

Brickworks

A tough market

Change of recommendation

Hold (from Buy)

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Low-Mod Volatility

Target price

A\$10.13 (from A\$14.24)

Price

A\$9.24

Short term (0-60 days)

n/a

BKW110926

Price performance

	(1M)	(3M)	(12M)
Price (A\$)	9.09	10.11	11.85
Absolute (%)	1.7	-8.6	-22.0
Rel market (%)	8.7	5.4	-7.4
Rel sector (%)	14.6	11.8	-18.9



Market capitalisation

A\$1.36bn (US\$1.33bn)

Average (12M) daily turnover

A\$0.80m (US\$0.82m)

Sector: BBG AP Construction
 RIC: BKW.AX, BKW AU
 Priced A\$9.24 at close 23 Sep 2011.
 Source: Bloomberg

Analysts

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We see a tough outlook for building products in FY12, with dwelling commencements continuing to decline. While BKW's earnings should be somewhat supported through its cross holding in SOLs, we believe market conditions will most likely result in another challenging year. Move to a Hold.

Key forecasts

	FY10A	FY11A	FY12F	FY13F	FY14F
EBITDA (A\$m)	97.40	105.9	108.3 ▼	130.7 ▼	128.7 ▼
Reported net profit (A\$m)	138.8	142.6	111.4 ▼	128.0 ▼	127.9 ▼
Normalised net profit (A\$m) ¹	110.2	100.8	111.4 ▼	128.0 ▼	127.9 ▼
Normalised EPS (c) ¹	78.67	68.35	75.48 ▼	86.77 ▼	86.69 ▼
Normalised EPS growth (%)	-8.13	-13.1	10.40	15.00	-0.10
Dividend per share (c)	41.00	40.50	42.50 ▼	44.50 ▼	46.50 ▼
Dividend yield (%)	4.44	4.38	4.60	4.82	5.03
Normalised PE (x)	11.75	13.52	12.24	10.65	10.66
EV/EBITDA (x)	16.30	15.20	14.70	12.10	12.10
Price/net oper. CF (x)	8.83	15.30	12.70 ▼	13.00 ▲	11.70 ▲
ROIC (%)	2.86	2.96	2.94	3.70	3.53

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

year to Jul, fully diluted

1. Pre non-recurring items and post preference dividends

Accounting standard: IFRS

Source: Company data, RBS forecasts

Decent result given weak building products environment

Normalised NPAT was A\$100.9m, which was behind our forecast of A\$114m (mainly due to wet weather) and down 8.5% on the pcp. Including non-regular items, BKW's headline NPAT was up 2.7% to A\$142.6m, including non-regular items of A\$41.8m after tax, largely due to New Hope's sale of its Arrow Energy stake. BKW paid a 27cps dividend, in line with the pcp.

Significant cost reduction program underway to support building margins

BKW has identified A\$17.9m worth of savings in FY11 which have yet to flow through. In addition, a further A\$13.7m have been identified for FY12. BKW has reduced its total workforce by 17% and is looking to implement price rises on a rolling basis. Most divisions implemented price rises in June 2011, with further rises planned to deliver average selling price increases of 5-10% on the pcp.

More detail on the property

Pleasingly, BKW provided further details on its property holdings at this result. The company anticipates the completion of three property trust projects in 1H12, including two DHL facilities on the Oakdale site. The existing Linfox facility at Erskine Park is also being extended and is due for completion in December 2011. BKW expects demand for new site developments to improve from its weak base. It continues to work on rezoning numerous surplus sites which the group has already identified, including Craigieburn in VIC, Rochedale in QLD and Cardup in WA in 2012.

Fair value compared to peers – move to hold and A\$10.13 SOTP valuation

We believe challenging property development sector conditions will result in another tough year for BKW's building division. Key issues include declining housing starts and continued shortage of titled land. BKW remains a quality, well-run company and returns from investments in SOLs are expected to remain solid. However, we believe the stock is likely to tread water until conditions improve.

FY11 result

- **Normalised NPAT** was A\$100.9m, which was behind our forecast of A\$114m and down 8.5% on the pcp as a result of adverse weather affects. Including non-regular items, BKW's headline NPAT was up 2.7% to A\$142.6m. The non-regular items were A\$41.8m after tax, which included: New Hope's sale of its stake in Arrow Energy; the impairment of Austral Bricks' QLD assets (-A\$6.8m); costs associated with the restructuring of Austral Bricks VIC (-A\$6.7m); the write off of Bristle Roofing West Coast's obsolete plant (-A\$2.2m); and acquisitions, legal and others (-A\$4.6m).
- **Cashflow from operations** was A\$89m, down from A\$146.5m in the pcp. Most of the difference relates to a A\$47m reduction in proceeds from land held for resale. There was also an increase in inventory of A\$12.7m. However, these amounts were slightly offset by reduced tax payments of A\$13.5m on the pcp.
- **Gearing** - Net debt to equity was in line with the 1H at 17.9%. During FY11, BKW renegotiated its senior bank debt facility for a further four years on 'favourable terms'. This facility is due for maturity in June 2015. The company also has an undrawn working capital facility of A\$100m. Interest cover declined from 6.5x in FY10 to 6.4x in FY11.
- **Capex** totalled A\$35.7m (A\$19.1m of maintenance capex and A\$15.7m of growth capex) excluding acquisitions. Maintenance capex represented 72% of depreciation, while growth capex was spent on upgrades to precast plants in NSW and WA and the purchase of operational land for the building products division.
- **Acquisitions** – BKW spent A\$17.1m on the Giroto and Gocrete precast businesses and East Coast Masonry in Coffs Harbour.
- **Working capital** - Excluding assets held for resale, working capital was A\$204.5m, which was mainly due to a decrease in receivables and cash holdings at the end of the year. Inventory increased by A\$12.2m to A\$115.5m.
- **Normalised tax expense** decreased by 36.5% to A\$10.1m on reduced EBIT.
- **Net tangible assets of \$9.42** – NTA per share increased by 1.5% to A\$9.28 per share. Total shareholder equity increased by A\$25.8m to A\$1.676bn.
- **Dividend** – BKW paid a 27cps dividend, which was in line with the pcp. This brings the full year dividend to 40.5cps, up 1.5% on the pcp but slightly below our expectation of 43cps.
- **Earnings per share** – normalised EPS were down from 76.7cps to 68.3cps. This was a result of lower earnings.
- **Carbon emissions** - It is BKW's intention to pass on cost increases associated with the A\$23 per tonne carbon tax to its customers. The company believes this will result in a price increase of about 6%. Price rises will vary by product according to their carbon intensity.
- **Outlook** – BKW is forecasting a decline in housing activity, which will result in another challenging year for the building products group. Strong contributions from both land and development and investment are expected to largely offset any weakness in building products earnings.

Table 1 : FY11 actuals vs FY10 vs forecasts

(A\$m)	FY10A	FY11F	FY11AI	% difference to forecast	% change on FY10
Revenue	657	634	692	9%	5%
EBIT	151	236	233	-1%	55%
NPAT	139	166	160	-4%	15%
NPAT adjusted	110	166	160	-4%	45%
Adjusted EPS (c)	77	113	108	-4%	41%
DPS (c)	40	45	43	-6%	6%
Net op cash flow	147	101	100	-1%	-32%
Segment EBIT					
Building products	53	73	69	-5%	29%
Property	28	41	42	2%	48%
Investments	77	122	122	0%	59%

Source: Company data

Market conditions

On a national level, market conditions deteriorated. Total dwelling approvals were down 5.5% to 156,411 for the 12 months ending 30 June 2011. The decline was driven by detached housing, which was down 13.6% on the pcp. On a concerning note, there was a significant drop in activity in 2H, with total dwelling commencements for the six months to June down 10.2% on the pcp.

The value of approvals in the non-residential sector decreased by 31% to A\$27.6bn over the 12 months to June 2011. The decrease related to the wind down of the BER program. Within the non-residential sector, commercial building approvals increased by 15% to A\$10.3bn and industrial building approvals increased 18% to A\$3.6bn.

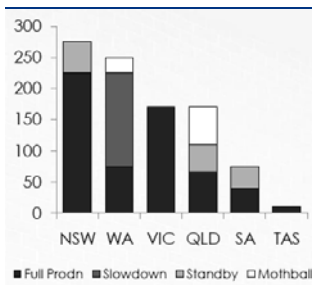
Table 2 : Dwelling commencements for the 12 months

State	Dwelling commencements	% change over 12 months	Comments
VIC	54,475	8.50%	Was the only state to experience an increase in dwelling commencements. There is evidence that the VIC market is softening, with commencements for the 2H to June down 11% on the 1H.
NSW	36,382	-3.10%	The weakness was driven by an 8.4% reduction in detached houses, partially offset by a 2.6% increase in other residential commencements.
QLD	33,182	-20.30%	Experienced the largest % decrease in total dwelling commencements of any state. The decrease was particularly significant in the 2H in the aftermath of the severe flooding in southeast QLD.
WA	25,134	-18.00%	Experienced a sharp decline in building activity, with total commencements down 18% on the pcp.
SA	12,007	-10.60%	n/a
TAS	3,120	-3.90%	n/a
Total (12 mths)	165,549	-5.50%	Decline was driven by detached housing, which was down 13.6% on the pcp. There was a significant drop in 2H, with total dwelling commencements for the six months to June down 10.2% on the pcp.

Source: Company data

Key takeaways from the result

Chart 1 : Brick capacity utilisation (million SBE)



Source: Company data

Building products

- EBIT** was down 21% to A\$42m (when looking at EBIT on a hoh basis, it declined over 38% in the 2H). The reduced EBIT can be almost entirely attributed to the performance of Austral Bricks' QLD and WA operations in the face of extremely depressed market activity. Excluding these businesses, EBIT was up 3.4% on the pcp.
- Revenue** was up 4.2% to A\$605m on the pcp due to additional revenue from acquisitions. A strong increase in revenue in 1H was offset by a 6% decline in 2H to A\$299m. Revenue from like-for-like operations was down 5.6% for the year. EBIT to sales margin was impacted by higher unit production costs as plant efficiencies were decreased by scheduled shutdowns during the year.
- BKW** is implementing a number of **initiatives to control costs** in FY12, including production slowdown to match demand and avoid inventory build (refer to Chart 1). BKW will operate at 74% utilisation in FY12, with estimated brick production for the year around 700m standard brick equivalents (SBEs) and total production capacity of 950m SBEs.
- Austral Bricks** – Overall brick sales volume was up 4.7% on the pcp to A\$329.7m mainly due

to the market downturn in QLD and WA. NSW delivered a solid result, showing improved profit and margins compared to the pcp. However, QLD made a negative contribution as conditions continued to deteriorate, with new dwelling approvals now at their lowest level since 2001.

- Austral Masonry** – Sales revenue increased 14.8% on the pcp to A\$55m due to full-year contribution from the Port Kembla plant. On a like-for-like basis, sales volume was down 1.9% on the pcp. BKW was able to push through average sale price increases of 2.7%. The acquisition of East Coast Masonry in Coffs Harbour in the 2H further expanded BKW masonry manufacturing footprint and provides a solid geographical presence in central and mid-north NSW.
- Bristile Roofing** – Sales volume was down 4.2% to A\$123.8m. The east coast operation recorded improved earnings, driven by a higher average selling price and strong cost controls. However, WA experienced difficulties as softening demand and plant shutdowns to manage inventory levels all impacted profitability in the state.
- Austral Precast** – Sales revenue was A\$56.6m in its first full year of operations. The division saw strong profitability in the east coast and significantly improved performance in WA compared to what BKW had internally budgeted.
- Auswest Timber** – Delivered a steady result despite sales revenue decreasing 6% to A\$36.1m on the pcp due to soft domestic market conditions for green structural products. Higher returns from an improved sales mix assisted the business in achieving a 6% lift in average selling prices and 3.4% margin growth.
- Asset management** – BKW provided a break down of its current building products division investment. As Table 3 highlights, the company has more than A\$1bn in tangible assets with land at current market value. Land and buildings of A\$237m are held at book value, which is A\$165m less than their current market valuation of A\$402m. BKW acknowledges that it needs to increase profits and effectively manage its asset base, which includes reducing funds employed.

Table 3 : Asset management

Division (A\$m)	Land & building (book)	Land & building (current)	Plant & equip	Inventory	Goodwill	Assets invested (book)	Assets invested (current)
Bricks	170	329	107	123	214	614	773
Roofing	13	19	7	13	26	58	64
Masonry	30	30	21	10	29	90	90
Precast	22	22	21	4	10	57	57
Timber	2	2	8	12	8	30	30
Total	237	402	164	162	286	849	1,013

Source: Company data

- Outlook** – BKW anticipates housing starts in FY12 will be 144,000. Increasing interest rates and global uncertainty is affecting investor confidence and in turn resulted in a housing downturn. Unless there is a move to less restrictive monetary policy or reduced taxation and regulation there is unlikely to be an improvement.

BKW's land holdings total about 5,000 hectares split into operational and development land

Land & development

- EBIT** was up 2.8% to A\$29.2m primarily due to increased contribution from the property trust.
- Property sales** contributed EBIT of A\$16.3m. The major transaction was the Hewlett Packard land on the M7 Business Hub Estate, which provided BKW with A\$18.8m

Table 4 : Land Holdings

Operational land (required to operate the business)	Gross land area (ha)		Book value		Most recent valuation
NSW	465		A\$52m		A\$162m
VIC	567		A\$22m		A\$24m
QLD	763		A\$20m		A\$28m
WA	1,792		A\$34m		A\$79m
SA & TAS	272		A\$7m		A\$7m
Total	3,859		A\$135m		A\$300m
Development land (surplus to business unit needs)	Gross land area (ha)	Development area (ha)	Book value	Current value	Most recent valuation
NSW	303	185	A\$26m	A\$84m	A\$140m
VIC	436	300	A\$29m	A\$29m	A\$148m
QLD	169	130	A\$4m	A\$22m	A\$34m
WA	187	90	A\$5m	A\$5m	A\$21m
SA & TAS	44	44	A\$1m	A\$1m	A\$1m
Total	139	749	a\$65m	A\$141m	A\$344m

Source: Company data

- Property trust** generated EBIT of A\$12.5m, up from A\$10.3m in the pcp. Distributions from the trust were A\$7.1m, in line with the pcp. Revaluation profit totalled A\$4.7m, up from A\$2.8m in the pcp. Capitalisation rates have stabilised between 7.75-8.5%. Total value of the property trust assets was A\$611.4m, with borrowings of A\$243.5m. BKW share of the trust's net asset value was A\$184m, up A\$8.0m on the pcp.

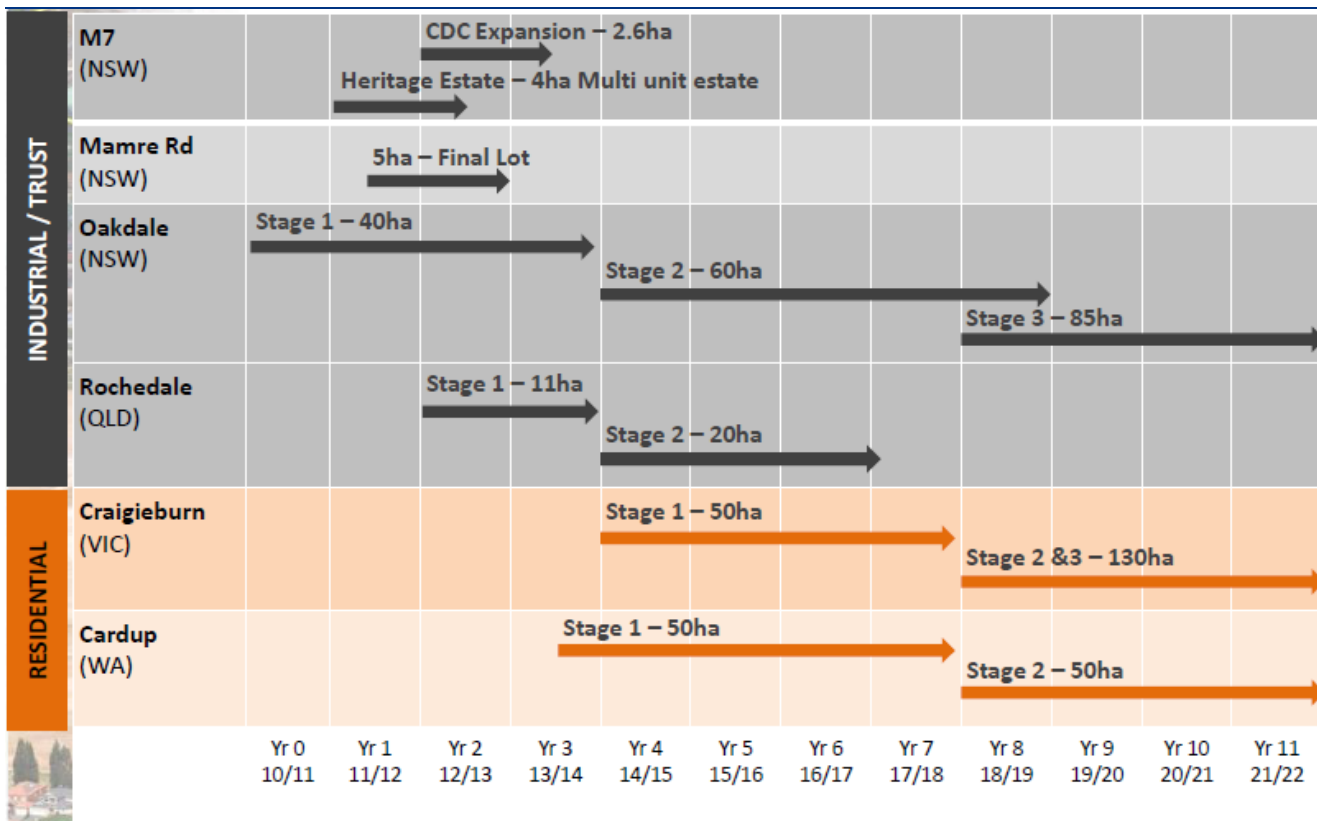
Table 5 : Property trust assets

Tenant / Asset	Location	Asset value	Revaluation profit FY11	GLA (m ²)	Gross rental pa	WALE (yrs)	Cap rate (%)
Coles CDC	Eastern Ck	A\$139m	\$2.4m	43,070	A\$11.1m	11.6	8.00%
Toll	Eastern Ck	A\$35.5m	\$1m	16,761	A\$2.9m	6.2	8.20%
Capicure	Eastern Ck	A\$24m		16,809	A\$2.3m	2.1	8.50%
Southridge	Eastern Ck	A\$34m	A\$1.4m	24,357	A\$2.9m	3.3	8.50%
Linfox (incl. exp land)	Erskine Park	A\$57.5m	A\$0.5m	36,123	A\$4.1m	7.2	8.00%
Ubeeco	Erskine Park	A\$16.4m		10,865	A\$1.3m	8	8.00%
Kimberly Clark	Erskine Park	A\$59m	A\$2.5m	45,853	A\$4.6m	12.2	7.80%
Woolworths	Erskine Park	A\$70m	A\$1.5m	52,888	A\$5.4m	12.2	7.80%
Wacol	Wacol Qld	A\$10.4m	A\$0.1m	10,384	\$1.1m	7.8	8.50%
Total		A\$445.8m	A\$9.4m	257,110	\$35.7m	7.8	

Source: Company data,

- Waste management** – Contributed profit of A\$2.5m from operations at Horsley Park in NSW up from A\$0.8m on the pcp.
- Outlook** – BKW anticipates that its three property trust projects, including two DHL facilities on the Oakdale site, will be finished in 1H12. The existing Linfox facility at Erskine Park is also being extended and is due for completion in December 2011. BKW is expecting demand for new site developments to improve from its weak base. The company continues to work on rezoning numerous surplus sites which the group has already identified, including Craigieburn in VIC, Rochedale in QLD and Cardup in WA in 2012.

Figure 1 : Property pipeline



Source: Company data

Investments

- EBIT was down 11.2% to A\$68m largely due to the impact of flooding in QLD on NHC's results.
- The market value of BKW's share in SOL remained steady at A\$1.3bn. During the year BKW received cash dividends totalling A\$48.6m which included A\$12.8m special dividend.
- SOL owns significant investments in New Hope Coal (NHC), TPG Telecom, API, Clover, Ruralco and Souls Private Equity.
- Outlook** – Investment impacts are expected to improve. We believe longer term SOL's offers a more diversified leverage to ongoing coal demand and an ever changing telco market. We remain positive on NHC as our preferred defensive coal exposure.

Changes to forecasts

We have made a number of changes to our forecasts, including incorporating carbon tax impact, which we have partially offset with price rises; lowered our expectations for the building products division to reflect depressed housing start figures; and pushed out some of our property sales expectations past FY12.

Table 6 : Changes to forecasts

(A\$m)	FY12F			FY13F			FY14F		
	Previous	Revised	% change	Previous	Revised	% change	Previous	Revised	% change
Revenue	728	637	-13%	780	665	-15%	800	662	-17%
EBIT – including associates	236	163	-31%	271	185	-32%	278	184	-34%
NPAT (A\$m)	166	111	-33%	192	128	-33%	197	128	-35%
NPAT Normalised	166	111	-33%	192	128	-33%	197	128	-35%
Adjusted EPS (c)	113	75	-33%	130	87	-33%	134	87	-35%
DPS (c)	45	43	-6%	47	45	-5%	49	47	-5%
Net op cash flow	101	107	6%	122	105	-14%	138	117	-15%
Segment EBIT									
Building products	73	42	-43%	96	54	-44%	110	61	-44%
Property	41	39	-5%	52	50	-4%	42	40	-5%
Investments	122	83	-32%	123	82	-33%	126	82	-34%

Source: RBS Morgans forecasts

Valuation & target price

Our sum-of-the-parts valuation for BKW has decreased to A\$10.13 (from A\$14.35) per share. This is due to: 1) the lower market value of SOL; 2) flat outlook for building products; and 3) with a weaker property market we have decided to take a conservative approach and value BKW's property assets at book value rather than current value.

Table 7 : SOTP valuation

Valuation summary	Shares	Price	A\$M	A\$ps	Basis
Core listed investments					
Washington Soul Patts - 42.85% (SOL)	102.26	\$12.10	1237.3	\$8.40	Market value 23/09/2011
Non-listed assets					
Building products			158.8	\$1.08	2.5x EV/EBITDA 2012
Land bank			200.0	\$1.36	Refer to property valuation (Table 8)
BKW's share of property trust assets			184.0	\$1.25	BKW share of the trust's NTA
Total valuation			1,491.3	\$10.13	

Source: Company data, RBS Morgans forecasts

Table 8 : Property valuation

Property valuation	A\$m	Details
Development land at book value		We note BKW's current valuation for development land is A\$141m. With BKW stating that it is worth a potential A\$344m on rezoning and development approvals.
Property trust value (BKW's share, net of debt)	184	
Operational land at book value		BKW believes operational land could be valued at A\$300m. However, with land required to operate the underlying BKW business we believe it will not be up for sale in the next 24 months.
BKW total property value	384	

Source: Company data, RBS Morgans forecasts

Investment view

We see a tough outlook for BKW's building division in FY12, with declining housing starts and continued shortage of titled land. While returns from investments in SOLs are expected to remain solid, we believe market conditions will mean another challenging year and move to a Hold and A\$10.13 SOTP valuation.

The key downside risks to our target price include further delays to or cancellations of property settlements, increases in interest rates, a longer-than-currently-anticipated downturn in housing construction activity and the property development profile. Upside risks include greater-than-anticipated contributions from SOLs, fast ramp up of dwelling commencements and the carbon tax having no impact.

BKW – financial summary

Year to 31 Jul (A\$m)	AIFRS 2010A	AIFRS 2011A	AIFRS 2012F	AIFRS 2013F	AIFRS 2014F	Closing price (A\$)	9.24	Price target (A\$)	10.13	
Income statement						Valuation metrics				
Divisional sales	654.1	633.9	637.3	665.5	661.9	Preferred methodology	SOTP	Val'n (A\$)	\$ 10.13	
Total revenue	659.1	637.4	637.3	665.5	661.9					
EBITDA	97.4	105.9	108.3	130.7	128.7	Multiples	2011A	2012F	2013F	2014F
Associate income	76.5	67.9	82.6	82.2	82.5	Enterprise value (A\$m)	1610.8	1591.3	1578.3	1556.0
Depreciation	-25.8	-26.6	-27.5	-27.5	-27.5	EV/Sales (x)	2.5	2.5	2.4	2.4
EBITA	71.6	79.3	80.7	103.2	101.2	EV/EBITDA (x)	15.2	14.7	12.1	12.1
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	EV/EBIT (x)	20.3	19.7	15.3	15.4
EBIT	71.6	79.3	80.7	103.2	101.2	PE (pre-goodwill) (x)	13.5	12.2	10.6	10.7
EBIT(incl associate profit)	148.1	147.2	163.3	185.3	183.7	PEG (pre-goodwill) (x)	0.8	0.7	0.6	0.6
Net interest expense	-22.1	-19.4	-20.9	-20.0	-19.3					
Pre-tax profit	126.1	127.8	142.5	165.4	164.3	At target price	2011A	2012F	2013F	2014F
Income tax expense	-15.9	-27.0	-31.1	-37.3	-36.4	EV/EBITDA (x)	16.5	15.9	13.1	13.1
After-tax profit	110.2	100.8	111.4	128.0	127.9	PE (pre-goodwill) (x)	14.8	13.4	11.7	11.7
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	110.2	100.8	111.4	128.0	127.9	Comparable company data (x)	2012F	2013F	2014F	
Significant items	28.6	41.8	0.0	0.0	0.0	CSR Ltd	EV/EBITDA	3.9	3.4	2.8
NPAT post abnormals	138.8	142.6	111.4	128.0	127.9	Year to 31 Mar	EV/EBIT	6.0	4.8	3.7
							PE	11.4	8.9	6.8
							PEG	-0.9	-0.7	-0.5
Cash flow statement	2010A	2011A	2012F	2013F	2014F	Boral	EV/EBITDA	6.3	5.1	4.3
EBITDA	97.4	105.9	108.3	130.7	128.7	Year to 30 Jun	EV/EBIT	11.9	8.2	6.4
Change in working capital	15.6	-96.5	11.9	-9.6	1.1		PE	11.4	8.4	6.2
Net interest (pd)/rec	-18.8	-17.8	-20.9	-20.0	-19.3		PEG	0.7	0.5	0.4
Taxes paid	-15.0	-1.4	-31.1	-37.3	-36.4	Per share data	2011A	2012F	2013F	2014F
Other oper cash items	0.0	41.8	0.0	0.0	0.0	No. shares	147.4	147.6	147.6	147.6
Cash flow from ops (1)	146.5	89.0	107.0	104.7	117.0	EPS (cps)	96.7	75.5	86.8	86.7
Capex (2)	-25.2	-35.7	-26.3	-27.5	-27.5	EPS (normalised) (c)	68.3	75.5	86.8	86.7
Disposals/(acquisitions)	-60.5	-15.6	0.0	0.0	0.0	Dividend per share (c)	40.5	42.5	44.5	46.5
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend payout ratio (%)	59.3	56.3	51.3	53.6
Cash flow from invest (3)	-85.7	-51.3	-26.3	-27.5	-27.5	Dividend yield (%)	4.4	4.6	4.8	5.0
Incr/(decr) in equity	174.0	0.0	0.0	0.0	0.0	Growth ratios	2011A	2012F	2013F	2014F
Incr/(decr) in debt	-100.0	0.0	26.3	-4.9	-4.4	Sales growth	-3.1%	0.5%	4.4%	-0.5%
Ordinary dividend paid	-58.2	-59.8	-61.2	-64.2	-67.1	Operating cost growth	-5.1%	0.2%	1.1%	-0.3%
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0	EBITDA growth	8.7%	2.3%	20.7%	-1.5%
Other financing cash flow	-21.2	-0.7	0.0	0.0	0.0	EBITA growth	10.7%	1.8%	27.8%	-1.9%
Cash flow from fin (5)	-5.4	-60.5	-35.0	-69.1	-71.6	Operating performance	2011A	2012F	2013F	2014F
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	7.0	6.9	7.0	6.8
Incr/(decr) cash (1+3+5+6)	55.4	-22.7	45.8	8.1	17.9	EBITDA margin (%)	16.7	17.0	19.6	19.4
Equity FCF (1+2+4)	121.3	53.4	80.8	77.2	89.5	EBIT margin (%)	12.5	12.7	15.5	15.3
						Net profit margin (%)	15.9	17.5	19.2	19.3
						Return on net assets (%)	4.7	4.7	5.8	5.5
Balance sheet	2010A	2011A	2012F	2013F	2014F	Net debt (A\$m)	247.3	227.8	214.8	192.4
Cash & deposits	73.4	50.6	96.4	104.5	122.4	Net debt/equity (%)	14.8	13.2	12.0	10.4
Trade debtors	98.8	83.6	96.2	100.5	99.9	Net interest/EBIT cover (x)	4.1	3.9	5.2	5.2
Inventory	139.3	153.6	135.7	141.7	140.9	ROIC (%)	3.0	2.9	3.7	3.5
Investments	1189.1	1211.3	1255.0	1296.3	1335.8	Internal liquidity	2011A	2012F	2013F	2014F
Goodwill	277.3	279.3	279.3	279.3	279.3	Current ratio (x)	3.2	2.6	2.7	2.8
Other intangible assets	6.6	6.3	6.3	6.3	6.3	Receivables turnover (x)	7.0	7.1	6.8	6.6
Fixed assets	455.8	474.3	473.0	473.0	473.0	Payables turnover (x)	8.3	8.5	8.1	8.1
Other assets	24.7	19.4	19.4	19.4	19.4					
Total assets	2265.0	2278.5	2361.4	2421.1	2477.3					
Short-term borrowings	0.0	0.0	32.4	31.9	31.5					
Trade payables	68.8	58.9	65.4	66.1	65.9					
Long-term borrowings	300.0	297.9	291.8	287.4	283.4					
Provisions	188.9	184.0	184.0	184.0	184.0					
Other liabilities	57.3	61.9	61.9	61.9	61.9					
Total liabilities	615.1	602.7	635.6	631.4	626.8					
Preference shares										
Hybrid equity										
Share capital	322.7	325.0	325.0	325.0	325.0					
Other reserves	367.2	296.4	296.4	296.4	296.4					
FCTR										
Unrealised gains/losses										
Retained earnings	960.1	1054.3	1104.5	1168.3	1229.1					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	1649.9	1675.7	1725.9	1789.7	1850.5					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	1649.9	1675.7	1725.9	1789.7	1850.5					
Total liabilities & SE	2265.0	2278.5	2361.4	2421.1	2477.3					

Source: Company data, RBS Morgans forecasts

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