



The Asia Specialist

Friday, 9 April 2010

HCL Technologies (Upgrade to Outperform)

SAP-ling on track for growth

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Nitin Mohta

We reassess our investment view on HCLT and now rate the stock Outperform (vs Underperform previously) with a revised target price of Rs435. We remain positive on the Indian IT sector, as a broader macro recovery would drive a revenue rebound. We believe that HCLT offers favourable risk/reward for investors willing to accept near-term volatility in financial performance due to subdued margins expected in the next one to two quarters. However, we are more positive on Tier 1 players than on HCLT and maintain TCS, as our top sector pick.

Macquarie Oil and Gas 360

United States Edition – 8 April 2010

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Macquarie - Oil & Gas
Research

TLM CN, POE CN, BNK CN, PRE CN, GEN CN, CXZ CN, ATW US, PSV CN, ZCO CN, SOG CN, BG LN, SMDR LN, EDR LN WTI: Closed at US\$85.88/b (-\$0.96) / overnight: US\$85.04/b (-\$0.84). Brent: Closed at US\$85.59/b (-\$0.56) / overnight: US\$84.66/b (-\$0.93). Dubai: Closed at US\$82.77/b (+\$0.23) / overnight: US\$81.93/b (-\$0.84). NYMEX: Closed at US\$4.02/mmBtu (-\$0.08) / overnight: US\$3.98/mmBtu (-\$0.04). AECO: Closed at C\$3.58/GJ (-\$0.12); US\$3.74/mmBtu, HH - AECO: +US\$0.35/mmBtu. UK NBP: 35.00p/therm (+0.70p) or US\$5.32/mmBtu.

Macquarie Commodities Comment

Lead TCs move in favour of miners

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Max Layton

While some annual contracts for lead treatment charges for 2010 have still to be settled, important benchmark business has been agreed. Base metals took a breather on Thursday after recent rises, while prompt 62%Fe iron ore swaps closed up 3.7% at \$171.25/t, amid speculation of Chinese trading restrictions on low grade ores. At the CESCO/CRU Copper Conference in Chile, BHP Billiton has said the fate of the Phase 5 project at Escondida copper mine in Chile will be decided by the beginning of 2012.

India Market performance

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China Industrials Tour: Shanghai, Nanjing and Beijing, 12-14 May

Macquarie invites you to our tour of Chinese companies competing in global industrial markets. Our tour aims to provide insight into developments in the rapidly growing domestic Chinese market as well as into the companies' international ambitions. We will visit Chinese companies active in global markets such as power generation equipment, locomotives, wind turbines and transmission & distribution transformers. Registration closes 7 May. To register please speak to your local representative.

Fresh Money Ideas

Company	Rec	Target px (1cy)	Closing (1cy)	Upsid e/Dow nside (%)
Bharat Petroleum (BPCL IN)	OP	695.00	507.95	37
Jubilant Organosys (JOL IN)	OP	450.00	339.75	32
Maruti Suzuki India (MSIL IN)	OP	1,770.00	1,383.15	28
Tata Power (TPWR IN)	OP	1,651.00	1,368.00	21
Grasim Industries (GRASIM IN)	OP	3,404.00	2,846.95	20
Larsen & Toubro (LT IN)	OP	1,841.00	1,623.65	13
Adani Power Ltd. (ADANI IN)	OP	130.00	115.40	13
State Bank of India (SBIN IN)	UP	1,640.00	2,094.25	-22
MTNL (MTNL IN)	UP	47.00	74.75	-37
Idea Cellular (IDEA IN)	UP	35.00	67.95	-48

OP = Outperform, UP = Underperform, N = Neutral
Source: Factset, Macquarie Research estimates
Data as at 09/04/2010



INDIA



HCLT IN **Outperform**

Price 8 Apr 10 **Rs345.10**

12-month target	Rs	435.00
Upside/Downside	%	26.1
Valuation	Rs	435.00
- DCF		
GICS sector	Software & Services	
Market cap	Rsm	233,322
30-day avg turnover	US\$m	8.8
Market cap	US\$m	5,268
Number shares on issue	m	676.1

Investment fundamentals

Year end 30 Jun		2009A	2010E	2011E	2012E
Total revenue	bn	104.6	122.0	133.0	157.4
EBITDA	bn	23.3	26.1	27.4	32.6
EBITDA growth	%	38.4	12.0	5.0	19.0
Adjusted profit	bn	12.4	12.5	16.8	19.9
EPS adj	Rs	18.56	18.17	24.37	28.88
EPS adj growth	%	10.1	-2.1	34.1	18.5
PER adj	x	18.6	19.0	14.2	11.9
ROA	%	18.2	17.0	17.9	19.1
ROE	%	22.8	20.3	22.9	22.4
EV/EBITDA	x	10.5	9.6	9.2	7.7
Net debt/equity	%	-33.4	9.4	-7.3	-21.7
P/BV	x	4.1	3.6	3.0	2.4

Source: FactSet, Macquarie Research, March 2010
(all figures in INR unless noted)

Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Atul Soni
91 22 6653 3153 atul.soni@macquarie.com

9 April 2010

HCL Technologies

SAP-ling on track for growth

Event

- We reassess our investment view on HCLT and now rate the stock Outperform (vs Underperform previously) with a revised target price of Rs435. We remain positive on the Indian IT sector, as a broader macro recovery would drive a revenue rebound. We believe that HCLT offers favourable risk/reward for investors willing to accept near-term volatility in financial performance due to subdued margins expected in the next one to two quarters. However, we are more positive on Tier 1 players than on HCLT and maintain TCS, as our top sector pick. HCLT is our preferred play on the rise in discretionary spend.

Impact

- **Infrastructure management and EAS – pillars of strength.** HCLT is India's fourth-largest IT services provider. Its strong presence in two key service offerings – infrastructure management and Enterprise Application Services (EAS) – has positioned it well to compete with global-scale players for deal wins. While incumbency helped HCLT gain a foothold in infrastructure management, the company took the M&A route to gain EAS expertise. HCLT acquired Axon (a UK-based SAP consulting company) in December 2008 to become one of the world's largest implementers of SAP globally (see Appendix 1 for detailed M&A record).
- **Discretionary spend to spur growth.** Our positive view on the sector is based on a return of discretionary spend in 2H10. After the Axon acquisition, EAS contributes a significant 22% of HCLT's total revenues vs 23% for Infosys' and 16% for TCS's. As such, we expect a revival in discretionary spend to drive solid 20% US\$ revenue growth for HCLT in FY6/11.
- **Concerns about BPO operations justified but not material.** The performance of this segment in the near term will likely remain uninspiring, as HCLT is investing in building its nonvoice BPO capabilities and current voice revenues are ramping down. We estimate BPO revenues to decline QoQ for the next four quarters before returning to growth. Even so, at 3% EBITDA share, we would not be overly concerned about the short-term pain in the segment.
- **Expect HCLT to beat consensus margin expectations.** We are in line to above consensus for EBIT margins despite factoring in aggressive INR appreciation. As such, we expect HCLT to deliver positive margin surprise if revenue growth fructifies.
- **Catalysts:** New deal wins in Infrastructure management and increased discretionary spend driving uptick in EAS offering/consulting.
- **Risks:** Softer economic recovery and passive interest in discretionary spends.

Earnings and Target Price Revision

- We now rate HCLT Outperform (vs. Underperform previously) with a revised target price of Rs435 (26% potential upside) from Rs93.

Action and Recommendation

- **Favourable risk reward, recommend investors accumulate HCLT.** At 14x FY6/11E PER, the stock provides an attractive entry point, in our view. Our target price of Rs435 implies a FY6/12E target multiple of 15.1x, a 32% discount to our target PER multiple for sector leaders.



GLOBAL



Macquarie Oil and Gas 360

United States Edition – 8 April 2010

TLM CN, POE CN, BNK CN, PRE CN, CEN CN, CXZ CN, ATW US, PSV CN, ZCO CN, SOG CN, BG LN, SMDR LN, EDR LN

Commodities

Crude oil

- **WTI:** Closed at US\$85.88/b (-\$0.96) / overnight: US\$85.04/b (-\$0.84).
- **Brent:** Closed at US\$85.59/b (-\$0.56) / overnight: US\$84.66/b (-\$0.93).
- **Dubai:** Closed at US\$82.77/b (+\$0.23) / overnight: US\$81.93/b (-\$0.84).
⇒ Crude Oil closed the day slightly lower, following bearish DOE inventory figures and declining equity market. Broader economic news continues to play a large role in price action.
- ⇒ **DOEs:** Crude +2.0mmb (vs. +1.4mmb expected); Gasoline -2.5mmb (vs -1.0); Distillates +1.1mmb (vs -1.1); Utilization 84.5% (vs 83.1%).

Natural Gas

- **NYMEX:** Closed at US\$4.02/mmBtu (-\$0.08) / overnight: US\$3.98/mmBtu (-\$0.04).
- **AECO:** Closed at C\$3.58/GJ (-\$0.12); US\$3.74/mmBtu, HH - AECO: +US\$0.35/mmBtu.
- **UK NBP:** 35.00p/therm (+0.70p) or US\$5.32/mmBtu.
⇒ Nat Gas declined today in anticipation of tomorrow's inventory report. Inventories are already 11% above the five-year average.
- ⇒ **EIA Nat Gas Storage Estimates:** consensus: +29bcf, Macquarie +34bcf

Currency

- **US/C\$:** Closed at US/C\$0.9938 (-0.0046) / overnight: US/C\$0.9911 (-0.0027).
- **US/Euro:** Closed at US/€1.3344 (-0.0055) / overnight: US/€1.3299 (-0.0045).
- **US/Pound:** Closed at US/£1.5241 (-0.0026) / overnight: US/£1.5204 (-0.0037).
- **Yen/US:** Closed at ¥/US\$ 93.36 (-0.43) / overnight: ¥/US\$ 92.94 (-0.42).

Commodities

Crude Oil	Current	Chg.	% Chg.
WTI-Near month (US\$/Bbl)	\$85.04	(\$0.84)	(1.0%)
12 month (US\$/Bbl)	\$87.55	(\$0.58)	(0.7%)
WTI-Lloyd Diff (US\$/Bbl)	\$20.96		
Exchange (US\$/C\$)	\$0.9911		
Brent (US\$/Bbl)	\$84.66	(\$0.93)	(1.1%)
Dubai (US\$/Bbl)	\$81.93	(\$0.84)	(1.0%)

Natural Gas

NYMEX-1m (US\$/mmbtu)	\$3.98	(\$0.04)	(1.0%)
12 month (US\$/mmbtu)	\$4.72	(\$0.04)	(0.8%)
US Rockies (US\$/mmbtu)	\$3.90	(\$0.04)	(1.0%)
AECO - Spot (C\$/Gj)	\$3.58	(\$0.12)	(3.2%)
AECO - Fwd Gas Year (C\$/Gj)	\$4.61	(\$0.02)	(0.4%)
UK - NBP spot (US\$/mmbtu)	\$5.32	+\$0.11	+2.0%
UK - NBP spot (p/therm)	35.00p	0.70p	+2.0%
UK - NBP 1m (p/therm)	31.00p	-0.05p	(0.2%)

Energy Market Indices

North America	Current	Chg.	% Chg.
S&P/TSX Oil & Gas Index	2,989	(38.1)	(1.3%)
S&P/TSX Oil & Gas Producers	3,213	(47.9)	(1.5%)
S&P/TSX Oil & Gas Integrates	3,206	(51.2)	(1.6%)
S&P/TSX Oil & Gas Services	1,653	(8.1)	(0.5%)
S&P/TSX Energy Index	2,845	(35.7)	(1.2%)
OSX	214	(2.8)	(1.3%)

International

Europe BE500 Energy Index	108	(0.5)	(0.5%)
UK FTSE 350 O&G Index	8,521	(91.6)	(1.1%)
UK FTSE O&G Producers	8,674	(72.9)	(0.8%)
Asia Pacific O&G Producers	505	(8.2)	(1.6%)
Australia S&P/ASX300 Energy	17,058	(127.1)	(0.7%)
Hang Seng Energy Index	13,133	(192.5)	(1.4%)

Previous Day's Most Active

Region / Ticker	Price	Up/Dn	Vol (m)
United States			
SD US	\$7.81	▲ 3%	31.3
XOM US	\$67.90	▼ (0%)	19.8
EP US	\$11.66	▲ 2%	10.8
Canada			
SU CN	\$35.17	▼ (0%)	9.7
CLL CN	\$1.76	▲ 3%	9.3
TLM CN	\$17.83	▼ (2%)	4.8
Europe			
BP/ LN	643.70	▼ (0%)	9.1
MTA LN	5.58	▲ 5%	6.9
DES LN	44.00	▼ (7%)	6.6
Southeast Asia + Australia			
ENRG IJ	156.00	▼ (5%)	597.2
386 HK	6.56	▼ (0%)	208.1
883 HK	13.92	▲ 6%	170.5

Source: Bloomberg, Macquarie Research, April 2010

Macquarie - Oil & Gas Research

1 403 539 8563 oilandgasresearch@macquarie.com

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GLOBAL

LME cash price

	US ¢/lb	% Change day on day
Aluminium	105.6	0.3
Copper	356.6	-0.7
Lead	102.6	0.0
Nickel	1118.9	0.0
Tin	840.5	0.1
Zinc	106.4	-0.9

Other prices

		% Change day on day
Gold (\$/oz)	1148.00	0.5
Silver (\$/oz)	17.98	0.1
Platinum (\$/oz)	1707.00	-0.2
Palladium (\$/oz)	503.00	-1.0
Oil WTI	85.39	-0.8
Cobalt (99.8%)	23.40	0.0
\$US/€ exchange rate	1.33	0.0
US\$/A\$ exchange rate	0.93	0.0

LME/COMEX stocks

	Tonnes	Change
LME Aluminium	4,586,125	-4,700
LME Copper	511,250	600
Comex Copper	91,742	0
Lead	175,025	-575
Nickel	155,670	-342
Tin	24,195	10
Zinc	546,700	500

Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie Research, April 2010

Jim Lennon

44 20 3037 4271 jim.lennon@macquarie.com

Max Layton

44 20 3037 4273 max.layton@macquarie.com

Bonnie Liu

86 21 2412 9008 bonnie.liu@macquarie.com

Hayden Atkins

44 20 3037 4476 hayden.atkins@macquarie.com

Colin Hamilton

44 20 3037 4061 colin.hamilton@macquarie.com

Graeme Train

86 21 2412 9035 graeme.train@macquarie.com

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Commodities Comment

Lead TCs move in favour of miners

- While some annual contracts for lead treatment charges for 2010 have still to be settled, important benchmark business has been agreed.

Latest news

- Base metals took a breather on Thursday after recent rises, while prompt 62%Fe iron ore swaps closed up 3.7% at \$171.25/t, amid speculation of Chinese trading restrictions on low grade ores.
- At the CESCO/CRU Copper Conference in Chile, BHP Billiton has said the fate of the Phase 5 project at Escondida copper mine in Chile will be decided by the beginning of 2012. The project, which comprises a 160,000tpd concentrator, is in pre-feasibility, with the project slated to come onstream in 2015. The company also commented that its production is expected to remain with a range of 1.05–1.1mt for the next three years.
- Meanwhile, Freeport McMoRan's CEO noted that current prices, which are only ~15% below the previous cyclical peak in 2008, are probably sufficient to justify all of its potential capital expenditure but cautioned that the present position appears to solely based on strength in China, while other major markets in Europe, Japan and the United States remain weak. While we are also cautious about the short-term price outlook, we are bullish about copper prices in the medium term, based on potential for structurally strong demand growth combined with constraints on copper mine supply.
- Platts reports that Vale has settled iron ore prices for Europe with ArcelorMittal for Q2 on an index-linked basis. While actual prices have not been confirmed, our understanding is that the fines settlement was based on the average CFR China 62% Platts price over Jan-March (\$131.6/t), from which a \$20/t netback was taken to give a net-backed FOB Brazil price. For Carajas fines, this would result in an 86% rise over 2009 levels. Premiums for lump, fines and higher Fe content will supplement the base price on a "bilaterally agreed" basis. We also understand that there is a nonbinding agreement in place between Vale and its major customers that, provided there are no major problems, a full "floating" price mechanism will come into play in Q1 2011.
- Exports from Richards Bay Coal Terminal (RBCT) lifted by 14.57% MoM in March to 5.66mt. Exports in 1Q09 were 15.46mt or 62.5mt on an annualised basis, which is slightly ahead of last year's performance. Coal railed to the port was actually stronger than exports, rising to 66.8mt on an annualised basis, with coal stocks increasing to 3.4mt at the end of March. Rail operator Transnet Freight Rail has stated that it will stop rail deliveries to the port in mid-May for routine maintenance, with McCloskey's indicating that this would see a drawdown of port stocks of 1.35–1.5mt during that time.
- Preliminary port data for iron ore for Brazil and Australia in March show an ongoing trend for exports to China to fall. Brazilian exports to China were 10.5mt in March, down from peak levels of 15.8mt in August/September 2009, while exports for the first quarter as a whole were 20% down YoY to 32.2mt. By contrast, exports to the rest of the world were 39.4mt, up 131% YoY. Australian exports to China totalled 66.3mt in 1Q09, up 4% YoY but 11% lower than peak levels in 2Q 2009, while exports to other destinations were 79% higher YoY at 33.5mt.



INDIA



Derivatives (open interest)

(US\$)	Last	% chg 1D	% chg YTD
Stock futures (07/04)	7718.2	0.9	0.3
Index futures (07/04)	3773.1	1.1	-12.2

Market turnover

	US\$ m	% chg 1D
BSE turnover	1,009	-18.8
NSE turnover	3,209	-9.7

BSE (Top 5)

Top Gainers	Last price	% chg 1D
Infosys	2663.8	0.8
DLF	333.8	0.7
Wipro	716.8	0.3
TCS	799.5	0.2
Sterlite	866.3	-0.4

BSE (Bottom 5)

Tata Power	1371.3	-0.7
SBI	2095.9	-0.7
HLL	222.7	-1.0
Hero Honda	2017.3	-1.0
Mahindra & Mahindra	524.0	-1.1

Source: Bloomberg, Macquarie Research, April 2010

Trading/Dealing Line: + 91 22 6653 3200

US Toll Free: 1888 622 7862

Rakesh Arora, CFA

91 22 6653 3054

rakesh.arora@macquarie.com

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Market performance

Market performance

	Last	% chg 1D	% chg YTD
BSE Sensex	17,714	-1.4	1.4
NSE NIFTY	5,304	-1.3	2.0
CNX Mid-cap	7,914	-0.6	6.5
S&P 500	1,182	-0.6	6.0
NASDAQ	2,431	-0.2	7.1
FTSE 100	5,697	-1.1	5.3
NIKKEI - 225	11,168	-1.1	5.9

Source: Bloomberg, Macquarie Research, April 2010

Fixed income, currencies, commodities

	Last	% chg 1D	% chg YTD
10-year govt bond	7.8	-0.3	2.5
Interbank rate	3.5	0.0	4.5
US\$1 = Rs	44.5	0.2	4.6
Gold (US\$/oz)	1147.4	-0.2	4.6
Crude (US\$/bbl)	84.4	-0.6	9.4

Source: Bloomberg, Macquarie Research, April 2010

ADR/GDR (US\$)

	Last price	% chg 1D	Prem/Disc
MTNL	3.5	0.6	3.7
Tata Motors	19.0	0.2	8.8
Tata Steel (GDR)	14.5	0.0	-3.9
Dr Reddy	28.9	-0.7	0.6
Satyam	5.6	-1.1	30.5
HDFC Bank	144.3	-1.3	12.4
Sterlite Industries	19.2	-1.6	-1.7
Infosys	59.9	-2.1	-0.1
Rediff.com	2.6	-2.2	NA
Cognizant Technologies	51.1	-2.2	NA
Ranbaxy (GDR)	10.6	-2.3	1.1
Wipro	23.4	-2.4	45.4
ICICI Bank	44.5	-2.8	3.0
Reliance Industries (GDR)	50.0	-2.8	0.4
Satyam Infoway	1.7	-2.9	NA
SBI (GDR)	95.6	-2.9	1.4

Source: Bloomberg, Macquarie Research, April 2010

Daily net flows (US\$m)

	Date	Last	MTD	YTD
Foreign funds equity (Net)	06/04/2010	13.3	684.8	4455.6
Indian Mutual funds equity (Net)	06/04/2010	-3.3	-61.7	-1374.2
FII Net stock futures	07/04/2010	-8.7	678.3	-1234.6
FII Net index futures	07/04/2010	-8.7	55.8	-177.6

Source: Bloomberg, Macquarie Research, April 2010



The Global Property Specialist

GLOBAL REAL ESTATE



Global Property Coordinators
Alex Moss, Matt Nacard

Analysts

• European Property Research and Global Property Securities Analytics

Macquarie Capital (Europe) Ltd

Alex Moss

44 20 3037 4086

alex.moss@macquarie.com

• Asian Property Research

Macquarie Capital Securities Ltd

Callum Bramah

852 3922 4731

callum.bramah@macquarie.com

• US Property Research

Macquarie Capital (USA)

Rob Stevenson

1 212 231 8068

Rob.Stevenson@macquarie.com

• Japan Property Research

Macquarie Capital Securities Ltd

Hiroshi Okubo

81 3 3512 7433

hiroshi.okubo@macquarie.com

• Australian Property Research

Macquarie Securities (Australia) Ltd

Paul Checchin

61 2 8232 4197

paul.checchin@macquarie.com

Matt Nacard

61 2 8232 4017

matt.nacard@macquarie.com

• Canadian Property Research

Macquarie Capital (Canada) Inc.

Michael Smith

1 416 848 3696

michael.smith-tor@macquarie.com

• South African Property Research

Macquarie First South Securities

Leon Allison, CFA

27 11 583 2209

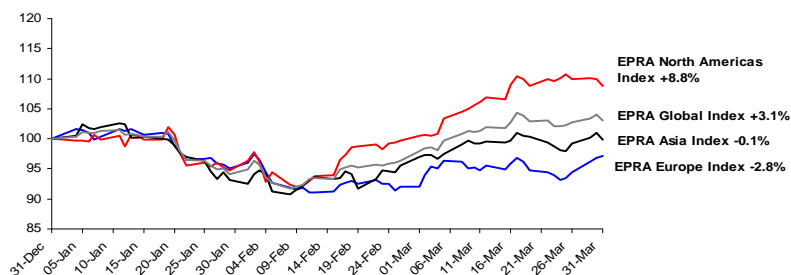
leon.allison@macquarie.com

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Global Property Insight

Moving from West to East

Regional EPRA Indices 1 Q performance (%) rebased in US\$



Source: EPRA, Bloomberg, Macquarie Research, April 2010

The US listed property market has had a stellar period of outperformance versus the other regions this quarter. As a result there is now a significant gap in global valuations developing, with the US looking fully valued on fundamentals at a significant premium to NAV and a cash dividend yield of 3.8%, below the 4% on offer from 10 year Treasuries. Against this, valuations in Hong Kong and China in particular look compelling (HK 20% NAV discount; China 30% NAV discount).

China macro points to softening of tightening bias

Our economist Paul Cavey believes that inflation is under control in China and that Q110 GDP growth released in April will be as good as it gets, meaning the marginal change in growth from here should be down while the marginal change in property oriented policy should be looser – both positive for China developer prices. We note that in March, residential volumes across ten key cities in China were up 64 % MoM.

Global valuations suggest 5.7% upside to target prices

In aggregate, the potential upside to our target prices is +5.7% (+8.8% last month), with our universe of leading market stocks trading at a weighted average -1.1% (5.9%) discount to NAV, and a FY1 dividend yield of 3.5% (3.9%). Hong Kong and Japan are currently showing the greatest upside to Target Prices.

Key Picks

Asia Pac – Westfield, ING Office, Henderson, SHKP, CRL, Shimao, Mitsui Fudosan, Mitsubishi Estate

North America – Duke Realty, CBL, DuPont, Extra Space, Boardwalk, Allied Properties

Europe – British Land, Eurocommercial, Wereldhave

Global valuations of leading markets (market cap-weighted)

Regions	Total Market Cap (US\$M)	Stocks covered	Upside to target price	Prem/(Disc) to NAV	FY1 Div yield %
US	205,252	42	-1.9	14.7	3.7
Canada	17,899	13	3.9	12.2	6.5
Hong Kong	257,878	33	11.3	-19.2	2.4
Japan	61,685	9	16.7	14.1	2.1
Singapore	51,913	17	-1.2	-4.0	3.6
Australia	71,008	23	4.1	-7.9	5.8
Europe	43,543	9	4.8	2.6	5.2
UK	22,996	4	4.7	-3.3	4.6
Total	732,173	150	5.7	-1.1	3.5

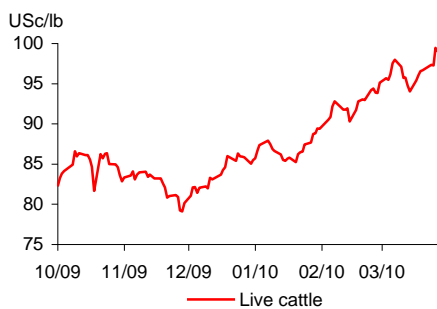
Source: Macquarie Research, April 2010

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.



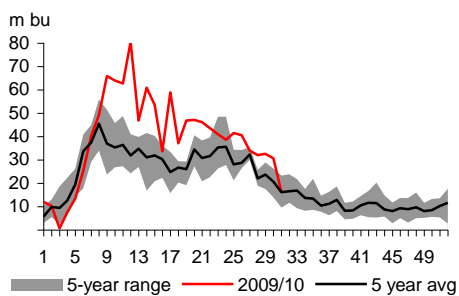
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US live cattle prices regain bullish momentum



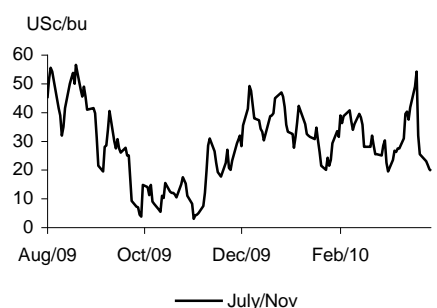
Source: Reuters, Macquarie Research, April 2010

Weekly US soybean exports back down to long-term average



Source: USDA, Macquarie Research, April 2010

Old crop/new crop soybean spread down to lowest level in 2010



Source: Reuters, Macquarie Research, April 2010

Alex Bos
44 20 3037 4280 alexander.bos@macquarie.com
Kona Haque
44 20 3037 4334 kona.haque@macquarie.com

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Agrimarkets Comment

Grain markets continue to stumble under heavy supplies

Feature article

- The grain and soybean markets continue to stumble along in range-bound, low-volume trading after the USDA Quarterly Stocks report released last week revealed much higher than expected second quarter stock levels for corn and soybeans. This will have bearish implications for the US corn and soybean supply and demand balances and will keep prices under pressure into spring. The USDA is likely to increase both corn and soybean 2009/10 ending stocks in the upcoming April 09 supply/demand report. Unless the weather contributes to another difficult planting season this year, we think these markets will have very limited upside potential over the spring of 2010.

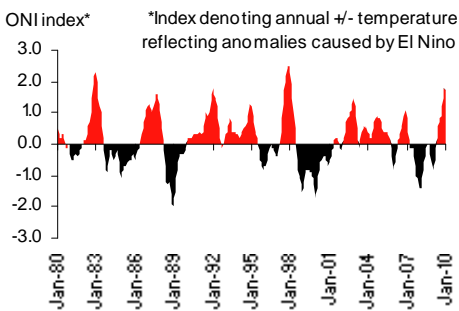
Latest market update

- **Corn:** Corn prices rallied back over \$3.50/bu yesterday as speculation of China potentially importing large volumes (2mt) of US corn spurred speculative buying. We believe the market is generally discounting this speculation with most analysts, including Macquarie, sceptical that the Chinese government will approve the imports. Chinese Dalian corn prices have rallied over 4% from early March to early April, while US CBOT prices have declined nearly 3% in the same period. This has opened the arbitrage for importing US corn to China. China's 2009/10 corn ending stocks are estimated at 48mt, nearly 35% of total world stocks, with a large proportion of this being held in strategic government stockpiles. With this in mind it may be unlikely that the government will approve import licenses for a significant amount of US corn. Other than this speculation, the corn market remains bearish ahead of the USDA's April supply/demand report tomorrow, which is expected to show an increase in US corn ending stocks. Midwest rains this week will likely slow fieldwork, but the planting window still remains wide open and on track to achieve a normal planting pace this year.
- **Soybeans:** In a surprising fundamental turnaround, the old-crop US soybean values were dealt a significant blow after the USDA's Quarterly Stocks report. The front month CBOT contract has lost 23c/bu since March 30, but has attempted to regain key psychological support at the \$9.50/bu level late this week. The US soybean market no longer faces a historically tight ending stocks situation allowing the old crop/new crop spread to collapse to the lowest level since early January 2010. Argentina's government has pegged 2009/10 soybean production at 55mt, while private estimates in Brazil point to a crop near 67.5mt. We expect this bearish supply pressure will continue to be the overriding factor, which should eventually push Nov. contract prices below \$9.00/bu later into the year.
- **Wheat:** By the end of March CBOT, wheat prices fell to Macquarie's near-term downside objective at \$4.50/bu – this is the lowest lever in over a year. An increasingly bearish corn market and heavy global wheat supplies continue to provide heavy fundamental pressure. The US winter wheat crop has emerged from dormancy in excellent condition with a recent USDA crop condition report rating the crop at 65% good/excellent.



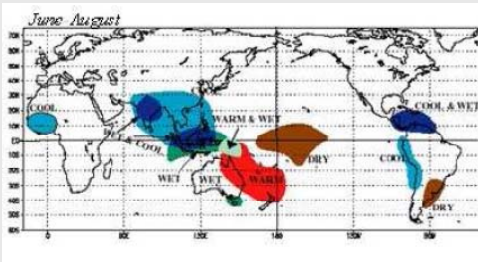
GLOBAL

2009/10 crop years hit by El Niño



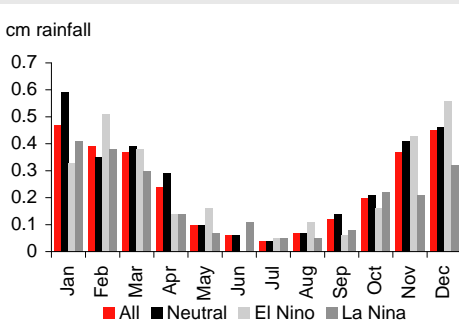
Source: NOAA, Macquarie Research, April 2010

Summer weather forecasts with La Niña



Source: EarthSat, Macquarie Research, April 2010

Argentina's soybean producing region - rainfall patterns under different ENSOs



Source: Macquarie Research, April 2010

Kona Haque
44 20 3037 4334 kona.haque@macquarie.com
Alex Bos
44 20 3037 4280 alexander.bos@macquarie.com

8 April 2010

Agrimarkets Comment

The fading El Niño and crop implications

Feature article

- The El Niño weather event, which created havoc to production of some key agricultural commodities in 2009, is weakening. Although the warming of the Pacific Ocean since June has peaked, it is expected to influence climate patterns worldwide up to mid-year before dying out. Some forecasters are expecting the development of La Niña before year-end. We discuss what the implications of the changing weather patterns are likely to be on the agrimarkets over the next few months.

Market update

- The **sugar** market took a further hit this week, inching closer to 15c/lb support levels. The 45%+ decline in prices since peaking in January has seen some renewed interest from opportunistic speculators, pushing up the net length on ICE futures. However, the market's upside potential remains limited by a stronger dollar and continuing weaker fundamentals. Dry weather should allow most mills in the centre-south of Brazil to start crushing this week. UNICA forecasts a 19% increase in the region's sugar production to 34.1mt in 2010/11. Improved production estimates in India and the associated reduction in imports this season will also help keep near term prices in check. However, there is still decent interest in white sugar from physical buyers (especially Pakistan, who has issued various tenders). From May, we expect Russian imports to pick up, which may offer some support to raw sugar prices.
- The rally in the NY **cocoa** futures market stalled this week, unable to sustain the move above US\$3,000/t, as the US dollar strengthened and amidst a lack of fundamental news. The market is in a seasonal lull as the West African main crops come to an end, whilst waiting for the start of the mid crops. Traders are also waiting for the 1Q 2010 grindings data next week, which should provide clearer indications on whether cocoa demand is likely to recover this year from the dismal 2009 performance. On LIFFE, against which African exports are delivered, cocoa futures have held up better than on ICE, perhaps reflecting the earlier than expected tailing off of the West African main crop. Any problems associated with the upcoming mid-crops will likely support London futures prices higher in the short term.
- NY **coffee** futures continued to zig-zag their way up towards 139c/lb this week, amidst a strengthening Brazilian real and tight Arabica supplies. Key Central American arabica producers have revised down their crop estimates: Guatemala now sees its 2009/10 coffee harvest coming in at 3.4-3.6m bags, below an original forecast of 4.1m due to irregular rains, while Costa Rica's crop is seen down 7.6% to 1.46m bags. However, exports from both countries jumped in March from a year ago. By contrast, exports of Robusta coffee from Vietnam were down in March. Some 5.5m bags were exported in the first quarter of 2010, down 25.3% year-on-year. Vietnamese traders have been defaulting on payments to growers, having sold forward stocks to exporters on margin at low prices, but now unable to pay farmers the balance as prices recover.



ASEAN

Regional plantations coverage

Company	Code	Rec	Price (lcy)	Target (lcy)	Upside
IOI Corp	IOI MK	UP	5.46	4.32	-21%
Sime Darby	SIME MK	UP	8.72	6.75	-23%
KL Kepong	KLK MK	N	16.82	17.00	1%
Genting Plantations	GENP MK	N	6.80	5.91	-13%
Astra Agro Londa	AALI IJ LSIP IJ	N	24,700	22,000	-11%
Sumatra			9,950	8,150	-18%
Indofood Agri Resources	IFAR SP	N	2.40	2.11	-12%
First Resources	FR SP	UP	1.17	0.97	-17%

Share price data as of 7 April 2010.

Source: Bloomberg, Macquarie Research, April 2010

Our CPO price assumptions

	CY09A	CY10E	CY11E	Long-term
US\$/tonne (FOB)	621	775	835	850
RM/tonne (FOB)	2,184	2,500	2,610	2,465

Source: Macquarie Research, April 2010

Current availability of RSPO certified palm oil

Company	Country	Mills	CPO (mt)	PK (mt)
United Plantations	Malaysia	6	200,456	53,608
New Britain Palm Oil	PNG	4	263,995	58,136
Sime Darby	Malaysia	5	209,444	51,460
Kulim	Malaysia	3	88,914	24,943
Wilmor/PPB Oil Palms	Malaysia	3	122,900	27,400
PT Musim Mas	Indonesia	2	133,690	28,498
IOI Corp	Malaysia	3	155,447	36,234
SIPEF/ Hargy Oil Palms Ltd	PNG	2	78,158	0
Cargill/PT Hindoli	Indonesia	2	51,344	12,122
Kuala Lumpur Kepong	Malaysia	2	92,000	22,000
PT London Sumatra	Indonesia	4	169,480	30,017
TOTAL			361,565,828	344,418

Source: RSPO, Macquarie Research, April 2010

Sunaina Dhanuka

60 3 2059 8993 sunaina.dhanuka@macquarie.com

8 April 2010

Regional plantations

Impact from recent green campaigns

Event

- We believe that the recent anti-palm oil campaign by environmental groups is unlikely to impact CPO demand in future. We see increasing usage of certified CPO as a solution to the issue and believe that this will be positive for the industry in the long run.

Impact

- **Near-term demand driven by economics rather than sustainability:** We view recent moves by some French companies to drop CPO from their food products as one-offs and believe that CPO demand is unlikely to be impacted over the next 2-3 years from environmental campaigns. Factors that will continue to drive usage are: 1) palm oil has the highest market share among edible oils (27%) and no other oil can fully substitute it; 2) significant time is required to change recipes especially for food products (about 2-3 years); 3) palm oil usually trades at a discount to most other oils; and 4) demand from Asian countries, which are not as sensitive towards sustainability issues, continues to grow.
- **In the long-term industry will likely move towards certification:** We believe that the developed world will eventually require plantation companies to obtain sustainability certificates from organisations such as RSPO for their CPO production. Unilever, which currently uses 4% of global CPO production, has recently declared that it will endeavour to buy all its palm oil requirements from certified sources by 2015. We believe that a long-term move towards certification of palm oil would be positive for the industry in general both from publicity and sustainability standpoint.
- **Margins could rise by 1-2 percentage points for those with certified palm oil:** Our discussions with plantation companies suggest that palm oil that has been certified sustainable across the entire food chain (from estate to refinery) currently commands a premium of US\$10-15/t. This could potentially raise margins for plantation companies with certified oil by 1-2ppt. Although we do expect the demand for certified oil to increase, our discussions with industry contacts reveal that a number of companies are queuing up to have their estates and mills certified, which should ensure sufficient supply. As such, we expect the premiums for certified oil to remain stable near current levels.

Outlook

- Attractive economics and increasing availability of certified palm oil are likely to ensure that the demand for CPO remains unimpacted in coming years. Certification could also enable plantation companies to raise their margins by 1-2ppt.
- For 2010, our view remains unchanged – limited upside to CPO prices due to high soybean stocks and the narrow price discount between soy oil and CPO (currently at 3% vs. historical 11%). Our key Underperform ideas are IOI Corp and Sime Darby, while for investors looking for exposure to the space, our picks on a relative basis are KL Kepong (KLK) and Indofood Agri Resources (IFAR).

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell) – return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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