Leyland Lines

June 2007

MARKET UPDATE

Leyland Lines is our monthly newsletter providing investors with our insights on the overall market, individual companies and other relevant issues. All the information contained in this newsletter is for general reading only and should not be taken as a personal recommendation. We encourage you to call Leyland Private Asset Management for specific advice in relation to your portfolio.

Welcome to the June 2007 edition of Leyland Lines.

The end of the 2007 financial year is fast approaching. As capital losses can generally be offset against realised gains, investors may consider selling any holdings in loss positions. Any contributions to superannuation funds and any pre-payment of interest on margin loans must be executed by 30 June if the deductions are to be included in this financial year. Please call your Leyland Private Asset Management Investment Manager if we can help you with year-end planning.

The months of May and June saw a number of stocks pull-back significantly from their highs, opening up opportunities to grow share portfolios. The pull-back has been attributed to a rapid increase in the yields of global bonds. The theory is that as bond yields increase the cost of borrowing for companies is more expensive, and therefore investing in risk-free bonds becomes more attractive. Countering this negative is the $80 billion that has been put into superannuation funds by Australians with the majority to be invested in the sharemarket.

This month, we review the agricultural sector after first recommending investing in this sector in November 2006. The shares recommended have all done well, plus we still see further value in the sector. In particular, we detail Futuris and have interviewed Incitec Pivot's executive management.

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Leyland Private Asset Management

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Agricultural Sector

In November 2006, Leyland Private Asset Management recommended buying agricultural stocks as they were so heavily discounted at that time due to the drought. Recently, a significant amount of inland New South Wales and Victoria have received enough rain for farmers to plant their crops. From anecdotal evidence, we are hearing there is significant confidence in the outlook for these crops that should further benefit agricultural listed businesses.

The companies we highlighted in the November edition of Leyland Lines have done very well and in a few cases we think they will go further. Our confidence in the sector is based on the following:

1. Soft commodities (wheat, wool) historically follow increases in hard commodity (metals) prices.
2. Australian agricultural produce is high quality and is sought after in many markets, particularly international markets and often at a premium price.
3. Longer term, the rising wealth in countries such as India and China will lead to increasing demand for many agricultural products in Australia.
4. The leverage agricultural companies have to seasonal conditions is significant, and analysts have not upgraded profit expectations following the recent rains.

Australian Agricultural Company (AAC)

Nov '06 Price: $1.80; Current Price: $2.70

November 2006 Recommendation:

"The company has continued to build a dominant position in beef cattle and rural land holdings over the last two years and many of their properties in the Northern Territory have actually had a record wet season. Nevertheless, with continuing pressure on beef sales in drought affected areas, cattle prices have remained under pressure (down around 20 percent). On any turnaround in beef prices AAC should benefit substantially.

The risks on the downside include a rising Australian dollar and the outbreak of disease in the Australian herd. The other difficulty is that grain is a large cost to AAC, and as supply dwindles in the grain area, cost pressures increase. The stock price has held remarkably well and probably has less risk than some of the other agricultural stocks at current levels."

June 2007 Update:

Australian Agricultural Company (AAC) revalues its significant cattle herd based on market prices at the end of this financial year. Logic would say that with the recent rains, stock demand from Australia's southern states will increase the value of the herd, which will increase the asset value of AAC, leading to a market upgrade.

In addition, if the rains lead to a good crop season in Eastern Australia, AAC will further benefit from the increased supply of grain, which it requires to fatten its cattle prior to sale.

AAC continues to be well positioned and Leyland Private Asset Management recommends holding the stock.

Incitec Pivot (IPL)

Nov '06 Price: $24.20; Current Price: $65.69

November 2006 Recommendation:

"The company has been a long term solid performer on the Australian share market since being sold by its major shareholder Orica. It is moving ahead with cost initiatives and has recently announced that the Brunei plant will go ahead.

Risks include movement in the Australian dollar, lower fertiliser prices, and an inability to implement the cost savings to the extent factored in by analysts. The company is more diversified geographically than other stocks in the sector. It is one stock that is also favoured by a number of analysts and is likely to be one of the first companies that the institutions buy on any breaking of the drought."

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MARKET UPDATE

Agricultural Sector cont'd

June 2007 Update:

Recently we visited Incitec Pivot and spoke with Simon Atkinson, Deputy Chief Financial Officer, to get an update on recent trading conditions for the company.

Mr Atkinson emphasised that Incitec Pivot remains more exposed to fertiliser prices than sales volumes. The company is a price taker in the industry. The prices of key fertilisers, DAP and urea, are the key profit drivers for Incitec Pivot, with every US$10 per tonne change translating to 4 percent and 1.5 percent of EBIT respectively.

Mr Atkinson reaffirmed the positive longer term outlook for DAP prices over the next several years, citing global supply and demand forces at play. The demand factors highlighted include world population growth, increased consumption of more land intensive foods and increased use of fibres such as cotton, wool and wood. Supply constraints include lack of available land and higher input costs (in particular gas and sulphur).

Fertiliser prices are still expected to decline, but at a lower rate than before. This has prompted analysts to make consecutive earnings revisions and valuation upgrades for the company.

A DAP price of US$250 to US$300 per tonne is sustainable in the longer term (post 2010) and this is now reflected in analysts' forecasts. Mr Atkinson notes that Saudi Arabia is undertaking a major expansion of it's DAP plants. This should help set a floor for the DAP price of around US$250 per tonne in the next few years, given the higher input and capital costs and the required return on capital associated with these projects.

Incitec Pivot will continue to consider greenfield and brownfield expansion opportunities in order to take advantage of "stronger for longer" trading conditions. However, Mr Atkinson stressed that the company remains focussed on delivering shareholder value and will only go ahead with opportunities which meet their 15 percent required rate of return. Should there be a lack of attractive opportunities in the next couple of years, the company will look to return surplus funds to shareholders via share buybacks/dividends.

We hold the view that Incitec Pivot remains one of the best agricultural sector investments in the Australian share market given the ongoing strength in trading conditions, balance sheet capacity and disciplined capital management.

Graincorp (GNC)

Nov '06 Price: $7.99; Current Price: $12.48

November 2006 Recommendation:

"The main area of interest for Graincorp remains the possibility of changing the single desk policy in Australia which looks all but inevitable in view of the mess involving AWB. It has been argued by many farmer groups that better prices could be achieved by dismantling the single desk. Other factors such as a turnaround in seasonal conditions and an increase in stock liquidity and a consequential increased weighting in the all ordinaries index will also assist in a stock price turnaround. It is likely that Graincorp will report a loss for the 2006/2007 financial year as the grain retrievals have fallen from over 10.5mt to between 2-4mt.The next estimates for the summer crop will be in January 2007. Should seasonal conditions become more favourable the turnaround in the share price of Graincorp is likely to be significant."

June 2007 Update:

We still think there is further upside for Graincorp. The leverage Graincorp's operations receive from the greater volumes achieved in a good growing year are significant; additionally, analysts have not yet upgraded their outlook on the stock.

Maryborough Sugar (MSF)

Nov '06 Price: $11.00; Current Price $12.00 (allowing for share split)

November 2006 Recommendation:

"Over the last few months there has been a significant fall in the price of sugar following favourable conditions in many of the main sugar producing companies including Brazil, India and Thailand. The demand from India and China has decreased recently which has been reflected in the lower sugar price.

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Agricultural Sector cont'd

The longer term sugar forecasts now look more optimistic and the stock should respond as the sugar price increases. The company is suitable to those investors who favour a one-commodity company and are looking for the price of sugar to increase over the medium term."

June 2007 Update:

The sugar price has continued to be severely depressed and the Australian dollar has gone higher. These are both negatives, plus the rains Australia's southern states are of little relevance. The current conditions are not favourable for Maryborough Sugar so an investment would need to be based on the sugar price turning around.

Futuris (FCL)

Current Price: $2.50

Futuris is the largest and most diversified listed agricultural share on the Australian market. Futuris has three business areas comprising:

1. **Elders branches** – through its 280 rural branches Elders supplies a wide range of farm equipment. It also provides marketing and sales services of farm outputs including:
   - **Meat and Livestock** – Elders is the largest Australian stock and station agent
   - **Wool** – Elders is a global leader in the sale of greasy wool and one of the largest early stage processors
   - **Grain** – Elders continues to build its grain accumulation business
   - **Merchandise** – Elders is one of the largest suppliers of general rural merchandise
   - **Real Estate** – Elders is Australia's largest rural estate agent.
2. **Elders Rural Bank** – provides loans and deposit facilities as well as insurance products. This is a 50 percent joint venture with Bendigo Bank, and due to Elders long association with the rural community it has a significant edge in this market over the major banks.
3. **Forestry** – following the takeover of Integrated Tree Cropping, this business is now one of Australia's major timber operations incorporating the sale of Management Investment Schemes packages and the operators of the timber plantations.

Futuris also has a number of key investment holdings including:

1. 43 percent shareholding in Australian Agricultural Company (AAC), Australia's largest beef cattle owner and operator.
2. 50 percent shareholding in Hi Fert, one of Australia's leading fertiliser companies.
3. 27 percent shareholding in Webster, a diversified food and agri-business with interests in salmon and walnuts.
4. 47 percent shareholding in Amcom, an internet supplier and IT service company.

On 8 May, Futuris updated the share market by stating that its profit for this financial year could exceed analysts' expectations, stating "strong performance from Elders Financial Services and an improvement in Forestry have enabled the company to moderate the drought impact in the year to date. This has positioned Futuris to target a higher, and record underlying profit for FY07. The business will carry good momentum into FY08. While merchandise sales respond immediately to improved conditions, other product areas such as wool, livestock and real estate take longer to recover as farmers rebuild their herd and mange their property assets".

Futuris' share price increased on the back of this announcement. However, it then settled back to only a little over the pre-announcement price. Futuris is currently trading on a consensus PE of 17 times, with considerable upside risk to the estimated earnings, given the follow up rains experienced across a large part of Elders markets and the strength of its Financial Services and Forestry businesses.

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AED Oil (AED) Update

March '07 Price: $4.75; Current Price: $7.26

We recently visited AED Oil and spoke with Trevor Slater, Company Secretary and General Manager of Marketing, to get an update on the company's progress.

AED Oil remains very much focussed on achieving production of first oil from the Puffin NE field by July/August this year. In addition, the company is busy drilling and testing the Puffin SW area to determine the extent of recoverable reserves there. Initial studies suggest that two reservoirs, LK1a and UK1a, are in fact part of a single large oil-bearing structure. Much more work needs to be done in order to determine recovery factors for Puffin SW so a recoverable reserve estimate for this area is at least a few months away.

The main focus for AED Oil is Puffin, however the company is always on the lookout for attractive opportunities elsewhere which will deliver shareholder value. The recent acquisition of the Talbot oilfield (OIIP of 20 million barrels) represents a good fit in the company's overall strategy. The field is in close proximity to Puffin (about 60km) so some of the field infrastructure can be shared. Furthermore, Talbot has similar geological characteristics to Puffin.

Mr Slater was particularly bullish on the future direction of oil prices, and believes that oil is in a longer term up-trend given the outlook for global demand and the inability of supply to keep pace with demand growth. AED Oil will hedge or forward sell enough oil to cover the fixed/capital costs of project development, leaving shareholders with plenty of residual exposure to a rising oil price.

Interest in AED Oil's stock has grown amongst both institutional and retail investors as the story continues to improve. Several brokerage houses have initiated coverage in recent months with this heightened interest set to continue as the company is due to enter the ASX Top 300.

We first discussed AED Oil in the March edition of *Leyland Lines*. We believe there is still significant upside to the stock over the medium term, despite recent strong share price appreciation and are happy to remain involved in this stock.

Maximising Your Super Fund Return

Today, more and more people are choosing to manage their own super funds. And, as the Federal Government commits to rewarding those who do invest in super to secure their future, it becomes even more critical to maximise the returns from your super fund investments.

One of the biggest challenges for those people with Self-Managed Super Funds (SMSF) is finding the time to manage investments wisely to gain the best possible return on those investments. So, many of our clients choose Leyland Private Asset Management to manage the equities portion of their personal super fund. Most investors want to maintain overall control, but recognise that their time and market knowledge sometimes limits their investment returns. At Leyland Private Asset Management, we:

- Ensure we understand the goals of your super fund and its investment strategy
- Identify, buy and sell relevant shares opportunities on behalf of your SMSF
- Take up the appropriate rights issues and floats to maximise performance
- Reconcile all dividends
- Provide you with online up-to-date reporting so you can track performance at any time
- Constantly monitor daily market movements which logically lead to better performance

Please contact Leyland Private asset Management if you would like to talk further about us managing you super fund equity investments.

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Amcor Ltd (AMC) Update

Current Price: $7.05

Leyland Private Asset Management first identified Amcor in December 2006 and since then the share price has moved very little. We still believe in its outlook and consequently suggest to those investors without Amcor should consider adding it to their portfolios.

Amcor is one of the world's largest integrated packaging groups with over 217 manufacturing facilities in 34 countries. The range of products manufactured includes corrugated cartons, metal and glass packaging products, PET containers, flexibles, plastic and metal closures. As a sector globally it has been very competitive for several years and consequently out of favour with many analysts. For this reason, we believe there is an opportunity to obtain exposure to this quality, global company at a very reasonable price.

Amcor is currently undergoing a global restructure called "The Way Forward" which we believe could lead to a re-rating of the company. This strategy includes the following initiatives:

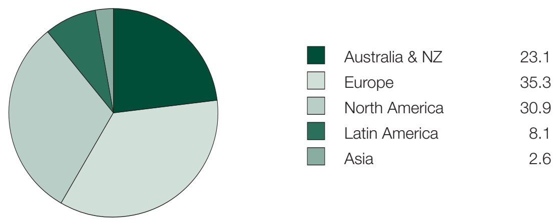
1. **Asset Sales** – Amcor management has stated it will sell between $500m - $1bn of assets; so far $420m worth of assets has been divested. We will look for more positive announcements in this regard, particularly in relation to the European PET business. Income generated will be used to reduce debt and to reinvest in more profitable operations.
2. **Asset Relocation** – As part of the European restructuring Amcor is moving some of its operations to Eastern Europe. This is a double positive, as it will help to reduce costs and increase volumes to existing customers whilst opening up new market opportunities.
3. **Cost Reductions** – As part of Amcor's "Get Fit" strategy focusing on all cost areas.
4. **Product Innovation** – Amcor is at the leading edge of technology and is able to provide more innovative and better targeted packaging solutions than smaller or local competitors. Amcor's Management has identified this as an area of strategic significance.

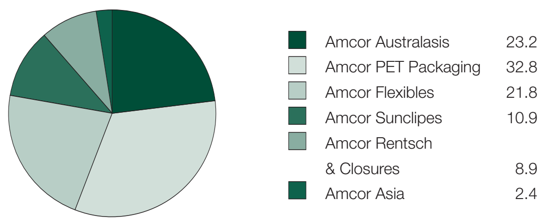
Recent corporate activity in the USA suggests that Amcor could well be a target for a competitor and/or private equity investor. Comparative businesses' prices would value Amcor's share price at well over $8.00. Amcor has many attributes that a private equity firm looks for, such as an under-geared balance sheet, restructuring potential and the ability to be broken up into its component parts.

Investment Fundamentals

Stock code	AMC
Stock Price ($)	7.17
Market Cap ($ Mil)	6,715

Year End 30 June	2006A	2007F	2008F	2009F
EPS (cps)	43.80	46.00	51.00	55.00
P/E (x)	16.37	15.59	14.06	13.04
DPS (cps)	34.00	37.00	38.00	39.00
Yield (%)	4.74	5.16	5.30	5.44
Franking (%)	15.00	15.00	15.00	15.00





Annual Sales	**$11.1 billion**
Manufacturing Sites	**240**
Countries	**39**
Employees	**27,000**
Shareholders	**126,000**

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Origin Energy (ORG)

Current Price: $8.90

Origin Energy is a diversified energy production and distribution company with significant operations in Australia and New Zealand. Origin is Australia's second largest energy retailer with more than 3.5 million customers and a major producer in their own right covering LPG, natural gas and related products and services.

It has interests in around 870 megawatts of installed capacity, most of which is gas fired. The company is a major gas retailer in South Australia, Victoria and Queensland. It also generates electricity in Victoria and South Australia. In New Zealand, through its 51.4 percent ownership of Contact Energy it has 2200 megawatts of installed generation capacity and 594,000 gas and electricity customers. Over 90 percent of Origin's generation capacity in Australia and New Zealand comes from low emission or renewable sources.

Over the last week the company announced plans to spend $1.28 billion on a new gas fired power station plus associated gas fields and pipelines on the Darling Downs in Queensland.

The new Darling Downs power station will be capable of generating 630 megawatts of electricity per hour. The new power station will insulate Origin's earnings from electricity retailing as well as increase Origin's earnings.

Other new projects include Mortlake in Victoria and Spring Gully in Queensland. The Bass Gas project which supplies gas to Victoria has also commenced production and will continue to provide good revenues for the medium term. There is still a dispute with the lead contractor Clough Engineering though initial legal developments have been favourable for Origin.

The Otway gas project will commence and will add over 18 petajoules of sales annually as well as 240,000 barrels of condensate and 29 kilotonnes of LPG. This, together with Bass Gas and Sun retail will add significant earnings for the 2008 financial year.

There are also further expansion opportunities for generation in both Australia and New Zealand which will be fuelled by natural gas and renewable (geothermal and wind) which will reduce Origin's exposure to any future carbon cost. The development of these projects will contribute to Origins growth in the medium to long term.

Origin is therefore in a good position to benefit from the increased energy demand in Australia and New Zealand with most of the generation either low emission or renewable.

The earnings from the various divisions for the last half year are set out in the table below. As we expect the growth profile to continue in most divisions, we therefore consider Origin Energy a stable company with growth in earnings over the medium to long term.

EBITDA of $640m was up 9% on strong performance by E&P, Retail and Generation...

Divisions ($ million)	Dec 06	Dec 05	% change
Exploration & Production	136	99	38
Retail	186	142	30
Generation	66	43	52
Networks	14	16	(9)
Contact	238	289	(18)
Total	640	589	9

- Corporate costs of $34 million have been allocated to the Australian business segments

... more than offset reduced contribution from Contact

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