

Economic and Market Commentary

US Stocks End Volatile Session Higher

The Dow Jones Industrial Average lurched to a two-year closing high, bouncing around violently after the US Congressional election and after the Federal Reserve said it would inject US\$600bn to prime the domestic economy.

The Dow gained 26.41 points (0.24%) to finish at 11,215 after a volatile afternoon, while the Standard & Poor's 500-stock index added 4.39 points (0.37%) to close at 1,197 and the Nasdaq Composite edged up 6.75 points (0.27%) to 2,540.

Kimberley Metals (KBL)

Buy

Analyst: GM

Recommendation @ \$0.25

Key Points

- Shareholder Purchase Plan (SPP) underway at A\$0.24ps;
- Planned buyback of unmarketable parcels in 2011;
- Potential for copper development to be accelerated in 2011;
- SPP scheduled to close Friday, 15 November;
- Trading at 50% of our risk-adjusted valuation;
- Recommendation remains BUY on KBL, price target A\$0.50ps.

Yr June	2011F	2012F	2013F
NPAT (\$M)	-0.5	9.1	9.5
PE (X)	NA	3.9	3.7
Yield (%)	0.0	0.0	0.0
Franking	0.0	0.0	0.0
Target (\$ps)			\$0.50

Countdown To Mining

Kimberley Metals (KBL) recently announced a Share Purchase Plan (SPP) in conjunction with initiating a process to buy unmarketable parcels of shares. The SPP is open to all shareholders at A\$0.24ps, and is scheduled to close by the 15 November, 2010. Shareholders have the option to subscribe for up to A\$10k worth of shares. The company is seeking shareholder approval at the AGM on November 19 to remove the 30% limit on shares which can be issued (would be 41.6m shares) within a certain time period, potentially to enable flexibility going forward with potential acquisitions.

Part of the planned proceeds of the SPP is likely to be used to buy-back unmarketable parcels (A\$1.2-2.5m estimated) with additional funds utilised towards working capital to fund the pre-strip at Mineral Hill, and potentially for additional plant modifications/expansion to a construct a lead/zinc circuit which would add to the copper-concentrate and gold/silver doré which will be produced under the existing mill refurbishment plan.

(continued next page)

Equity Indices

	03-Nov	02-Nov	Move
All Ordinaries	4 793.8	4 773.2	0.43%
S&P/ASX 200	4 722.6	4 701.4	0.45%
ASX 200 Industrial	6 251.9	6 234.5	0.28%
ASX 200 Resource	5 593.8	5 547.5	0.84%
DJ Industrial (US)	11 215.1	11 188.7	0.24%
NASDAQ (US)	2 540.3	2 533.5	0.27%
Hang Seng (HK)	24 144.7	23 671.4	2.00%
FTSE 100 (UK)	5 749.0	5 757.4	-0.15%
Nikkei (Japan)	Closed	9 160.0	
Shanghai (China)	3 031.0	3 045.4	-0.47%

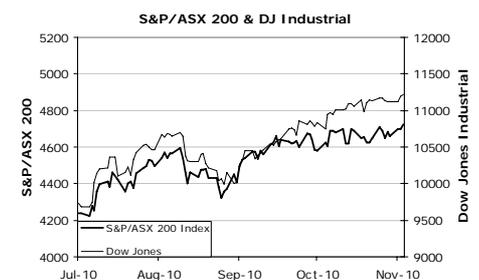
Rates and Currencies

	03-Nov	02-Nov	Move
US 10 Year Bond	2.57	2.59	-0.56%
Aust 10 Year Bond	5.25	5.25	-0.01%
A\$ (TWI)	73.90	74.10	-0.27%
A\$:Euro	0.7114	0.7122	-0.11%
A\$:US\$	1.0060	0.9995	0.66%

Commodities

	03-Nov	02-Nov	Move
Gold Comex \$/oz	1 337.6	1 356.9	-1.42%
Oil Nymex \$/bbl	84.7	83.9	0.94%
Copper LME \$/t	8 309.0	8 423.5	-1.36%
Zinc LME \$/t	2 380.0	2 427.8	-1.97%
Aluminium LME \$/t	2 389.0	2 401.8	-0.53%
Nickel LME \$/t	23 478.0	23 405.0	0.31%

S&P / ASX 200 & DJ Industrials



Today's Events

Aust Economic Releases: ABS Intl Trade in Goods & Services, ABS Retail Trade.
Company Announcements: BLD AGM, CXC Q3, LEI AGM, NWS Q1, SUN AGM.

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Refurbishment of the 200ktpa mill is well underway, with the longest lead item, the carbon stripping plant, recently ordered (expected installation 2Q 2011). Whilst initial gold production is scheduled mid-2011, the company has high-grade copper resources of 530Kt @ 2.9% Cu, 1.7% Pb, 1.8%Zn, 59g/t Ag and 0.7g/t Au as part of a larger resource (3Mt). In addition, part of the underground ore is already developed, hence could potentially be brought into production earlier than the 2013 timetable in our current forecast. At current copper prices, profitability would likely be high.

We do not expect the money raised in the SPP to be significantly dilutionary (i.e. a 20% dilution would reduce our valuation by around 10%) hence we have not changed our overall positive view on KBL, led by strong cashflows from Mineral Hill from mid-2011 (A\$15-A\$20mpa) and the longer term potential of the Sorby Hills lead project. Trading at an enterprise value of around A\$17m, KBL appears excellent value in our opinion.

We re-instate our recommendation on KBL as a BUY for investors seeking near-term gold and longer term base metals exposure, and familiar with mine development risks. Our twelve month price target remains A\$0.50ps, equivalent to our risk-adjusted valuation.

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Wesfarmers (WES)

Hold

Key Points

- **Wet weather dampens Coal.**

YE 30 Jun	2010(A)	2011(F)	2012(F)
NPAT (\$M)	1,747	2,240	2,543
PE (X)	24.3	18.6	16.2
Yield (%)	3.6	4.6	5.3
Franking (%)	100	100	100
Target (\$ps)			\$31.00

WES operates supermarkets, general merchandise stores, fuel and liquor outlets, home improvement and office supplies, coal, gas, insurance, chemicals and fertilisers, and industrial and safety product distribution.

Analyst: SEM

Recommendation @ \$32.92

WES has issued a profit warning, the result of cost increases and wet weather (ie lower production) and higher costs at its QLD coal mining operations.

At a press conference detailing the growth strategies for Curragh Coal (WES 100%, a Bowen Basin QLD based thermal and coking coal operation) the company also highlighted the expected \$80-100M fall in EBIT (compared to management forecasts, not compared to pcp) in H1 of 2011 (ie \$55-70M NPAT impact) with further reductions in profit likely in H2 depending on the weather. WES in October announced that Curragh's contract coking coal prices for the Dec 2010 qtr will be 11% down on the Sep qtr (75% of Curragh's contracted coal is now priced on qtrly contracts). The company also noted that production of export coking coal in 2011 should be comparable to last year (at 6.2-6.7 M tonnes cf 6.2 M tonnes in 2010). Shaw has forecast 6.5 M tonnes and will maintain that forecast at this stage. Curragh also produces 2.5 M tonnes of steaming coal for domestic use.

Bowen Basin in QLD – the site of the Curragh mining operation – has had extensive wet weather that has delayed mining operations and which has not been able to be offset by drawdown of stockpiles.

On the positive side, WES updated on the expansion projects underway at Curragh including expanding the coal wash plant capacity, completion of the diversion of the Blackwater Creek to unsterilise extensive coal deposits, investigation of commissioning the West Curragh mine, initiation of a new expansion study to take mine capacity to 10.5 M tpa (the mine is currently expanding to 8-8.5 M tpa capacity with completion Q4 2011), and new coal export terminal at Wiggins Island (80 M tpa final capacity in Stage 3, with WES being one of the founding customers of this terminal).

We will maintain our Hold recommendation. We do expect some price weakness after this announcement (the announcement was made after market close), but the issues are mainly temporal (the unseasonal wet weather will pass) and in a valuation sense will be offset by the expansion plans. Of longer term concern however is the continuing rise in operating costs – including of state royalties – which looks like a long term problem. Curragh will build coal stockpiles ahead of closing down the wash plant during part of the expansion works – adding to costs while the stockpile is established.

Resources (Coal, including Curragh) represents 20% of forecast 2011 WES profit – and Curragh represents 65% of WES coal volume. As our forecast for Curragh was within the company's revised production rate, we will not be adjusting our forecasts.

Investment Strategy

Key Points

- **US Federal Reserve keeps rates steady and increases quantitative easing.**

Analyst: SEM

AS widely expected and flagged by the US Federal Reserve, the Fed will expand its “quantitative easing” policy. The Fed has announced that it will maintain the value of existing easing (by reinvesting principal repayments as they are received) and add US\$600B to the QE pool. Official interest rates will remain in the 0-0.25% band. The Fed is concerned with the low rate of inflation (deemed to be too low to be optimal) and the stubbornly high rate of unemployment. The aim is to stimulate demand and stoke inflation back closer to 2%. The following text is sourced from the US Federal Reserve, issued from its FOMC meeting.

“Information received since the Federal Open Market Committee met in September confirms that the pace of recovery in output and employment continues to be slow. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software is rising, though less rapidly than earlier in the year, while investment in nonresidential structures continues to be weak. Employers remain reluctant to add to payrolls. Housing starts continue to be depressed. Longer-term inflation expectations have remained stable, but measures of underlying inflation have trended lower in recent quarters.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. Currently, the unemployment rate is elevated, and measures of underlying inflation are somewhat low, relative to levels that the Committee judges to be consistent, over the longer run, with its dual mandate. Although the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, progress toward its objectives has been disappointingly slow.

To promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to expand its holdings of securities. The Committee will maintain its existing policy of reinvesting principal payments from its securities holdings. In addition, the Committee intends to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, a pace of about \$75 billion per month. The Committee will regularly review the pace of its securities purchases and the overall size of the asset-purchase program in light of incoming information and will adjust the program as needed to best foster maximum employment and price stability.

The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to support the economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate.”

Recent Reports Published

Date	Company	Title
19-Aug	CSL (CSL)	FY result
24-Aug	Doray Minerals (DRM)	Bonanza Gold
24-Aug	Westpac Banking (WBC)	Q3 Trading Update
25-Aug	SAI Global (SAI)	
26-Aug	Coca Cola Amatil (CCL)	HY result.
30-Aug	Biotech Market Wrap	
01-Sept	Who's Drilling – E & P Stocks	
02-Sept	Metcash (MTS)	AGM Update
14-Sept	Fortescue Metals Gp (FMG)	Initiation of Coverage
15-Sept	Resource Generation (RES)	Offtake Contract
15-Sept	Intrepid Mines (IAU)	Gold Deposit
21-Sept	Nanosonics (NAN)	Agreement with GEHC
21-Sept	Woolworths (WOW)	Share Buy Back
27-Sept	Mirabela Nickel (MBN)	Still a World Class Deposit
28-Sept	Research Monitor	Dec Qtr 2010
30-Sept	QR National	Share Offer
05-Oct	Biotech Market Wrap	October 2010
05-Oct	Carnarvon Petroleum (CVN)	Strong Organic Growth
06-Oct	AGL Energy (AGK)	
05-Oct	Kimberley Metals (KBL)	Production to drive rerating
12-Oct	BSA (BSA)	Initiation of Coverage
13-Oct	QR National (QRN)	Share Offer
15-Oct	Intrepid Mines (IAU)	20Moz Worth Today?
19-Oct	Whos Drilling – E & P Stocks	

Definitions

ST	Short Term (<6months)	FF	Fully Franked
LT	Long Term (>6months)	PF	Partially Franked
PCP	Previous Corresponding Period	EBIT	Earnings Before Interest and Tax
MOM	Month on Month	DY	Dividend Yield
UF	Unfranked	PE	Price Earnings Ratio
YOY	Year on Year	QOQ	Quarter on Quarter
PT	Pre Tax	CY	Calendar Year
		FY	Full or Fiscal Year

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GM	Geoff Muers	MST	Morningstar

Recommendations

Buy	Can be added to the portfolio immediately
Accumulate	Buy, but we believe time to finesse entry
Hold	Fair value at current price
Reduce	Sell, but we believe time to finesse exit
Sell	Divest as fundamentally overpriced, or risk profile outweighs potential reward
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation
Out / Under Perform Sector	The security is expected to Outperform or Underperform its sector by 10% over the next 12 months

Movement of Australian Stocks Listed as ADR on NYSE

For Overnight Trades Before Australia Market Open On

Thursday, 4 November 2010

Market:	ADR on NYSE		ExRate A\$: US\$		1.0056
Company	Close ADR Price	ADR Move	ADR Move	Shares Per ADR	A\$ Equiv
Alumina Ltd	8.23	0.14	1.7%	4	\$2.05
BHP Billiton	86.08	1.17	1.4%	2	\$42.80
James Hardie	26.66	0.33	1.2%	5	\$5.30
Rio Tinto	80	0	0.0%	1	\$79.55
Rio Tinto	66.78	0.15	0.2%	1	\$66.41
Westpac	117.69	0.95	0.8%	5	\$23.41

Notes

- ADR price moves are from previous ADR close
- Source: IRESS Technology. SHAW does not warrant the accuracy of this information

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