was evident in the bank results, where bad debts look to have peaked, as well as strong results in cyclical stocks such as News Corp and Harvey Norman, while Woolworths and Wesfarmers were strong in staples. However, it was also apparent that the recovery was not universal across all sectors. Toll Holdings disappointed due to weak volumes, while Qantas also delivered a soft result. Our house economic and market forecasts are included at the end of this note.

- **Results surprise, especially in large caps** – Overall 44% of stocks we cover surprised against our forecasts and 29% disappointed. The net surprise of 15% is improved on June 2009 (+10%), but masks a big divergence between large caps (net surprise of +22%) and small caps (+11%). This is also reflected in our aggregate earnings numbers where RBS forecasts were beaten by 7.5% overall, but with large caps up 8.2% and small caps down 1.7%. Earnings were down 13% on December 2008. However, this can be substantially attributed to BHP and RIO whose earnings were down significantly on a pcp basis. We include a full stock-by-stock results summary in Table 12.

- **Positive management outlook comments, a key micro indicator focus** – Aggregated outlook comments were 28% net positive, one of the best results we have recorded. Historically, this measure has been a good guide to near-term business conditions. The key leading economic indicators also remain positive.

- **Costs remain in focus** with ‘cost out’ a feature of a number of results, often resulting in margin expansions.

- **Banks and bad debts** – The cycle looks to have peaked.

- **Earnings upgrades re-emerge** – On average, we have upgraded our 2010 earnings forecasts by 0.7% during reporting season. At an aggregate market level we appear to have entered a broker upgrade cycle for the first time in six months.

- **Market valuations look attractive** – The recent market correction, earnings revisions and advance of earnings forecasts closer to 2011 have had a material impact on equity market valuations. The 12-month-forward PE for the Aussie market is now 13.8x, below its long-run mean of 14.3x. Combining this with a favourable earnings yield/bond yield ratio of 1.3x, Australian equities are beginning to look attractive as an asset class.

- **Cash flows recovering** – Across the market operating cash flow was generally strong reflecting improving economic conditions

- **Dividends jump** – On average, dividends surprised by 1.8% against our forecasts. We have upgraded our FY10 dividend forecasts by 1.2%.

- **Corporate gearing down to historically low levels: M&A to follow?** There is no doubt in our mind that the GFC has led to a change in Australian corporate psyche: conservative capital structures are the standard. The strong operating cash flows plus a record level of capital raised in 2009 have to a large extent been used to retire debt. As a result gearing (net debt/total assets) for ASX 200 stocks is down to 23% from a recent peak of 38% in December 2007. This underscores just how ripe the market is for an M&A/investment spree as rarely has such acquisition firepower resided on balance sheets. We identify the stocks with the most ammo.

- **Capital expenditure plans get dusted off** – Not surprisingly at this stage of the recovery and given the general strength of corporate Australia's balance sheet, capex forecasts are being upgraded.

Where does the financial firepower reside: lowly geared companies are a good start
As illustrated above, gearing has decreased significantly across the market. We highlight below a selection of the most conservatively geared companies as an indication of where we believe potential sector consolidation could come from.

Table 10 : Selection of ASX 200 net cash/lowly-geared stocks

Code	Sector	Company	Gearing	Cash on B/S (A$m)	EBIT interest cover (x)	Cash interest cover (x)
DJS	Consumer Disc	David Jones	7%	72.1	47.2	78.5
TTS	Consumer Disc	Tatts Group	15%	404.3	10.3	13.0
HVN	Consumer Disc	Harvey Norman	16%	197.4	9.9	13.8
CWN	Consumer Disc	Crown	17%	515.5	6.6	8.8
NWS	Consumer Disc	News Corp	18%	7307.3	4.6	6.8
JBH	Consumer Disc	JB Hi-Fi	19%	22.1	27.8	33.8
WES	Consumer Staples	Wesfarmers	13%	1398.7	5.4	7.1
WOW	Consumer Staples	Woolworths	28%	500.0	13.1	18.9
MTS	Consumer Staples	Metcash	28%	225.0	6.0	7.3
ERA	Energy	Energy Resource	-61%	445.5	29.5	-239.0
OSH	Energy	Oil Search	-12%	778.9	21.6	63.4
ORG	Energy	Origin Energy	10%	2395.0	6.4	36.8
STO	Energy	Santos	12%	1028.6	2.1	9.5
PDN	Energy	Paladin	23%	446.4	1.0	0.8
CSL	Health Care	CSL Ltd	-18%	1431.8	46.8	-60.4
ANN	Health Care	Ansell	14%	261.6	8.8	19.3
PRY	Health Care	Primary Health	28%	223.4	3.8	5.1
SEK	Industrials	SEEK	-4%	129.0	23.7	34.5
UGL	Industrials	UGL	13%	253.2	8.9	16.6
TOL	Industrials	Toll Holdings	16%	1005.5	9.0	27.5
LEI	Industrials	Leighton	18%	667.1	7.1	13.0
OZL	Materials	OZ Minerals	-85%	1501.1	62.7	-88.7
SGM	Materials	Sims Metal Mgt	-9%	289.9	27.2	68.4
LGL	Materials	Lihir Gold	-5%	242.1	95.0	-55.8
NCM	Materials	Newcrest Mining	-2%	479.0	39.6	84.1
AWC	Materials	Alumina	8%	355.8	-0.5	-85.3
BSL	Materials	BlueScope Steel	10%	288.0	2.6	4.7
BHP	Materials	BHP Billiton	13%	10303.1	24.7	48.8
AGK	Utilities	AGL Energy	12%	123.1	8.4	10.8
SGT	Teleco Services	SingTel	20%	2478.7	9.9	19.0

Source: Company data, RBS forecasts

For further information please do not hesitate to contact us on the details below

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Explanation of Warrant Tables

Security – refers to the code ascribed to the warrant, **ExDate** – refers to the date on which the warrant expires or is reset, **ExPrc** – refers to the exercise price, or second instalment payment, **CP** – tells you whether the warrant is a call or a put, **ConvFac** – the conversion factor of the warrant which tells you how many warrants you need to exercise in order to take possession of 1 share, **Delta** – tells you how much the warrant will move for a 1c move in the underlying security, **Description** – Tells you the type of warrant.

All charts taken from IRESS unless indicated otherwise