

MORNINGSTAR MORNING NOTES

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Overseas Market Report - US Stocks Post Worst Week of Year

US stocks rose on Friday, snapping three straight days of losses, but benchmark indexes still posted their biggest weekly drops of the year.

Friday's modest climb, boosted by surges in Intel and Boeing, shaved off only a portion of the week's losses after anxiety over the unrest in the Middle East and North Africa sent crude-oil prices to their highest levels in more than two years.

The Dow Jones Industrial Average closed out with its biggest weekly point drop since the week that ended Aug. 13, 2010, even though on Friday the measure finished up 61.95 points (0.5%) at 12,130.45. Boosting the measure, Boeing climbed \$1.54 (2.2%) to \$72.30, after the Air Force awarded a tanker deal valued at more than \$30bn to the company.

Intel was also strong, rising 58 cents (2.7%) to \$21.86, after analysts said sales of personal computers could pick up in March, with Intel, Advanced Micro Devices and Marvell Technology Group as three of the biggest beneficiaries. Shares of AMD gained 19 cents (2.1%) to \$9.29, while Marvell rose 91 cents (5%) to \$18.91.

The technology-heavy Nasdaq Composite climbed 43.15 (1.6%) to 2,781.05, its biggest one-day gain since Feb 1.

The Standard & Poor's 500-stock index gained 13.78 (1.1%) to 1,319.88. However, the week's losses added up to the S&P 500's worst week since Nov. 12, 2010.

Friday's gains did manage to halt the week's streak of losses. Crude-oil futures stabilised as worries faded about supply shortages related to the unrest in Libya. Saudi Arabia and a group of major oil-consuming nations said there is plenty of oil on hand to replace supplies halted from Libya.

Stocks also got a mild lift from the Thomson Reuters/University of Michigan consumer-sentiment index, which rose to its highest level in three years. The end-February reading bested the expectations of economists.

Among stocks in focus, American International Group fell \$1.89 (4.7%) to \$38.54, after posting net income of \$11.2bn in the fourth quarter, aided by large reported gains on overseas units the giant insurer sold to repay its government bailout. However, the company's core insurance businesses turned in a weaker performance during the period. The company sounded a cautiously optimistic tone as it held its first conference call with Wall Street analysts in two years.

JC Penney tumbled \$2.39 (6.5%) to \$34.16, after its fiscal fourth-quarter earnings rose 36% and the department-store operator projected 2011 earnings above street views, but its first-quarter earnings view was well below expectations.

Salesforce.com, which makes software that helps manage customer information about sales and marketing and other topics, climbed \$4.51 (3.4%) to \$138.83. While its fiscal fourth-quarter profit fell 46% on surging costs and stock-based expenses, the company's strong revenue growth continued.

Nutrisystem plunged \$6.31 (31%) to \$13.89, after its fourth-quarter earnings more than doubled after a year-earlier quarter that included a hefty impairment charge, but revenue continued to decline for the weight-management company. Nutrisystem also issued a weak outlook for the new year.

For Australian ADRs listed on the NYSE, BHP Billiton increased \$2.15 (2.34%) to US\$93.91, ResMed strengthened 36 cents (1.16%) to US\$31.46, Telstra Corporation advanced 38 cents (2.71%) to US\$14.38, Telecom Corporation of NZ increased 1 cent (0.13%) to US\$7.84 and Westpac improved \$2.75 (2.33%) to US\$121.02.

At 7:45 AM (AEST), the 10-year Treasury note yield was 3.41% and the 5-year yield was 2.16%.

European bourses snapped a five-session losing streak to finish decidedly higher on Friday, as investors chose

to focus on oil trading below \$100 a barrel and set aside for now their concerns about continuing violence in Libya.

Paced by rising shares in Paris, the Stoxx Europe 600 index closed up 1.3% to 284.12, paring losses for the week to 2.4%. The gains were broad based, though financial stocks and miners rallied notably.

European markets have had a rough week, as investors have become increasingly spooked by the continued unrest in the Mideast and North Africa. Most recently, Libya has been in the spotlight, as the oil-producing country teeters on the brink of civil war. Europe buys more than 85% of its oil from the country, which has been ruled by Col. Moammar Gadhafi for more than 40 years. As Gadhafi's grip on power has loosened and rebels have stepped up efforts to oust him, crude operations have been disrupted, leading to a 2 1/2-year high in oil prices earlier last week. But on Thursday, Saudi Arabia said it was prepared to boost its own production to cover export cuts resulting from the Libyan unrest, which helped allay fears of supply shortages.

Among the top regional indexes, France's CAC 40 index advanced 1.5% to 4,070.38, led by a 5.5% gain for Cie de Saint-Gobain SA. Europe's largest supplier of building materials said when it reported results late on Thursday that it plans to increase capital expenditures in 2011 and forecast more upbeat trading conditions in its key markets.

The biggest loser on the French benchmark was European and aerospace giant EADS, which declined 0.5%. The company lost a multibillion-dollar contract to build a new US aerial-refuelling tanker to rival Boeing Co.

In Germany, the DAX 30 benchmark gained 0.8% to 7,185.17 as a 1.8% decline for Deutsche Telekom AG kept a lid on gains. The company posted a wider-than-expected fourth-quarter loss as it continued to write down the value of assets in Southern and Eastern Europe.

On the upside, shares of Volkswagen AG climbed more than 6% after the auto group said its annual profit surged to EUR6.84bn in 2010 from EUR960m in the prior year on demand from China. It also forecast that growth will accelerate this year.

In the UK, the FTSE 100 closed up 1.4% at 6,001.20, helped by a rally in mining stocks, even as trading on the London Stock Exchange's main UK SETS platform was halted for several hours on Friday morning due to a technical problem. The glitch came less than two weeks after the exchange moved to a new system. The UK benchmark also shrugged off news that the British economy contracted more sharply in the fourth quarter than previously estimated.

Among a handful of decliners on the FTSE 100, Lloyds Banking Group PLC was the biggest one, down 4.5%. Although the bank topped earnings expectations, it failed to improve margins in the second half of the year.

On the FTSE 100, Rio Tinto climbed 95.50 pence (2.29%) to 4,270.46 pence and BHP Billiton increased 72.00 pence (3.05%) to 2,433.85 pence.

Most Asian stocks advanced as investors temporarily looked past turmoil in the Middle East and North Africa to snap up beaten-down shares after an overnight retreat in crude-oil prices.

Hong Kong's Hang Seng Index climbed 0.7%, Japan's Nikkei Stock Average added 0.7% and China's Shanghai Composite ended little changed after rising for two straight sessions.

New Zealand's NZX 50 ended 0.1% lower amid concerns the recent earthquake would deal another blow to the already-fragile economy.

Copper pushed higher to a strong close on the London Metal Exchange, supported by stabilising oil prices, though market players remain divided over the metal's prospects for the coming week. Aluminium rose \$23 (0.90%) to \$2,565 while copper firmed \$245 (2.58%) to \$9,750 and nickel added \$645 (2.35%) to \$28,150. Zinc strengthened \$18 (0.73%) to \$2,491 and lead gained \$15 (0.60%) to \$2,515. Comex copper was last quoted at 443.60 US cents per pound.

Gold futures retreated as a calmer picture in the Middle East and stabilising oil prices soothed investors' nerves. Spot gold was last quoted at \$1,409.15. Comex gold futures fell \$6.50 (0.46%) to \$1,409.30. Spot silver was last quoted at \$33.31.

West Texas Intermediate was last quoted at US\$96.98 per barrel.

At 07:45 a.m. (AET) the US dollar was quoted at 0.7271 euros, 81.71 yen, 0.986 AUD and 62.10 pence.

Australian Market Report - Shares May Open Tad Higher

Local shares may open a tad higher after a better night on Wall Street on Friday although investors will be closely focused on developments in the Middle East.

Ahead of the local open the March SPI futures were 20 points higher at 4,839.

Market and Company News | Friday 25 February 2011 - close

ANZ Banking Group (ANZ)

ANZ Banking Group announced that ANZ NZ's General Disclosure Statement for the three months to 31 December 2010 had been released, outlining an improved performance off the back of NZ's gradual economic recovery. Underlying profit for the quarter was \$300m, up significantly off the low base in the December 2009 quarter and reflecting solid business performance and significantly reduced provisions. Lending growth was relatively flat during the quarter, reflecting the impact of de-leveraging by households and businesses. Competition for deposits was strong, with customer deposits growing \$2.6bn. ANZ rose 15 cents (0.62%) to close at \$24.23.

Woolworths (WOW)

Woolworths reported a 6% rise in annual profit, in line with its guidance, and said it would buy liquor chain Cellarmasters Group from Archer Capital for \$340m. Net profit for the 27 weeks to Jan. 2 rose to \$1.16bn from \$1.10bn a year earlier, in line with the company's guidance of 5%-6% growth. Woolworths reiterated its downgraded guidance delivered last month of 5%-8% growth in full year profit. Waning consumer confidence, uncertainty around inflation and interest rates and the continuing strength of the Australian dollar "provide a platform for a potentially subdued trading environment particularly in the discretionary sectors", Woolworths said. WOW rose 35 cents (1.32%) to close at \$26.85.

Crown (CWN)

Crown reported NPAT up 32.9% to \$153.15m for the half-year ended 31 December 2010. Revenues from ordinary activities were \$1.21bn, up 0.8% from the same period last year. Basic and Diluted EPS was 20.19 cents compared to 15.2 cents last year. Net operating cash flow was \$175.92m compared to \$217.17m last year. The interim dividend declared was 18 cents, in line with 18 cents last year. CWN fell 15 cents (1.79%) to close at \$8.23.

Harvey Norman Holdings (HVN)

Harvey Norman Holdings reported NPAT down 17.1% to \$131.67m for the half-year ended 31 December 2010. This decrease is mainly attributable to: a reduction in the profitability of the franchising operations segment by \$36.44m or 19.5% before tax (\$25.51m after tax) due to lower franchise fees collected during the period; start-up investment costs and trading losses of \$20.67m before tax (\$14.47m after tax) incurred in the Clive Peeters and Rick Hart operations during the current half-year; and a lower rise by \$9.32m before tax (\$6.52m after tax) in the market value of the listed public securities held by the consolidated entity relative to the pcp. Revenues from ordinary activities were \$804.13m, compared to \$715.63m last year. Basic and Diluted EPS was 12.39 cents compared to 14.95 cents last year. Net operating cash flow was \$93.52m compared to \$132.45m last year. The interim dividend declared was 6 cents compared with 7 cents last year. HVN rose 2 cents (0.66%) to close at \$3.04.

Transfield Services (TSE)

Transfield Services reported NPAT down 65.2% to \$13.95m for the half-year ended 31 December 2010. Revenues from ordinary activities were \$1.44bn, down 6.1% from the same period last year. Revenue in the Australian and NZ business was impacted by subdued conditions that drove lower volumes in some sectors. Diluted EPS was 3.2 cents compared to 9.4 cents last year. The net operating cash outflow was \$29.39m compared to an inflow of \$130.12m in the pcp. The interim dividend declared was 5 cents in line with 5 cents last year. Looking ahead, the Company reported Easternwell is expected to contribute circa \$40m in EBITDA for the six months ending 30 June 2011. Including the contribution from Easternwell, the Company now expects in the

range of 10-15% growth for FY2011 NPAT, based on FY2010 normalised NPAT of \$96m and an 87 cent US\$/A\$ exchange rate. TSE climbed 4 cents (1.25%) to close at \$3.23.

Companies commencing Ex-Dividend Trading Today (ASX 300):

Amcor Limited

AMP Limited

Aquarius Platinum Limited

ASX Limited

AXA Asia Pacific Holdings Limited

Bendigo and Adelaide Bank Limited

BlueScope Steel Limited

Coca-Cola Amatil Limited

Finbar Group Limited

Fletcher Building Limited

Mermaid Marine Australia Limited

Minara Resources Limited

Mystate Limited

NRW Holdings Limited

RCG Corporation Limited

Servcorp Limited

Sky Network Television Limited

Spotless Group Limited

Suncorp Group Limited

Super Retail Group Limited

Treasury Group Limited

UGL Limited

WorleyParsons Limited