

### Overview of Citi Investment Research Australia / New Zealand Reporting Season

From the Citi Investment Research Team

**A mixed bag of results** On four key metrics the results season was finely balanced.

- 5% more companies reported earnings below Citi expectations compared to those that recorded above
- There were 10% more downgrades than upgrades to 2010 forecasts after results were released
- 10% more companies reported dividends above expectations than below
- Positive operating cash flow surprise was seen for 10% more companies than negative.

**Bottom up earnings outlook now V-Shaped** Index EPS was down 21.5% for FY 2009 and the June half 2009 EPS momentum was significantly worse than the Dec Half resulting in a low base for 2010 comparisons. Operating costs are estimated to be down 2% in 2010 and potential for upside operating leverage is high. Analysts are estimating 2% lift in FY 2010 profit.

**Analyst Preferred Stocks** QBE, WES, BSL, SHL, FXJ

Invest in the Citi Analyst Preferred stocks using Citi Instalment Warrants or Citi Self Funding Instalments



## Overview – A Mixed Bag is Good Enough

A very even balance of good and bad news in reporting season has been enthusiastically perceived by the equity market as **"glass half full"**. Key drivers in that positive perception have included:

- Recurring **upgrades to Australian economic growth** estimates since June 30. Citi now expects 0.8% real GDP growth in calendar 2009 and 2.2% in 2010
- An expectation, and to a lesser extent evidence, that the June half marked a significant low in the level of index earnings.
- In our view, the quality of the results was reasonable. For example, growth in fully-diluted operating cashflow per share came in convincingly ahead of growth in Reported Net Profit. Lower tax rates boosted earnings by 6%, and constituted a bigger swing factor than interest costs, which subtracted 2%.
- For 2010, we see significant scope for positive operating leverage. Sales growth dips to 1% negative for the year ahead, according to bottom-up Citi analyst estimates, but costs drop to minus 2% in total, and operating profits rise 3%. As an indication of the sensitivities, on a scenario where nominal sales were to grow 2.5% in FY 2010, the 3% profit growth would jump to 20%. As costs continue to fall, any top-line growth at all is enough to boost the bottom line.

## Analyst Preferred Stocks

- Preferred Insurance — **QBE**, solid insurance margins supported by improved disclosures surrounding reserve releases.
- Preferred large-cap retail — **WES** over WOW, the Coles turnaround remains in its early phase however signs are emerging that their market share has limited downside. Relative value favours WES.
- Preferred Steel — **BSL**, offers the best operational leverage to the steel market recovery.
- Preferred large-cap Healthcare — **SHL**, gaining significant market share in Australia and reaping global acquisition synergies.
- Preferred Media — **FXJ**, stabilizing costs offer high leverage to an economic recovery

## Investing in the Analyst Preferred Stocks using Citi Instalment and Citi Self Funding Instalment Warrants

Investors can maximise their exposure to the Citi Model Portfolio by investing in Citi Instalments. An example of the instalments available over the model portfolio include:

Code	Maturity	Loan Amount	Type	Share Price	Warrant Price
QBEIOD	June 2011	\$14.00	Citi Instalment	\$22.65	\$12.78
WESIOD	June 2011	\$15.00	Citi Instalment	\$25.58	\$14.53
BSLIOD	June 2011	\$1.50	Citi Instalment	\$3.02	2.02
SHLIOD	June 2011	\$8.00	Citi Instalment	\$14.06	\$7.87
FXJIOD	June 2011	\$0.75	Citi Instalment	\$1.47	\$0.94

As an alternative to Instalment warrants, Investors could use Self Funding Instalments instead. An example of the Self Funding Instalments available over the Preferred Stocks include:

Code	Maturity	Current Loan Amount	Type	Share Price	Warrant Price
QBESOC	26 <sup>th</sup> June 2014	\$9.57	Citi Self Funding Instalment	\$22.30	\$15.80
WESSOB	27 <sup>th</sup> June 2013	\$14.82	Citi Self Funding Instalment	\$25.58	\$14.36

\*The above is a snapshot of the Citi Preferred stocks and does not constitute advice.

Investors should read the respective Product Disclosure Statements prior to making any Investment Decision.

For more information, including the complete portfolio composition, please contact the Citi Warrants Sales Desk on 1300 30 70 70.

## Advantages of Investing in Citi Instalment and Self Funding Instalment Warrants

Citi Instalment Warrants	Citi Self Funding Instalment Warrants
✓ Dividends and franking credits are paid through to Instalment holders	✓ Dividends used to pay interest on loan – No further payments required for life of SFI
✓ Lower initial outlay	
✓ Enhanced dividend yields and franking credits	
✓ Increased exposure to share price movements	
✓ Variable gearing levels	
✓ Potential Tax Benefits	
✓ Eligible for Self Managed Super Funds	
✓ No obligation to pay the Final Instalment	
✓ No margin calls if share price falls	
✓ Issued over a broad range of blue-chip companies	
✓ Easily traded on ASX	



## Other Considerations

Investors should read the relevant Product Disclosure Statement which details the potential risks associated with investing in Instalment and Self Funding Instalments. Such risks can include:

- factors affecting the price of the warrant, eg the price of the underlying security
- possible illiquidity of trading market
- general market risks
- legislative and tax risks

## Contact Details

For further details on this or any other Citi Structured Product please contact the sales desk on 1300 30 70 70 or email [australia.warrants@citi.com](mailto:australia.warrants@citi.com).

## Disclaimer

This communication has been prepared by a member of the Sales and Trading Department of Citigroup Global Markets Australia Pty Limited ABN64003114832 and AFSL 240992, Participant of the ASX Group and a Participant of the Sydney Futures Exchange Limited. The Financial Products referred to in this document are issued by Citigroup Global Markets. Sales and Trading personnel are not research analysts and the information in this communication is not intended to constitute "research" as that term is defined by applicable regulations. Compensation of Sales and Trading personnel includes consideration of the performance of this Department's activities. The views expressed herein may change without notice and may differ from those views expressed by other Firm personnel.

This information does not take into account the investment objectives or financial situation of any particular person. Investors should be aware that there are risks of investing and that prices both rise and fall. Investors should seek their own independent financial advice based on their own circumstances before making a decision.

The terms set forth herein are intended for discussion purposes only and subject to the final expression of the terms of a transaction as set forth in a definitive agreement and/or confirmation. Although the information contained herein is based upon generally available information and has been obtained from sources believed to be reliable, we do not guarantee its accuracy, and such information may be incomplete or condensed. Any prices used herein are historic and may not be available when any order is entered. All opinions and estimates included in this document constitute our judgment as of this date and are subject to change without notice.

This material does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Before entering into a derivative transaction, you should ensure that you fully understand the terms of the transaction, relevant risk factors, the nature and extent of your risk of loss and the nature of the contractual relationship into which you are entering. You should also carefully evaluate whether the transaction is appropriate for you in light of your experience, objectives, financial resources, and other relevant circumstances and whether you have the operational resources in place to monitor the associated risks and contractual obligations over the term of the transaction.

The ultimate decision to proceed with any transaction rests solely with you. We are not acting as your advisor or agent. Therefore prior to entering into the proposed transaction you should determine, without reliance upon us or our affiliates, the economic risks and merits, as well as the legal, tax and accounting characterizations and consequences of the transaction, and independently determine that you are able to assume these risks. In this regard, by acceptance of these materials, you acknowledge that you have been advised that (a) we are not in the business of providing legal, tax or accounting advice, (b) you understand that there may be legal, tax or accounting risks associated with the transaction, (c) you should receive legal tax and accounting advice from advisors with appropriate expertise to assess relevant risks, and (d) you should apprise senior management in your organization as to the legal, tax and accounting advice (and, if acceptable, risks) associated with this transaction and our disclaimers as to these matters. If you are acting as a financial adviser or agent, you should evaluate these considerations in light of the circumstances applicable to your principal and the scope of your authority. If you believe you need assistance in evaluating and understanding the terms or risks of a particular derivative transaction, you should consult appropriate advisers before entering into the transaction.

We and/or our affiliates (together, the "Firm") may from time to time take proprietary positions and/or make a market in instruments identical or economically related to derivative transactions entered into with you, or may have an investment banking or other commercial relationship with and access to information from the issuer(s) of financial products underlying derivative transactions entered into with you. We may also undertake proprietary activities, including hedging transactions related to the initiation or termination of a derivative transaction with you, that may adversely affect the market price, rate, index or other market factors(s) underlying a derivative transaction entered into with you and consequently the value of the transaction. This document and its contents are proprietary information and products of our firm and may not be reproduced or otherwise disseminated in whole or in part without our written consent unless required to by judicial or administrative proceeding.

© Citigroup 2009. All Rights Reserved. Citi and the Red Arc Device are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution.

