

Brambles Industries

BIL.AX

CHEP Americas presentation – highlights the recovery on track, no comment on asset turns or Wal*Mart’s intentions

Key Points

UNDERPERFORM

- **CHEP Americas presentation** – on Tuesday, 19 April, Dave Mezzanotte, President of CHEP Americas, gave a presentation on the progress of CHEP Americas in Sydney following an introduction by Brambles CEO, David Turner. The majority of the presentation focused on CHEP America’s largest market, the USA.
- **No change to guidance** – Brambles’ management gave no further update for 2H05 and FY05 guidance.
- **Key points** – the following are our key points from the presentation – 1) revenue growth of between 8% and 10% per year is within our forecasts; 2) TPM contracts are seen as a growth driver, yet no discussion on Wal*Mart’s decision to give TPM contracts to the white pallet industry; 3) customer satisfaction continues to increase; 4) strong focus on asset productivity; 5) no discussion of asset turns and why these remain at 3x for CHEP USA despite initiatives to improve turns; and 6) strong increase in new accounts expected to continue through 2H05.
- **Conclusion** – we believe the presentation by Dave Mezzanotte should be seen as a positive reaffirmation of the recovery of CHEP Americas’ and management’s quality in continuing to build on this recovery. While we believe much of this recovery is already factored into consensus earnings, including our own, we continue to monitor Wal*Mart’s recent moves to determine if this represents a material change in the advocacy of CHEP.
- **No changes to forecasts** – we have made no changes to our forecasts following the CHEP America’s presentation and have consequently made no change to our valuation. Our sum-of-the parts valuation for Brambles remains at \$6.76, per share, with the current price implying a 51.8% premium to the All Indust (ex BIPS) in FY05 for the CHEP business.

Investment View

While the CHEP Americas presentation gave further comfort of management’s quality and control over the recovery of the business, we believe much of this had already been factored into forecasts. With no step-up in revenue growth targets, nor any indication of a significant improvement in asset turns resulting from the increased asset productivity, we see no reason to adjust our current thinking on the stock at this point. This is particularly so given the potential for a shift in the advocacy of the world’s largest retailer, Wal*Mart, more towards the white pallet industry, which requires more investigation.

We have made no change to our valuation, believing that the stock is fully valued at current levels. Brambles is currently trading on a PE of 23.3x and 20.3x for FY05F and FY06F, respectively, giving a premium to the All Industrials (pre GW) of 68.4% for FY05F and 57.4% for FY06F. We have maintained our \$8.00 target price and Underperform rating.

Investment Fundamentals

Mkt Cap = \$13,577m

Year to Jun 30		2003A	2004A	2005F	2006F	2007F
NPAT	\$m	433.6	416.6	603.8	693.3	749.2
CSFB Profit*	\$m	544.5	519.0	603.8	693.3	749.2
CSFB EPS*	c	32.1	30.4	35.4	40.6	43.9
EPS Growth*	%	-6.1	-5.2	16.3	14.8	8.1
P/E*	x	25.7	27.1	23.3	20.3	18.8
Relative P/E*	%	136.7	166.9	168.4	157.4	152.0
Dividend	c	20.0	20.0	23.0	22.0	24.0
Div Yield	%	2.4	2.4	2.8	2.7	2.9
Franking	%	100.0	100.0	100.0	100.0	100.0

A=Actual F=Forecast. * Adj. for goodwill. Source: Company data, CSFB estimates

Share Price: \$8.24
12mth Target: \$8.00

Projected return (%)

Capital gain -2.9%
Gross yield 3.8%
Total return 0.9%
Excess return* -12.9%

CSFB estimates. * Relative to market.

Anthony Moulder

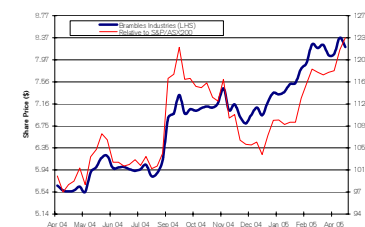
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Industrials UNDERWEIGHT

Sub-sector: Diversified Commercial Services



Source: ASX

Rel Perf vs	1Mth	3Mths	6Mths	12Mths
S&P/ASX 200	5.4%	12.3%	8.5%	27.4%
EAFE	2.0%	13.9%	13.4%	38.3%
FT Pacific ex Jap	1.8%	11.5%	9.2%	37.2%
MSCI Asia ex Jap	2.6%	14.5%	13.1%	44.4%

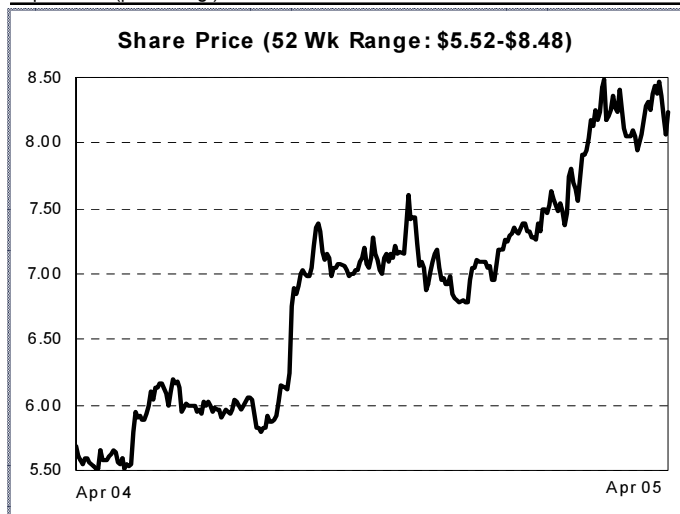
Source: S&P, EAFE, FT, MSCI

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Figure 1: Financial summary

BRAMBLES INDUSTRIES						Share Price: \$8.24		12-month target price: \$8.00				
Year ending 30 Jun						Financial Summary						
Profit and Loss (\$m)	2003A	2004A	2005F	2006F	2007F		2003A	2004A	2005F	2006F	2007F	
Sales revenue	7917	7432	8107	8760	9459	NPAT	\$m	434	417	604	693	749
EBITDA	1836	1715	1895	2078	2230	CSFB NPAT	\$m	545	519	604	693	749
Depr. & Amort.	863	813	866	909	978	CSFB EPS	c	32.1	30.4	35.4	40.6	43.9
Goodwill amort.	111	102	0	0	0	EPS growth	%	-6.1	-5.2	16.3	14.8	8.1
EBIT	862	800	1028	1169	1253	P/E	x	25.7	27.1	23.3	20.3	18.8
Net interest	221	177	189	202	208	P/Earnings Growth	x	5.1	1.7	2.0	na	na
Profit before tax	640	623	840	966	1045	Dividend payout ratio	%	78.3	81.9	65.0	54.1	54.6
Income tax	222	230	261	300	324	Dividend	c	20.0	20.0	23.0	22.0	24.0
Profit after tax	419	393	578	666	721	Yield	%	2.4	2.4	2.8	2.7	2.9
Minorities	3	-3	-4	-5	-5	Franking	%	100	100	100	100	100
Equity adjustment	18	21	22	23	24	Operating CFPS	c	75.2	79.8	84.0	93.8	100.8
Net profit after tax	434	417	604	693	749	P/OCF	x	11.0	10.3	9.8	8.8	8.2
Preferred dividends	0	0	0	0	0	EV/EBITDA	x	9.4	10.0	9.1	8.3	7.7
Net profit after tax	434	417	604	693	749	FCF yield	%	1.9	22.4	16.0	18.0	15.2
Unusual item after tax	-104	-110	-12	0	0							
Reported profit after tax	330	307	592	693	749							
Balance Sheet (\$m)	2003A	2004A	2005F	2006F	2007F	Financial Ratios	2003A	2004A	2005F	2006F	2007F	
Cash & equivalents	112	90	90	90	90	Profitability Ratios						
Inventories	79	86	94	101	109	EBITDA margin	%	23.2	23.1	23.4	23.7	23.6
Receivables	1528	1484	1619	1749	1889	EBIT margin	%	10.9	10.8	12.7	13.3	13.2
Other current assets	131	121	127	133	139	Return on equity	%	13.4	12.9	17.6	18.5	18.4
Current assets	1850	1781	1929	2073	2228	Return on assets	%	9.2	8.7	10.7	11.5	11.6
Property, plant & equip.	5887	5801	6096	6480	6962	ROCE	%	11.7	11.4	14.7	15.9	16.1
Intangibles	1392	1304	1304	1304	1304	Effective tax rate	%	34.7	36.9	31.1	31.1	31.0
Other non-current assets	383	412	412	412	412							
Non-current assets	7662	7517	7812	8196	8678	Balance Sheet Ratios						
Total assets	9512	9297	9741	10269	10905	Net debt	\$m	3953.0	3645.1	3746.9	3821.8	3956.6
Payables	1229	1335	1457	1574	1700	Net debt/Equity	%	121.3	112.8	109.1	102.1	97.1
Interest bearing debt	4065	3735	3837	3912	4046	Net debt/Capital	%	54.8	53.0	52.2	50.5	49.3
Other liabilities	960	996	1014	1039	1083	Interest cover	x	3.9	4.5	5.5	5.8	6.0
Total liabilities	6254	6066	6308	6525	6829	Capex/Sales	%	15.7	13.2	14.3	14.8	15.4
Net assets	3258	3231	3433	3744	4076	Capex/Depn	%	1.3	1.1	1.3	1.4	1.5
Ordinary equity	3245	3221	3427	3742	4079	Working capital/Sales	%	0.0	0.0	0.2	0.2	0.2
Minority interests	13	10	6	2	-3							
Preferred capital	0	0	0	0	0	Share Items						
Total shareholder funds	3258	3231	3433	3744	4076	Equiv. FPO (period avg.)	m	1697	1706	1706	1706	1706
Cash Flow (\$m)	2003A	2004A	2005F	2006F	2007F							
EBIT	862	800	1028	1169	1253							
Net interest	-219	-170	-189	-202	-208							
Depr & Amort	974	915	866	909	978							
Tax paid	-357	-201	-286	-290	-318							
Working capital	0	0	13	15	16							
Other	17	18	0	0	0							
Operating cashflow	1277	1362	1433	1600	1720							
Capex	-1244	-980	-1161	-1293	-1460							
Acquisitions & Invest	-283	na	0	0	0							
Asset sale proceeds	263	194	0	0	0							
Other	0	na	-12	0	0							
Investing cashflow	-1264	-868	-1172	-1293	-1460							
Dividends paid	-336	-339	-362	-382	-395							
Equity raised	4	2	0	0	0							
Net borrowings	343	-339	102	75	135							
Other	0	34	0	0	0							
Financing cashflow	11	-642	-260	-307	-260							
Net cashflow	15	-138	0	0	0							



Source: Company data, CSFB estimates

In Perspective

CHEP Americas' 1H05 reported EBITA of A\$132m represented 38.4% of CHEP EBITA for the period and 25% of Group EBITA.

Key points from CHEP Americas' presentation

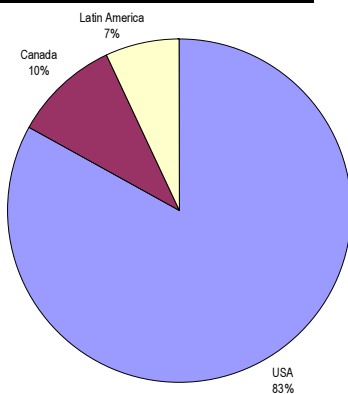
- **Asset productivity** continues to improve, with management now exceeding targets or within acceptable ranges for asset productivity, including NPD conversion.
- **Cost reductions** – aside from input costs, management highlights the step down in costs, particularly transportation costs as a percentage of revenue.
- **Input costs** – while the price of lumber has increased approximately 10% over the past year, CHEP has lumber surcharges in place to offset this increase in its cost base.
- **Increased customer satisfaction** – management highlighted improvements in customer satisfaction across all regions of CHEP Americas, although the level of satisfaction (past or present) was not quantified.
- **Growth options** – management sees further revenue growth opportunities in increasing the penetration of existing channels as well as penetrating new channels.
- **CHEP USA** – forecast to deliver revenue growth of between 8% and 10% per year.
- **No changes to forecasts** – following the presentation, we have made no changes to our forecasts given the presentation highlighted revenue growth and EBIT margins broadly in line with our forecasts.

The Detail

Revenue growth and revenue split

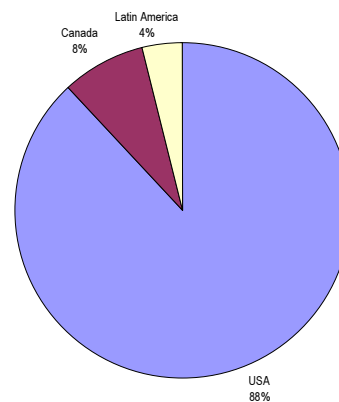
The following charts highlight the changing mix of revenue contribution within CHEP Americas, with CHEP Canada and the South American countries growing at a faster rate than that of CHEP USA.

Figure 2: CHEP Americas – revenue split 1H05



Source: Company data

Figure 3: CHEP Americas – revenue split 2002



Source: Company data

CHEP USA – management has stated it expects to achieve revenue growth of between 8% and 10% per year – this is marginally lower than the 8%–11% range given by management at the Madrid Investor Presentations (December 2003). However, current guidance is in line with our forecasts of constant currency growth of 11.1%, 9.4% and 9.0% for FY05, FY06 and FY07, respectively.

Revenue growth options

Management has again highlighted it is only 35% penetrated in the FMCG (Fast Moving Consumer Goods) channel, despite being 2x more penetrated (i.e. up to 70% penetrated) with those customers that CHEP has a Total Pallet Management (TPM) contract with. In the US, CHEP has TPM contracts with Wal*Mart, The Home Depot, HEB and Costco. CHEP US has contracts with all of the major FMCG manufacturers, and is now targeting: 1) increased penetration with existing customers; and 2) penetrating smaller manufactures in the FMCG channel.

Management highlighted that as long as customers were taking a truck-load of pallets as a minimum per delivery, there was no great deviation in the average cost to serve.

In addition, management is highlighting growth in new channels such as home improvement, office goods, consumer electronics, automotive aftermarket, packaging and raw materials. While CHEP has made some progress in penetrating some of these channels already (i.e. DIY), it remains comparatively unpenetrated relative to the opportunity. We do expect in slowing moving channels CHEP's value proposition could be unconvincing against an attractively priced refurbished GMA1 quality white pallet (see Figure 6).

Improvements in cost reductions

Further Six Sigma initiatives highlight the continuation of additional operating improvements to CHEP's business. We note that it was the implementation of such initiatives that resulted in a \$42m reduction in transportation costs as reported in the 1H05 result. While the metrics presented yesterday for CHEP USA indicate some increase in the damage ratio, the percentage of pallets that CHEP repairs remains within management's target range of between 28%–30%. Consequently, CHEP is expected to continue to return pallets to customers directly from the back of Distribution Centres (DCs), thereby reducing transportation costs. We expect this could be a permanent reduction in costs assuming there is no reduction in pallet quality as a result.

Asset productivity improving; yet asset turns remain flat

We note that despite recent improvements in asset productivity, and historically through the Magnificent Five initiatives, CHEP USA's asset turn has remained steady at 3x for the past year. While we understand there is some improvement not indicated by the 1H05 and 1H04 comparison, we highlight that the lack of a clear improvement is supportive of our thesis that CHEP is now increasingly penetrating slower moving channels, such as DIY. As a consequence, we also highlight the limited volume growth of CHEP in these slower moving channels given the price competitiveness of white.

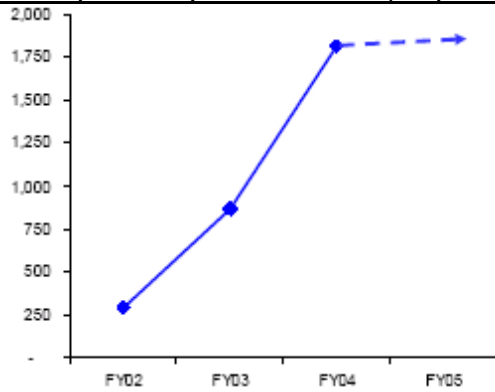
Increased NPD conversion/ recovery

Management reaffirmed the progress it continues to make in reducing the number of Non Participating Distributors (NPDs) in the US. Management highlights that nearly 2,400 NPDs have been converted to Participating Distributors (PDs), up 59% on the number given for June 2003 at 1,506. This represents 70% of the total NPDs identified in 2002.

The benefit of conversion results in: 1) increased pool efficiency; and 2) lower damage rates.

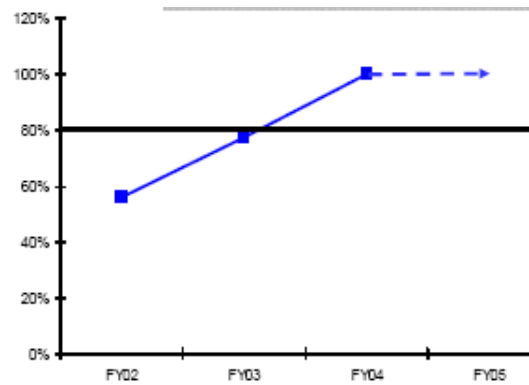
Management also noted that the recovery of CHEP pallets from NPDs is expected to slow in FY05, highlighting that the significant benefits of the Buckeye case have now been captured. While this could be expected to result in an increase in capex, management remains of the view that asset productivity benefits will maintain capex at 50% of sales growth for the next few years, before increasing to the level of sales growth.

Figure 4: Asset productivity – NPD recoveries (000 pallets)



Source: Brambles

Figure 5: Asset productivity – NPD flow through ratio



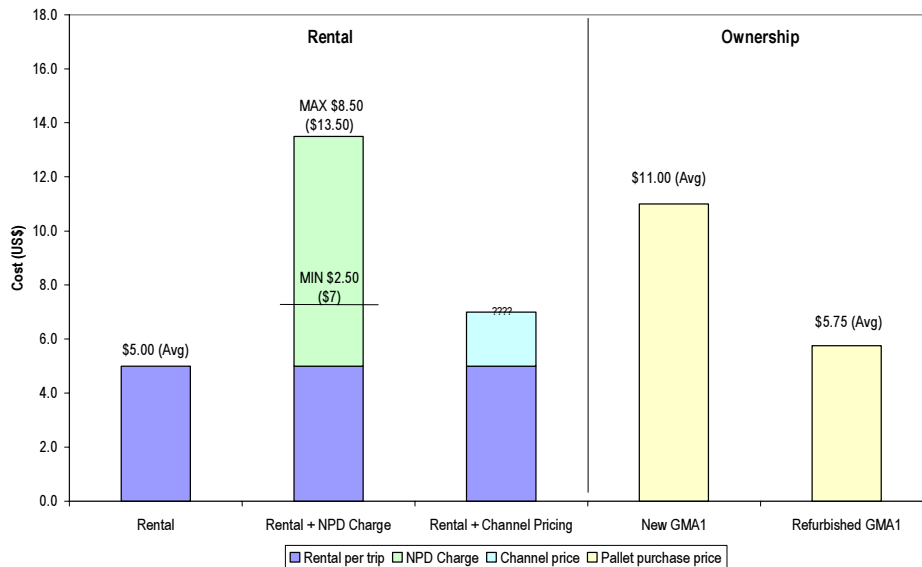
Source: Brambles

Increased input costs

Management highlighted that due to the increase in lumber pricing of approximately 10%, the cost of a new GMA1 pallet is now between US\$10 and \$12 per pallet and between US\$5.5 to \$6 per reconditioned pallet. CHEP management notes that it has a lumber surcharge to cover the increased cost. As a result, we believe the cost of a CHEP trip in the US is approximately US\$5. This does not include an NPD charge of between US\$2.50 and \$8.50 per trip, as well as no channel pricing.

The following chart highlights the price competitiveness of white relative to CHEP, but is based on an average trip. We have not included the economics of the Penn Pallet system or other white pallet systems in this comparison, which would further improve the economics of white if the customer is consistently being refunded \$1.50 per trip as the pallet is recovered.

Figure 6: Price competitiveness of white and blue



Source: Company data, CSFB estimates

Competitive advantages of recyclers over CHEP

We suggest pallet recyclers (IFCO, Penn, etc.) could have the following competitive advantages over the CHEP pallet pool system:

- 1) the pallet is not as highly capitalised as a CHEP pallet. A CHEP pallet costs US\$21.00, a brand new GMA1 pallet costs US\$11. A refurbished GMA1 pallet is priced between US\$5.50 and US\$6.00;
- 2) a pallet recycler appears to be able to marginally repair a pallet cheaper than what CHEP can repair its pallets;

- 3) the cost of leaked pallets is significantly lower to the white pallet system. If a manufacturer or a distributor loses a CHEP pallet they are charged US\$21, versus the loss of a white pallet at US\$1.50;
- 4) the invested capital is significantly lower for the white pallet industry, given that the pallet cores already exist in the market place versus CHEP's requirement to buy brand new block pallets; and
- 5) we consider that recyclers are unlikely to have the significant freight imbalance that CHEP currently has, nor the additional costs of sorting four different pools (block, stringer, plastic and RFID).

Customer satisfaction

We see the increased customer satisfaction as being a positive for CHEP Americas that will ultimately support sales growth closer to 10% than 8%. The delivery of further improvements in on-time delivery, quality and invoicing accuracy are positives that should continue to highlight the value proposition to many customers.

RFID update

CHEP is currently trialling 250,000 pallets with RFID (Radio Frequency Identification) tags as part of the Wal*Mart trial in Florida. As at 1 January 2005, 100 of Wal*Mart's top suppliers, plus an additional 37 suppliers, had converted to RFID tagged cases and or pallets. The following is the estimated rollout of Wal*Mart's RFID program.

June 2005: Live in six DCs, 250 Wal*Mart stores and Sams Clubs.

October 2005: Live in 13 DCs and up to 600 stores and Sams Clubs.

January 2006: Next 200 top suppliers to begin tagging cases and or pallets into DCs.

We understand that each tag costs approximately US\$0.50 per pallet, the cost of which we expect CHEP will try and recover from its customers, but may have to absorb. Ultimately CHEP management believes suppliers see no compelling business case for suppliers to adopt RFID at this point, other than the push by Wal*Mart. This is expected to slow adoption.

Changes to forecasts

We have made no changes to our forecasts for CHEP Americas following the presentation yesterday, despite our constant currency revenue assumptions being slightly ahead of guidance for FY05 at 11.1%, instead believing the direction of the AUD-USD spot rate remains a larger swing factor.

Changes at Wal*Mart – positive or negative for CHEP?

We understand Wal*Mart has recently implemented procedural/contract changes that are likely to effect CHEP's operations. These are as follows.

Removal of pallet exchange

In a letter to suppliers in September 1999 advocating the use of CHEP, Wal*Mart management stated, "Wal*Mart is eager to get out of the costly and inefficient practices of pallet exchange, one-way pallets, slip sheets and floor boards." Earlier this year, Wal*Mart decreed an end of pallet exchange at the back of DCs for white pallets. This effectively means that manufacturers using white pallets must include the cost of pallets as a cost of goods sold, passing ownership of these cores to Wal*Mart. While this is beneficial to Wal*Mart in that it gets a supply of high quality pallets for usage in its secondary circuit, we also see this as a positive for CHEP.

We believe the end of pallet exchange at Wal*Mart is a positive for CHEP as it should increase the attractiveness of the CHEP program in many channels. However, we also consider the end of pallet exchange could also be a small positive for recyclers (including Penn and IFCO), given the increased supply of white cores that would otherwise be returned to manufacturers.

We see the decision to remove pallet exchange as a move by Wal*Mart to reduce the amount of inefficiency at the back of its DCs. By no longer permitting pallet exchange, Wal*Mart can consolidate the removal of white pallets, thereby reducing congestion levels from the rear of

DCs. If Wal*Mart passes the ownership of these white pallets to the dock sweeper, then this would also increase the saleable quality cores to recyclers.

Replacement of ProPak at the rear of some Wal*Mart DCs

Wal*Mart has recently awarded TPM contracts to Penn Pallets as the manager of the dock sweep operation for another four DCs in upstate New York and Pennsylvania, adding to the two it previously controlled. This is in addition to four DCs that IFCO now controls in Texas and others that have replaced ProPak (CHEP's contractor) at the back of Wal*Mart's DCs. While the total of non-CHEP controlled Wal*Mart DCs is still less than 15%, we highlight this would be of greater concern if the trend continues.

The ramification of this development are three-fold:

- 1) CHEP will now need to pay the recycler (Penn, IFCO, etc.) sortation costs of its pallets, where previously it could offset the sortation costs with an income stream of selling white pallets;
- 2) there is increased potential for greater competition to CHEP resulting from recyclers controlling more Wal*Mart DCs. We expect IFCO and Penn to sign recyclers awarded Wal*Mart docksweep contracts to their respective systems. For Wal*Mart and other manufacturers, the benefits would be an improved quality of white pallets coming through the DC; and
- 3) we also highlight that CHEP has used white pallets, as with recyclers, to exchange for leaked CHEP pallets, thereby indicating the loss of this currency in reclaiming CHEP pallets.

CHEP has Total Pallet Management Programs (TPM) with Wal*Mart, Home Depot, HEB and Costco. As the proportion of inbound palletised product on CHEP pallets increases, there is a corresponding decline in the number of white pallets, thereby reducing the proceeds from white pallet sales. As a result, we see three options available to CHEP to meet the increased cost of sorting and returning CHEP pallets: 1) distributors pay for the returns to a CHEP depot; 2) CHEP's customers pay more to cover the cost of returns; or 3) CHEP absorbs the additional cost of the return.

The control of the dock sweep has been important for CHEP in that it has been able to control the flow of white cores back to recyclers. Consequently, by giving the control of the dock sweeps to recyclers, Wal*Mart has effectively improved its supply of white cores. In the case of Penn Pallets, we also expect control of more Wal*Mart DCs by Penn will increase the proportion of refunds offered to customers of the Penn Alliance as it guarantees the return of Penn system pallets. This would further improve the economics of the Penn Pallet system and other white pool programs (Par System, Kamps, etc.) as well as improving the competitiveness of white pools relative to CHEP in some channels.

Importantly, the transfer of TPM contracts to recyclers could potentially indicate a reduced level of advocacy by Wal*Mart for CHEP and an increased advocacy for white pallets. We expect this would only be the case if Wal*Mart is happy with the quality of white pallets coming through its DCs, which are required to be GMA1 (Grocery Manufacturers of America Grade 1) quality.

Recapping the Penn system

To explain the Penn Pallet system concept, a manufacturer rents the pallet for approximately US\$5.50 per trip. Once the pallet is sent to the DC and the Penn consortium of recyclers collects it, then the manufacturer is refunded a set amount, approximately \$1.50. The cost to the manufacturer of the trip is therefore approximately \$4.00. The recycler then repairs and returns the pallet to the manufacturer to the standard of a refurbished GMA1 pallet, and the process begins again. For those pallets that have been sent to DCs and end up in the hands of recyclers not in the consortium of Penn Pallet, then the receiving station or manufacturer is responsible for paying a leakage fee of US\$1.50, i.e. forfeits the refund (this \$1.50 charge is more favourable than the lost fee charged by CHEP of US\$21). Therefore, the total income stream for that pallet movement is US\$5.50, or US\$4.00 if the consortium gets the core back.

Background to CHEP's launch in the US

The original launch of CHEP USA came after an independent study by the grocery industry. This study examined whether a private pallet pool would be more cost effective to the supply

chain of the grocery and retailer industry relative to the then incumbent white pallet industry. The study looked at a number of issues, including the upfront cost and also the hidden cost of running two different types of systems. Figure 7 and Figure 8 are from this study. In both tables the CHEP pool is highlighted (Private Pallet Pool Rental).

Figure 7: US grocery study, estimated impact on distributors

US\$	Present System	Industry		Private Per Trip Pallet Rental	One-Way Recyclable Shipping Platform	
		Cooperative Pallet Pool	Private Pallet Pool Rental		\$3 Per Platform	\$4 Per Platform
Pallet purchase	0.60	0.14	-	-	-	-
Platform purchase	-	-	-	-	-	-
Carrier rate factors	-	-	-	-	-	-
Pallet trip rental and deposit	-	-	-	-3.00	-	-
Pallet issue and transfer	-	-	-	-	-	-
Daily rental	-	-	-	-	-	-
Sortation	0.27	0.27	0.17	0.07	-	-
Pallet repair	0.45	0.17	-	-	-	-
Transportation to and from depots	-	0.20	0.20	0.50	-	-
Replacement of lost pallets	-	0.18	0.17	0.15	-	-
Company administration	0.08	0.08	0.08	-	-	-
Industry administration	-	0.02	-	-	-	-
Productivity loss in order selection and shipment preparation	0.95	-	-	-	-	-
Exchange loss	0.04	-	-	-	-	-
Workers' compensation	0.06	-	-	-	-	-
Damage	0.58	0.06	0.06	0.06	0.06	0.06
Channel Pricing [NEW]			??????			
NPD Charge [NEW]			??????			
Total cost per pallet trip	3.03	1.12	0.68	-2.22	0.06	0.06
Total estimated annual cost (m)	581	215	165	-426	12	12
Required investment (m)	-	330	-	-	48	48

Source: Recommendations on the Grocery Industry Pallet System, Cleveland Consulting Associates, CSFB.

Given that the inefficiencies in the current model have resulted in significantly higher repair costs and transport costs, freight imbalances, secondary circuit abuse and the introduction of NPD and channel pricing charges, we believe it is likely an Industry Cooperative Pallet Pool (similar to the Par System) and the Private Per Trip Pallet Rental (similar to the Penn Pallet system) could now be a more economic solution for parts of industry than the CHEP model, e.g. private label manufacturers which have smaller margins.

Despite the higher industry savings forecast for the Industry Cooperative Pallet, as seen in Figure 8, the main problem foreseen was getting recyclers to comply. We believe this remains a hurdle for both the Penn Pallet system and the Par System. That said, we believe there is greater motive and co-ordination of the recyclers, very powerful support of retailers and new technologies (RFID, bar-coding), which could see better execution to that seen over the past 14 years.

Figure 8: US grocery study, 1992 – alternatives to present pallet system: total system financial recap

	Cost/ Pallet Trip (US\$)			US\$ Millions	
	Manufacturer	Distributor	Total	Industry Savings	Investment to Accomplish
Present System	7.06	3.03	10.09	Base	Base
Industry Cooperative Pallet	2.02	1.12	3.14	1,333	1,100
Private Pallet Pool Rental	4.58	0.86	5.44	892	0
Private Per - Trip Pallet Rental	8.21	-2.22	5.99	787	0
One-Way Disposable Shipping Platform					
@ \$3.00	3.21	0.06	3.27	1,308	48
@ \$4.00	4.21	0.06	4.27	1,117	48

Source: Recommendations on the Grocery Industry Pallet System, Cleveland Consulting Associates.

Valuation

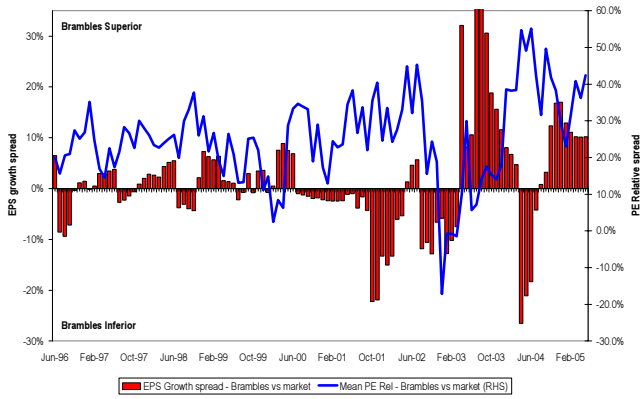
The following details our SOP valuation of Brambles. In order to achieve the current share price, we estimate the market is implying a 52% premium to the CHEP business (relative to the All Industrials ex BIPs post GW), on our forecasts.

Figure 9: Sum-of-parts valuation (FY05)

Business (\$m)	Region	EBIT	EBIT prem/ (disc)	EBIT Multiple	EBIT Valuation	Prop of Group Val
Chep Aust.	Aust	84.3	10%	15.4	1,295.1	8.2%
Chep NZ	NZ	7.6	10%	15.4	116.7	0.7%
Chep UK	UK	213.0	30%	18.2	3,867.6	24.6%
Chep Europe	Europe	93.6	30%	18.2	1,700.1	10.8%
Chep USA	USA	225.2	30%	18.2	4,089.0	26.0%
Chep Americas	Latin Americas	35.1	25%	17.5	613.0	3.9%
Chep Asia	Asia	1.8	25%	17.5	30.7	0.2%
Chep Africa	Africa	39.2	10%	15.4	602.1	3.8%
Chep Total		699.8		17.6	12,314.2	78.2%
Cleanaway	Aust	42.6	-35%	9.1	386.5	2.5%
Enviroguard - JV	Aust	2.9	-30%	9.8	28.2	0.2%
Cleanaway - UK	UK	89.4	-35%	9.1	811.4	5.2%
Cleanaway - Germany	Germany	27.7	-70%	4.2	116.2	0.7%
Cleanaway Asia	Asia	2.2	-30%	9.8	21.3	0.1%
Cleanaway Total		164.8		8.3	1,363.7	8.7%
Recall	Aust	17.9	5%	14.7	262.5	1.7%
Recall - UK	UK	4.0	5%	14.7	58.6	0.4%
Recall - France	France	8.7	0%	14.0	121.6	0.8%
Recall - Italy	Italy	7.1	5%	14.7	103.4	0.7%
Recall - US	US	32.3	10%	15.4	496.0	3.2%
Recall Asia	Asia	2.0	5%	14.7	29.5	0.2%
CISCO - JV	Asia	0.6	5%	14.7	8.8	0.1%
Recall Total		72.6		14.9	1,080.4	6.9%
BIL WA (incl. Manfords) & BIL NT	Aust	9.4	-20%	11.2	104.8	0.7%
Industrial Services	Aust	48.1	-20%	11.2	537.3	3.4%
Short Bros	UK	15.1	-25%	10.5	157.8	1.0%
Nilo	Netherlands	1.9	-5%	13.3	24.8	0.2%
National Recovery Systems	US	1.1	-5%	13.3	14.9	0.1%
Industrial Services Total		75.5		11.1	839.6	5.3%
BIL WA (incl. Manfords) & BIL NT	Aust	4.8	-15%	11.9	56.4	0.4%
Transport	Aust	3.5	0%	14.0	48.5	0.3%
Interlake Materials Handling	US	-3.8	10%	15.4	58.6	-0.4%
Eurotainer	EU	1.9	5%	14.7	27.4	0.2%
TCR	Netherlands	0.9	0%	14.0	13.2	0.1%
Federal Container Corp.	US	4.2	-10%	12.6	52.5	0.3%
Other Total		11.4		12.2	139.4	0.9%
Total Group Valuation		1024.1		15.4	15,737.3	100.0%
Less Unallocated EBIT		-37.4	0%		-522.1	
Less Net Debt					3678.3	
Net Valuation					11536.9	
no. shares					1705.8	
Valuation/ share					\$ 6.76	
Current share price					\$ 8.24	
Premium/ (Discount)					-17.9%	

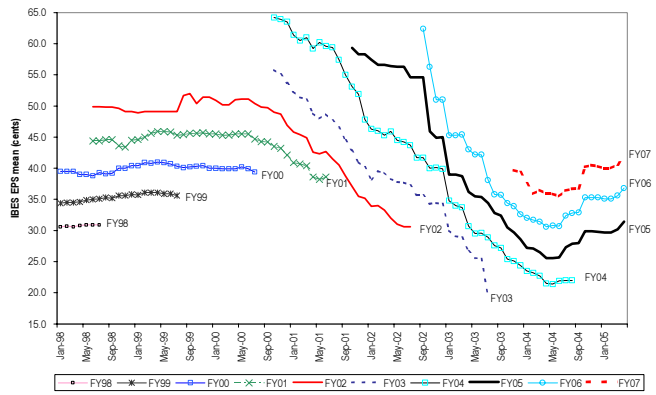
Source: CSFB estimates

Figure 10: PE Relative & EPS growth spread – consensus mean 12mth rolling Brambles vs S&P/ASX 200 All Indust (ex BIPs)



Source: IBES estimates

Figure 11: IBES consensus mean EPS forecasts



Source: IBES estimates

Companies Mentioned (Price as of 19 Apr 05)

Brambles Industries Limited (BIL.AX, A\$8.24, UNDERPERFORM, TP A\$8.00)
 Wal-Mart Stores, Inc. (WMT, \$47.88, OUTPERFORM, TP \$65.00, MW)
 Home Depot (HD, \$37.79, NOT RATED)
 Costco Wholesale Corporation (COST, \$44.30, NEUTRAL, TP \$40.00, MW)
 HEB (NOT LISTED)
 IFCO (IFCO.D, EUR8.00, NOT RATED)
 Penn Pallet (NOT LISTED)

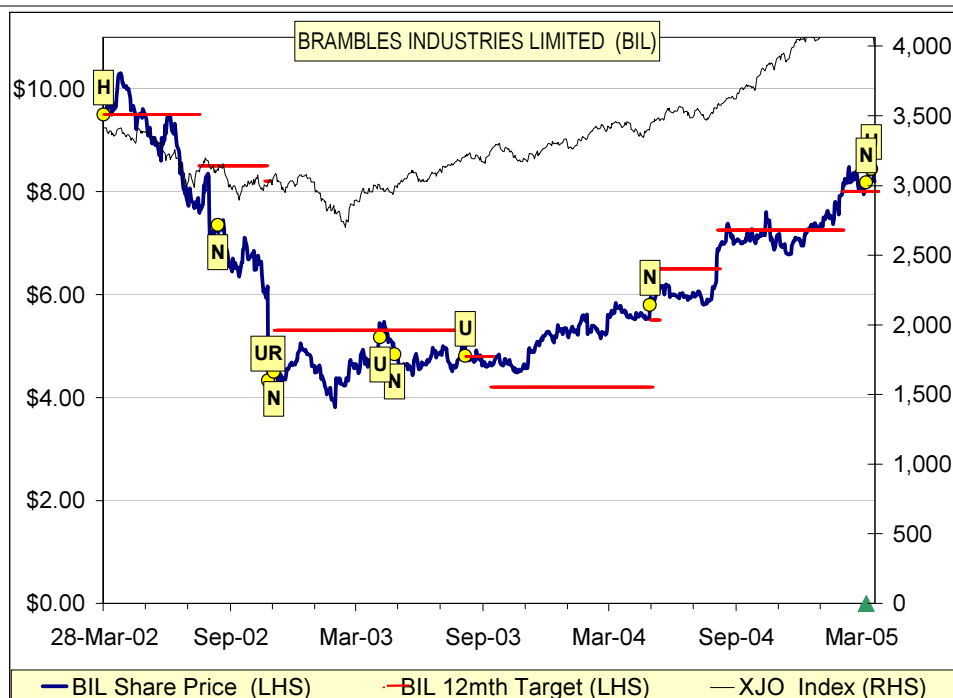
Disclosure Appendix

Important Global Disclosures

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See the *Companies Mentioned* section for full company names.

3-Year Price, Target Price and Rating Change History Chart for BIL.AX



Source: ASX, S&P, CSFB estimates

Effective to Sep 9, 2002: SB = Strong Buy, H = Hold, B = Buy, S = Sell,

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Price Target: (12 months) for (BIL.AX)

Method: PE Rel target – 20% premium to All Industrials (pre GW) for FY05 and FY05. Sum-of-the-parts, DCF, DDM and CSFB HOLT used in support to PE Rel.

Risks: Retailers promoting use of a second pallet pool; LPR attracting additional capital and expanding operations; introduction of an alternative pallet technology; CHEP customers supporting alternative; and continued loss of key personnel.

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