

Transportation

Result preview and 2011 outlook

After a difficult 12 months for transport stocks, we see some value in underperforming names that we think are quality businesses. AIO and QAN are our top picks for 2011, and we think TOL is also one to watch through reporting season.

Key recommendations & forecasts

Sector performance

	(1M)	(3M)	(12M)
Absolute	5.6	1.0	0.3
Absolute (%)	4.1	0.7	0.2
Rel market (%)	2.8	-3.4	0.3

ASX All Ordinaries: 4892.00
 BBG AP Transport: 139.87
 Source: Bloomberg

	Reuters	Year end	Recom	Price	Target price	Upside/downside	EPS 1fcst	P/E 1fcst
Asciano Group	AIO.AX	Jun 2011	Buy	A\$1.53	A\$1.84 ▼	20.3%	0.07	20.9
QR National	QRN.AX	Jun 2011	Hold	A\$2.78	A\$2.85 ▼	2.4%	0.10	29.1
Toll Holdings	TOL.AX	Jun 2011	Hold	A\$5.85	A\$6.39 ▼	9.2%	0.42	13.9
Brambles	BXB.AX	Jun 2011	Hold	A\$7.34	A\$6.81 ▼	-7.2%	0.35	21.0
Virgin Blue	VBA.AX	Jun 2011	Buy	A\$0.43	A\$0.59 ▼	37.1%	0.02	19.5
Qantas Airways	QAN.AX	Jun 2011	Buy	A\$2.47	A\$3.04 ▼	23.0%	0.23	10.7
Regional Express	REN.AX	Jun 2011	Hold ▼	A\$1.13	A\$1.19 ▼	5.6%	0.14	8.2

Priced at close of business 21 January 2011.

1. Normalised EPS - pre non-recurring items and post preference dividends
 Source: Company data, RBS forecasts

1H reporting season preview – expect better earnings but one-off impacts

We expect 1H11 aggregate EBIT across the transport sector to be 36% above last year's 1H10 results, with some stocks benefiting from acquisitions or new business operations (eg, TOL and AIO). However, one-off events have affected several of the transport stocks throughout the half, which will limit some of the growth. We expect QAN to record the best improvement on pcp (PBT up 55% despite the A380 issues) as underlying operations have been boosted by improving corporate travel. With volume growth likely to be subdued for most of the transport stocks this half, we believe margins will be a key focus to test whether management is performing well.

2011 outlook – a tough start, but steady growth ahead?

Although 2011 began with a number of challenges for transport stocks, the fundamental drivers of consumer spending – employment and wages – are growing strongly again in Australia, suggesting the outlook for spending is positive. This would be beneficial to most stocks in the transport sector, and particularly for QAN, VBA and TOL. Globally, economic growth is forecast to continue, although the rates of growth we expect (3-4%) do suggest volume growth may be steady in 2011 rather than spectacular. A rising oil price would add pressure to the cost base for transport companies, although a strong AUD should offset that to some degree. To reflect the soft start to the year and various one-off events that had an effect in the last half, we have made a number of downgrades to our FY11 company earnings forecasts (see Table 2).

Our key picks are AIO and QAN

We are looking for the underperformers in 2010 to become outperformers in 2011. Although challenges face most stocks in the sector, we think some are looking overly cheap at current levels. Of the large-cap stocks, we prefer AIO and QAN on this basis, and we also think momentum will build in VBA as it progresses its strategy to target the premium market. We believe BXB and QRN have good potential longer-term growth, but we think their valuations are stretched on a 12-month view.

Important disclosures can be found in the Disclosures Appendix.

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Transport sector – 1H11 preview

This reporting season preview contains our FY11 forecasts, and highlights changes to our recommendations and forecasts.

Stronger earnings expected vs pcg

We expect 1H11 earnings across the transport sector to be significantly better than last year's 1H10 results. On a cumulative basis, for the stocks under our coverage, we expect sector EBIT to be 36% above that in 1H10, with most stocks recording improvements individually. We caution that some stocks have benefited from acquisitions or new business operations (eg, TOL and AIO), but we do think the underlying fundamentals for all stocks have improved over the past 12 months.

Table 1 : RBS transport company reporting dates and forecasts

Stock	Rec	Price (A\$)	Target (A\$)	Result date	Report period	RBS EBIT (A\$m)			FY11F NPAT (A\$m)		
						1H11F	1H10A	Growth	RBS	Cons	Diff
QAN	Buy	2.47	3.04	17-Feb	1H11	481.0	320.0	50.3%	522.5	543.6	-3.9%
VBA	Buy	0.43	0.59	23-Feb	1H11	97.3	104.0	-6.4%	49.1	71.3	-31.1%
AIO	Buy	1.53	1.84	23-Feb	1H11	272.6	227.5	19.8%	214.0	230.2	-7.0%
QRN	Hold	2.78	2.85	28-Feb	1H11	184.8	n/a	n/a	232.9	261.7	-11.0%
TOL	Hold	5.85	6.39	24-Feb	1H11	247.0	211.0	17.1%	303.8	316.1	-3.9%
BXB	Hold	7.34	6.81	15-Feb	1H11	US\$400.7	US\$340.2	17.8%	504.3	512.9	-1.7%
REX	Hold	1.13	1.19	23-Feb	1H11	11.3	12.7	-11.1%	15.6	15.6	0.0%

Priced at close of business 21 January 2011

* Significant variations exist in consensus NPAT numbers due to individual broker inclusions/exclusions of normalised items.

Source: Bloomberg, RBS forecasts

Key themes we expect from reporting season

- Earnings better than in pcg, but affected by one-offs.** We expect most stocks to record double-digit EBIT improvement compared to the pcg, but we recognise that some of this is driven by acquisitions (TOL) or new business segments (AIO). We expect QAN to record the best underlying earnings improvement (EBIT up 50%) due to an increase in corporate travel. Some of the gloss will be taken off the reporting season though by one-off events that we expect to dampen earnings for AIO, QRN, TOL (all Queensland flood related) and QAN (A380 groundings).
- Subdued outlook commentary seems likely,** given the general softness in volumes evident in the lead up to Christmas. We think much of the commentary will centre around stabilisation and signs of improvement, while providing caution regarding the pace of recovery.
- We see a possibility of FY11 guidance downgrades** given the one-off events that have affected QRN, AIO, TOL and QAN in the 1H. We have already factored in our estimates of those impacts on earnings, but we expect all four to provide greater clarity at the 1H results regarding the financial impact of these events.

Our key picks heading into reporting season – AIO, QAN and VBA

Heading into reporting season, we see an opportunity to take advantage of some undervalued stocks across the sector. We put AIO, QAN and VBA in that group, with TOL also starting to look more appealing. Our preferred long/short pairs across the sector are: 1) long AIO, short QRN, given their comparable EBITDA multiples and that AIO has greater protection from the Queensland floods due to its larger proportion of take-or-pay contracts; and 2) long TOL, short BXB as we think TOL trading in line with the market is more attractive than BXB trading at a 40% premium. Of the airlines we prefer VBA on a longer-term view, but with QAN trading below book value we see opportunity in the stock in the short term.

Changes to forecasts/recommendations

The tables below outline changes to our FY11 and FY12 NPAT forecasts, and to our target prices and recommendations. The most material change is to VBA, which we have downgraded 32% to reflect recent booking softness and associated impacts from the Queensland floods. We have updated our currency assumptions in line with house forecasts and this has affected our forecasts for QAN, VBA, BXB and TOL. For full details of our earnings changes, see Appendix 1.

Table 2 : Earnings changes

	FY11F NPAT (A\$m)			FY12F NPAT (A\$m)			Comment
	Prev	New	% chg	Prev	New	% chg	
QAN	532.1	522.5	-1.8%	868.8	811.8	-6.6%	Higher assumed oil price offsets benefits from AUD strength
VBA	71.9	49.1	-31.7%	126.1	118.5	-6.0%	Tough 2H11 expected with good growth into FY12
AIO	224.3	214.0	-4.6%	290.3	286.0	-1.5%	FY11 affected by QLD flooding
QRN	271.1	232.9	-14.1%	381.9	382.2	0.1%	FY11 affected by QLD flooding
TOL	345.5	303.8	-12.1%	398.0	355.5	-10.7%	Underlying earnings downgrade of 7%
BXB	506.8	504.3	-0.5%	658.1	659.3	0.2%	US recovery story remains on track
REX	14.5	15.6	7.5%	22.6	21.1	-6.3%	FY11 expected to be tougher than FY10

Source: RBS forecasts

Table 3 : RBS oil price and currency assumptions

	FY11F	FY12F	FY13F	Exposure
Oil (WTI IS\$/bbl)	87.20	91.50	90.00	QAN, VBA, REX
AUD/USD	0.981	1.018	0.973	QAN, VBA, BXB, REX
EUR/USD	1.291	1.273	1.289	BXB
AUD/HKD	7.615	7.886	7.543	TOL
AUD/SGD	1.261	1.277	1.294	TOL

Source: RBS forecasts

We have made one change to our stock recommendations; downgrading REX from a Buy to Hold. Changes to our valuations and target price reflect earnings forecast changes. On the basis of upside to target price, VBA is our top pick, although of the large-cap stocks, QAN is our top pick in the sector.

Table 4 : Recommendation and target price changes

	Recommendation		Valuation		TP prem to valuation	Target price (A\$)		Upside from Share price
	Prev	New	Prev	New		Prev	New	
QAN	Buy	Buy	3.06	3.02	0.7%	3.06	3.04	23.0%
VBA	Buy	Buy	0.54	0.46	27.7%	0.60	0.59	37.1%
AIO	Buy	Buy	1.85	1.89	-2.8%	1.88	1.84	20.3%
QRN	Hold	Hold	2.90	2.85	0.0%	2.90	2.85	2.4%
TOL	Hold	Hold	6.90	6.35	0.6%	6.83	6.39	9.2%
BXB	Hold	Hold	6.92	6.81	0.0%	6.92	6.81	-7.2%
REX	Buy	Hold	1.57	1.26	-5.0%	1.41	1.19	5.6%

Priced at close of business 21 January 2011
Source: Company data, RBS forecasts

2011 – improvement after a disappointing 2010

After a somewhat disappointing 2010, we think 2011 will be a broadly better year for transport stocks as the economic recovery continues globally. We foresee a stronger consumer demand environment in Australia driving improved revenue, with operating leverage providing an earnings boost.

Key themes we see for 2011

- **A rosier outlook for consumer discretionary spending**, with the fundamental drivers - income, employment and wages - growing strongly again in Australia. The biggest risk we see to this is an increase in interest rates although, if that were to occur, it would suggest the broad economy is performing well. In our view, the biggest potential winners from this are QAN, VBA and TOL as consumers spend more on travel and retail goods.
- **AUD expected to remain above parity**; RBS forecasts an average of US\$1.02 in 2011, driven by strong commodity prices and higher interest rates. This should benefit QAN and VBA given a significant portion of their cost base is US\$-denominated (35-40%), while TOL might feel a slight negative impact on earnings from its global operations. BXB would receive a small positive boost to earnings from a stronger AUD, but its USD earnings would be negatively affected by a generally expected EUR weakening. AIO and QRN are largely unaffected.
- **Oil price expected to remain firm**, with RBS forecasting an average WTI price of US\$87/bbl in 2011. The airlines (QAN and VBA) are most affected by movements in the oil price given it represents a significant portion of their cost base (about 30%). However, AUD strength provides some offset. With a strengthening demand environment, we also think there is more opportunity to pass the costs on to consumers. AIO, QRN, TOL and BXB, can generally to pass on fuel costs to their customers, minimising the earnings impact of higher fuel costs.
- **Margin recovery limited by cost increases?** Along with fuel price increases we see wage inflation as a potential issue that could restrain margin recovery. Most transport companies have significant operating leverage given their high-fixed cost bases, but improvements in revenue may be offset by cost input increases.

Key stock picks for 2011 – the beaten-up airlines offer most value

Across the sector, we think most upside sits with the airlines, QAN and VBA. One-off events appear to be hampering FY11 earnings, but we think both are cheap on less than 1.0x P/B. Given our view that consumer spending will improve over 2011, we think demand dynamics will also continue to improve, enabling both airlines to recover lost yield. Airlines are the most leveraged to a strengthening consumer environment, so we see an opportunity to take advantage of deep value in both stocks. Fuel prices are at risk over the year, but we believe both companies can mitigate this risk through hedging and fuel surcharge mechanisms.

In the rail and ports sector, we prefer AIO to QRN given they have a similarly strong growth profile, AIO's multiples are less demanding and its coal rail business has greater earnings certainty via 100% take-or-pay contracts.

In the logistics sector, we prefer TOL to BXB on a pure valuation basis. We like BXB's long-term prospects, but we think a 5.5pt PE-multiple difference (FY12F) exaggerates the difference between the two.

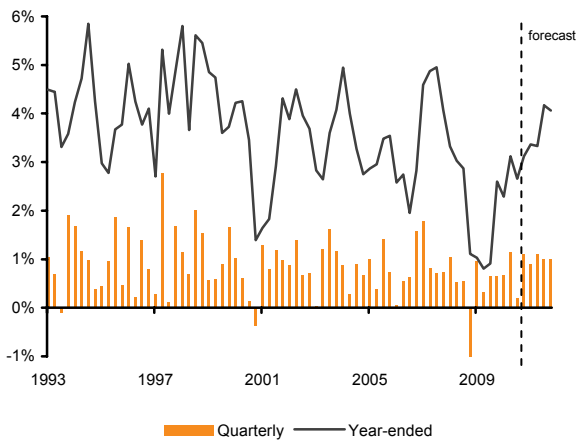
As a potential funding vehicle, we therefore suggest using BXB or QRN on a six- to 12-month view. We would certainly reassess this position in a year's time, as we view their long-term prospects favourably, but in the shorter term we think valuations for both are a bit stretched at current levels.

Outlook for consumer spending appears brighter...

We view current conditions as favourable for a recovery in consumer spending in 2011, with the fundamental drivers - income, employment and wages - growing strongly again. We believe this will feed through into increased demand for the transport sector's products and services, particularly in travel and retail goods. On the negative side, higher interest rates (RBS forecasts a cash rate of 6% by the end of 2011) could have a dampening effect on the level of consumer discretionary spend and we note the household savings rate has risen substantially in recent times. On balance though, we believe the consumer will be in a stronger position in 2011 than in 2010 and this should positively affect the transport sector.

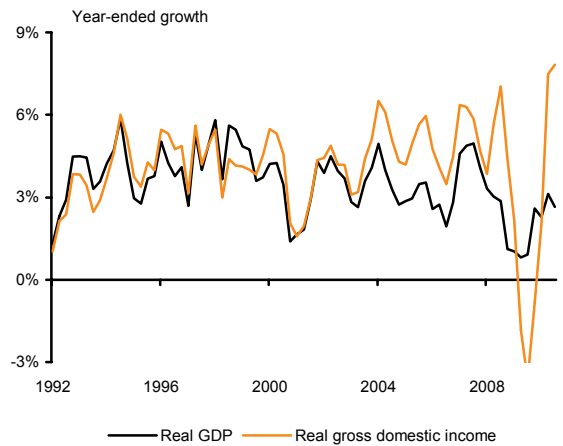
We expect the Australian economy to perform solidly in 2011, with RBS' economist forecasting 2.8% growth in real GDP. The improvement in terms of trade has also driven a larger increase in gross domestic income, which we also expect to continue in 2011.

Chart 1 : Australia real GDP growth – RBS forecasts 2.8% in 2011



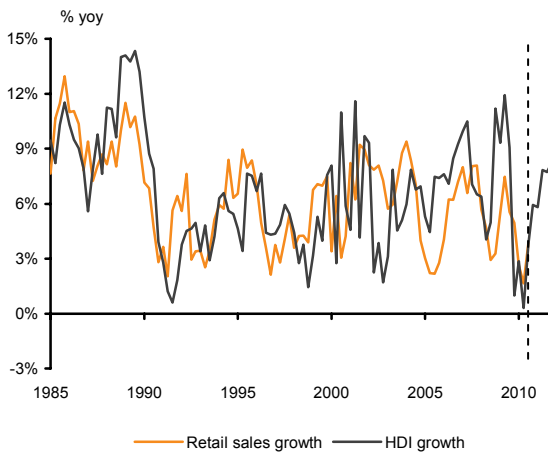
Source: ABS, RBS forecasts

Chart 2 : Real gross domestic income growing at 7.8% over the year



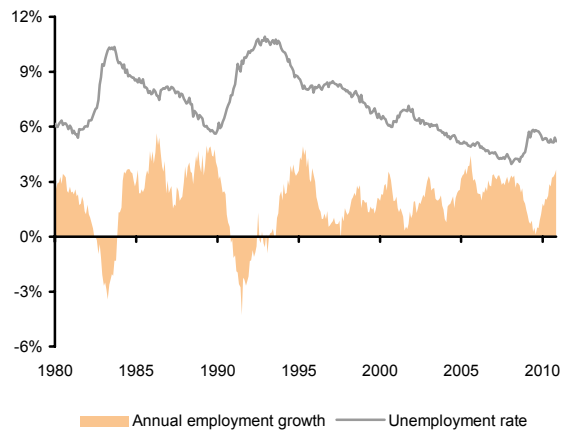
Source: ABS, RBS

Chart 3 : Retail sales growth to be driven by incomes



Source: RBS forecasts

Chart 4 : Unemployment now at 5.0%

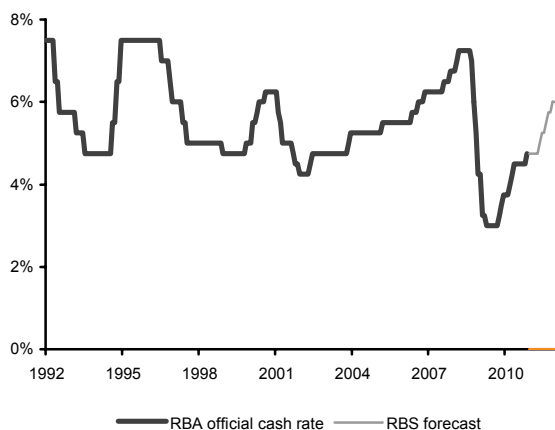


Source: ABS, RBS

... although risks do remain

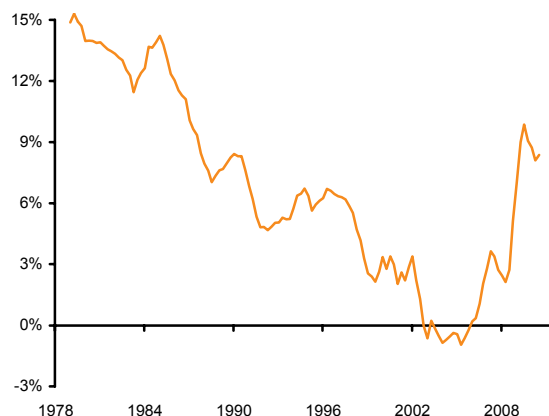
Risks to the recovery do remain in the form of higher interest rates and a potential continuation of higher household savings levels. 2010 appeared to be a year of saving for Australian consumers, so the extent to which consumers are more comfortable about their economic position in 2011 (which we think they should be given employment and wages strength) will likely determine whether there is an increase in discretionary spending.

Chart 5 : RBA cash rate – RBS expects 6% by end of 2011



Source: RBA, Bloomberg, RBS

Chart 6 : Household savings rate rebuilt to 8.4%



Source: RBS

GDP growth forecasts suggest 2011 should be a reasonable, if not a spectacular, year for transport volumes. Typically volumes grow at around 2x GDP, implying volume growth of 6-8% (depending on geography). Global growth appears to be driven partly by the strong growth in emerging regions (eg, Asia), suggesting stocks with exposure to those areas may disproportionately benefit compared to those with mature markets exposure.

Table 5 : RBS real GDP growth forecasts

2009A	2011F		2012F Exposure		
	2010E	Prev		New	
(%)					
Global	-0.7	4.9	4.1	4.1	4.3
Australia	1.3	2.8	3.7	2.8	3.9 AIO, QRN, BXB, TOL, QAN and VBA
China	9.1	10.0	9.0	9.0	8.0 TOL
United States	-2.6	2.9	2.9	3.3	3.6 BXB, QAN and TOL
European Union	-4.0	1.7	1.3	1.3	1.3 BXB, QAN and TOL

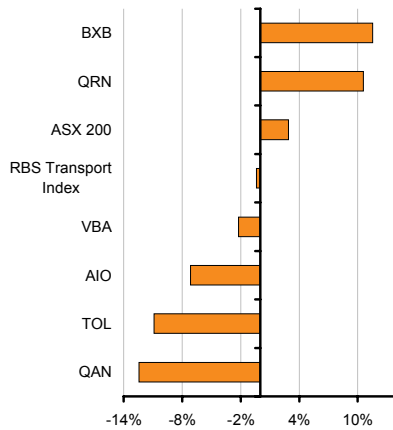
Source: RBS forecasts

Transport sector performance – a poor performer in 2010

The transport sector has declined 10.5% over the past 12 months

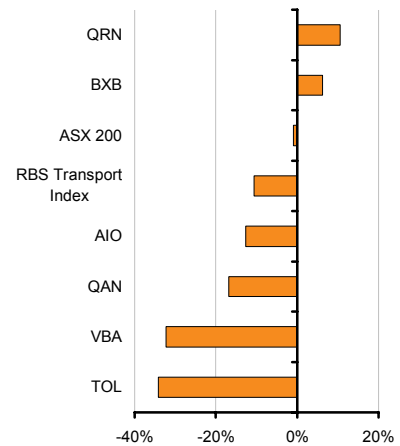
Over the past three months, the market (S&P/ASX 200) has grown 2.9% versus the transport stocks' average decline of 0.4%. BXB has led the way, with 11.5% share price appreciation as conditions improve in the US, while QRN has performed solidly since listing on 19 November 2010, with 10.6% growth despite the flooding in QLD. On the other hand, QAN's troubles with its A380 fleet have seen its share price down 12.4%, while TOL has also underperformed as concerns regarding consumer spending in 1H11 affect sentiment towards the stock. Over the past 12 months, the RBS Transport Index (-10.5%) has underperformed the S&P/ASX 200 (-1.7%), reflecting uncertain economic conditions prevailing over the past calendar year.

Chart 7 : Transport share price performance (previous three months)



Priced at close of business 20 January 2011.
QRN performance since listing on 19 November 2011
Source: IRESS, Datastream, RBS

Chart 8 : Transport share price performance (previous 12 months)



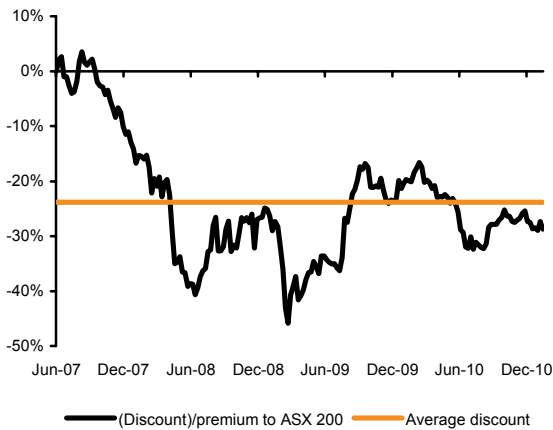
Priced at close of business 20 January 2011.
Source: IRESS, Datastream, RBS

The valuation gap has widened between the transport sector and the S&P/ASX 200

Sector valuation gap is widening suggesting upside from ongoing recovery

As noted above, the RBS Transport Index (a market-cap-weighted index of the six transport stocks under our coverage) underperformed the S&P/ASX 200 over the past 12 months. The charts that follow also show that the sector under our coverage is trading at a larger-than-average discount to the S&P/ASX 200 when tracking performance back to June 2007 (a 29% discount vs the longer-term average 24%) and to May 2000 (16% discount vs the 3% average). With the valuation gap widening over the past year and economic recovery improving, we believe transport companies are well poised for share price gains this year, as they make up some lost ground.

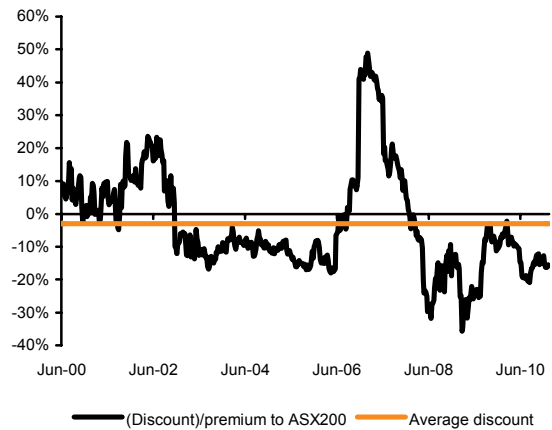
Chart 9 : Sector vs S&P/ASX 200 (since June 2007)



RBS index includes AIO, BXB, QAN, QRN, TOL and VBA. Base date 6 June 2007.
Source: Bloomberg, RBS

Consumer confidence has historically been a leading indicator of the transport sector's performance

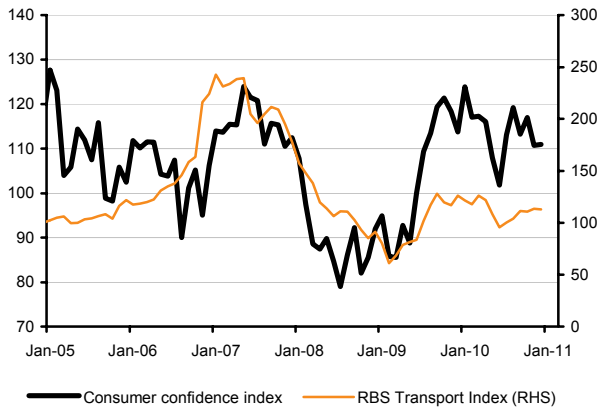
Chart 10 : Sector vs S&P/ASX 200 (since June 2000)



RBS index includes AIO, BXB, QAN, TOL, and VBA. Base date 1 January 2000.
Source: Bloomberg, RBS

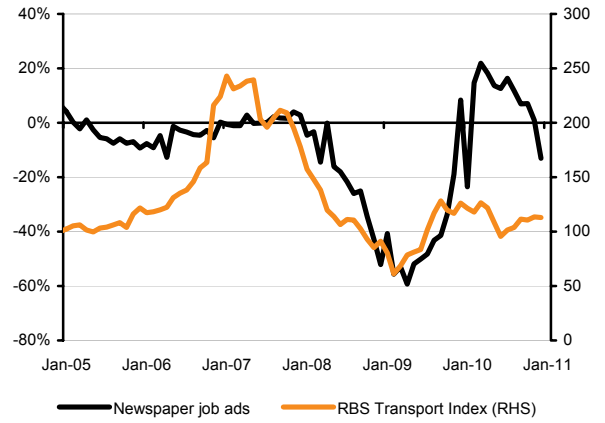
As shown in the charts that follow, the RBS Transport Index has historically had a relatively close correlation to consumer confidence and job advertisements, though the index failed to rally in line with the recovery in confidence over the past 18 months. With the consumer generally expected to be in a stronger position in 2011 as a result of employment and wages growth, we believe spending should recover over the year. This should be positive for transport stocks that compete for share of the consumers' wallet.

Chart 11 : Consumer confidence* vs RBS Transport Index



* Westpac-Melbourne Institute consumer confidence consumer sentiment.
Source: Bloomberg, RBS

Chart 12 : Newspaper job ads* vs RBS Transport Index



* ANZ job advertisements.
Source: Bloomberg, RBS

Qantas Airways (Buy, target price A\$3.04)

QAN had a tough 1H11 with a series of mechanical issues weighing on sentiment. However, given we expect strong earnings growth as the corporate travel market continues to rebound, and with QAN trading below 1.0x P/B, we believe there is strong upside potential for the share price.

Reporting date: 17 February 2011

- **Guidance** – no specific guidance, though management noted at the FY10 result that if present conditions continued, 1H11 underlying PBT may be materially stronger than in 1H10. Domestic conditions deteriorated late in CY10, but we expect this statement to have held true.
- **IBES consensus** – RBS FY11F PBT of A\$752m is 5% below consensus of A\$795m.

Table 6 : QAN – income statement summary

	1H10A	2H10A	FY10A	1H11F	2H11F	FY11F	1H11 vs 1H10	1H11 vs 2H10
Total Revenue	6,909.0	6,863.0	13,772.0	7,609.8	7,563.9	15,173.6	10.1%	10.9%
- Passenger Revenue	5,576.0	5,362.0	10,938.0	6,118.5	6,092.0	12,210.4	9.7%	14.1%
- Cargo Revenue	397.0	424.0	821.0	494.0	474.6	968.6	24.4%	16.5%
- Other Revenue	936.0	1,077.0	2,013.0	997.3	997.3	1,994.6	6.6%	-7.4%
Operating Costs	5,761.0	5,867.0	11,628.0	6,197.8	6,207.4	12,405.1	7.6%	5.6%
Operating EBITDAR	1,148.0	996.0	2,144.0	1,412.0	1,356.5	2,768.5	23.0%	41.8%
Non-cancellable operating leases	253.0	272.0	525.0	295.9	301.8	597.7	16.9%	8.8%
Operating EBITDA	895.0	724.0	1,619.0	1,116.1	1,054.6	2,170.8	24.7%	54.2%
Depreciation	575.0	576.0	1,151.0	635.1	647.9	1,283.0	10.5%	10.3%
Operating EBITA	320.0	148.0	468.0	481.0	406.7	887.8	50.3%	225.0%
Amortisation of Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Operating EBIT	320.0	148.0	468.0	481.0	406.7	887.8	50.3%	225.0%
Net Interest Expense	(53.0)	(38.0)	(91.0)	(61.1)	(74.6)	(135.7)	15.2%	60.7%
Forex gain / loss	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Pre-tax Profit	267.0	110.0	377.0	420.0	332.1	752.1	57.3%	281.8%
Taxation	83.1	38.6	121.7	126.0	99.6	225.6	51.6%	226.4%
Post-tax Profit	183.9	71.4	255.3	294.0	232.5	526.5	59.9%	311.8%
Minorities	(2.0)	(2.0)	(4.0)	(2.0)	(2.0)	(4.0)	0.0%	0.0%
Normalised NPAT	181.9	69.4	251.3	292.0	230.5	522.5	60.5%	320.7%
Abnormals (net of tax)	(123.9)	(15.4)	(139.3)	(23.5)	(0.0)	(23.5)	0.0%	0.0%
Reported NPAT	58.0	54.0	112.0	268.5	230.5	499.0	362.9%	397.2%
EPS	8.1	3.1	11.2	12.9	10.3	23.1	59.2%	316.7%
DPS	0.0	0.0	0.0	6.0	6.0	12.0	nm	nm
EBITDAR margin	16.6%	14.5%	15.6%	18.6%	17.9%	18.2%	1.9pt	4.0pt
EBITDA margin	13.0%	10.5%	11.8%	14.7%	13.9%	14.3%	1.7pt	4.1pt
EBIT margin	4.6%	2.2%	3.4%	6.3%	5.4%	5.9%	1.7pt	4.2pt
NPAT margin	2.6%	1.0%	1.8%	3.8%	3.0%	3.4%	1.2pt	2.8pt

Source: Company data, RBS forecasts

Potential surprises

- **Positive – possible return of a dividend:** with global trading conditions improving, the outlook for industry profitability is brighter than it has been in recent years and we expect QAN's FY11 PBT (and operating cash flow) to be materially higher than in the pcp; we forecast a 1H11 distribution of 6.0c. However, we note that, given the volatility of the domestic market, we see a chance that the company may withhold a distribution this period.
- **Negative – greater-than-expected impact from one-off events:** the 1H11 result will contain certain one-off events in the period, including the A380 grounding, and settlements in relation to both the freight and travel-agent class actions. We estimate an A\$80m hit to PBT, though the actual sum could come in higher. We expect the company to provide an estimate on the cost of the grounding and an update on recovery efforts in relation to this sum. The flooding in QLD is also likely to affect FY11 earnings and is yet to be quantified, though we expect it to be limited to 2H11.

2011 outlook – challenges ahead

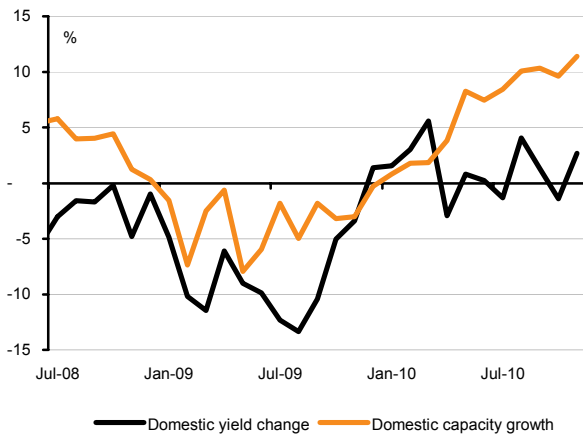
We expect QAN to see earnings growth over CY11 as the corporate travel market continues to recover, but we also expect the company to face a number of challenges in both its domestic market and on its key international routes. VBA is ramping up its network and product in order to capture more corporate market share, which at best may cost QAN in terms of yield, while a worst-case scenario would see customer losses. Similarly, foreign carriers continue to press for international and corporate market share, which again may cause yields to settle lower than we expect and limit earnings growth.

However, QAN's share price languished over the last six months, increasing only 5.6% versus VBA (39%) and Bloomberg's World Airline Index (22%) and we expect QAN to make up this ground now that the A380 issues are behind it. Trading at less than 1.0x P/B, we therefore see good value in the share price at these levels.

Capacity entering the market, but yields protected so far

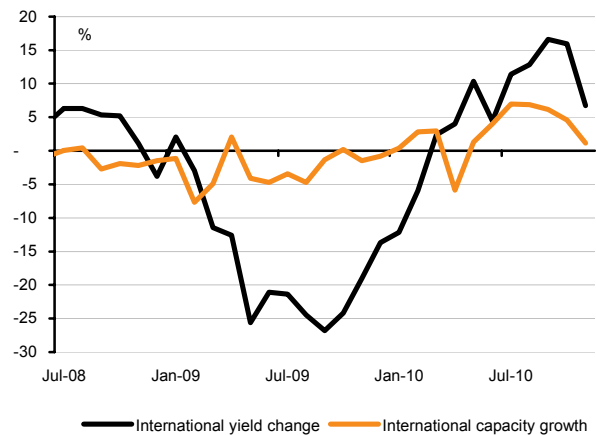
The charts that follow highlight the rate at which capacity has been added to the domestic and international markets over CY10, with Qantas Domestic growing much faster given the more rapid recovery in that market. To date QAN has been able to manage domestic yield growth despite this additional capacity by using Jetstar to fight at the low-cost end of the chain, while preserving Qantas mainline fares. This can be seen in Charts 13 and 14, which show full economy and business fares strengthening while Charts 19 and 20 in the section on VBA show the pressure on yields at the leisure end of the market, with best discount fares at their lowest levels on record.

Chart 13 : QAN total domestic yield and capacity growth (on pcp)



Source: Company data

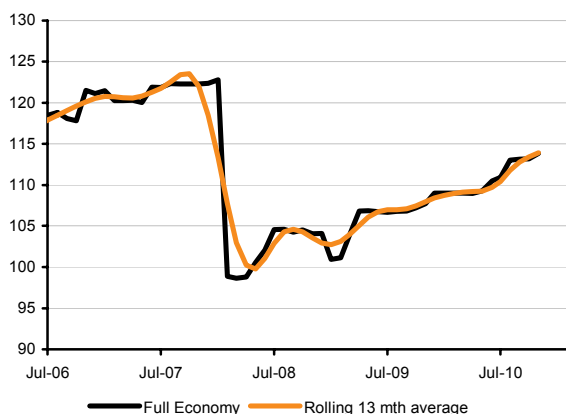
Chart 14 : QAN total international yield and capacity growth (on pcp)



Source: Company data

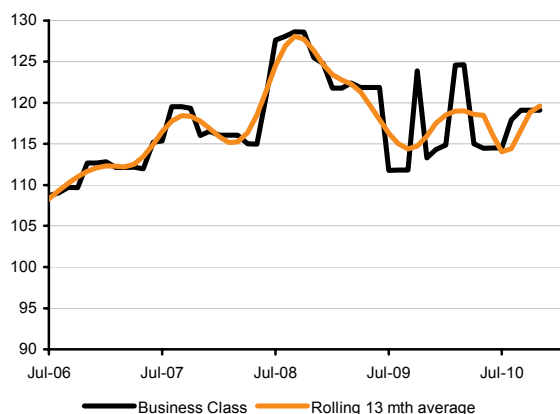
We expect full economy and business fares to start coming under pressure in May 2011 as VBA introduces two A330 aircraft for trans-continental services with a revamped product offering, including a business class.

Chart 15 : BITRE price index – full economy



Source: BITRE

Chart 16 : BITRE price index – business class



Source: BITRE

Valuation and recommendation

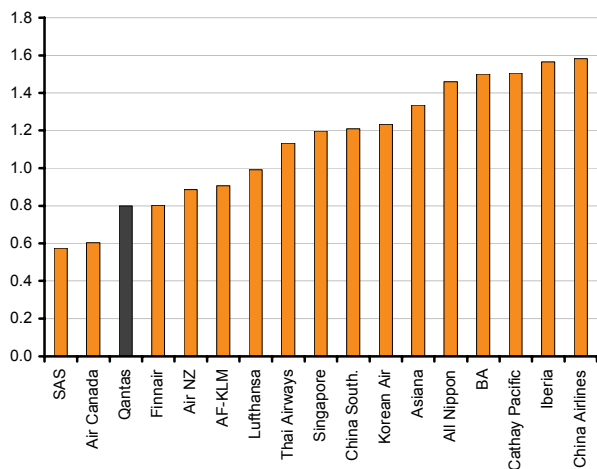
Our blended valuation declines to A\$3.02 (from A\$3.06) due to changes to our currency and oil price assumptions, while our target price reduces to A\$3.04 based on a 1.2x FY11F P/NTA multiple. Key downside risks to our target price include a return to softening economic conditions that would negatively affect demand and yields, a decline in the AUD given the company's exposure to USD costs, and a sustained increase in the oil price above our forecast.

Table 7 : Blended valuation

Methodology	Valuation	Comment
DCF	3.35	
P/NTA	3.29	Based on 1.3x FY11F P/NTA (historical average)
PE	2.54	Based on 11.0x FY11F EPS (historical average)
EV/EBITDAR	2.89	Based on 4.5x FY11F EBITDAR (historical average 5.2x)
Average	3.02	
Target price	3.04	Based on 1.2x FY11F P/NTA (to take account of competitive risk pressures)

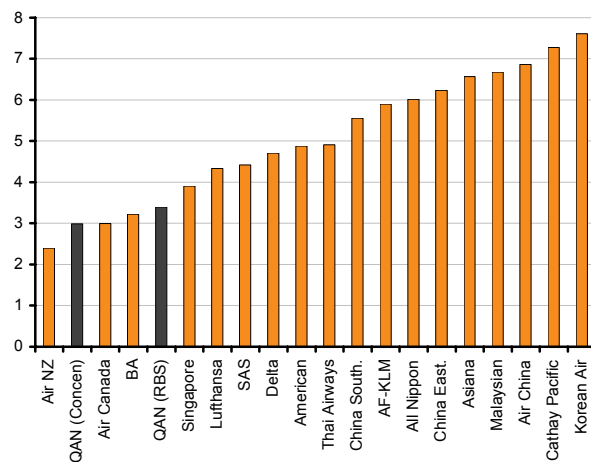
Source: RBS estimates

Chart 17 : Full-service carrier P/NTA ratios, one-year fwd (x)



Source: Bloomberg, RBS

Chart 18 : Full-service carrier EV/EBITDA ratios, one-year fwd (x)



Source: Bloomberg, RBS

Table 8 : QAN – financial summary

Year to 30 Jun (A\$m)	AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$)	2.47	Price target (A\$)	3.04	
Income statement						Valuation metrics				
Divisional sales	14382.0	13772.0	15173.6	16219.0	17585.5	Preferred methodology	Blended valuation	Val'n (A\$)	\$ 3.02	
Total revenue	14382.0	13772.0	15173.6	16219.0	17585.5	DCF valuation inputs				
EBITDA	1424.0	1619.0	2170.8	2741.6	2929.7	Rf	5.25%	10-year rate	5.25%	
Depreciation	-1251.0	-1151.0	-1283.0	-1380.2	-1448.3	Rm-Rf	6.00%	Margin	2.0%	
EBITA	173.0	468.0	887.8	1361.4	1481.4	Beta	1.30	Kd	7.25%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	13.0%	Ke	13.0%	
EBIT	173.0	468.0	887.8	1361.4	1481.4	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	10179.5	
Associate income	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	50.0%	Minority interest (A\$m)	46.0	
EBIT(incl associate profit)	173.0	468.0	887.8	1361.4	1481.4	Debt (D/EV)	50.0%	Net debt (A\$m)	2956.8	
Net interest expense	-36.0	-91.0	-135.7	-196.0	-210.6	Interest rate	7.25%	Investments (A\$m)	381.0	
Pre-tax profit	137.0	377.0	752.1	1165.4	1270.8	Tax rate (t)	30.0%	Equity market value (A\$m)	7557.6	
Income tax expense	-44.8	-121.7	-225.6	-349.6	-381.2	WACC	9.1%	Diluted no. of shares (m)	2258.3	
After-tax profit	92.2	255.3	526.5	815.8	889.6			DCF valuation (A\$)	3.35	
Minority interests	-6.0	-4.0	-4.0	-4.0	-4.0					
NPAT	86.2	251.3	522.5	811.8	885.6	Multiples	2010A	2011F	2012F	2013F
Significant items	30.8	-139.3	-23.5	0.0	0.0	Enterprise value (A\$m)	7608.9	8551.7	9287.5	9619.1
NPAT post abnormals	117.0	112.0	499.0	811.8	885.6	EV/Sales (x)	0.6	0.6	0.6	0.5
						EV/EBITDA (x)	4.7	3.9	3.4	3.3
						EV/EBIT (x)	16.3	9.6	6.8	6.5
						PE (normalised) (x)	22.1	10.7	7.0	6.5
						PEG (normalised) (x)	1.7	0.8	0.5	0.5
						PB	1.05	0.98	0.90	0.84
						At target price	2010A	2011F	2012F	2013F
						EV/EBITDA (x)	5.5	4.5	3.9	3.7
						PE (normalised) (x)	27.2	13.1	8.6	8.0
						Comparable company data (x)	2011F	2012F	2013F	
						Virgin Blue Holdings	EV/EBITDA	5.6	4.1	3.8
						Year to 30 Jun	EV/EBIT	13.3	7.5	6.8
							PE	13.6	7.7	7.3
							PEG	1.4	0.8	0.7
							PB	1.02	0.90	0.80
						British Airways	EV/EBITDA	4.5	3.2	2.6
						Year to 31 Mar	EV/EBIT	10.3	6.1	4.8
							PE	14.7	7.5	6.1
							PEG	0.5	0.2	0.2
							PB	1.97	1.56	1.25
						Per share data	2010A	2011F	2012F	2013F
						No. shares	2248.9	2267.7	2312.9	2367.1
						EPS (cps)	5.0	22.1	35.4	37.8
						EPS (normalised) (c)	11.2	23.1	35.4	37.8
						Dividend per share (c)	0.0	12.0	18.0	19.0
						Dividend payout ratio (%)	0.0	51.9	50.8	50.2
						Dividend yield (%)	0.0	4.9	7.3	7.7
						NTA (\$)	2.34	2.51	2.73	2.94
						Growth ratios	2010A	2011F	2012F	2013F
						Sales growth	-4.2%	10.2%	6.9%	8.4%
						Operating cost growth	-6.2%	7.0%	3.6%	8.7%
						EBITDA growth	13.7%	34.1%	26.3%	6.9%
						EBITA growth	170.5%	89.7%	53.4%	8.8%
						EBIT growth	170.5%	89.7%	53.4%	8.8%
						NPAT growth	191.5%	107.9%	55.4%	9.1%
						Pre-goodwill NPAT growth	191.5%	107.9%	55.4%	9.1%
						Normalised EPS growth	168.6%	107.0%	53.2%	6.8%
						Operating performance	2010A	2011F	2012F	2013F
						Asset turnover (%)	17.2	18.5	18.8	19.3
						EBITDA margin (%)	11.8	14.3	16.9	16.7
						EBIT margin (%)	3.4	5.9	8.4	8.4
						Net profit margin (%)	1.8	3.4	5.0	5.0
						Return on net assets (%)	7.8	13.9	19.3	19.3
						Net debt (A\$m)	2014.0	2956.8	3692.6	4024.2
						Net debt/equity (%)	33.7	46.1	52.5	52.3
						Net interest/EBIT cover (x)	5.1	6.5	6.9	7.0
						ROIC (%)	4.0	7.1	9.5	9.1
						Internal liquidity	2010A	2011F	2012F	2013F
						Current ratio (x)	0.9	0.9	0.8	0.8
						Receivables turnover (x)	12.9	13.3	13.1	13.2
						Payables turnover (x)	6.8	7.1	6.8	6.8

Source: Company data, RBS forecasts

Virgin Blue (Buy, target price A\$0.59)

VBA continues to face tough competition in the leisure travel market, to which it is currently disproportionately exposed (80%). However, we expect VBA's reliance on the leisure market to dissipate over CY11 as it ramps up its corporate offering. We expect 1H11F PBT of A\$69m, while 2H11 looks likely to be tough as competition remains strong and VBA implements its strategy.

Reporting date: 23 February 2011

- **Guidance** – no specific guidance was provided, although management said in October 2010 that, at the time of the Navitaire system outage, the group had seen an improvement in general trading conditions on the pcp.
- **IBES consensus** – our FY11F PBT of A\$70.1m is 33% below consensus of A\$104m.

Table 9 : VBA income statement summary

(A\$m)	1H10A	2H10A	FY10A	1H11F	2H11F	FY11F	1H11 vs 1H10	1H11 vs 2H10
Sales	1,514.7	1,466.5	2,981.2	1,702.1	1,623.4	3,325.5	12.4%	16.1%
Operating costs	-1,208.1	-1,310.6	-2,518.7	-1,426.0	-1,367.1	-2,793.1	18.0%	8.8%
EBITDAR	306.6	155.9	462.5	276.1	256.3	532.4	-9.9%	77.1%
Operating lease expense	-102.4	-69.7	-172.1	-70.1	-103.5	-173.6	-31.6%	0.6%
EBITDA	204.2	86.2	290.4	206.0	152.8	358.8	0.9%	139.0%
Depreciation	-100.2	-103.6	-203.8	-108.7	-117.8	-226.5	8.5%	4.9%
EBIT	104.0	-17.4	86.6	97.3	35.0	132.4	-6.4%	nm
Income from associates	1.4	-0.8	0.6	1.4	-0.8	0.6	0.0%	nm
Net interest	-29.8	-26.4	-56.2	-29.9	-33.0	-62.9	0.4%	13.3%
PBT	75.6	-44.6	31.0	68.8	1.3	70.1	-9.0%	nm
Tax	-29.4	17.4	-12.0	-20.6	-0.4	-21.0	-29.8%	nm
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm
NPAT	46.2	-27.2	19.0	48.2	0.9	49.1	4.3%	nm
Significant items	16.3	-14.0	2.3	0.0	0.0	0.0	nm	nm
Reported NPAT	62.5	-41.2	21.3	48.2	0.9	49.1	-22.9%	nm
Normalised EPS (c)	2.1	-1.2	0.9	2.2	0.0	2.2	4.4%	nm
DPS (c)	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm
EBITDA margin	13.5%	5.9%	9.7%	12.1%	9.4%	10.8%	-1.4ppt	6.2ppt
EBIT margin	6.9%	-1.2%	2.9%	5.7%	2.2%	4.0%	-1.1ppt	6.9ppt
NPAT margin	3.0%	-1.9%	0.6%	2.8%	0.1%	1.5%	-0.2ppt	4.7ppt
Tax rate	38.9%	39.0%	38.7%	30.0%	30.0%	30.0%	-8.9ppt	nm

Source: Company data, RBS forecasts

Potential surprises

- **Positive – update on “game changing” initiatives** – management has previously noted the following as requirements for success: 1) a good domestic and international network; 2) a competitive frequent flyer program; 3) the right product; and 4) distribution. With the network largely built out (with the exception of an Asian alliance partner) we may see an update on the other points and just how the Etihad alliance has been performing so far.
- **Negative – bigger-than-expected one-off charges** – management assessed the 11-day Navitaire interruption as causing a A\$15m-20m hit to FY11 PBT and noted that it was seeking to recover this cost. Management also said that, before the outage, the group had seen an improvement in trading conditions compared with the pcp (though we expect this to have fallen away markedly in December given the level of discounting in the market). In view of this, we have factored in a A\$7.5m hit to 1H11 PBT to be recovered from Navitaire in 2H11.

2011 outlook – tough but strategy likely to reap rewards in FY12

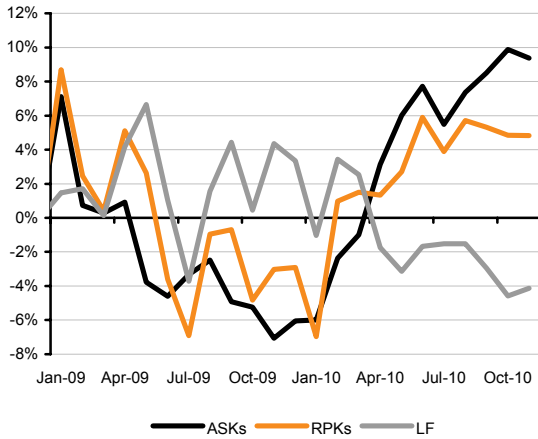
We maintain our positive view on VBA though, in our view, it is an FY12 story. We expect domestic competition at the leisure end to remain tough in 2H11, with significant capacity being added to the market while consumer confidence appears dented by a recent run of interest rate increases. Furthermore, in 2H11, VBA's continued focus on building out its network and revamping its product in order to capture additional corporate market share is likely to add costs. We expect 2H11 to see the continued roll out of VBA's “game changing” plans, with benefits to

start accruing from FY12F. With VBA's strategy for capturing corporate market likely to lead to improved yields and lower earnings volatility, we see strong upside potential for the share price.

Domestic capacity growth likely to crimp short-term yield growth

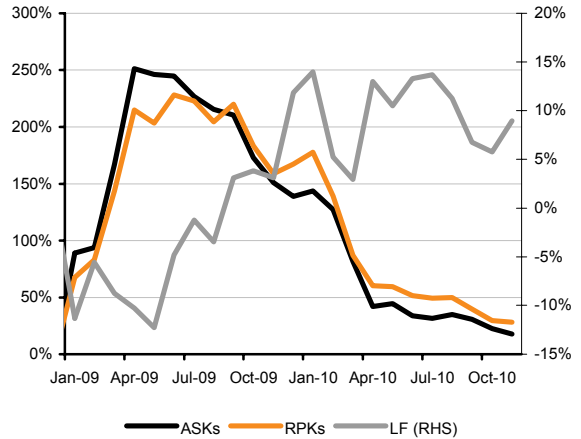
We expect total domestic market capacity to continue growing as carriers rebuild their respective networks after the downturn and look to maintain market share, while Tiger continues to build its network. VBA's domestic capacity is up 8.1% November YTD and it has previously guided to 6-8% growth for the financial year.

Chart 19 : VBA – domestic capacity and load factor change



Source: Company data, RBS

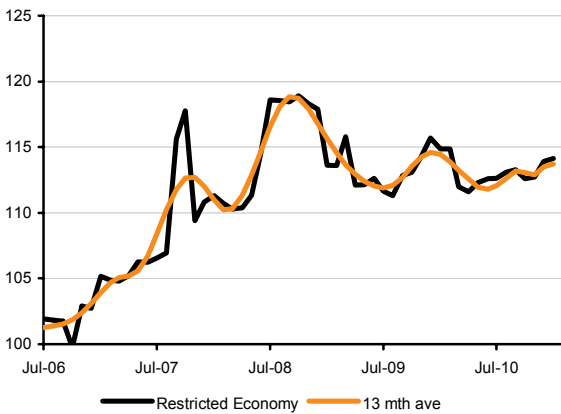
Chart 20 : VBA – international capacity and load factor change



Source: Company data, RBS

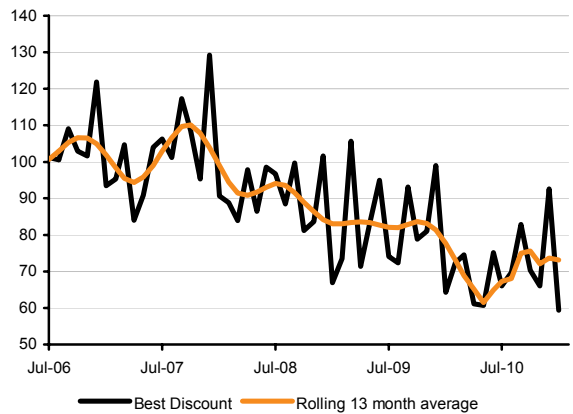
With consumer confidence dented by recent interest rate increases and the recent flood events around the country (c40% of VBA's ASKs relate to QLD operations), yields are likely to come under pressure as demand growth fails to keep pace. The pressure on yields is evidenced by the BITRE statistics below, which show best discount fares are at their lowest level since records commenced. With market capacity growth showing no signs of winding back, we expect yields to remain under pressure for the balance of FY11.

Chart 21 : BITRE price index – restricted economy



Source: BITRE

Chart 22 : BITRE price index – best discount



Source: BITRE

Valuation and recommendation

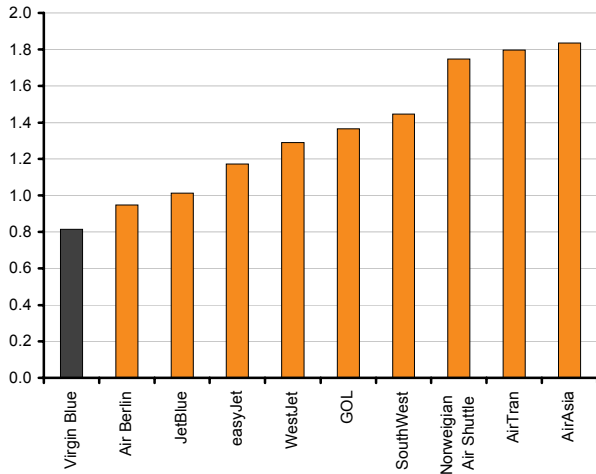
Our valuation declines to A\$0.46 (from A\$0.54) due to changes to our earnings forecasts, while our target price drops marginally to A\$0.59 from A\$0.60 based on a 1.25x FY12F P/NTA multiple. Key downside risks to our target price include a return to softening economic conditions that would negatively affect demand and yields, a decline in the AUD given the exposure to USD costs and a sustained increase in the oil price above our forecast.

Table 10 : FY11F blended valuation

Methodology	Valuation	Comment
DCF	0.74	
P/B	0.52	1.25x FY11F NTA per share (three-year rolling average)
PE	0.27	12.0x FY11F EPS (historical average 14.9x)
EV/EBITDAR	0.32	6.0x FY11F EBITDAR (historical average 7.0x)
Average	0.46	
Target price	0.59	Based on 1.25x FY12F P/NTA

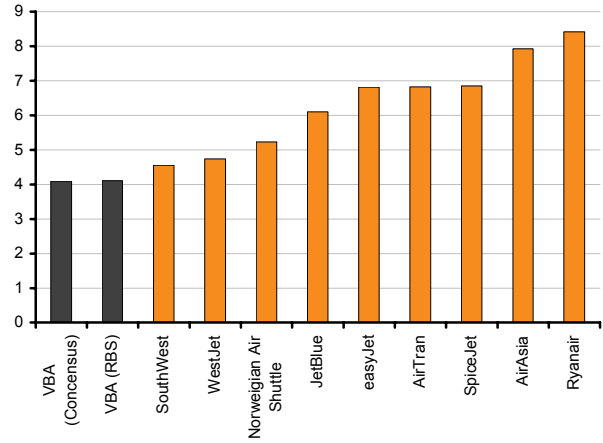
Source: RBS forecasts

Chart 23 : Low-cost carrier price-to-book ratios, 2011 (x)



Source: Bloomberg, RBS

Chart 24 : Low-cost carrier EV/EBITDA ratios, 2011 (x)



Source: Bloomberg, RBS

Table 11 : VBA – financial summary

Year to 30 Jun (A\$m)	AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$)	0.44	Price target (A\$)	0.59	
Income statement						Valuation metrics				
Divisional sales	2362.6	2706.6	3036.3	3218.1	3416.6	Preferred methodology	DCF/multiples	Val'n (A\$)	\$ 0.46	
Total revenue	2604.4	2981.2	3325.5	3523.9	3731.6	DCF valuation inputs				
EBITDA	222.6	290.4	358.8	490.2	526.2	Rf	5.25%	10-year rate	5.25%	
Depreciation	-183.7	-203.8	-226.5	-226.5	-234.0	Rm-Rf	6.00%	Margin	2.0%	
EBITA	38.9	86.6	132.4	263.8	292.2	Beta	1.98	Kd	7.25%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	17.1%	Ke	17.1%	
EBIT	38.9	86.6	132.4	263.8	292.2	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	2908.2	
Associate income	0.4	0.6	0.6	0.6	0.6	Equity (E/EV)	50.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	39.3	87.2	133.0	264.4	292.8	Debt (D/EV)	50.0%	Net debt (A\$m)	1273.2	
Net interest expense	-63.9	-56.2	-62.9	-95.0	-102.4	Interest rate	7.25%	Investments (A\$m)	7.9	
Pre-tax profit	-24.6	31.0	70.1	169.3	190.4	Tax rate (t)	30.0%	Equity market value (A\$m)	1642.9	
Income tax expense	5.7	-12.0	-21.0	-50.8	-57.1	WACC	11.1%	Diluted no. of shares (m)	2221.5	
After-tax profit	-18.9	19.0	49.1	118.5	133.3			DCF valuation (A\$)	0.74	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	-18.9	19.0	49.1	118.5	133.3	Multiples	2010A	2011F	2012F	2013F
Significant items	-141.1	2.3	0.0	0.0	0.0	Enterprise value (A\$m)	1945.1	2245.2	2148.7	2086.4
NPAT post abnormals	-160.0	21.3	49.1	118.5	133.3	EV/Sales (x)	0.7	0.7	0.7	0.6
						EV/EBITDA (x)	6.7	6.3	4.4	4.0
Cash flow statement	2009A	2010A	2011F	2012F	2013F	EV/EBIT (x)	22.5	17.0	8.1	7.1
EBITDA	222.6	290.4	358.8	490.2	526.2	PE (normalised) (x)	51.5	19.9	8.2	7.3
Change in working capital	147.6	184.8	-115.4	102.1	45.6	PEG (normalised) (x)	5.2	2.0	0.8	0.7
Net interest (pd)/rec	-70.1	-56.7	-62.9	-95.0	-102.4					
Taxes paid	21.6	2.0	-21.0	-50.8	-57.1	At target price	2010A	2011F	2012F	2013F
Other oper cash items	-194.0	-23.6	0.0	0.0	0.0	EV/EBITDA (x)	7.8	7.2	5.1	4.6
Cash flow from ops (1)	127.7	396.9	159.5	446.5	412.3	PE (normalised) (x)	69.0	26.7	11.0	9.8
Capex (2)	-832.4	-550.8	-459.6	-350.0	-350.0					
Disposals/(acquisitions)	244.1	252.0	0.0	0.0	0.0	Comparable company data (x)	2011F	2012F	2013F	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Qantas Airways	EV/EBITDA	3.8	3.2	2.9
Cash flow from invest (3)	-588.3	-298.8	-459.6	-350.0	-350.0	Year to 30 Jun	EV/EBIT	9.2	6.2	5.6
Incr/(decr) in equity	0.0	222.9	0.0	0.0	0.0		PE	10.5	6.5	5.7
Incr/(decr) in debt	334.6	19.0	344.7	262.5	262.5		PEG	1.1	0.7	0.6
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	easyJet	EV/EBITDA	6.8	6.4	5.1
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Year to 30 Sep	EV/EBIT	9.2	8.7	6.7
Other financing cash flow	0.0	0.0	0.0	0.0	0.0		PE	10.5	9.7	7.3
Cash flow from fin (5)	334.6	241.9	344.7	262.5	262.5		PEG	1.6	1.4	1.1
Forex and disc ops (6)	-2.0	-1.2	0.0	0.0	0.0					
Incr/(decr) cash (1+3+5+6)	-128.0	338.8	44.6	359.0	324.8	Per share data	2010A	2011F	2012F	2013F
Equity FCF (1+2+4)	-704.7	-153.9	-300.1	96.5	62.3	No. shares	2209.6	2209.6	2209.6	2209.6
						EPS (cps)	1.0	2.2	5.3	6.0
Balance sheet	2009A	2010A	2011F	2012F	2013F	EPS (pre-goodwill) (c)	1.0	2.2	5.3	6.0
Cash & deposits	475.9	814.7	859.3	1218.3	1543.1	EPS (normalised) (c)	0.9	2.2	5.3	6.0
Trade debtors	122.3	141.1	136.7	144.8	153.4	Dividend per share (c)	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	1.9	2.0	2.1	Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Investments						Dividend yield (%)	0.0	0.0	0.0	0.0
Goodwill	51.1	53.3	53.3	53.3	53.3					
Other intangible assets						Growth ratios	2010A	2011F	2012F	2013F
Fixed assets	2645.7	2753.9	2987.1	3110.6	3226.6	Sales growth	14.6%	12.2%	6.0%	6.2%
Other assets	71.9	108.9	109.5	110.1	110.7	Operating cost growth	12.9%	10.8%	1.9%	6.0%
Total assets	3366.9	3871.9	4147.8	4639.1	5089.1	EBITDA growth	30.5%	23.6%	36.6%	7.3%
Short-term borrowings	233.3	251.5	251.5	251.5	251.5	EBITA growth	122.6%	52.8%	99.3%	10.8%
Trade payables	268.7	323.8	300.7	318.6	337.4	EBIT growth	122.6%	52.8%	99.3%	10.8%
Long-term borrowings	1546.1	1536.3	1881.0	2143.5	2406.0	NPAT growth	-200.6%	158.3%	141.6%	12.4%
Provisions	36.1	8.3	8.3	8.3	8.3	Normalised EPS growth		158.5%	141.6%	13.1%
Other liabilities	705.6	818.7	724.0	816.3	851.8					
Total liabilities	2789.8	2938.6	3165.4	3538.2	3855.0	Operating performance	2010A	2011F	2012F	2013F
Preference shares						Asset turnover (%)	18.7	18.9	18.3	17.6
Hybrid equity						EBITDA margin (%)	10.7	11.8	15.2	15.4
Share capital	407.7	632.5	632.5	632.5	632.5	EBIT margin (%)	3.2	4.4	8.2	8.6
Other reserves	-113.9	-3.8	-3.8	-3.8	-3.8	Net profit margin (%)	0.7	1.6	3.7	3.9
FCTR						Return on net assets (%)	9.3	13.5	24.0	23.7
Unrealised gains/losses						Net debt (A\$m)	973.1	1273.2	1176.7	1114.4
Retained earnings	283.3	304.6	353.7	472.2	605.5	Net debt/equity (%)	104.3	129.6	106.9	90.3
Other equity	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	1.5	2.1	2.8	2.9
Total equity	577.1	933.3	982.4	1100.9	1234.2	ROIC (%)	3.2	4.8	8.2	8.9
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	577.1	933.3	982.4	1100.9	1234.2	Internal liquidity	2010A	2011F	2012F	2013F
Total liabilities & SE	3366.9	3871.9	4147.8	4639.1	5089.1	Current ratio (x)	0.8	0.9	1.1	1.3
						Receivables turnover (x)	20.6	21.9	22.9	22.9
						Payables turnover (x)	8.2	8.6	8.8	8.8

Source: Company data, RBS forecasts

Asciano Group (Buy, target price A\$1.84)

We retain our Buy recommendation on AIO with a slightly reduced target price of A\$1.84 (from (A\$1.88). Earnings downgrades (see Appendix 1) drove the downgrade to our SOTP valuation on which our target price is based. Catalysts over the next 12 months include a turnaround of the container ports business and potential new QLD coal contracts. On an FY12F EBITDA multiple of 7.3x we think AIO is offering value at these levels for a growth profile that is relatively secure.

Reporting date: 23 February 2011

- **Guidance** – at the FY10 result, management said it was comfortable with market consensus forecast for FY11 EBIT of A\$572m. No update has been provided recently.
- **IBES consensus** – RBS FY11F EBIT of A\$554.0m is 2% below consensus of A\$564m.

Table 12 : AIO – income statement summary

(A\$m)	1H10A	2H10A	FY10A	1H11F	2H11F	FY11F	1H11 vs 1H10	1H11 vs 2H10
Total revenue	1,435.3	1,417.6	2,859.1	1,618.4	1,545.8	3,176.4	12.8%	14.2%
- Container Ports	362.1	331.2	693.3	372.3	353.8	738.3	2.8%	12.4%
- Auto, Bulk & General	330.3	341.7	677.0	355.6	379.5	735.1	7.7%	4.1%
- Coal	316.8	354.9	671.6	450.5	367.3	817.8	42.2%	27.0%
- Intermodal	421.3	386.3	807.6	434.2	439.9	874.1	3.1%	12.4%
- Other	4.8	3.5	9.6	5.7	5.3	11.0	18.2%	63.9%
Total operating costs	(1,071.3)	(1,067.9)	(2,145.4)	(1,202.4)	(1,116.0)	(2,330.6)	12.2%	12.6%
Total EBITDA (inc-associates)	368.2	355.5	723.7	420.5	434.3	854.7	14.2%	18.3%
Dep. & amort	(140.6)	(143.5)	(284.1)	(147.9)	(152.8)	(300.7)	5.2%	3.1%
EBIT	227.5	212.0	439.6	272.6	281.4	554.0	19.8%	28.6%
- Container Ports	67.6	51.5	119.1	74.6	70.6	145.2	10.4%	45.0%
- Auto, Bulk & General	24.6	32.5	57.1	29.4	37.2	66.5	19.2%	-9.5%
- Coal	59.3	74.3	133.5	95.0	100.8	195.8	60.3%	27.9%
- Intermodal	73.1	51.2	124.4	70.9	70.2	141.2	-3.0%	38.5%
- Corporate/Other	(1.3)	(3.2)	(4.5)	(1.9)	(1.9)	(3.7)	42.6%	-42.0%
- Associates	4.2	5.8	10.0	4.5	4.5	9.0	7.4%	-22.6%
Net interest expense	(132.3)	(119.5)	(251.8)	(120.7)	(132.0)	(252.7)	-8.7%	1.0%
PBT	95.3	92.5	187.8	151.9	149.5	301.3	59.4%	64.1%
Income tax expense	(14.4)	(31.9)	(64.8)	(42.5)	(41.9)	(84.4)	195.2%	33.3%
Minority interests	(0.8)	(0.9)	(1.7)	(1.5)	(1.5)	(3.0)	86.1%	60.6%
NPAT	80.0	59.7	121.3	107.8	106.1	214.0	34.7%	80.7%
Significant items	(1.0)	(1,133.9)	(1,098.9)	0.0	0.0	0.0	n/m	n/m
Reported NPAT	79.1	-1,074.2	-977.6	107.8	106.1	214.0	36.4%	-110.0%
EPS (c)	2.7	(36.7)	(33.4)	3.7	3.6	7.3	36.4%	-110.0%
DPS (c)	0.0	0.0	0.0	1.0	1.5	2.5	#DIV/0!	#DIV/0!
EBIT margin	15.9%	15.0%	15.4%	16.8%	18.2%	17.4%	1.0pt	1.9pt
- Container Ports	18.7%	15.5%	17.2%	20.0%	20.0%	19.7%	1.4pt	4.5pt
- Auto, Bulk & General	7.5%	9.5%	8.4%	8.3%	9.8%	9.1%	0.8pt	-1.2pt
- Coal	18.7%	20.9%	19.9%	21.1%	27.5%	23.9%	2.4pt	0.2pt
- Intermodal	17.4%	13.3%	15.4%	16.3%	16.0%	16.2%	-1.0pt	3.1pt

Source: Company data, RBS forecasts

Potential surprises

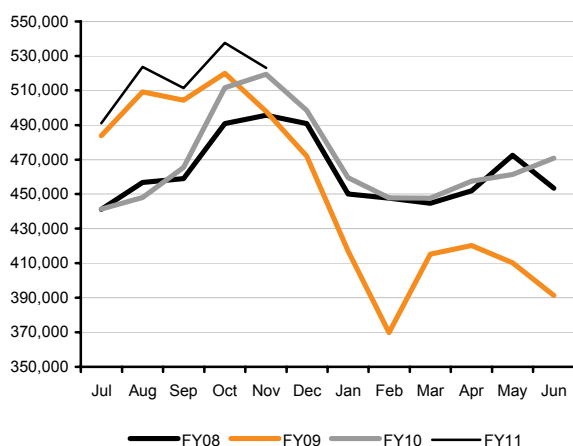
- **Positive – any turnaround in the Container Ports business**, given it has been a weak point in previous results. Port volumes have been okay during the half (up 8.4% through November), but AIO reported container lifts down 1.5% in 1Q on market share losses. It may be too early to expect much volume improvement, although we sense that AIO is starting to regain some of the goodwill that was lost with customers. We are most interested in any margin improvement or decline to indicate whether management is having any success in improving the operational aspects of the business.
- **Negative – impact of the wet weather in Queensland**. We estimate AIO could be affected by up to A\$10m-15m EBIT from the wet weather in Queensland, but with operations in the coal supply chain likely to take months to reach full capacity again, the impact may be larger.

2011 outlook

It hasn't been the strongest start to 2011 for AIO given the wet weather affecting PN Coal operations, while retail sales were soft leading into the new year. However, we believe the outlook for the consumer is stronger this year so we see containerised freight volumes (ports and rail) improving as a result. While it may take a few months for PN Coal operations to return to normal, we are comfortable that there is minimal risk for FY12 earnings.

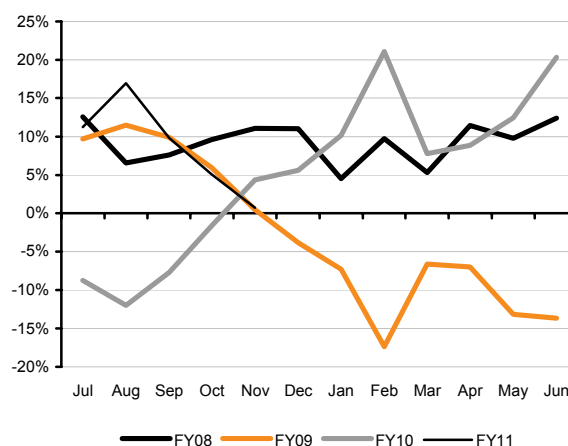
Port volumes have commenced FY11 at record levels, although we note that the pre-Christmas months of October and November were largely flat on last year. The extent of any recovery will become evident in the next few months as will the extent of volume drop-off post Christmas. With consumer spending looking like it may be stronger in 2011, we would expect to see monthly volumes remain above FY10 levels.

Chart 25 : Total monthly four-port* volumes (TEUs)



*Four ports – Sydney, Melbourne, Brisbane and Fremantle.
Source: Port Corporations

Chart 26 : Monthly growth in port volumes*



*Four ports – Sydney, Melbourne, Brisbane and Fremantle.
Source: Port Corporations

Our valuation and target price fall slightly to A\$1.84 (from A\$1.88) due to earnings reductions in FY11F. On EBITDA multiples of 8.7x in FY11F and 7.3x in FY12F we think AIO is offering good value at current levels compared to its peers.

Table 13 : AIO – FY11F SOTP valuation

	FY11F EBITDA (A\$m)	Valuation multiple (x)	Valuation (A\$m)	Comment
Container Ports	212.5	11.3	2,391	10% discount to global port peer average
Auto, Bulk & General	121.3	10.6	1,289	15% discount to global port peer average
Pacific National – Coal	284.7	9.0	2,568	10% premium to global rail peer average*
Pacific National – Intermodal	227.3	8.2	1,864	0% premium to global rail peer average*
Associates	9.0	7.8	70	0% premium to All Industrials average
Enterprise value	854.7	9.6	8,181	
Net debt (2)			2,777.9	
Equity value			5,403.4	
Diluted shares (m)			2,929.0	
NPV per share			\$1.84	

*Ex-QR National.
Source: RBS forecasts

Table 14 : Global peer comparisons (one-year forward)

	Ticker	RBS recom	Div yield (%)	EV /EBIT (x)	EV/ EBITDA (x)	PE (x)	P/B (x)	P/CF (x)	2-year fwd EBITDA CAGR	2-year fwd EPS CAGR	Gearing (ND/ND+E)	Year end
Asciano Group	AIO AU	Buy	2.6	10.9	7.3	15.8	1.5	7.3	14.8%	24.0%	48.3%	Jun-2012
Ports												
DP World	DPW DU		1.4	20.5	12.8	27.4	1.4	11.8	12.2%	26.5%	38.6%	Dec-2011
Forth Ports	FPT LN		0.0	17.7	13.3	21.8	238.0	1879.2	6.7%	11.8%	52.4%	Dec-2011
Wilson Sons	WSON11 BZ		1.3	15.0	9.5	19.6	2.8	9.2	16.7%	3.7%	15.7%	Dec-2011
Lytelton Port Company	LPC NZ		2.5	14.2	8.9	19.6	1.7	9.5	2.9%	7.2%	30.1%	Jun-2012
Port of Tauranga	POT NZ		4.6	13.9	12.0	17.8	1.5	14.4	6.2%	8.1%	22.9%	Jun-2012
China Merchants	144 HK	Hold	2.6	34.6	25.5	16.6	2.0	19.2	10.4%	17.3%	17.2%	Dec-2011
Xiamen International	3378 HK		3.9	9.2	6.7	12.1	1.1	9.2	9.6%	14.6%	-6.1%	Dec-2011
Dalian Port Co.	2880 HK		2.2	16.7	12.2	12.8	1.2	9.5	16.2%	9.5%	23.3%	Dec-2011
Shanghai International	600018 CH		2.8	11.7	9.2	16.8	2.2	13.7	n/a	n/a	-2.8%	Dec-2011
Tianjin Port	3382 HK	Hold	2.1	9.6	6.6	18.8	1.3	5.1	14.7%	26.5%	42.4%	Dec-2011
Hutchison Whampoa	13 HK		2.2	20.1	12.0	19.3	1.3	10.6	16.2%	31.5%	36.1%	Dec-2011
Cosco Pacific	1199 HK		0.3	28.9	18.9	15.2	11.3	117.1	15.6%	6.9%	29.2%	Dec-2011
Shenzhen Yantian Port	000088 CH		3.3	27.1	23.3	15.5	1.7	15.9	2.7%	3.0%	-56.6%	Dec-2011
Shenzhen Chiwan Wharf	000022 CH		3.5	11.2	8.7	14.4	2.4	9.1	9.3%	10.2%	16.0%	Dec-2011
Hamburger Hafen	HHFA GR		1.8	13.8	8.9	29.6	3.8	11.2	14.6%	27.3%	24.7%	Dec-2011
Intl Container Term	ICT PM		0.0	11.3	7.9	17.1	127.0	365.7	14.8%	18.9%	37.4%	Dec-2011
Average			2.2	17.2	12.3	18.4	25.1	156.9	11.2%	14.9%	20.0%	
Median			2.2	14.6	10.7	17.5	1.9	11.5	12.2%	11.8%	24.0%	
Rail												
QR National	QRN AU	Hold	2.9	16.1	8.6	18.0	1.0	7.9	23.6%	20.8%	28.4%	Jun-2012
Guangshen Railway	525 HK		3.0	10.9	6.6	12.0	0.9	7.5	7.0%	6.5%	7.5%	Dec-2011
Union Pacific	UNP US		1.5	9.7	7.6	14.6	2.4	8.7	10.9%	16.4%	31.5%	Dec-2011
Norfolk Southern Corp	NSC US		2.3	9.3	7.3	13.7	2.0	8.7	10.0%	15.7%	36.9%	Dec-2011
CSX Corp	CSX US		1.6	9.6	7.5	14.1	2.7	8.1	9.1%	16.4%	43.8%	Dec-2011
Canadian Pacific Railway	CP CN		1.7	11.9	8.5	14.9	1.9	8.4	11.4%	17.2%	36.3%	Dec-2011
Genesee & Wyoming	GWR US		0.0	12.6	9.8	19.9	2.3	11.1	18.6%	25.9%	33.3%	Dec-2011
Canadian Natl Railway	CNR CN		1.7	11.1	8.7	14.4	2.4	9.5	9.0%	12.4%	35.2%	Dec-2011
Kansas City Southern	KSU US		0.0	11.7	8.8	17.9	1.6	9.6	14.4%	26.9%	44.3%	Dec-2011
Average			1.6	11.4	8.2	15.5	1.9	8.8	12.7%	17.6%	33.0%	
Median			1.7	11.1	8.5	14.6	2.0	8.7	10.9%	16.4%	35.2%	

* Priced as at 21 January 2011.

Source: RBS forecasts (where recommendation exists); Bloomberg (all others)

Table 15 : AIO – financial summary

Year to 30 June	AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$)	1.56	Price target (A\$)	1.84		
Income statement						Valuation metrics					
Divisional sales	2797.2	2849.5	3165.4	3550.3	3894.8	Preferred methodology		SOTP Val'n (A\$)	1.84		
Total revenue	2810.1	2859.1	3176.4	3561.3	3905.8	DCF valuation inputs					
EBITDA	647.4	713.7	845.8	1010.3	1140.2	Rf	5.25%	10-year rate	5.25%		
Depreciation	198.7	215.7	242.1	280.5	310.2	Rm-Rf	6.00%	Margin	6.0%		
EBITA	448.6	498.0	603.7	729.8	830.1	Beta	1.08	Kd	7.25%		
Amortisation/impairment	74.2	68.4	58.6	58.6	58.6	CAPM (Rf+Beta(Rm-Rf))	11.8%	Ke	11.8%		
EBIT	374.5	429.6	545.1	671.2	771.4	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	8880.8		
Share of associate's NPAT	7.8	10.0	9.0	9.0	9.0	Equity (E/EV)		Minority interest (A\$m)	476.7		
EBIT (incl associate profit)	382.3	439.6	554.0	680.1	780.4	Debt (D/EV)		Net debt (A\$m)	2777.9		
Investment income	-243.0	-1136.7	0.0	0.0	0.0	Interest rate	7.25%	Investments (A\$m)	13.4		
Net interest expense	-356.9	-251.8	-252.7	-265.9	-272.5	Tax rate (t)		Equity market value (A\$m)	5639.5		
Pre-tax profit	25.4	187.8	301.3	414.2	507.9	WACC	8.8%	Diluted no. of shares (m)	2926.8		
Income tax expense	13.8	64.8	84.4	124.3	152.4			DCF valuation (A\$)	1.89		
After-tax profit	11.6	123.0	217.0	290.0	355.5						
Minority interests	-2.3	-1.7	-3.0	-4.0	-4.0	Multiples					
NPAT	9.2	121.3	214.0	286.0	351.5	Enterprise value (A\$m)	7099.4	2010A	2011F	2012F	2013F
Significant items	-255.7	-1098.9	0.0	0.0	0.0	EV/Sales (x)	2.5	2.3	2.1	1.9	
NPAT post abnormals	-246.4	-977.6	214.0	286.0	351.5	EV/EBITDA (x)	9.9	8.7	7.3	6.4	
						EV/EBIT (x)	16.5	13.5	11.0	9.5	
Divisional sales revenue	2009A	2010A	2011F	2012F	2013F	PE (normalised) (x)	37.0	21.3	16.0	13.1	
Container Ports	729.3	693.3	738.3	796.5	828.4	PEG (pre-goodwill) (x)	5.2	3.0	2.2	1.8	
Auto, Bulk & General	689.0	677.0	735.1	806.3	866.7						
Pacific National - Coal	526.6	671.6	817.8	1001.4	1185.5	At target price	2010A	2011F	2012F	2013F	
Pacific National - Intermodal	852.3	807.6	874.1	946.1	1014.1	EV/EBITDA (x)	11.1	9.7	8.1	7.2	
Other	12.9	9.6	11.0	11.0	11.0	PE (normalised) (x)	44.4	25.2	18.9	15.4	
Total	2810.1	2859.1	3176.4	3561.3	3905.8						
						Comparable company data (x)		2011F	2012F	2013F	
Divisional EBITDA	2009A	2010A	2011F	2012F	2013F	QR National	EV/EBITDA	10.0	8.6	7.7	
Container Ports	217.4	193.0	213.5	243.1	266.7	(Year to 30 Jun)	EV/EBIT	21.2	16.1	13.9	
Auto, Bulk & General	126.0	115.3	129.3	141.0	155.3		PE	25.4	18.0	17.4	
Pacific National - Coal	147.4	211.6	284.7	392.9	467.3		PEG	10.2	7.2	7.0	
Pacific National - Intermodal	189.3	204.6	227.3	242.2	259.9		Toll Holdings	EV/EBITDA	7.1	6.6	6.1
Corporate/Eliminations	-25.0	-0.8	0.0	0.0	0.0	(Year to 30 Jun)	EV/EBIT	10.4	9.3	8.5	
Total	655.2	723.7	854.7	1019.3	1149.2		PE	12.4	10.8	9.8	
							PEG	3.0	2.6	2.4	
Cash flow statement	2009A	2010A	2011F	2012F	2013F	Per share data	2010A	2011F	2012F	2013F	
EBITDA	647.4	713.7	845.8	1010.3	1140.2	No. shares	2926.1	2929.0	2939.3	2951.1	
Change in working capital	25.1	57.4	2.5	3.0	2.7	EPS (cps)	-33.4	7.3	9.7	11.9	
Net interest (pd)/rec	-347.8	-285.4	-252.7	-265.9	-272.5	EPS (normalised) (c)	4.1	7.3	9.7	11.9	
Taxes paid	-9.8	-3.2	-33.8	-92.2	-140.2	Distribution per share (c)	0.0	2.5	4.0	5.5	
Other oper cash items	9.7	7.6	9.0	9.0	9.0	Distribution payout ratio (%)	0.0	34.2	41.1	46.2	
Cash flow from ops (1)	324.6	490.1	570.7	664.2	739.1	Distribution yield (%)	0.0	1.6	2.6	3.5	
Capex (2)	-496.6	-511.8	-790.5	-606.0	-623.5						
Disposals/acquisitions	5.2	32.0	0.0	0.0	0.0	Growth ratios	2010A	2011F	2012F	2013F	
Other investing cash flow	-1.2	7.5	0.0	0.0	0.0	Sales growth	1.9%	11.1%	12.2%	9.7%	
Cash flow from invest (3)	-492.5	-472.3	-790.5	-606.0	-623.5	Operating cost growth	-0.7%	8.6%	9.5%	8.4%	
Incr/(decr) in equity	619.2	1833.0	5.9	20.5	23.5	EBITDA growth	10.2%	18.5%	19.5%	12.9%	
Incr/(decr) in debt	283.8	-2196.0	500.0	0.0	219.0	EBITA growth	11.0%	21.2%	20.9%	13.7%	
Ordinary distribution paid	-95.1	0.0	-29.3	-102.6	-117.7	Divisional EBITDA growth					
Other financing cash flow	-5.6	0.0	0.0	0.0	0.0	Container Ports	-11.2%	10.7%	13.9%	9.7%	
Cash flow from fin (5)	802.3	-363.0	476.6	-82.1	124.8	Auto, Bulk & General	-8.5%	12.2%	9.1%	10.1%	
Incr/(decr) cash (1+3+5+6)	634.4	-345.2	256.8	-23.9	240.5	Pacific National - Coal	43.6%	34.5%	38.0%	18.9%	
Equity FCF (1+2)	-172.0	-21.7	-219.8	58.2	115.6	Pacific National - Intermodal	8.1%	11.1%	6.6%	7.3%	
						EBIT growth	15.0%	26.0%	22.8%	14.7%	
Balance sheet	2009A	2010A	2011F	2012F	2013F	Normalised NPAT growth	1212.0%	76.4%	33.6%	22.9%	
Cash & deposits	680.6	215.3	472.1	448.2	688.7	Normalised EPS growth		76.2%	33.2%	22.4%	
Trade debtors	298.2	296.6	329.6	369.5	405.2	Operating performance	2010A	2011F	2012F	2013F	
Inventory	19.7	22.0	24.4	27.4	30.0	Asset turnover (%)	9.9	11.5	12.0	12.5	
Investments	11.0	13.4	13.4	13.4	13.4	EBITDA margin (%)	25.0	26.7	28.5	29.3	
Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	15.1	17.2	18.9	19.8	
Other intangible assets	3916.6	2860.3	2801.7	2743.0	2684.4	Net profit margin (%)	4.3	6.8	8.1	9.0	
Fixed assets	2668.2	2822.6	3371.1	3696.6	4009.9	Return on net assets (%)	13.8	16.8	19.5	21.1	
Other assets	275.8	254.2	254.2	254.2	254.2	Net debt (A\$m)	2534.7	2777.9	2801.8	2780.3	
Total assets	7870.1	6484.5	7266.4	7552.3	8085.9	Net debt/equity (%)	81.7	85.4	81.3	75.9	
Short-term borrowings	2695.9	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	1.7	2.2	2.5	2.8	
Trade payables	282.9	261.3	378.8	424.7	465.8	ROIC (%)	4.6	6.8	7.7	8.5	
Long-term borrowings	2250.0	2750.0	3250.0	3250.0	3469.0	ROCE (%)	7.1	9.3	10.8	12.0	
Provisions	296.8	272.1	272.1	272.1	272.1	Ret.on average equity (%)	-38.9	7.9	10.0	11.4	
Other liabilities	221.3	170.2	184.9	231.9	288.5	Internal liquidity	2010A	2011F	2012F	2013F	
Total liabilities	5747.0	3453.5	4085.9	4178.7	4495.4	Current ratio (x)	1.1	1.5	1.4	1.6	
Share capital	7189.4	8180.7	8186.6	8207.1	8230.6	Receivables turnover (x)	9.6	10.1	10.2	10.1	
Other reserves	-5022.8	-4977.2	-4977.2	-4977.2	-4977.2	Payables turnover (x)	7.8	7.2	6.3	6.2	
Unrealised gains/losses											
Retained earnings	224.9	-573.4	-432.7	-264.1	-74.8						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	2391.5	2630.1	2776.7	2965.7	3178.6						
Minority interest	-187.8	473.7	476.7	480.7	484.7						
Total shareholders' equity	2203.8	3103.8	3253.4	3446.4	3663.3						
Total liabilities & SE	7950.7	6557.3	7339.3	7625.1	8158.7						

* Priced at close of business 20 January 2011.
Source: Company data, RBS forecasts

QR National (Hold, target price A\$2.85)

We believe there is likely to be long-term value in QRN as management executes on its turnaround strategy, but we think the strong performance of the share price post-IPO means upside is likely to be more limited over the next 12 months. Although the Queensland floods are having a material impact on earnings in FY11F, we view the long-term investment case for QRN as unchanged. Given AIO is trading on a lower EBITDA multiple, we prefer AIO on a 12-month view.

Reporting date: 28 February 2011

- **Guidance** – prospectus forecasts were for pro-forma FY11 EBIT of A\$427m. Management recently updated the market, indicating earnings would be below that level due to the floods.
- **IBES consensus** – RBS FY11F EBIT of A\$348.7m is 10% below consensus of A\$388m.

Table 16 : QRN – income statement summary

(A\$m)	FY10PF	1H11F	2H11F	FY11F
Total revenue	2,903.0	1,561.3	1,508.4	3,069.7
- Coal	1,621.0	791.7	783.0	1,574.7
- Network Services	1,015.0	555.3	532.0	1,087.3
- Freight	1,150.0	671.4	650.7	1,322.0
- Corporate/Eliminations	-883.0	-457.2	-457.2	-914.4
Operating costs	2,275.0	1,147.2	1,115.3	2,262.4
EBITDA	628.0	414.1	393.1	807.3
- Coal	383.0	190.1	188.6	378.7
- Network Services	388.0	235.5	210.5	446.0
- Freight	-33.0	39.4	44.8	84.2
- Corporate/Eliminations	-110.0	-50.8	-50.8	-101.7
Depreciation & amortisation	-424.0	-229.3	-229.3	-458.5
EBIT	204.0	184.8	163.9	348.7
- Coal	199.0	82.2	80.7	163.0
- Network Services	234.0	156.0	131.0	287.0
- Freight	-96.0	9.0	14.4	23.4
- Corporate/Eliminations	-133.0	-62.3	-62.3	-124.7
Net interest expense		-1.0	-15.0	-16.0
Pre-tax profit		183.8	148.9	332.7
Tax		-55.2	-44.7	-99.8
NPAT		128.7	104.2	232.9
Abnormals (net of tax)		86.0	33.0	119.0
Reported profit		214.7	137.2	351.9

Source: Company data, RBS forecasts

Potential surprises

- **Positive – indications of efficiency improvements** given it is an important aspect of QRN's long-term investment case. With the IPO occurring during the half and much of management's time spent on it, we think the share price is unlikely to see material improvements. The impact of the QLD floods will also likely distort any efficiency-improvement measures. However, any indications that management is making faster-than-expected gains will be taken positively by the market, in our view.
- **Negative – impact of the wet weather in Queensland.** We estimate the Queensland floods will remove almost A\$80m in EBIT from QRN's FY11 prospectus forecasts given a 15-20Mt loss of coal volumes estimated by management. We assume some of this will be recovered in future periods through regulatory mechanisms. Although we expect the impact to FY12 earnings to be minimal, the risk is that coal production doesn't return to normal levels before the middle of this year, affecting coal haulage volumes going forward.

2011 outlook

The first half of 2011 for QRN will be a challenge as the coal systems return to normal following the Queensland floods. We are of the view that coal production and haulage will likely be back to normal by mid-year, meaning a positive start to FY12. At an industry level, coal remains very much in demand, so we are comfortable that volumes will grow steadily over the year. With regard to new volumes, we expect to hear more on new contracts for the Northern Missing Link project.

Our valuation and target price has fallen slightly to A\$2.85 (from A\$2.90) with our earnings changes (see Appendix 1). We note that even though the impact on FY11F earnings from the QLD floods is quite material, the valuation impact seems minimal as FY12F earnings are largely unchanged.

Table 17 : QRN – valuation summary

Metric	Valuation	Comment
DCF	2.94	
Group multiples	3.14	FY12F EBITDA based on long-term global rail peer average of 8.3x
SOTP – EBITDA/RAB	2.99	FY12F EBITDA/RAB – coal on 8.3x, freight 10% discount; 1.1x RAB
SOTP – EBIT/RAB	2.32	FY12F EBIT/RAB – coal on 11.9x, freight 10% discount; 1.1x RAB
Average	2.85	

Source: RBS forecasts

Table 18 : Global peer comparisons (one-year forward)

	Ticker	RBS recom	Div yield (%)	EV /EBIT (x)	EV/ EBITDA (x)	PE (x)	P/B (x)	P/CF (x)	2-year fwd EBITDA CAGR	2-year fwd EPS CAGR	Gearing (ND/ND+E)	Year end
QR National	QRN AU	Hold	2.9	16.1	8.6	18.0	1.0	7.9	23.6%	20.8%	28.4%	Jun-2012
Asciano Group	AIO AU	Buy	2.6	10.9	7.2	15.8	1.5	7.3	14.8%	24.0%	48.3%	Jun-2012
North American rail peers												
Union Pacific	UNP US		1.5	9.7	7.6	14.6	2.4	8.7	10.9%	16.4%	31.5%	Dec-2011
Norfolk Southern Corp	NSC US		2.3	9.3	7.3	13.7	2.0	8.7	10.0%	15.7%	36.9%	Dec-2011
CSX Corp	CSX US		1.6	9.6	7.5	14.1	2.7	8.1	9.1%	16.4%	43.8%	Dec-2011
Canadian Pacific Railway	CP CN		1.7	11.9	8.5	14.9	1.9	8.4	11.4%	17.2%	36.3%	Dec-2011
Genesee & Wyoming	GWR US		0.0	12.6	9.8	19.9	2.3	11.1	18.6%	25.9%	33.3%	Dec-2011
Canadian Natl Railway	CNR CN		1.7	11.1	8.7	14.4	2.4	9.5	9.0%	12.4%	35.2%	Dec-2011
Kansas City Southern	KSU US		0.0	11.7	8.8	17.9	1.6	9.6	14.4%	26.9%	44.3%	Dec-2011
Average			1.3	10.8	8.3	15.6	2.2	9.2	11.9%	18.7%	37.3%	

* Priced as at 21 January 2011.

Source: RBS forecasts (where recommendation exists); Bloomberg (all others)

Table 19 : QRN – financial summary

Year to 30 Jun (A\$m)	AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$)	2.82	Price target (A\$)	2.85	
Income statement						Valuation metrics				
Divisional sales	2613.0	2903.0	3069.7	3675.7	4068.5	Preferred methodology	Blended valuation	Val'n (A\$)	2.85	
Total revenue	2613.0	2903.0	3069.7	3675.7	4068.5	DCF valuation inputs				
EBITDA	493.0	628.0	807.3	1123.0	1309.5	Rf	5.25%	10-year rate	5.25%	
Depreciation	-352.0	-424.0	-458.5	-524.0	-586.2	Rm-Rf	6.00%	Margin	2.5%	
EBITA	141.0	204.0	348.7	599.0	723.3	Beta	1.05	Kd	7.75%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	11.6%	Ke	11.6%	
EBIT	141.0	204.0	348.7	599.0	723.3	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	8891.8	
Share of associate's NPAT			0.0	0.0	0.0	Equity (E/EV)	60.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)			348.7	599.0	723.3	Debt (D/EV)	40.0%	Net debt (A\$m)	1730.5	
Net interest expense			-16.0	-53.0	-157.6	Interest rate	7.75%	Investments (A\$m)	1.0	
Pre-tax profit			332.7	546.0	565.6	Tax rate (t)	30.0%	Equity market value (A\$m)	7162.3	
Income tax expense			-99.8	-163.8	-169.7	WACC	9.1%	Diiluted no. of shares (m)	2440.0	
After-tax profit			232.9	382.2	395.9			DCF valuation (A\$)	2.94	
Minority interests			0.0	0.0	0.0					
NPAT			232.9	382.2	395.9	Multiples				
Significant items			119.0	0.0	0.0	Enterprise value (A\$m)	7380.8	8611.3	9710.0	10094.7
NPAT post abnormals			351.9	382.2	395.9	EV/Sales (x)	2.5	2.8	2.6	2.5
						EV/EBITDA (x)	11.8	10.7	8.6	7.7
Divisional sales revenue	2009A	2010A	2011F	2012F	2013F	EV/EBIT (x)	36.2	24.7	16.2	14.0
Coal	1372.0	1621.0	1574.7	2023.8	2230.9	PE (pre-goodwill) (x)	16.9	29.5	18.0	17.4
Network	1148.0	1150.0	1322.0	1411.7	1489.7	PEG (pre-goodwill) (x)	6.7	11.8	7.2	7.0
Freight	854.0	1015.0	1087.3	1243.6	1391.8					
Corporate/eliminations	-761.0	-883.0	-914.4	-1003.5	-1043.9	At target price				
Total	2613.0	2903.0	3069.7	3675.7	4068.5	EV/EBITDA (x)	11.9	10.7	8.7	7.8
Divisional EBIT	2009A	2010A	2011F	2012F	2013F	PE (pre-goodwill) (x)	17.0	29.8	18.2	17.5
Coal	203.0	199.0	163.0	290.7	344.8					
Network	-111.0	-96.0	23.4	41.3	64.8	Comparable company data (x)		2011F	2012F	2013F
Freight	154.0	234.0	287.0	395.1	445.4	Asciano Group	EV/EBITDA	8.5	7.2	6.5
Corporate/eliminations	-105.0	-133.0	-124.7	-128.2	-131.6	(Year to 30 Jun)	EV/EBIT	13.1	10.9	9.6
Total	141.0	204.0	348.7	599.0	723.3		PE	20.4	15.8	13.2
							PEG	3.0	2.3	1.9
Cash flow statement	2009A	2010A	2011F	2012F	2013F					
EBITDA		628.0	807.3	1123.0	1309.5	Per share data				
Change in working capital		40.0	-1.7	-95.3	64.1	No. shares	2440.0	2440.0	2440.0	2440.0
Net interest (pd)/rec		0.0	-71.0	-132.0	-225.2	EPS (cps)	16.7	14.4	15.7	16.2
Taxes paid		0.0	0.0	-14.6	-84.8	EPS (pre-goodwill) (c)	16.7	14.4	15.7	16.2
Other oper cash items		0.0	0.0	0.0	0.0	EPS (normalised) (c)	16.7	9.5	15.7	16.2
Cash flow from ops (1)		668.0	734.5	881.2	1063.5	Distribution per share (c)	0.0	3.7	8.3	8.6
Capex (2)		-1031.0	-1965.0	-1792.0	-1238.4	Distribution payout ratio (%)	0.0	38.8	53.0	53.0
Disposals/(acquisitions)		0.0	0.0	0.0	0.0	Distribution yield (%)	0.0	1.3	2.9	3.0
Other investing cash flow		0.0	0.0	0.0	0.0					
Cash flow from invest (3)		-1031.0	-1965.0	-1792.0	-1238.4	Growth ratios				
Incr/(decr) in equity		0.0	0.0	0.0	0.0	Sales growth	n.a.	5.7%	19.7%	10.7%
Incr/(decr) in debt		0.0	1277.3	1129.0	433.4	Operating cost growth	n.a.	-0.6%	12.8%	8.1%
Ordinary distribution paid		0.0	0.0	-187.9	-209.8	EBITDA growth	n.a.	28.5%	39.1%	16.6%
Other financing cash flow		0.0	0.0	0.0	0.0	EBITA growth	n.a.	70.9%	71.8%	20.8%
Cash flow from fin (5)		0.0	1277.3	941.1	223.6					
Incr/(decr) cash (1+3+5+6)		-363.0	46.8	30.3	48.7	Divisional EBIT growth				
Equity FCF (1+2)		-363.0	-1230.5	-910.8	-174.9	Coal	n.a.	-18.1%	78.4%	18.6%
						Network	n.a.	-124.4%	76.4%	56.8%
Balance sheet	2009A	2010A	2011F	2012F	2013F	EBIT growth	n.a.	70.9%	71.8%	20.8%
Cash & deposits		0.0	46.8	77.0	125.7	NPAT growth	n.a.	14.2%	64.1%	3.6%
Trade debtors		525.0	521.4	664.6	668.8	Normalised EPS growth	n.a.	-42.9%	64.1%	3.6%
Inventory		167.0	167.0	167.0	167.0					
Investments		1.0	1.0	1.0	1.0	Operating performance				
Goodwill		0.0	0.0	0.0	0.0	Asset turnover (%)	n.a.	8.1	8.4	8.4
Other intangible assets		39.0	39.0	39.0	39.0	EBITDA margin (%)	21.6	26.3	30.6	32.2
Fixed assets		7884.0	9322.5	10669.4	11389.2	EBIT margin (%)	7.0	11.4	16.3	17.8
Other assets		97.0	97.0	97.0	97.0	Net profit margin (%)	7.0	7.6	10.4	9.7
Total assets		8713.0	10194.6	11715.1	12487.7	Return on net assets (%)	3.0	5.1	8.6	10.1
Short-term borrowings		0.0	0.0	0.0	0.0	Net debt (A\$m)	500.0	1730.5	2829.2	3213.9
Trade payables		335.0	329.7	377.6	445.9	Net debt/equity (%)	7.4	25.4	40.5	44.8
Long-term borrowings		500.0	1777.3	2906.2	3339.6	Net interest/EBIT cover (x)	#DIV/0!	21.8	11.3	4.6
Provisions		750.0	849.8	999.0	1083.9	ROIC (%)		3.2	4.7	4.9
Other liabilities		340.0	430.3	444.9	444.9	ROCE (%)	0.0	4.2	6.2	6.7
Total liabilities		1925.0	3387.0	4727.8	5314.3	Return on average equity (%)	0.0	3.4	5.5	5.6
Share capital		6074.0	6074.0	6074.0	6074.0					
Other reserves		-2.0	-2.0	-2.0	-2.0	Internal liquidity				
Retained earnings		716.0	735.6	915.3	1101.4	Current ratio (x)	1.1	1.0	1.1	1.1
Other equity		0.0	0.0	0.0	0.0	Receivables turnover (x)	n.a.	5.9	6.2	6.1
Total equity		6788.0	6807.6	6987.3	7173.4	Payables turnover (x)	n.a.	6.8	7.2	6.7
Minority interest		0.0	0.0	0.0	0.0					
Total shareholders' equity		6788.0	6807.6	6987.3	7173.4					
Total liabilities & SE		8713.0	10194.6	11715.1	12487.7					

* Priced at close of business 20 January 2011.
Source: Company data, RBS forecasts

Toll Holdings (Hold, target price A\$6.39)

We retain our Hold recommendation with a reduced target price of A\$6.39 (from A\$6.86). The reduction in target price was driven by a 7.4% reduction in FY11 reported NPAT. While we think TOL is offering more value with a share price below A\$6.00, we note that, on our updated earnings forecasts, it is trading on a market P/E multiple for FY11 and FY12. While we think there is some upside as TOL has traded at a premium in the past, the upside to our target price is not sufficient to warrant a more positive stance. We do note though that market sentiment is negative going into the 1H11 result, which could result in a positive re-rating of the share price if TOL's earnings don't disappoint the market.

Reporting date: 24 February 2011

- **Guidance** – No FY11 guidance has been provided.
- **IBES consensus** – RBS FY11F normalised NPAT of A\$303.8m is 4% below consensus of A\$316.1m.

Table 20 : TOL income statement summary

	1H10A	2H10A	FY10A	1H11F	2H11F	FY11F	1H11 vs 1H10	1H11 vs 2H10
Revenue	3321.0	3646.3	6967.3	4065.1	3959.3	8024.4	22.4%	11.5%
- Global Express	793.6	996.6	1,790.2	1,089.4	1,019.3	2,108.7	37.3%	9.3%
- Domestic Forwarding	554.8	512.3	1,067.1	543.8	502.0	1,045.8	-2.0%	6.1%
- Specialised & Dom Freight	536.0	510.5	1,046.5	548.8	548.8	1,097.6	2.4%	7.5%
- Global Logistics	626.7	637.4	1,264.1	676.6	619.5	1,296.1	8.0%	6.1%
- Global Resources	347.3	348.2	695.5	375.6	375.6	751.1	8.1%	7.9%
- Global Forwarding	439.9	626.2	1,066.1	811.8	875.5	1,687.3	84.5%	29.6%
- Other	22.7	15.1	37.8	19.2	18.6	37.8	-15.5%	27.1%
EBITDA	309.1	307.5	616.6	373.6	354.0	727.6	20.9%	21.5%
Depreciation & Amortisation	108.4	124.1	232.5	136.7	136.7	273.3	26.1%	10.1%
EBIT (ex-associates)	200.7	183.4	384.1	237.0	217.3	454.3	18.1%	29.2%
- Global Express	69.9	61.1	131.0	78.1	73.2	151.3	11.8%	27.9%
- Domestic Forwarding	43.6	25.6	69.2	43.5	28.7	72.2	-0.2%	69.9%
- Specialised & Dom Freight	41.8	23.5	65.3	41.2	35.7	76.8	-1.5%	75.1%
- Global Logistics	43.6	51.3	94.9	50.7	46.5	97.2	16.4%	-1.1%
- Global Resources	43.3	45.2	88.5	47.3	50.3	97.6	9.3%	4.7%
- Global Forwarding	5.1	10.2	15.3	18.7	23.5	42.2	266.1%	83.1%
- Other	(33.5)	(17.7)	(51.2)	(27.6)	(25.4)	(53.0)	-17.7%	55.8%
Income from associates	10.3	11.3	21.6	10.1	9.8	19.9	-2.3%	-11.0%
EBIT (inc-associates)	211.0	194.7	405.7	247.0	227.2	474.2	17.1%	26.9%
Net interest	-14.2	-23.2	-37.4	-22.3	-30.0	-52.3	56.9%	-4.0%
PBT	196.8	171.5	368.3	224.8	197.1	421.9	14.2%	31.1%
Tax	49.5	50.7	100.2	60.1	52.4	112.6	21.4%	18.6%
Minorities	2.9	2.6	5.5	2.9	2.6	5.5	0.9%	12.6%
NPAT	144.4	118.2	262.6	161.7	142.1	303.8	12.0%	36.8%
Significant items	-37.4	53.7	16.3	0.0	0.0	0.0		
Reported NPAT	107.0	171.9	278.9	161.7	142.1	303.8	51.1%	-5.9%
Operating cash flow	161.6	230.1	391.7	645.6	-17.6	628.0	299.5%	180.6%
Normalised EPS (cps)	20.5	16.5	37.5	22.4	19.6	42.0	9.1%	35.6%
DPS (cps)	11.5	13.5	25.0	12.0	14.0	26.0	4.3%	-11.1%

Source: Company data, RBS forecasts

Potential surprises

- **Positive – performance of international businesses.** The international divisions performed reasonably well at the FY10 result (particularly Contract Logistics), while the resources business appears to have some momentum behind it. A further improvement would allay some of the market's concerns about TOL's strategy to expand offshore.

- **Negative – Australian earnings risk.** Retail sales in Australia have been sluggish in the lead-up to Christmas. With the Australian business accounting for about 70% of the group's earnings, a poor performance is likely to keep earnings under pressure. The outlook for 2H will be important in this regard – while we think the outlook for consumer spending is better in 2011 than last year, any post-Christmas softness and potential impact from the Qld floods could keep full-year earnings under pressure

2011 outlook

The start of 2011 looks a little soft for TOL as retail conditions in Australia have been flat. The events in Queensland will also have taken a small toll on the group's operations in Australia. Nevertheless, with the consumer spending outlook appearing brighter, we could see volume growth start to return for TOL over the course of the next 12 months. Acquisitions will again be a focus, in our view, and we also expect to hear whether TOL has been successful in winning any contracts in the Resources division, relating to some of the LNG projects in Queensland (eg, Curtis Island).

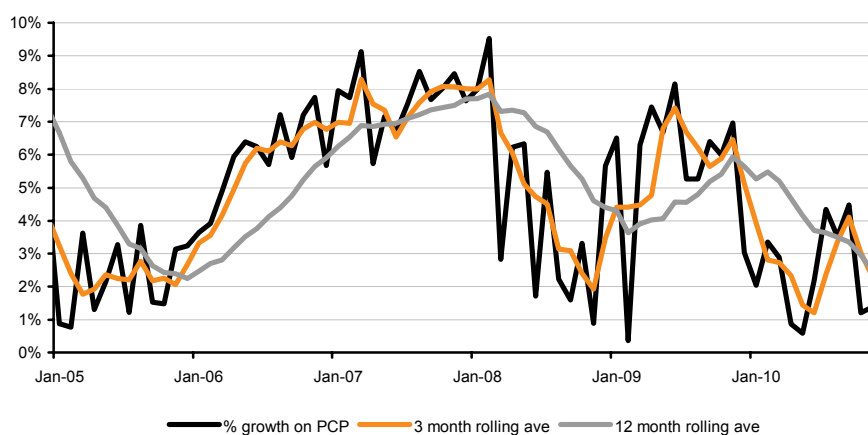
Even though we think TOL is offering better value at current levels, we maintain our Hold recommendation as our updated valuation and target price doesn't offer enough potential upside. The downgrade to our valuation and target price reflect earnings updates (see Appendix 1) in which we have taken account of the softer retail environment. Downside risks to our target price include a slowing demand environment, higher cost of fuel, integration risk from Asian acquisitions and lower-than-expected acquisition growth. Upside risks include greater-than-expected resilience to weaker economic conditions, market share gains and margin sustainability.

Leverage to improving GDP

An improving economic environment is a key earnings driver for TOL. RBS is forecasting global GDP growth of 4.1% and Australian GDP growth of 2.8%. TOL's main exposure is to Australia, although Asia is becoming increasingly important. Given our view that the outlook for consumer spending is improving, this is also a positive for TOL.

A broad gauge of TOL's organic volumes is growth in Australian retail sales, which have been reasonably subdued in the past few months. This suggests to us that TOL's 1H11 performance is unlikely to be very strong, although, with potential improvement in consumer spending, we see scope for further growth in 2011.

Chart 27 : Australian monthly retail sales growth (on pcg)



Source: ABS

More acquisitions expected in 2011

We continue to expect TOL to pursue small to medium-sized bolt-on acquisitions (up to A\$400m) that add incrementally to the earnings base. Most of this will be related to the Global Forwarding business as it looks to reach its target of A\$3.0bn in revenue. We have only a small amount factored in for the remaining portion of FY11, with A\$650m estimated for FY12 that would take revenue to A\$2.5bn. We think the US is still on TOL's radar, while it has also commented that the Middle East is a focus.

Table 21 : TOL FY11F SOTP valuation

	FY11F EBIT (A\$m)	Valuation multiple (x)	Valuation (A\$m)	Comment
Global Express	154	10.7	1,649	Average of Global Express operators
Domestic Forwarding	72	10.6	762	10% premium to Asia Pacific operators
Specialised & Dom Freight	77	10.6	811	10% premium to Asia Pacific operators
Global Logistics	102	11.8	1,198	Average of Contract Logistics operators
Global Resources	104	13.0	1,344	10% premium to Global Freight Forwarders
Global Forwarding	47	11.8	557	Average of Global Freight Forwarders
Other	(81)	10.7	(869)	
Enterprise Value	474	11.5	5,453	
Net Debt			937	
Equity Value			4,515	
Diluted Shares (m)			706.6	
NPV per share			6.39	

Source: RBS forecasts

Table 22 : Global peer comparisons (one-year forward)

	Ticker	RBS Recom	Div Yield (%)	EV /EBIT (x)	EV/ EBITDA (x)	P/S (x)	P/E (x)	P/B (x)	P/CF (x)	2 YR FWD EPS CAGR	Gearing (ND/ND+E)
Toll Holdings	TOL AU	Hold	4.6	9.3	6.6	0.5	10.8	1.4	7.0	11.6%	12.4%
Freight Forwarding											
Expeditors	EXPD US		0.8	15.9	15.0	1.7	29.6	5.8	25.0	15.3%	-146.0%
UTI Worldwide	UTIW US		0.3	13.1	9.5	0.5	21.9	2.2	n/a	28.3%	-4.1%
Kuehne & Nagel	KNIN VX	Hold	2.1	14.7	11.6	0.7	20.5	4.9	15.4	16.1%	-87.6%
Panalpina	PWTN SW	Buy	1.9	10.7	9.1	0.4	17.7	2.9	15.9	31.5%	-98.8%
DSV	DSV DC	Buy	0.4	11.7	9.8	0.5	15.6	3.0	11.5	22.2%	34.7%
Deutsche Post (DHL)	DPW GR	Buy	6.4	9.3	5.9	0.3	9.4	1.5	5.5	12.4%	-7.2%
Kintetsu	9041 JT		1.9		19.2	0.5	31.7	2.6	6.8	n/a	88.3%
Sinotrans	598 HK	Buy	3.8	7.4	4.8	0.1	9.3	0.8	7.2	23.2%	-8.1%
Nippon Yusen	9101 JT		2.9	11.7	6.2	0.3	8.9	0.8	3.6	n/a	52.8%
Average			2.3	11.8	10.1	0.5	18.3	2.7	11.3	21.3%	-19.6%
Express											
Nippon Express	9062 JT		2.9	13.2	5.9	0.2	14.4	0.7	4.4	n/a	26.3%
TNT	TNT NA	Hold	3.0	11.0	8.0	0.6	13.3	3.0	9.9	2.1%	35.7%
Fedex	FDX US		0.6	8.9	5.4	0.7	14.6	1.8	6.5	17.2%	-0.2%
UPS	UPS US		2.5	11.6	9.0	1.0	17.4	7.3	11.4	17.7%	49.1%
Deutsche Post (DHL)	DPW GR	Buy	6.4	9.3	5.9	0.3	9.4	1.5	5.5	12.4%	-7.2%
Freightways	FRE NZ		5.4	10.3	8.8	1.4	13.9	2.8	10.7	14.5%	48.7%
Average			3.5	10.7	7.1	0.7	13.8	2.9	8.1	12.8%	25.4%
Contract Logistics											
C.H. Robinson	CHRW US		1.4	17.4	16.5	1.3	28.5	10.2	26.4	16.4%	-40.0%
Deutsche Post (DHL)	DPW GR	Buy	6.4	9.3	5.9	0.3	9.4	1.5	5.5	12.4%	-7.2%
Kuehne & Nagel	KNIN VX	Hold	2.1	14.7	11.6	0.7	20.5	4.9	15.4	16.1%	-87.6%
UPS	UPS US		2.5	11.6	9.0	1.0	17.4	7.3	11.4	17.7%	49.1%
Wincanton	WIN LN		0.1	6.8	3.6	8.2	7.0	-189.6	3366.7	5.8%	292.7%
Hub Group	HUBG US		n/a	12.8	12.0	0.6	22.6	3.1	16.8	28.1%	-55.9%
Mainfreight	MFT NZ		3.0	10.0	8.3	0.5	14.0	2.4	11.3	17.0%	21.8%
Average			2.6	11.8	9.6	1.8	17.1	-22.9	493.4	16.2%	24.7%
Trucking											
Landstar	LSTR US		0.5	12.6	10.9	0.8	19.6	5.7	18.2	19.0%	4.2%
Universal Truckload Services	UACL US		n/a	9.2	6.3	0.3	16.2	n/a	n/a	33.9%	-11.5%
K & S Corp	KSC AU		6.8	6.1	3.8	0.3	7.6	0.8	3.7	0.9%	22.6%
Lindsay Australia	LAU AU	Hold	8.9	8.4	3.9	0.2	7.3	0.7	2.2	9.5%	52.3%
Ryder	R US		2.2	14.0	3.9	0.5	17.6	1.8	n/a	26.4%	62.7%
Average			4.6	10.0	5.8	0.4	13.6	2.2	8.1	18.0%	26.1%
Global Average			2.7	12.6	8.6	0.9	16.5	-5.7	179.0	17.9%	14.5%

* Priced as at 20 January 2011.

Source: RBS forecasts (where recommendation exists); Bloomberg (all others)

Brambles (Hold, target price A\$6.81)

While we hold a more positive view on BXB's prospects relative to 12 months ago, we believe the upside potential is captured in the current share price. On a 16.7x FY12 P/E multiple (which includes IFCO earnings), BXB is trading at a 40% premium to the ASX 200. We therefore retain our Hold recommendation as we can't see materially stronger earnings coming through this year to justify the trading multiple.

Reporting date: 15 February 2011

- **Guidance** – At the FY10 result, management guided to FY11 EBIT of US\$740m-780m assuming spot rates as at June 30 2010. Guidance was reiterated in November 2010.
- **IBES consensus** – RBS FY11F NPAT of US\$504.3m is 2% below consensus of US\$512.9m

Table 24 : BXB income statement summary

(US\$m)	1H10A	2H10A	FY10A	1H11F	2H11F	FY11F	1H11 vs 1H10	1H11 vs 2H10
Sales	2,086.1	2,060.7	4,146.8	2,096.0	2,155.2	4,251.1	0.5%	1.7%
- CHEP Americas	756.9	776.7	1,533.6	766.6	800.9	1,567.4	1.3%	-1.3%
- CHEP EMEA	770.1	712.5	1,482.6	718.4	694.5	1,412.9	-6.7%	0.8%
- CHEP Asia-Pacific	195.0	195.9	390.9	221.4	235.7	457.1	13.5%	13.0%
- Recall	364.1	375.6	739.7	389.6	424.1	813.7	7.0%	3.7%
EBITDA	558.9	612.7	1,176.5	594.6	731.4	1,325.9	6.4%	-3.0%
Depreciation & Amortisation	221.9	218.0	440.1	197.1	325.6	522.9	-11.2%	-9.6%
EBIT	340.2	393.2	738.3	400.7	408.2	808.8	17.8%	1.9%
- CHEP Americas	108.6	128.5	237.1	144.1	144.9	289.0	32.7%	12.2%
- CHEP EMEA	161.4	168.1	329.5	165.2	159.7	325.0	2.4%	-1.7%
- CHEP Asia-Pacific	32.5	45.9	78.4	39.8	53.9	93.7	22.6%	-13.2%
- Recall	52.5	72.1	124.6	66.7	71.7	138.4	27.1%	-7.5%
- Corporate	(14.8)	(21.4)	(36.2)	(15.2)	(22.0)	(37.3)	3.0%	-28.8%
Net interest	(54.0)	(55.6)	(109.6)	(51.8)	(56.5)	(108.4)	-4.0%	-6.8%
PBT	286.2	337.6	628.7	348.8	351.6	700.5	21.9%	3.3%
Tax	77.8	95.8	173.6	104.7	91.5	196.1	34.5%	9.2%
NPAT	208.4	241.8	455.1	244.2	260.1	504.3	17.2%	1.0%
Significant items	(1.2)	(5.1)	(6.3)	0.0	(14.4)	(14.4)	-100.0%	-100.0%
Reported NPAT	207.2	236.7	448.8	244.2	245.7	489.9	17.9%	3.2%
EPS	14.7	16.9	31.7	17.1	16.9	34.0	15.8%	0.6%
DPS	11.0	11.2	22.1	11.5	12.5	24.0	5.0%	2.9%
EBIT Margin	16.3%	19.1%	17.8%	19.1%	18.9%	19.0%	2.8pt	0.0pt
- CHEP Americas	14.3%	16.5%	15.5%	18.8%	18.1%	18.4%	4.5pt	2.3pt
- CHEP EMEA	21.0%	23.6%	22.2%	23.0%	23.0%	23.0%	2.0pt	-0.6pt
- CHEP Asia-Pacific	16.7%	23.4%	20.1%	18.0%	22.8%	20.5%	1.3pt	-5.4pt
- Recall	14.4%	19.2%	16.8%	17.1%	16.9%	17.0%	2.7pt	-2.1pt

Source: Company data, RBS forecasts

Potential surprises

- **Positive – Improving sales growth.** The update at the AGM indicated sales growth was slightly ahead of our expectations, particularly in CHEP Americas. Further evidence of this could see us become more positive on near-term growth prospects, however we still think underlying revenue growth is likely to be muted given the softish recovery evident in the US and Europe.
- **Negative – return of margin deterioration.** We noted at the FY10 result that margins grew in 2H relative to pcp for three of the four divisions. This came after four consecutive halves of margin declines for most of the divisions. With recovery beginning in the US and Europe we would expect to see some margin expansion coming through. Any evidence of margin deterioration therefore would be taken negatively and cause us some concern for the outlook.

2011 outlook

Improving economic conditions globally should feed through into positive earnings momentum for BXB, in our view, however the key US and European markets still appear somewhat fragile. We do believe pallet issue volumes will rise again, driving increased revenue as well as earnings due to the margin leverage effect. We believe the IFCO acquisition will receive regulatory approval and have factored it into our forecasts for FY12.

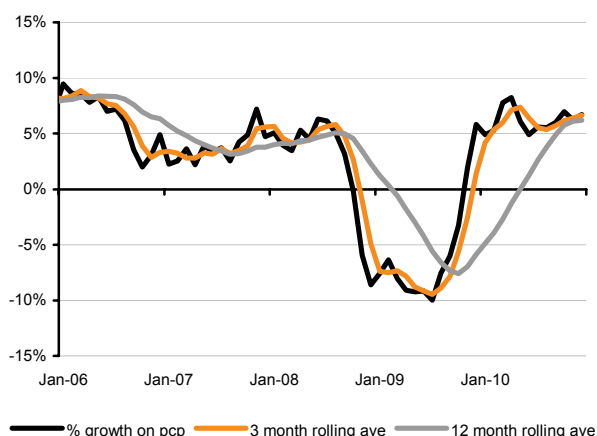
However, we maintain our recommendation as recent share price strength means BXB is currently trading on a 16.7x FY12F PE multiple and 40% premium to the market. Given BXB's historical premium to the market is slightly lower than this (35%), we find it difficult to find value in BXB at the current time.

Upside risks include additional customer wins boosting revenue growth and profitability and stronger margin strength in each business unit. Downside risks include a deterioration in the economic environment, competitive threats that could further disrupt CHEP USA's operations and a weakening USD, which would minimise the positive translation impact on the AUD valuation.

Retail sales suggest better times ahead

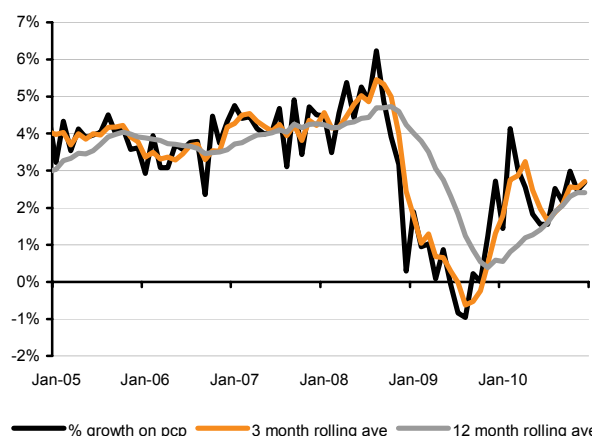
US retail sales have recovered from their lows to settle at around 5% growth on pcp. This is positive for BXB as it indicates pallet issue volumes should also be starting to improve, however we note that retail sales haven't yet recovered to the level they were at prior to the financial crisis (although they are close). Growth of Food & Beverage sales is also hovering around 2-3%, which perhaps is more reflective of BXB's FMCG customer base. The fact that growth has not yet returned to its historical level of growth (about 4%) suggests that CHEP's pallet growth in the US is still likely on the soft side.

Chart 28 : US monthly retail sales growth* (on pcp)



* Ex motor vehicles.
Source: US Census Bureau, RBS

Chart 29 : US monthly Food & Beverage sales growth (on pcp)



Source: US Census Bureau, RBS

Valuation and target price fall marginally due to currency

Our valuation and target price have fallen slightly to A\$6.81 (from \$6.92) relating solely to currency forecast changes. We now forecast EUR/USD to be US\$1.29 (from US\$1.32) in FY11 and US\$1.27 (from US\$1.29) in FY12. We also change our AUD/USD assumptions to be 98.1c (from 94.6c) in FY11 and US\$1.02 (from 95.3c) in FY12. The impact leaves FY11 NPAT broadly unchanged. Longer-term earnings increase from the changes, positively impacting our USD DCF valuation, however the higher AUD/USD rate used to convert to AUD reduces our valuation as indicated above.

Table 25 : BXB – financial summary

Year to 30 Jun (US\$m)	AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$)	7.35	Price target (A\$)	6.81		
Income statement	2009A	2010A	2011F	2012F	2013F	Valuation metrics					
Divisional sales	4018.6	4146.8	4251.1	5492.3	5898.0	Preferred methodology	DCF	Val'n (A\$)	\$ 6.81		
Total revenue	4018.6	4146.8	4251.1	5492.3	5898.0	DCF valuation inputs					
EBITDA	1232.4	1176.5	1325.9	1678.3	1880.7	Rf	5.25%	10-year rate	5.25%		
Depreciation	-424.4	-440.1	-522.9	-604.3	-623.0	Rm-Rf	6.00%	Margin	2.0%		
EBITA	808.0	736.4	803.0	1074.0	1257.7	Beta	1.01	Kd	7.25%		
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	11.3%	Ke	11.3%		
EBIT	808.0	736.4	803.0	1074.0	1257.7	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	11084.2		
Associate income	5.0	5.8	5.8	5.8	5.8	Equity (E/EV)	60.0%	Minority interest (A\$m)	0.3		
EBIT(incl associate profit)	813.0	742.2	808.8	1079.8	1263.5	Debt (D/EV)	40.0%	Net debt (A\$m)	1277.1		
Net interest expense	-120.9	-109.6	-108.4	-164.1	-156.4	Interest rate	7.25%	Investments (A\$m)	14.0		
Pre-tax profit	692.1	632.6	700.5	915.7	1107.1	Tax rate (t)	32.0%	Equity market value (A\$m)	9820.8		
Income tax expense	-203.8	-173.6	-196.1	-256.4	-310.0	WACC	8.8%	Diluted no. of shares (m)	1441.6		
After-tax profit	488.3	459.0	504.3	659.3	797.1			DCF valuation (A\$)	6.81		
Minority interests	0.0	0.0	0.0	0.0	0.0						
Other after-tax items	0.0	0.0	0.0	0.0	0.0	Multiples					
NPAT	488.3	459.0	504.3	659.3	797.1	Enterprise value (A\$m)	12467.0	2010A	2011F	2012F	2013F
Significant items	-35.5	-6.3	-14.4	0.0	0.0	EV/Sales (x)	3.0	2.8	2.3	2.1	
NPAT post abnormals	452.8	452.7	489.9	659.3	797.1	EV/EBITDA (x)	10.6	9.0	7.4	6.5	
						EV/EBIT (x)	16.9	14.9	11.6	9.8	
Divisional sales revenue	2009A	2010A	2011F	2012F	2013F	PE (normalised) (x)	22.6	20.9	16.7	14.0	
CHEP - Americas	1556.9	1533.6	1567.4	1679.1	1798.6	PEG (normalised) (x)	8.5	7.8	6.2	5.3	
CHEP - EMEA	1452.6	1482.6	1412.9	1499.3	1682.9						
CHEP - Asia-Pacific	323.4	390.9	457.1	509.6	522.1	At target price	2010A	2011F	2012F	2013F	
Recall	685.7	739.7	813.7	854.4	897.1	EV/EBITDA (x)	9.9	8.4	6.9	6.1	
IFCO	0.0	0.0	0.0	949.9	997.4	PE (pre-goodwill) (x)	21.0	19.4	15.4	13.0	
Divisional EBIT	2009A	2010A	2011F	2012F	2013F	Comparable company data (x)	2011F	2012F	2013F		
CHEP - Americas	326.1	236.5	287.0	362.8	440.6	Toil Holdings	EV/EBITDA	7.1	6.7	6.1	
CHEP - EMEA	325.6	328.7	322.6	357.9	427.2	Year to 30 Jun	EV/EBIT	10.4	9.4	8.5	
CHEP - Asia-Pacific	60.7	78.2	93.0	106.5	111.7		PE	12.5	10.9	9.9	
Recall	98.7	118.5	131.7	147.0	163.4		PEG	3.0	2.7	2.4	
IFCO	0.0	0.0	0.0	132.2	148.4	Asciano Group	EV/EBITDA	8.6	7.3	6.5	
						Year to 30 Jun	EV/EBIT	13.2	11.0	9.7	
							PE	20.7	16.0	13.5	
							PEG	3.0	2.3	2.0	
Cash flow statement	2009A	2010A	2011F	2012F	2013F	Per share data	2010A	2011F	2012F	2013F	
EBITDA	1232.4	1176.5	1325.9	1678.3	1880.7	No. shares	1431.1	1471.3	1528.8	1528.8	
Change in working capital	-41.7	12.7	-13.9	19.5	-9.2	EPS (cps)	31.9	34.0	44.0	52.1	
Net interest (pd)/rec	-123.8	-101.7	-108.4	-164.1	-156.4	EPS (pre-goodwill) (c)	31.9	34.0	44.0	52.1	
Taxes paid	-129.2	-179.9	-137.3	-179.5	-217.0	EPS (normalised) (c)	32.4	35.0	44.0	52.1	
Other oper cash items	85.3	82.7	-5.0	-5.0	-5.0	Dividend per share (c)	22.1	24.0	28.5	34.0	
Cash flow from ops (1)	1023.0	990.3	1061.4	1349.3	1493.1	Dividend payout ratio (%)	60.6	63.9	59.4	58.2	
Capex (2)	-708.1	-529.7	-693.8	-2179.6	-872.1	Dividend yield (%)	3.0	3.3	3.9	4.6	
Disposals/(acquisitions)	101.5	89.3	0.0	0.0	0.0						
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Growth ratios	2010A	2011F	2012F	2013F	
Cash flow from invest (3)	-606.6	-440.4	-693.8	-2179.6	-872.1	Sales growth	3.2%	2.5%	29.2%	7.4%	
Incr/(decr) in equity	0.8	2.7	273.6	391.3	0.0	Operating cost growth	6.6%	-1.5%	30.4%	5.3%	
Incr/(decr) in debt	-109.3	-318.3	0.0	604.6	100.0	EBITDA growth	-4.5%	12.7%	26.6%	12.1%	
Ordinary dividend paid	-277.6	-204.5	-158.9	0.0	-463.6	EBITA growth	-8.9%	9.1%	33.7%	17.1%	
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EBIT growth	-8.9%	9.1%	33.7%	17.1%	
Other financing cash flow	-7.9	35.8	0.0	0.0	0.0	NPAT growth	-6.0%	9.9%	30.7%	20.9%	
Cash flow from fin (5)	-394.0	-484.3	114.7	995.9	-363.6	Pre-goodwill NPAT growth	-6.0%	9.9%	30.7%	20.9%	
Forex and disc ops (6)						Pre-goodwill EPS growth	-7.6%	8.0%	25.6%	18.6%	
Incr/(decr) cash (1+3+5+6)	-14.0	69.2	482.2	165.5	257.4	Normalised EPS growth	-7.6%	8.0%	25.6%	18.6%	
Equity FCF (1+2+4)	314.9	460.6	367.5	-830.3	621.0						
						Operating performance	2010A	2011F	2012F	2013F	
Balance sheet	2009A	2010A	2011F	2012F	2013F	Asset turnover (%)	20.7	19.9	20.4	18.4	
Cash & deposits	90.1	135.5	617.7	783.2	1040.6	EBITDA margin (%)	28.4	31.2	30.6	31.9	
Trade debtors	413.8	399.8	595.2	823.8	914.2	EBIT margin (%)	17.8	18.9	19.6	21.3	
Inventory	35.1	33.5	42.5	54.9	59.0	Net profit margin (%)	11.1	11.9	12.0	13.5	
Investments						Return on net assets (%)	45.1	36.0	32.8	34.9	
Goodwill	612.3	607.0	607.0	607.0	607.0	Net debt (A\$m)	1759.3	1277.1	1716.1	1558.7	
Other intangible assets	163.0	158.6	129.6	100.1	70.2	Net debt/equity (%)	107.8	57.2	52.4	43.3	
Fixed assets	3441.6	3223.8	3403.8	5008.5	5287.6	Net interest/EBIT cover (x)	6.7	7.4	6.5	8.0	
Other assets	342.6	352.1	352.1	352.1	352.1	ROIC (%)	12.7	14.6	18.7	15.8	
Total assets	5098.5	4910.3	5747.8	7729.7	8330.6						
Short-term borrowings	68.0	276.0	276.0	276.0	276.0	Internal liquidity	2010A	2011F	2012F	2013F	
Trade payables	683.7	681.4	871.8	1132.5	1217.7	Current ratio (x)	0.8	1.2	1.2	1.4	
Long-term borrowings	2165.5	1618.8	1618.8	2223.4	2323.4	Receivables turnover (x)	10.2	8.5	7.7	6.8	
Provisions	500.7	458.6	511.8	588.8	681.8	Payables turnover (x)	4.4	3.8	3.8	3.4	
Other liabilities	251.3	242.9	237.9	232.9	227.9						
Total liabilities	3669.2	3277.7	3516.4	4453.5	4726.7						
Share capital	13847.6	13979.6	14253.2	14644.5	14644.5						
Other reserves	-14938.7	-15007.4	-14849.6	-14464.1	-14469.9						
Retained earnings	2520.1	2660.1	2827.6	3095.6	3429.1						
Other equity	0.0	0.0	0.0	0.0	0.0						
Total equity	1429.0	1632.3	2231.1	3275.9	3603.6						
Minority interest	0.3	0.3	0.3	0.3	0.3						
Total shareholders' equity	1429.3	1632.6	2231.4	3276.2	3603.9						
Total liabilities & SE	5098.5	4910.3	5747.8	7729.7	8330.6						

* Priced at close of business 20 January 2011.
Source: Company data, RBS forecasts

Regional Express (Buy, target price A\$1.19)

1H11 was tough for REX with Pel-Air continuing to wind back operations and RPT services battling competition on a key route. We expect CY11 to be better for REX though, with the Victorian Air Ambulance due to commence on 1 July 2011 and RPT operations showing steady growth. However, given the relative stability of REX's earnings base through the downturn, we see more upside potential elsewhere in the sector.

Reporting date: 23 February 2011

- **Guidance** – No guidance provided.

Table 26 : REX income statement summary

	1H10A	2H10A	2H10A	1H11F	2H11F	FY11F	1H11 vs 1H10	1H11 vs 2H10
Revenue	117.6	109.9	227.5	117.9	110.6	228.4	0.2%	7.2%
Operating Costs	-96.1	-88.4	-184.4	-96.8	-90.6	-187.4	0.8%	9.5%
EBITDAR	21.5	21.6	43.1	21.1	20.0	41.0	-2.1%	-2.3%
Operating leases	-3.9	-5.0	-8.9	-4.2	-3.9	-8.1	6.5%	-16.9%
EBITDA	17.6	16.5	34.2	16.9	16.1	33.0	-4.1%	2.1%
Depreciation	-4.9	-5.1	-10.0	-5.6	-6.0	-11.6	14.2%	8.8%
EBIT	12.7	11.4	24.2	11.3	10.0	21.4	-11.1%	-0.9%
Net interest	0.2	0.2	0.3	0.1	0.2	0.3	-31.3%	-35.1%
PBT	12.9	11.6	24.5	11.4	10.2	21.7	-11.3%	-1.4%
Tax	-3.3	-1.9	-5.2	-3.2	-2.9	-6.1	-2.2%	66.9%
NPAT	9.6	9.7	19.3	8.2	7.4	15.6	-14.5%	-15.0%
Significant items	0.0	5.3	5.3	0.0	0.0	0.0	nm	nm
Reported NPAT	9.6	15.0	24.6	8.2	7.4	15.6	-14.5%	-45.2%
Normalised EPS (cps)	8.5	8.6	17.1	7.3	6.5	13.8	-14.5%	-15.0%
DPS (cps)	0.0	6.6	6.6	0.0	7.0	7.0	nm	nm
EBITDA margin (%)	15.0%	15.0%	15.0%	14.3%	14.5%	14.4%	-0.6pt	-0.7pt
EBIT margin (%)	10.8%	10.4%	10.6%	9.6%	9.1%	9.4%	-1.2pt	-0.8pt
NPAT margin pre sigs (%)	8.2%	8.8%	8.5%	7.0%	6.7%	6.8%	-1.2pt	-1.8pt
Tax rate (%)	25.5%	16.6%	21.3%	28.1%	28.1%	28.1%	2.6pt	11.5pt

Source: Company data, RBS forecasts

Potential surprises

- **Positive – tender and AAPA updates.** The group is currently awaiting results on the NT aeromedical service contract and JP66 (Air Defence and Target System contract). We have not factored in earnings from either contract, and while we believe that REX is particularly well placed in respect of the JP66 contract, a decision from the Department of Defence could possibly be pushed out to FY12. Additionally, the Pilot Training Academy achieved relevant accreditations for the training of overseas students and AAPA is currently in discussions with foreign carriers in relation to their training needs.
- **Negative – bigger than expected impact of capacity adjustments.** Competition on the Adelaide-Port Lincoln route and capacity reductions at Burnie, Mount Gambier and Orange are likely to impact 1H11 earnings. However, Regional Express commenced servicing the regulated routes Northern 1 and 2 in 3Q FY10 and subsequently introduced direct services between Mount Isa and Townsville, which may partially offset these lost earnings.

2011 outlook positive with air ambulance contract to commence

While we expect steady ASK and earnings growth from REX's RPT operations over 2011, we see Pel-Air as the growth driver for the group in 2011 and beyond. Pel-Air's 10-year contract with Ambulance Victoria should contribute revenue of up to A\$20m pa with higher margins than Pel-Air's old freight contracts and it continues to tender for contracts (eg JP66 and NT aeromedical) and fly-in/fly-out opportunities. We expect revenue growth of 11% in FY12 as a result of the contract with EBIT expected to grow 40%.

Valuation and recommendation

While we believe CY11 will be positive for REX, we downgrade our recommendation from Buy to Hold as we see better growth opportunities elsewhere in the sector in the short to medium term.

Our blended valuation declines to A\$1.26 (from A\$1.55) due to changes to our earnings forecasts and relevant multiples (we have moved to using three-year rolling averages as multiples rather than historical averages, which are impacted by spikes early in REX's trading history). Our target price also reduces to A\$1.19 from A\$1.40, reflecting a 5% discount to our valuation for lack of liquidity.

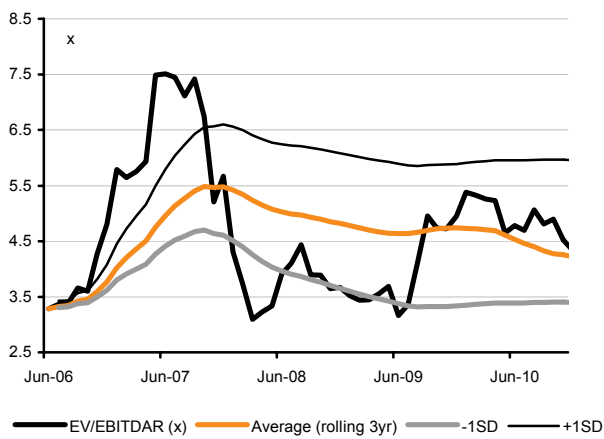
Key upside risks to our valuation and target price include REX winning additional tenders and faster-than-expected growth in RPT operations, while downside risks include a return to softening economic conditions that would negatively impact demand and yields, a decline in the AUD given the exposure to USD costs, and a sustained increase in the oil price above our forecast.

Table 27 : FY11F blended valuation

Methodology	Valuation	Comment
DCF	1.52	
P/B	1.22	Based on 3-year rolling average 0.9x P/NTA
P/E	0.84	Based on 3-year rolling average 6.1x EPS
EV/EBITDAR	1.44	Based on 3-year rolling average 4.2x EV/EBITDAR
Average	1.26	Blended valuation
Target price	1.19	Reflects 5% discount for liquidity

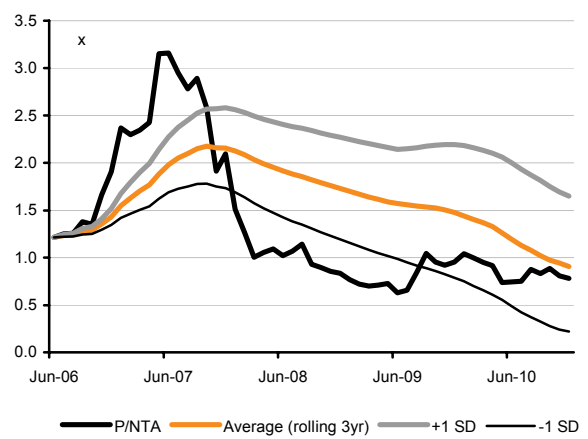
Source: RBS estimates

Chart 30 : 1-year forward EV/EBITDAR



Source: RBS

Chart 31 : 1-year forward P/NTA



Source: Datastream, RBS

REX – financial summary

Year to 30 Jun (A\$m)	AIFRS 2009A	AIFRS 2010A	AIFRS 2011F	AIFRS 2012F	AIFRS 2013F	Closing price (A\$)	1.14	Price target (A\$)	1.19	
Income statement						Valuation metrics				
Divisional sales	245.6	225.6	226.5	252.1	265.8	Preferred methodology	DCF/multiples	Val'n (A\$)	\$ 1.26	
Total revenue	247.0	227.5	228.4	254.0	267.7	DCF valuation inputs				
EBITDA	36.1	34.2	33.0	43.8	47.3	Rf	5.25%	10-year rate	5.25%	
Depreciation	-9.1	-10.0	-11.6	-13.8	-13.7	Rm-Rf	6.00%	Margin	2.0%	
EBITA	27.0	24.2	21.4	29.9	33.6	Beta	2.15	Kd	7.25%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))	18.1%	Ke	18.1%	
EBIT	27.0	24.2	21.4	29.9	33.6	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	182.2	
Associate income	0.0	0.0	0.0	0.0	0.0	Equity (E/EV)	50.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	27.0	24.2	21.4	29.9	33.6	Debt (D/EV)	50.0%	Net debt (A\$m)	10.2	
Net interest expense	0.3	0.3	0.3	-0.5	-0.6	Interest rate	7.25%	Investments (A\$m)	0.0	
Pre-tax profit	27.3	24.5	21.7	29.4	33.0	Tax rate (t)	30.0%	Equity market value (A\$m)	172.0	
Income tax expense	-7.3	-5.2	-6.1	-8.3	-9.9	WACC	11.6%	Diluted no. of shares (m)	112.9	
After-tax profit	20.1	19.3	15.6	21.1	23.1			DCF valuation (A\$)	1.52	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	20.1	19.3	15.6	21.1	23.1	Multiples	2010A	2011F	2012F	2013F
Significant items	2.9	5.3	0.0	0.0	0.0	Enterprise value (A\$m)	154.5	149.0	148.2	131.1
NPAT post abnormals	23.0	24.6	15.6	21.1	23.1	EV/Sales (x)	0.7	0.7	0.6	0.5
						EV/EBITDA (x)	4.5	4.5	3.4	2.8
Cash flow statement	2009A	2010A	2011F	2012F	2013F	EV/EBIT (x)	6.4	7.0	4.9	3.9
EBITDA	36.1	34.2	33.0	43.8	47.3	PE (normalised) (x)	6.7	8.3	6.1	5.6
Change in working capital	4.9	1.2	-2.2	-14.0	1.0	PEG (normalised) (x)	2.7	3.3	2.4	2.2
Net interest (pd)/rec	0.3	0.3	0.3	-0.5	-0.6					
Taxes paid	-9.0	-7.6	-6.1	-8.3	-9.9	At target price	2010A	2011F	2012F	2013F
Other oper cash items	-2.0	2.3	0.0	0.0	0.0	EV/EBITDA (x)	4.7	4.7	3.5	2.9
Cash flow from ops (1)	30.4	30.4	25.0	21.0	37.8	PE (normalised) (x)	7.0	8.6	6.4	5.8
Capex (2)	-28.5	-61.9	-12.0	-12.3	-12.6					
Disposals/(acquisitions)	11.7	2.5	0.0	0.0	0.0	Comparable company data (x)	2011F	2012F	2013F	
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Qantas Airways	EV/EBITDA	3.8	3.2	2.9
Cash flow from invest (3)	-16.8	-59.4	-12.0	-12.3	-12.6	Year to 30 Jun	EV/EBIT	9.2	6.2	5.6
Incr/(decr) in equity	-3.6	-0.4	0.0	0.0	0.0		PE	10.5	6.5	5.7
Incr/(decr) in debt	-1.8	24.3	-3.0	-3.0	-3.0		PEG	1.1	0.7	0.6
Ordinary dividend paid	-7.4	0.0	-7.5	-7.9	-8.1	Virgin Blue Holdings	EV/EBITDA	5.6	4.1	3.8
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	13.3	7.5	6.8
Other financing cash flow	-0.5	-0.1	0.0	0.0	0.0		PE	13.6	7.7	7.3
Cash flow from fin (5)	-13.3	23.8	-10.5	-10.9	-11.1		PEG	1.4	0.8	0.7
Forex and disc ops (6)										
Incr/(decr) cash (1+3+5+6)	0.3	-5.1	2.5	-2.2	14.1	Per share data	2010A	2011F	2012F	2013F
Equity FCF (1+2+4)	1.9	-31.5	13.0	8.7	25.2	No. shares	112.9	112.9	112.9	112.9
						EPS (cps)	21.8	13.8	18.7	20.4
Balance sheet	2009A	2010A	2011F	2012F	2013F	EPS (pre-goodwill) (c)	21.8	13.8	18.7	20.4
Cash & deposits	15.5	10.3	12.8	10.7	24.7	EPS (normalised) (c)	17.1	13.8	18.7	20.4
Trade debtors	8.3	9.5	9.5	17.4	18.3	Dividend per share (c)	6.6	7.0	7.2	7.5
Inventory	7.5	7.7	7.8	15.2	16.1	Dividend payout ratio (%)	38.6	50.7	38.4	36.7
Investments	0.0	0.0	0.0	0.0	0.0	Dividend yield (%)	5.8	6.1	6.3	6.6
Goodwill	7.3	7.3	7.3	7.3	7.3					
Other intangible assets						Growth ratios	2010A	2011F	2012F	2013F
Fixed assets	126.4	174.8	175.2	173.7	172.6	Sales growth	-8.1%	0.4%	11.3%	5.4%
Other assets	3.5	9.1	9.1	9.1	9.1	Operating cost growth	-8.6%	1.1%	7.6%	4.9%
Total assets	168.5	218.8	221.8	233.4	248.1	EBITDA growth	-5.5%	-3.5%	32.8%	8.0%
Short-term borrowings	1.7	0.0	0.0	0.0	0.0	EBITA growth	-10.5%	-11.6%	40.2%	12.2%
Trade payables	14.9	18.3	15.6	17.4	18.3	EBIT growth	-10.5%	-11.6%	40.2%	12.2%
Long-term borrowings	0.0	26.0	23.0	20.0	17.0	NPAT growth	-3.8%	-19.2%	35.6%	9.2%
Provisions	0.5	0.4	0.4	0.4	0.4	Normalised EPS growth	-3.4%	-19.2%	35.6%	9.2%
Other liabilities	26.1	23.5	23.9	23.5	25.4					
Total liabilities	43.1	68.2	63.0	61.4	61.1	Operating performance	2010A	2011F	2012F	2013F
Preference shares						Asset turnover (%)	29.1	25.7	27.7	27.6
Hybrid equity						EBITDA margin (%)	15.1	14.6	17.4	17.8
Share capital	75.0	74.7	74.7	74.7	74.7	EBIT margin (%)	10.7	9.4	11.9	12.6
Other reserves	-1.0	0.0	0.4	0.6	1.0	Net profit margin (%)	8.6	6.9	8.4	8.7
FCTR						Return on net assets (%)	16.0	13.5	17.4	18.0
Unrealised gains/losses						Net debt (A\$m)	15.7	10.2	9.3	-7.7
Retained earnings	51.4	76.0	83.7	96.7	111.3	Net debt/equity (%)	10.4	6.4	5.4	-4.1
Other equity	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	-69.8	-67.2	55.1	58.4
Total equity	125.4	150.6	158.8	172.0	187.0	ROIC (%)	16.0	9.2	12.8	13.0
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	125.4	150.6	158.8	172.0	187.0	Internal liquidity	2010A	2011F	2012F	2013F
Total liabilities & SE	168.5	218.8	221.8	233.4	248.1	Current ratio (x)	0.7	0.8	1.1	1.4
						Receivables turnover (x)	25.3	23.8	18.7	14.9
						Payables turnover (x)	11.5	11.4	12.6	12.2

Source: Company data, RBS forecasts

Appendix 1 Earnings changes

Table 28 : QAN key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	2184.6	2170.8	-0.6%	2812.5	2741.6	-2.5%	3078.2	2929.7	-4.8%
EBIT (A\$m)	901.6	887.8	-1.5%	1432.3	1361.4	-4.9%	1629.9	1481.4	-9.1%
NPAT (A\$m)	532.1	522.5	-1.8%	868.8	811.8	-6.6%	1009.4	885.6	-12.3%
Normalised EPS (cps)	23.6	23.1	-1.8%	37.9	35.4	-6.6%	43.1	37.8	-12.3%
DPS (cps)	12.0	12.0	0.0%	18.0	18.0	0.0%	19.0	19.0	0.0%

Source: RBS forecasts

Table 29 : VBA key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	391.6	358.8	-8.4%	501.4	490.2	-2.2%	526.3	526.2	0.0%
EBIT (A\$m)	165.7	133.0	-19.8%	275.6	264.4	-4.1%	292.9	292.8	0.0%
NPAT (A\$m)	71.9	49.1	-31.7%	126.1	118.5	-6.0%	133.1	133.3	0.1%
Normalised EPS (cps)	3.2	2.2	-31.7%	5.7	5.3	-6.0%	6.0	6.0	0.1%
DPS (cps)	0.0	0.0	0.0%	0.0	0.0	0.0%	0.0	0.0	0.0%

Source: RBS forecasts

Table 30 : AIO key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	860.2	845.8	-1.7%	1016.5	1010.3	-0.6%	1133.8	1140.2	0.6%
EBIT (A\$m)	568.4	554.0	-2.5%	686.3	680.1	-0.9%	774.0	780.4	0.8%
NPAT (A\$m)	224.3	214.0	-4.6%	290.3	286.0	-1.5%	347.0	351.5	1.3%
Normalised EPS (cps)	7.7	7.3	-4.6%	9.9	9.7	-1.5%	11.8	11.9	1.3%
DPS (cps)	2.5	2.5	0.0%	4.0	4.0	0.0%	5.5	5.5	0.0%

Source: RBS forecasts

Table 31 : QRN key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	858.8	807.3	-6.0%	1124.6	1123.0	-0.1%	1311.4	1309.5	-0.1%
EBIT (A\$m)	403.3	348.7	-13.5%	598.6	599.0	0.1%	723.2	723.3	0.0%
NPAT (A\$m)	271.1	232.9	-14.1%	381.9	382.2	0.1%	395.9	395.9	0.0%
Normalised EPS (cps)	0.1	0.1	-14.1%	0.2	0.2	0.1%	0.2	0.2	0.0%
DPS (cps)	3.7	3.7	0.0%	8.3	8.3	0.0%	8.6	8.6	0.0%

Source: Company data, RBS forecasts

Table 32 : TOL key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	748.8	727.6	-2.8%	842.6	823.7	-2.2%	933.4	911.7	-2.3%
EBIT (A\$m)	525.4	474.2	-9.7%	613.9	565.0	-8.0%	681.0	629.3	-7.6%
NPAT (A\$m)	345.5	303.8	-12.1%	398.0	355.5	-10.7%	446.3	393.9	-11.7%
Normalised EPS (cps)	47.7	42.0	-12.0%	54.4	48.6	-10.6%	60.3	53.2	-11.8%
DPS (cps)	23.0	26.0	13.0%	27.0	30.0	11.1%	31.0	34.0	9.7%

Source: RBS forecasts

Table 33 : BXB key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	1330.4	1325.9	-0.3%	1675.2	1678.3	0.2%	1804.8	1880.7	4.2%
EBIT (A\$m)	812.2	808.8	-0.4%	1078.1	1079.8	0.2%	1213.5	1263.5	4.1%
NPAT (A\$m)	506.8	504.3	-0.5%	658.1	659.3	0.2%	761.1	797.1	4.7%
Normalised EPS (cps)	35.2	35.0	-0.5%	43.9	44.0	0.2%	49.8	52.1	4.7%
DPS (cps)	24.0	24.0	0.0%	28.5	28.5	0.0%	34.0	34.0	0.0%

Source: RBS forecasts

Table 34 : REX key forecast changes

	FY11F			FY12F			FY13F		
	Prev	New	%chg	Prev	New	%chg	Prev	New	%chg
EBITDA (A\$m)	34.2	33.0	-3.7%	45.5	43.8	-3.7%	49.4	47.3	-4.3%
EBIT (A\$m)	20.4	21.4	4.5%	31.8	29.9	-5.8%	35.8	33.6	-6.3%
NPAT (A\$m)	14.5	15.6	7.5%	22.6	21.1	-6.3%	24.9	23.1	-7.2%
Normalised EPS (cps)	12.8	13.8	7.5%	20.0	0.2	-99.1%	22.0	0.2	-99.1%
DPS (cps)	7.0	7.0	0.0%	7.2	7.2	0.0%	7.5	7.5	0.0%

Source: RBS forecasts

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, a Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 21 Jan 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	734 (13)	469 (2)
Hold	441 (7)	247 (1)
Sell	115 (1)	64 (0)
Total (IB%)	1290 (10)	780 (2)

Source: RBS

Trading recommendations (as at 21 Jan 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	0 (0)	0 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	0 (0)	0 (0)

Source: RBS

Valuation and risks to target price

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at <http://research.rbsm.com>

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