

AMC Amcor Limited

Buy

Market Overview

Market Indices

- ✓ US stocks tumbled Friday, capping their worst month since February 2009, as even a stronger-than-expected report of fourth-quarter economic growth and better-than-expected earnings from Microsoft, Amazon.com and Mattel failed to halt the recent slump.
- ✓ The Dow Jones Industrial Average fell to 10067.33, its lowest close since Nov. 6. For the month of January, the measure tumbled 3.46%, snapping a string of six straight monthly gains and marking the second losing month in the past 11 months.
- ✓ Microsoft was the Dow's worst performer with a drop of 98 cents (3.4%) to \$28.18, on the Nasdaq. The stock's decline came despite the software giant's 60% jump in fiscal second-quarter profit as the company benefited from deferred revenue tied to the latest version of its flagship product, the Windows 7 operating system.
- ✓ Chevron dropped \$1.12 to \$72.12. Fourth-quarter profit plunged 37%, missing analysts' expectations due to a steep loss in its refining and marketing business, a segment the company said will continue to be challenged by low demand for fuels.
- ✓ European shares ended January on a positive note as solid results from Infineon and BMW combined with encouraging US data to help the broader market recover. Receding concerns about Greece's fiscal outlook also contributed to the session's gains.
- ✓ In economic news, US 4Q GDP jumped 5.7% which was larger-than-expected but likely an unsustainable gain driven more by slower inventory liquidation than by consumer spending.
- ✓ Credit to the Australian private sector rose a seasonally adjusted 0.3% in December from November and rose 1.5% from a year earlier, the Reserve Bank of Australia said.

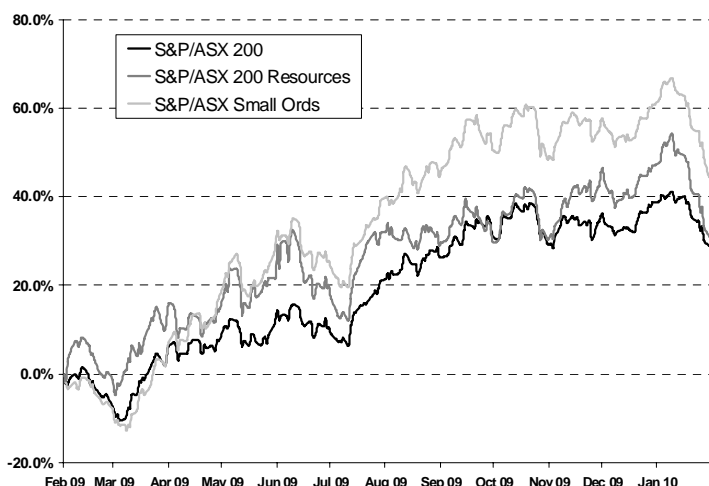
Index	Close	Change	%
All Ord	4,544.8	-52.08	-1.13
S&P/ASX200	4,524.1	-45.52	-1.00
Dow Jones	10,185.5	118.20	1.17
S&P 500	1,089.2	15.31	1.43
NASDAQ	2,171.2	23.85	1.11
FTSE 100	5,247.4	58.89	1.14
Nikki 225	10,205.0	6.98	0.07
Shanghai	2,941.4	-47.93	-1.60
MSCI World	1,119.5	-8.79	-0.78

Commodities

Units/\$US	Latest	Change	%
Gold	1,106.50	1.47	0.13
Aluminium	2,061.5	-64.5	-3.03
Copper	6,854.0	-188.0	-2.67
Nickel	18,730.0	580.0	3.20
Lead	2,055.0	-34.5	-1.65
Zinc	2,122.0	-33.5	-1.55
Oil	74.75	1.44	1.96

Currency and Fixed Interest

Name	Latest	Change	%
\$US/\$A	0.891	0.000	-0.02
¥/\$A	80.830	0.050	0.06
€/\$A	0.640	0.000	-0.02
\$NZ/\$A	1.257	-0.001	-0.05
10 Year Bond	5.49%	0.050	0.92
90 Day Bill	4.26%	0.010	0.24



Amcor Limited

AMC

Tuesday 2 February 2010

The already funded Alcan deal has today been completed—the 'new' Amcor

Recommendation: Buy – now a strong platform for long-term growth and yield

Investment Rationale and the Alcan packaging Deal

AMC is redefining its global packaging businesses. Chosen packaging niches are flexible packaging for food and beverages, PET containers and specialty printed cartons for tobacco and confectionery. Cigarette packaging in China provides growth. In Australia, AMC provides its full range of packaging products. Key revenue driver is consumer spending in food, beverages and healthcare. Continued restructuring should ease raw material cost pressures. Competitive advantage rests on appropriate plant scale, location, flexibility and efficiencies, client relationships and support and product innovation.

To fund the acquisition of Alcan Packaging operations from Rio Tinto for US\$2,025m, AMC completed \$1.61bn underwritten pro-rata equity raisings at \$4.30 per share and set up US\$1.2bn three and five year debt facilities, while maintaining its S&P BBB credit rating. The deal, on very fair valuation, creates leading positions in flexible packaging and folding cartons for tobacco packaging and an enhanced platform for growth in Eastern Europe, Russia and Asia. It should be earnings accretive in FY11, its first full year, with strong cash flow and return above WACC expected in and from FY12.

Price was based on EBITDA of the acquisition assets of US\$358-368m, at a multiple of 5.5-5.7 times. NTA was US\$1,790m at December 2008. Annual EBITDA synergies of \$200-250m are expected by the third full year. Pre-tax cash restructuring and capex costs are estimated at \$300m.

S&P/ASX 100 Index stock AMC offers realistic upside on solid cash flows with a major restructure underway and lowly franked but strong dividends.

Outlines of Alcan Packaging and its Synergy Prospects

- AMC is well prepared for the Alcan deal, having identified growth markets and executed asset sales of \$1.4bn over the past three years.
- This acquisition offers substantial opportunities to improve earnings. Integration will use the expertise already proven at AMC, where solving such problems has been the focus of the last four years. Upside in cutting duplicated functions and costs across the group, 50% larger in sales, with scale benefits and plant optimization, will generate major synergies.
- The proforma combined businesses had FY09 sales around \$14.4bn (AMC \$9.5bn), EBITDA \$1,537m, EBIT \$880m of which AMC represents \$647m (margin 6.8%) and Alcan \$219m (just 4.5%, adding to the upside

Amcor today announced that the Alcan Packaging deal was completed

- Amcor announced today that the acquisition of the Alcan Packaging businesses has been completed. This acquisition provides Amcor with leading global positions in the nominated strategic growth markets for flexible packaging and folding carton packaging for tobacco.
- European approval requires AMC to divest two plants in Spain with sales around EUR110m. US approval currently excludes the Medical Flexibles operation with sales around US\$115m. A review is expected to take up to three months during which the business will remain with Rio Tinto.
- AMC paid US\$1,948m, an EBITDA multiple of 5.1x for calendar year 2009 of US\$383m (excluding the Medical Flexible operations in the US).
- Earnings for the Alcan Packaging businesses acquired increased in 2H09, on improved economic conditions and prior restructuring. H2 EBIT margin rose to 6.5%. EBIT was ~US\$207.2m for the business acquired.
- AMC MD and CEO Ken MacKenzie said, "We are delighted to finalise the acquisition of the Alcan Packaging assets ... The businesses we have acquired are strongly aligned with our nominated growth segments, and provide the ability to substantially improve the value proposition for our customers. We are now focused on ensuring seamless integration of these businesses and achieving the synergies and opportunities offered ..."

Recommendation

The Alcan deal ticks the right boxes. AMC is leveraged to long-term global recovery. The 'new Amcor' offers a strong platform for growth: a Buy.

Snapshot

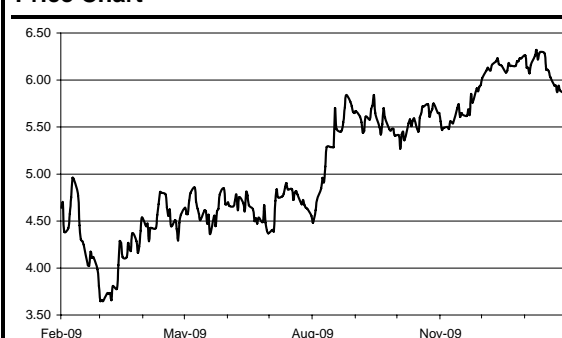
Last Price	\$5.86
Market Cap.	\$7,154 million
52 Week High	\$6.35
52 Week Low	\$3.50
Sector	Paper Packaging

Investment Fundamentals

Year-end Jun	FY08A	FY09A	FY10E	FY11E
NPAT (\$m)	369.1	359.3	474.0	621.0
EPS (c)	42.5	42.6	41.1	50.9
EPS Growth (%)	-3.8	0.2	-3.5	23.8
PE Ratio (x)	13.8	13.8	14.3	11.5
DPS (c)	34.0	34.0	28.0	34.0
Franking (%)	0	0	0	0
Dividend Yield (%)	5.8	5.8	4.8	5.8

Source: Intersuisse estimates

Price Chart



Business Description & Background

Amcor Limited (AMC) is a leading global packaging group. Several years of acquisitions led by 2003 to leading positions in PET beverage packaging, flexible, container, capsule and foil packaging for food, pharmaceuticals, tobacco and rigid containers. It left AMC with a severe need to integrate and rationalise.

Synergies were slow to come and on departure of MD Russell Jones in 2005 the Board appointed its MD of Closures, Ken MacKenzie, as MD & CEO charged with 'The Way Forward'—to develop customer & market focus, capital discipline, cost reductions & group talent. Divestments, in tough market conditions, cut debt and focused on businesses with strong market positions. While still on-going, this process put AMC in place to seize the opportunity of acquiring RIO's Alcan Packaging in August 2009. Funding and capital raising is complete and now (with a small exception) all regulatory approvals. The deal adds ~50% to AMC's revenues and stronger profit

See website www.amcor.com

Analyst: Peter Russell

INTERNATIONAL OVERNIGHT NEWS

Investors turned the page on a dismal January performance for stocks on Monday, prompted by strong earnings and manufacturing data to bid the market higher in the new month's first trading session.

The Dow Jones Industrial Average increased 118.2 points (1.17%) to 10,185.5. The measure was led by a 2.8% gain in component Exxon Mobil, which posted better quarterly results than analysts expected.

The S&P 500 rose 15.3 points (1.43%) to 1,089.2, helped by gains in every sector. Energy and materials were the strongest categories, up about 3% each, while industrials and technology were up more than 1%.

The major indicators have posted gains since the opening bell, with some additional buyers entering the market since the late-morning release of new data from the Institute for Supply Management, which said US factory-sector activity booked its best performance in more than five years in January. Hiring continued to recover and inflationary pressures quickened.

Monday's rally has erased part of January's 3.5% slide in the Dow, the biggest monthly decline since February 2009. The recent pullback coincides with what has generally been a wave of better-than-expected profit reports, though investors often bet last month that share prices had factored in the strong earnings prior to the reporting season.

Other economic data on Monday was not as strong as the ISM manufacturing data. The Commerce Department said construction spending fell in December much more than expected, reflecting weakness in commercial real estate. And while personal income rose by more than expected, climbing 0.4% in December, personal spending rose by 0.2%, less than economists had predicted.

The reports continue a recent string of hot-and-cold data that have kept the stock market in check. While most traders and analysts are confident that the US economy is recovering, there is increasing worry that it is currently enjoying a one-time bump as businesses restock their inventories following the recent financial crisis.

In a worst case, that process would run out before consumers are ready to step in to fuel the next wave of demand for goods to drive corporate profits.

The technology-heavy Nasdaq Composite firmed 23.9 points (1.11%) to 2,171.2. Its gains were limited by a 6% slide in component Amazon.com after the online retailer conceded defeat in a battle with publisher Macmillan over the price of e-books.

.US Economic News

In economic news, President Barack Obama proposed a \$3.8tr budget for fiscal 2011 that will add fuel to the debate over the size and scope of government with proposals for big increases in personal and business taxes, modest spending

cuts and increased outlays for education, defence and jobs initiatives.

Consumers in the US spent at a slower-than-expected pace in December, while manufacturing activity perked up in January. Construction spending, meanwhile, declined in December, reflecting commercial real estate weakness.

The US economy's recovery has slowed to a crawl, the Dow Jones Economic Sentiment indicator implied. The indicator for January rose to 38.8, a meagre rise over the 38.7 posted in December and its weakest rise since September 2009.

Consumer spending was tepid in December despite rising income levels, suggesting consumers remained cautious at year end. Personal income rose a bit more than expected at 0.4%, while personal spending gained 0.2%, less than economists had anticipated.

European and Asian Markets

European shares shook off early losses to close higher on their first session of the month, helped by gains for airline Ryanair and bid speculation for utilities.

After spending most of the session in the red, the pan-European Dow Jones Stoxx 600 index finished up 0.6% to 248.42, paring year-to-date losses to 2.2%.

On the regional level, the UK FTSE 100 index rose 1.1% to 5,247.41, the German DAX index added 0.8% to 5,654.48 and the French CAC-40 index gained 0.6% to 3,762.01.

There was some cheer on the earnings front in Europe on Monday, with shares of Irish airline Ryanair up 6.7% on the Irish stock exchange after it narrowed its third-quarter net loss and lifted profit guidance.

Spanish airline Iberia, up 2.2% on Bolsa de Madrid, and British Airways, up 3.3% on the London Stock Exchange, are set to merge and analysts said that they believe the merger will go through, possibly ahead of schedule.

Meanwhile, deal speculation helped shares of UK water utility Northumbrian Water jump 11.8% to 289 pence a share on the London Stock Exchange.

It was reported over the weekend that the Ontario Teachers pension fund, which holds over a quarter of the firm, is considering a bid valuing the company at GBP1.7bn, or 325 pence a share.

Other UK utilities advancing after the report included Severn Trent, up 4%, with the move boosting the wider UK market.

In the auto sector, Renault shares rose 3.1% on Euronext Paris. New passenger car registrations in France for the automaker jumped 59% during January. Total registrations of new passenger cars in France rose 14%. PSA Peugeot Citroen, up 1.8%, saw registrations climb 18%. PSA Peugeot Citroen is recalling almost 100,000 vehicles that could have the same accelerator-related trouble that caused Toyota Motor Corp.'s massive recall, it emerged over the weekend.

Asian markets ended mixed as losses on Wall Street and worries about monetary tightening in the region weighed on sentiment.

Hong Kong shares advanced as investors snapped up Chinese property and power stocks after a string of lower finishes recently, while Japanese car makers declined in Tokyo, capping broad market gains there.

Hong Kong's Hang Seng Index added 0.6%, Japan's Nikkei 225 rose 0.1% and China's Shanghai Composite dropped 1.6%.

New Zealand shares ended lower on Monday, hurt by weak offshore sentiment in a thin market largely due to a holiday in Auckland. The benchmark NZX-50 ended down 0.4%, or 14 points, at 3,150.97.

Commodities

Base metals broke a one-week slide to end higher, getting a boost from strong US manufacturing data and a weaker dollar.

Gold futures settled above \$1,100 an ounce as stronger-than-expected US manufacturing data boosted sentiment for riskier assets like metals and equities.

Crude futures closed higher following positive economic data from the US and due to higher equity markets on some buoyant corporate earnings results.

Currencies

No news.

AUSTRALIAN OVERNIGHT NEWS

Australian Markets

Local stocks are likely to have a stronger day following positive offshore leads.

Ahead of the local open the SPI futures were 46 points higher at 4,555.

Companies in the News

Arrow (AOE)

Arrow said that Chairman John Reynolds will retire and be replaced by current Chief Executive Nick Davies. Davies will be replaced as Chief Executive by the head of the group's Australian operations, Shaun Scott, after Reynolds steps down on Sept. 30, Arrow said. AOE fell 38 cents (9.67%) to \$3.55.

Ramsay (RHC)

Ramsay upgraded its full year profit guidance on the back of lower costs. The group said it now expects core net profit for the full year to be 18% to 20% higher than in the prior year, up from previous guidance for a rise of between 12% and 14%. Ramsay also said it expects its net profit for the half ended Dec. 31 to be between 32% and 34% higher than in the previous comparable period. "The strong core (net profit) growth in this period is a result of better than expected performance in the UK and Australian businesses," Ramsay said. Ramsay added its UK operations benefited from internal cost restructuring and that its Australian operating performance had been slightly ahead of expectations with overall interest costs falling. RHC rose 43 cents (3.75%) to \$11.90.

Aristocrat (ALL)

Aristocrat said its annual operating profit will exceed analysts' forecasts, but one-off impairments will lead to it reporting a bottom line annual loss. Operating profit, which excludes the impact of non-recurring items, for the year to

Dec. 31, is expected to be about \$116m, the company said. Aristocrat said it will book an abnormal net provision of \$187.3m based on expected damages from a long-running litigation over convertible bonds. Aristocrat said the provision does not presuppose the outcome of the litigation. "The company and the bondholders have made final submissions to the District Court and now await the court's final judgment in the case," it said. The annual result will also include impairments related to multi-terminal gaming businesses, an intellectual property litigation settlement, property sales and restructuring costs, Aristocrat said. ALL rose 44 cents (11.08%) to \$4.41.

Navitas (NVT)

Navitas said first-half net profit rose 45% from a year earlier on the back of continued strong growth in student enrolments. Net profit for the six months to Dec. 31 totalled \$27.5m, up from \$19m last year. The group now anticipates full year earnings before interest, taxes, depreciation and amortisation between \$94m and \$97m. Navitas said it expects to execute up to 10 more college agreements over the next 12 months in Australia, the US, Canada and the UK. "Ultimately our revenues and earnings are driven by student enrolments across our operating divisions," Chief Executive Rod Jones said. NVT added 13 cents (2.9%) to \$4.61.

Boom (BOL)

Boom Logistics announced that it has secured a three year panel contract to supply cranes and associated services to Rio Tinto's Iron Ore operations, with two three year options to extend. The scope of works will see the company utilise its existing fleet of cranes in Australia's North West for major shutdown and maintenance works across ten Rio Tinto mining operations in the Pilbara region. The company estimates the revenue from this contract to be in the vicinity of \$20m over the next 3 years. BOL remained unchanged at \$0.37.

Australian Economic News

No news today.

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General Advice

These notes represent a brief snapshot of some corporate news and quick reactions to that news and do not purport to be comprehensive. The recommendations are of a general nature and are based on a consideration of the securities alone, and as such are conditional and must not be relied upon without advice from a securities adviser as to the appropriateness to you given your individual investment objectives, financial situation and particular needs. Whilst this document is based on information and assessments that are current at the date of publication, Intersuisse has no obligation to provide revised assessments in the event of changed circumstances.

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