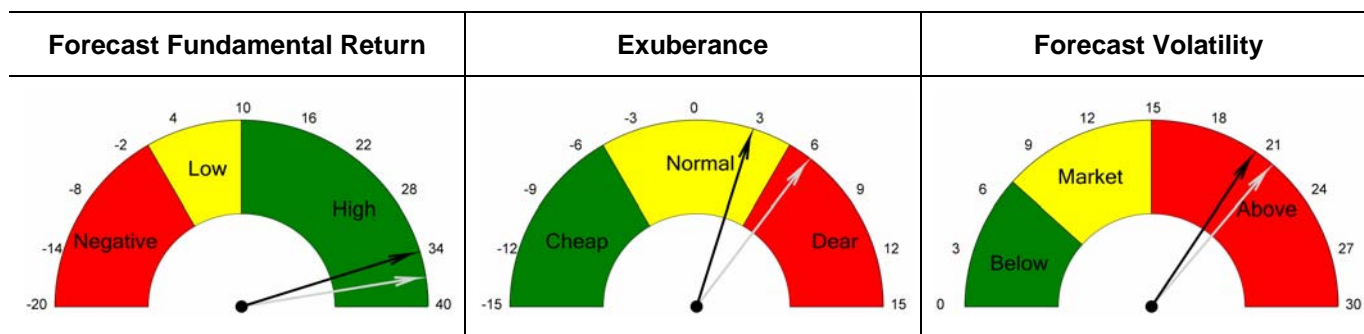


# Commonwealth Bank Agri indicators

12 June 2008

- After a more than impressive run over the last year and a half, the listed Agribusiness sector has taken stock in the last month. The Agribusiness index fell -1.8% compared to -4.9% for the broader S&P/ASX 200 index. Nonetheless, the sector's dominance over the index and most other market sectors over the last year cannot be questioned. Except for the Energy sector (37.5%), the Agribusiness sector has delivered the greatest return to shareholders (37.0%) of all other sectors of the market over the last 12 months. During this time the S&P/ASX 200 index returned a disappointing -8.6%.
- The slight cool off in the Agribusiness sector this month was in line with the sector's elevated exuberance level at the end of last month. As reported in the last issue of the Commonwealth Bank Agri indicators report exuberance for the sector was just over 6%. This result indicated that the index had raced ahead of its fundamentals and that a reversion to fair pricing could be expected. The sector is now just 3% exuberant – still a little over-priced – but much less so than this time last month. Nonetheless, new investors to the sector may be best placed by staging their investment in order to guard against any further revision back to fair pricing that could occur in the short term.
- The long-term consensus outlook for the sector continues to look very strong with a forecast return of 34% over the next 12 months. Forecast volatility for the sector has fallen slightly but still remains elevated compared to levels seen 6 – 12 months ago. The sector remains one of the most attractive sectors on a risk-adjusted basis – surpassed only by Materials, Energy and Health Care.

Table 1: Current indicators Commonwealth Bank Agribusiness sector



Source: Investment Research, Reuters Knowledge

Note: The grey marker represents the previous month's dial value.

**Forecast Fundamental Return:** Forecast return (ignoring exuberance) for the sector over the next 12 months. Derived using our proprietary forecasting technique based on consensus forecasts of earnings and dividends for the individual stocks in the sector (sourced from Reuters Knowledge). Pricing bounds (eg negative, low and high) are relative to the S&P/ASX 200 and are the same across sectors to allow for comparison between sectors.

**Exuberance:** Proprietary measure of market mis-pricing. Defined as the ratio of the sector accumulation index to our estimate of fair value. Exuberance should be subtracted from the forecast fundamental return to derive an actual forecast from today's price. Experience shows that exuberance changes far more rapidly than our forecasts of fundamental returns. Pricing bounds (eg cheap, normal and dear) are sector specific and are based on the sector exuberance mean and standard deviation.

**Forecast Volatility:** Forecast volatility for the sector over the next 12 months. Derived using our proprietary methods of modelling realised volatilities, detecting changes in long-run levels (including at the end of the sample) and correcting for switchbacks and other correlation patterns in the data. Pricing bounds (eg low, normal and high) are relative to the S&P/ASX 200 and are the same across sectors to allow for comparison between sectors.

Figure 1: Commonwealth Bank Agribusiness index vs. S&P/ASX 200 index^

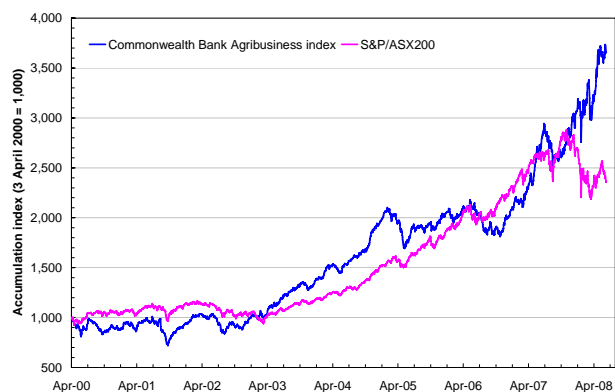


Table 2: Total Shareholder Return (%) (including dividends)^

	Commonwealth Bank Agribusiness index	S&P/ASX 200 index
Last month	-1.8	-4.9
3 months	20.8	7.3
6 months	20.0	-16.4
12 months	37.0	-8.6
Since April 00*	265.2	136.7

\* Start of the Commonwealth Bank Agribusiness index

^ Data to 11 June 2008

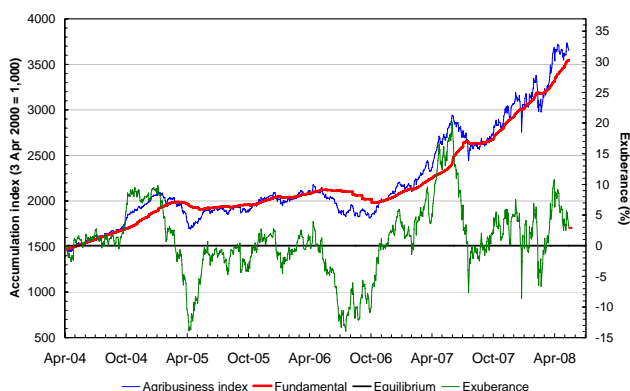
Source: Investment Research, PCS

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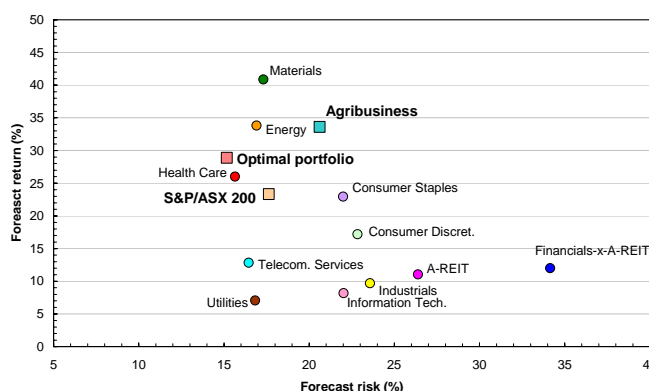
**Figure 2: Commonwealth Bank Agribusiness index, fundamental and exuberance**



Source: Investment Research, PCS

Note Figure 2: We show the relative pricing of the Commonwealth Bank Agribusiness index to 'fair value' in Figure 2. The fundamental of the Commonwealth Bank Agribusiness index is constructed using a proprietary method based on consensus forecasts of earnings and dividends (sourced from Reuters Knowledge) for the companies in the Commonwealth Bank Agribusiness sector. Exuberance is a proprietary measure of market mis-pricing, defined as the ratio of the index to the fundamental. Positive exuberance indicates over-pricing, while negative exuberance indicates under-pricing. We do not advocate using exuberance as a trading signal but as part of a 'scientifically' based market entry strategy.

**Figure 3: Forecast risk-return profile of Commonwealth Bank Agribusiness sector vs. S&P/ASX 200 sectors**



Note Figure 3: We compare the forecast risk-return profile of the Commonwealth Bank Agribusiness sector to the S&P/ASX 200 index and its sectors in Figure 3. The 'Optimal Portfolio' is the Maximum Sharpe Ratio portfolio in the efficient frontier optimisation of the S&P/ASX 200 sectors. This portfolio represents the best risk-adjusted return of all efficient portfolios. In the Optimal Portfolio we restrict sectoral weight to be between 0.5 and 2.0 times index weight. Allocation to the Commonwealth Bank Agribusiness sector is not included in the Optimal Portfolio. To be consistent with our other publications, forecasts of returns are quoted in simple terms while forecasts of risk are quoted in  $\ln(1+r)$  terms. Forecasts are for the next 12 months.

### Commonwealth Bank Agribusiness index details

The Commonwealth Bank Agribusiness index measures the performance of the Commonwealth Bank defined 'Agribusiness' sector over time. The Commonwealth Bank Agribusiness sector currently consists of 16 rural-dependent companies: Australian Agricultural Company Limited (AAC), ABB Grain Limited (ABB), AWB Limited (AWB), Futuris Corporation Limited (FCL), Forest Enterprises Australia Limited (FEA), GrainCorp Limited (GNC), Gunns Limited (GNS), Great Southern Limited (GTP), Incitec Pivot Limited (IPL), Nufarm Limited (NUF), Primeag Australia Limited (PAG), Ruralco Holdings Limited (RHL), Ridley Corporation Limited (RIC), Select Harvests Limited (SHV), Tassal Group Limited (TGR), Timbercorp Limited (TIM). Companies previously included in the sector but since removed due to delisting or exiting the All Ordinaries index include Queensland Cotton Holdings Limited (QCH) and Auspine Limited (ANE).

The Commonwealth Bank Agribusiness index is a non-float adjusted, market-cap weighted index constructed using the same methodology as the S&P index series. To be considered for inclusion in the index, each stock must be a in the All Ordinaries index. The Commonwealth Bank Agribusiness index begins on 3 April 2000 which is the same date as the launch of the S&P/ASX index series in Australia. At inception there were 8 stocks included in the index. This number is currently 16.

**Table 3: Current Commonwealth Bank Agribusiness index membership and weights**

Code	GICS Tier 1	GICS Tier 2	Current Market Cap (\$mil)	Current index weight (%)
AAC	Consumer Staples	Packaged Foods & Meats	\$835	3.6
ABB	Consumer Staples	Food Distributors	\$1,433	6.1
AWB	Consumer Staples	Food Distributors	\$1,067	4.6
FCL	Consumer Staples	Agricultural Products	\$1,282	5.5
FEA	Materials	Forest Products	\$203	0.9
GNC	Consumer Staples	Agricultural Products	\$676	2.9
GNS	Consumer Staples	Forest Products	\$1,084	4.6
GTP	Materials	Forest Products	\$368	1.6
IPL	Materials	Fertilizers & Agricultural Chemicals	\$11,592	49.6
NUF	Materials	Fertilizers & Agricultural Chemicals	\$3,023	12.9
PAG	Consumer Staples	Agricultural Products	\$281	1.2
RHL	Industrials	Div Commercial & Professional Services	\$196	0.8
RIC	Consumer Staples	Agricultural Products	\$387	1.7
SHV	Consumer Staples	Agricultural Products	\$248	1.1
TGR	Consumer Staples	Packaged Foods & Meats	\$391	1.7
TIM	Materials	Forest Products	\$323	1.4

Source: Investment Research, IRESS

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