Martin Bros Monitor

www.martinbros.com.au

September Quarter 2009 Edition

Paul & Jarrod Martin are Authorised Representatives (259367 & 259249) of ABN AMRO Morgans Ltd.

Name Change

From Monday, 14th September our name will change to RBS Morgans.

This is to reflect the takeover of ABN AMRO globally by RBS (Royal Bank of Scotland) in November 2007.

Our email addresses will change, with existing ones still working for some time in order to give people time to update their address books.

Stock Review - MIG

Macquarie Infrastructure Group (MIG) - don't be scared off by the name. MIG was the first stock of the now defunct 'Macquarie Model' where the investment bankers would buy assets, package them up, separately list, take a nice fee for doing so and then also retain the management rights (for a good fee of course including performance bonus).

MIG is a part owner of several toll roads around the globe including the Westlink M7 in Sydney, M6 tollway in the UK and the 407 ETR in Canada (among others).

Some of their investments are extremely attractive toll roads while others are over-geared and less attractive. Importantly though, these investments are isolated and there is no recourse to the overall group or over their other, more profitable toll roads.

The mixed fortunes of MIG's assets, debt levels and the outdated management model of having external managers (Macquarie Group) has lead to investors shunning the underlying value of MIG.

Macquarie Group owns approximately 17% of MIG and they record the value of their investment in their own balance sheet at approximately $2 per share, versus the current share price of $1.37. Their justification for doing so is that the underlying net asset backing of MIG shares is approximately $2. Therefore the true value of their investment should be recorded at this price. And the Auditors signed off on this.

Macquarie Group recently announced their intention to undertake a strategic review of the MIG structure to unlock the 'hidden' value for security holders. This has lead to them announcing their intention to split the company into two separately listed entities. Basically a good MIG (with the best assets) and a bad MIG (with the worst assets).

RBS value MIG at $2.03, in line with the company's announced net asset backing. A splitting of the company into two may attract investors back.

Recession, What Recession?

What a difference six months makes! Well, in Australia at least. Earlier this year we were faced with media reports of another impending Great Depression. Now, only six months later, it seems in Australia we have escaped even a technical recession. Hence the reason our sharemarket has recovered so spectacularly in such a short space of time.

In our March edition of the Martin Bros Monitor (MBM) we wrote:

"Therefore, equity markets are now trading on the outlook for the general economy. The bad news on the economy, such as job losses, bankruptcies etc will continue for several quarters after the market has reached a bottom for this cycle. On average, markets have bottomed one third of the way through economic recessions. By the time proof has emerged that the worst of the economic cycle is behind us, equity markets will be substantially higher than where they are today."

And we are, some 40% higher on the ASX200. In our December edition of MBM, under our outlook for 2009, we stated that we thought the ASX200 would be at 4,500 points by the end of the year. At the time, it was at 3,640 points. Then, in the March edition, after the market had fallen a further 15% to 3,121 points, we wrote:

"We still stand by our year end target for the ASX 200 of 4,500 points. But we think it will take two or three rallies to get there. Each time the market falls after a brief rally, the doomsayers will become ever confident. At the point that these doomsayers are so convinced they're right, the next sustainable rally will occur."

On 14th August the 4,500 point mark was reached. We must say, quite a few months earlier than we had thought. But, this is how markets can react. They can be equally as violent on the rebound as they are on the decline. Hence, the risk of ever being positioned underweight equities in a long term portfolio. As dire as the outlook seemed in March, sharp rebounds off bear market lows occur before any good news comes out.

In Australia though, we're not alone. Equity markets around the globe have bounced strongly off their March lows on the back of improving economic news. Although overseas, much of the good news is actually less bad news, rather than outright good news.

> ***"the herd just never seem to get it right in the short term"***

We are now on the cusp of the seasonally poor period for markets. End of September through to about mid October, particularly in the US. Many market observers have been beating this drum over the past month, but the louder the drum, the more unconvinced we are that it will come true. The 'herd' just never seem to get it right in the short term.

Notwithstanding what happens in the markets over the next month, equities remain an attractive asset class. Note the recent out performance in equities will slow to a more gentle appreciation in the coming period.

The economic news coming out of Australia is nothing short of incredible, given the backdrop of the Global Financial Crisis (GFC). Our unemployment, although still continuing to climb, is still under 6%. Six months ago many thought this would be closer to 9% by then end of the year. This will not occur. Interest rates are now expected to start rising by the end of this year or the start of next year. This is a good thing. The RBA will only raise interest rates when the economy is expanding.

The government is making sure that we all know we are not out of the woods yet, economically speaking. This is also a good thing. Confidence is a key ingredient to economic stability and growth. Six months ago the government was very cautious about massaging messages. Now, they are talking things down. They do not want a return to the heady days of 2007 any time soon.

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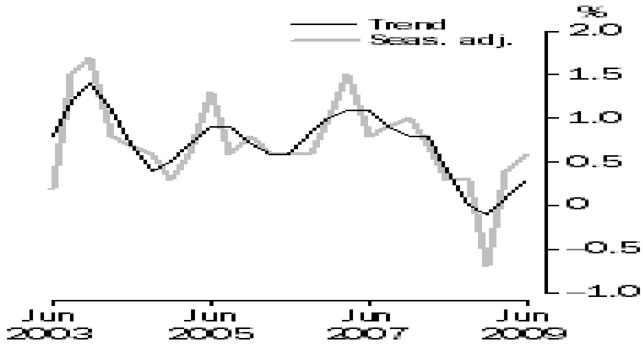
Why is the Australian economy so good?

World GDP Growth - Year Average Percent

	2009	2010
	IMF Forecast	
USA	-2.60	0.80
Euro Area	-4.80	-0.30
Japan	-6.00	1.70
	RBA Forecast	
Australia	0.50	2.25

Source: IMF, RBA

Figure 1: Australian GDP GROWTH



Source: RBA

In its recent Quarterly Statement on Monetary Policy, the RBA revised upwards its estimates of growth in the Australian economy in 2009. These revisions make Australia perhaps the best performer in the developed world. These IMF GDP forecasts for the three big economies - USA, the Euro area and Japan are shown in the above table along with the RBA estimates for the Australian economy.

The Reasons

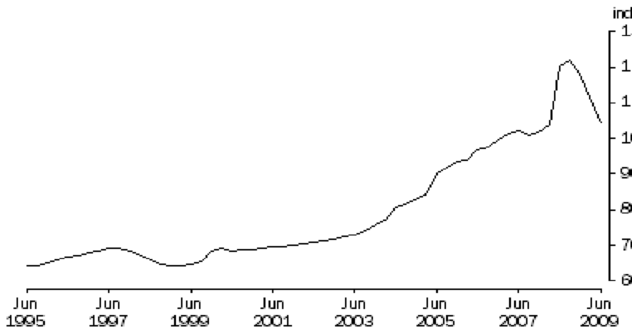
Australia has had cuts in interest rates and implemented large fiscal stimulus programs. So have many other countries. However Australia is outperforming those other countries. There are two reasons. The first is the soundness of our financial system. A generation of development of the Australian system of regulation has meant that Australia did not have a banking crisis when the big economies did.

The second is the external sector. The Australian terms of trade have fallen. The RBA notes that this still leaves the terms of trade some 45% higher than the average level that prevailed in the 20 year period from 1980 to 2000. In addition to good prices, Australia has maintained high export volumes in the 9 months to June 2009. Amazingly, Australian exports are up a touch over 2% in the same period. This improvement in the real net exports is the major reason that we seem to be having better than anticipated GDP numbers.

The soundness of Australia's financial Institutions, together with stronger demand for our exports seems to provide healthy support for the Australian recovery in 2009, 2010 and beyond.

The above is an extract from Michael Knox - Economist from ABN AMRO Morgans

Figure 2: Terms of Trade



An extract from Tim Billington's travel diary (reproduced without authority but we don't think he'll mind)

Disembarking the train at the border to Thailand, I was amused by the official looking sign at immigration. As the sign read, it was possible for immigration officers to turn anyone away with long hair, "Jesus shoes" or too much facial hair. In other words, being a hippie was a possible cause of concern for immigration officers. I was amused and thought that the sign must surely be a joke. But at the same time I thought it was odd that such an official looking sign would be placed at an immigration office. In the end, the only two odd hippie-looking travelers on the train were stamped through without being turned back, so I was none the wiser about Thailand's immigration policy towards hippies.