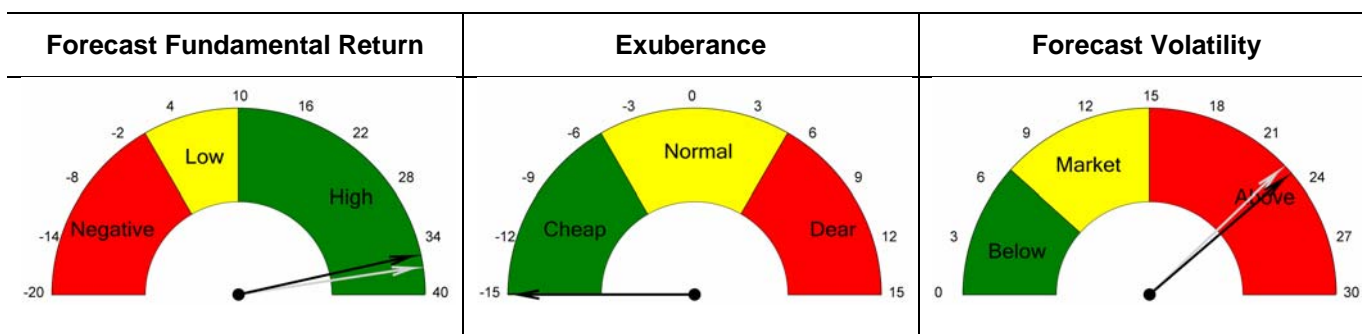


# Commonwealth Bank Agri indicators

15 September 2008

- After out-performing for so long, the performance of the Agribusiness sector and the broader market appears to have reversed in the last few months. While the broader market has been hovering within a tight band of 400 points, the Agribusiness sector has been retreating from recent peaks. However, while the performance of the Agribusiness sector has been poorer than the broader market over the last 6 months, the recent woes have not eliminated the stellar gains earned by the sector over longer periods. Year on year, the Agribusiness sector is up 11.7% compared to a disappointing return of -17.6% for the S&P/ASX 200 accumulation index over the same period.
- The consensus outlook for the Agribusiness sector remains positive with little change recorded in the forecast return for the sector over the next 12 months which is still in excess of 30%. This forecast is based on the consensus of broker estimates of earnings and dividends for the individual companies in the sector and it is these underlying fundamentals that the analysts are predicting to remain strong. Since many companies in the Agribusiness sector have a September year end we will be paying close attention when they begin releasing updated earnings results during the month of November.
- Volatility in the sector continues to remain elevated at just over 20% p.a. This volatility forecast is slightly higher than some sectors such as Health Care and Consumer Staples but lower than what is expected in Materials, Energy and Financials. Overall, the Agribusiness sector remains among the top 3 sectors on a forecast risk-adjusted basis over the next 12 months.

**Table 1: Current indicators Commonwealth Bank Agribusiness sector**



Source: Investment Research, Reuters Knowledge

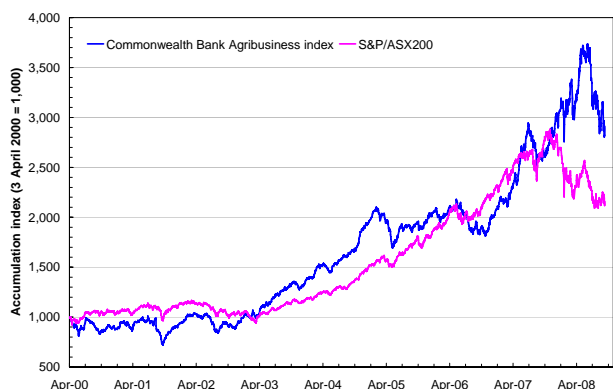
Note: The grey marker represents the previous month's dial value.

**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. 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	0.0	-1.8
3 months	-19.4	-6.5
6 months	-6.3	-4.5
12 months	11.7	-17.6
Since April 00*	191.1	115.7

\* Start of the Commonwealth Bank Agribusiness index

^ Data to 12 September 2008

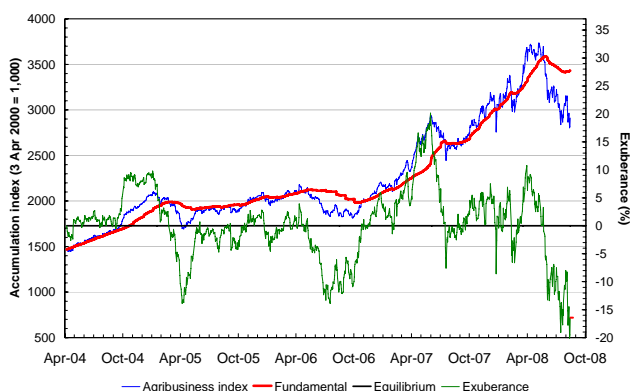
Source: Investment Research, PCS

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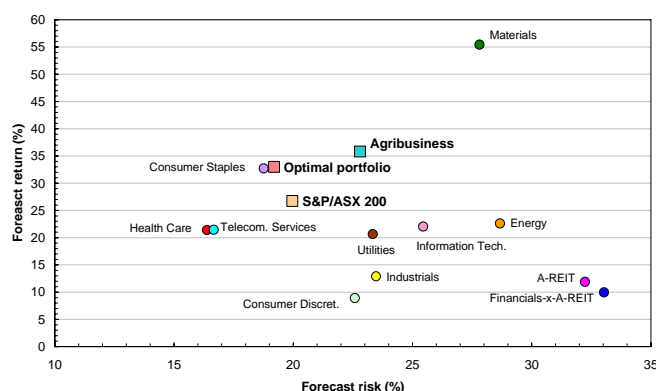
**Figure 2: Commonwealth Bank Agribusiness index, fundamental and exuberance**



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	\$671	3.5
ABB	Consumer Staples	Food Distributors	\$1,468	7.7
AWB	Consumer Staples	Food Distributors	\$1,036	5.4
FCL	Consumer Staples	Agricultural Products	\$1,137	5.9
FEA	Materials	Forest Products	\$207	1.1
GNC	Consumer Staples	Agricultural Products	\$515	2.7
GNS	Consumer Staples	Forest Products	\$965	5.0
GTP	Materials	Forest Products	\$162	0.8
IPL	Materials	Fertilizers & Agricultural Chemicals	\$8,594	44.9
NUF	Materials	Fertilizers & Agricultural Chemicals	\$2,834	14.8
PAG	Consumer Staples	Agricultural Products	\$237	1.2
RHL	Industrials	Div Commercial & Professional Services	\$188	1.0
RIC	Consumer Staples	Agricultural Products	\$329	1.7
SHV	Consumer Staples	Agricultural Products	\$212	1.1
TGR	Consumer Staples	Packaged Foods & Meats	\$321	1.7
TIM	Materials	Forest Products	\$272	1.4

Source: Investment Research, IRESS

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