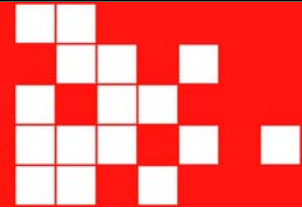




# Macquarie Research Equities



## CAMPUT 2008 What are Investors Looking For?

**Matthew Akman**

**Managing Director**

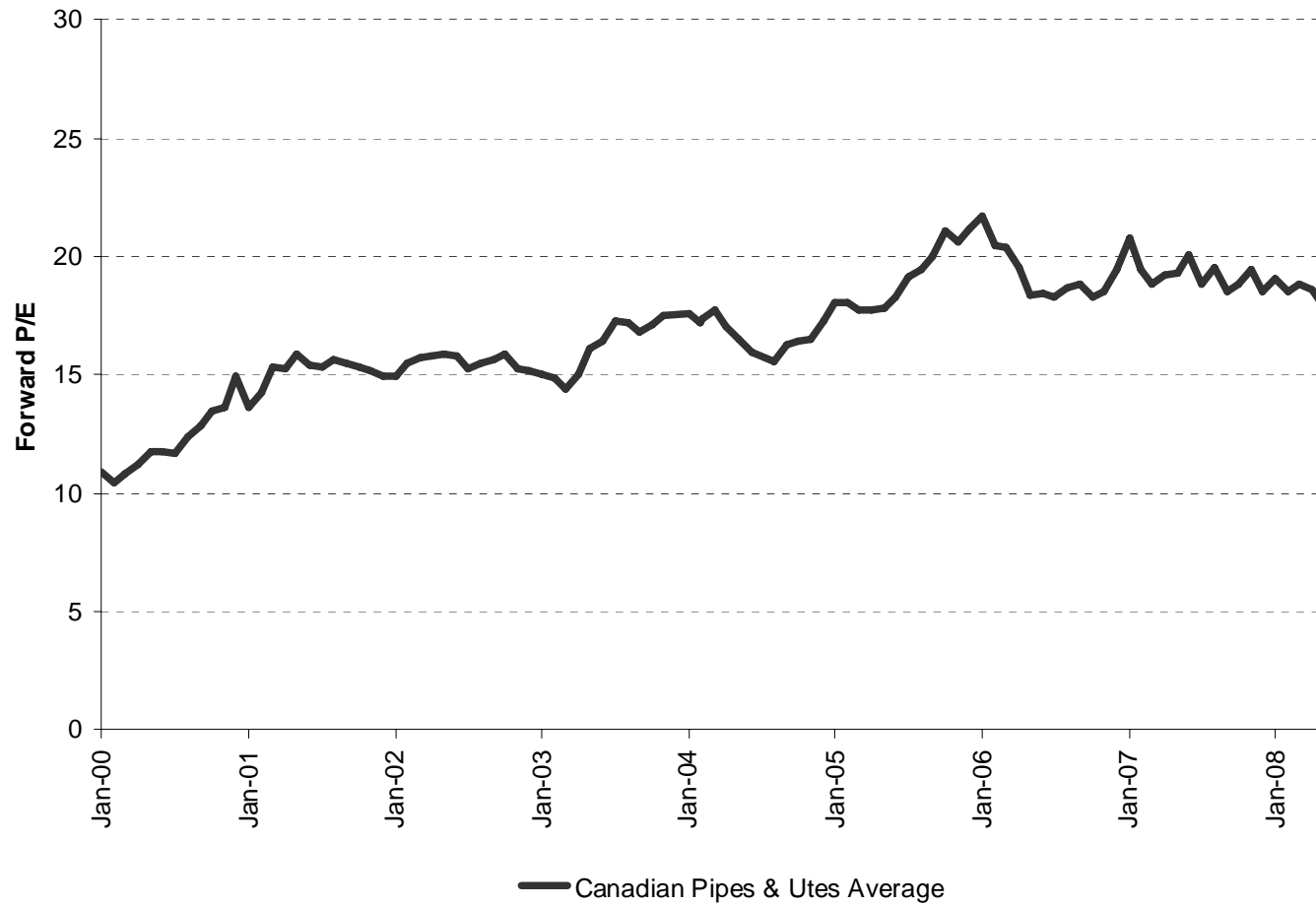
**Equity Research - Energy Infrastructure**

**Macquarie Capital Markets**

In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader. Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. Please see disclaimer.



# Price/Earnings Trend





## Canadian Pipelines/Utilities Equity Issuance In 2007

<b>Date</b>	<b>Company</b>	<b>Shares</b>	<b>Price</b>	<b>Total Value</b>
January 3, 2008	Fortis Inc.	5,170,000	\$29.00	\$149,930,000
January 16, 2008	Enbridge Inc.	15,000,000	\$38.75	\$581,250,000
February 6, 2008	TransCanada Corp.	45,390,500	\$38.00	\$1,724,839,000
February 26, 2008	Fortis Inc.	44,275,000	\$26.00	\$1,151,150,000
			<b>Total</b>	<b>\$3,607,169,000</b>

Note: represents issuances by large pipelines, power or utility corps under coverage.



## U.S. vs. Canadian Utilities

Company	Ticker	P/E Multiples		CAGR	
		2007	2008E	3 Yr	5 yr
<u>Canadian</u>					
Enbridge	ENB	24.3x	23.0x	5.2%	5.7%
TransCanada	TRP	17.6x	17.1x	7.1%	6.2%
Canadian Utilities	CU	15.1x	15.6x	9.3%	6.1%
Fortis	FTS	20.9x	18.2x	10.1%	7.8%
Emera	EMA	16.8x	16.3x	14.3%	1.6%
TransAlta	TA	<u>24.0x</u>	<u>19.6x</u>	<u>22.5%</u>	<u>17.0%</u>
<b>Average</b>		<b>19.8x</b>	<b>18.3x</b>	<b>11.4%</b>	<b>7.4%</b>
<u>U.S.</u>					
Consolidated Edison	ED	12.0x	12.9x	2.2%	1.6%
Sempra Energy	SRE	13.7x	14.3x	1.9%	5.7%
Dominion Resources	D	17.0x	13.8x	10.8%	6.5%
NiSource	NI	13.0x	13.3x	9.0%	0.3%
PPL Corp.	PPL	<u>18.7x</u>	<u>19.9x</u>	<u>5.5%</u>	<u>5.6%</u>
<b>Average</b>		<b>14.9x</b>	<b>14.8x</b>	<b>5.9%</b>	<b>3.9%</b>

Note:

3 year CAGR forecast based on a 2005-2008E period.

5 year CAGR forecast based on a 2003-2008E period.

Estimates for Canadian companies are from Macquarie Capital.

Estimates for U.S. companies are based on consensus forecast (sources: Company reports, Thomson, Bloomberg).



# Methodology For Setting Returns On New Infrastructure Investments

<b>Asset Category</b>	<b>Old Model</b>	<b>New Models</b>
Traditional Power	Regulated by provinces	<ul style="list-style-type: none"><li>• Competitive market</li></ul>
Renewable Power	Crown Corps build	<ul style="list-style-type: none"><li>• Government RFP</li><li>• Competitive RFP</li></ul>
Pipeline	NEB formula ROE	<ul style="list-style-type: none"><li>• Commercial deals with shippers</li><li>• Incentive regulation</li></ul>

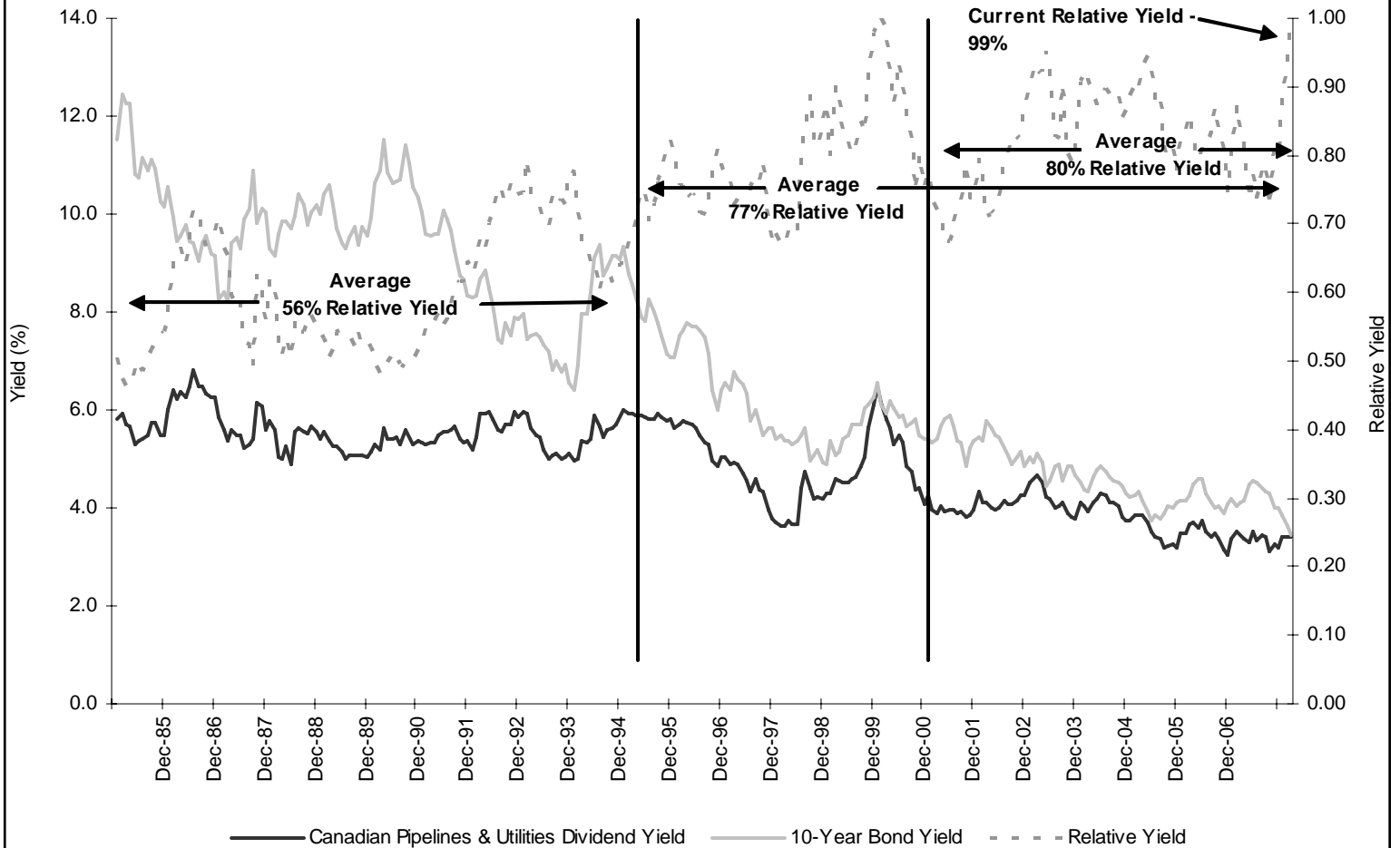


## Changes In Allowed Equity Thickness

<b>Company</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Enbridge Gas Distribution	35.0%	35.0%	35.0%	35.0%	36.0%	36.0%
BC Gas	33.0%	33.0%	33.0%	35.0%	35.0%	35.0%
TransCanada Mainline	33.0%	33.0%	36.0%	36.0%	40.0%	40.0%



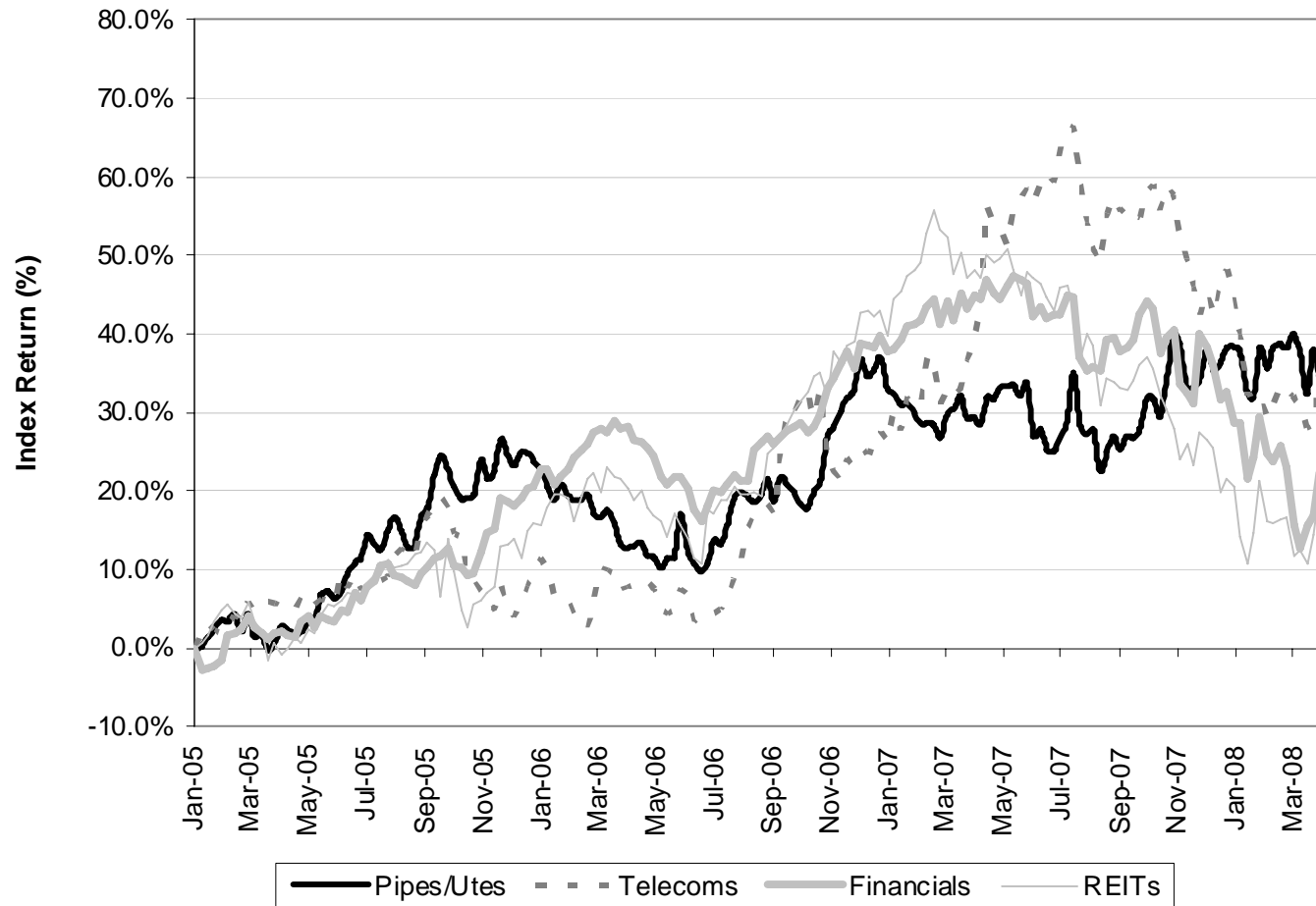
# Dividend Yield Relative to Bond Yield



Note: Bond yield represented by the Government of Canada 10-yr bond yield.



# Comparative Indexes



Note: Index return based on a January 1, 2005 start date.

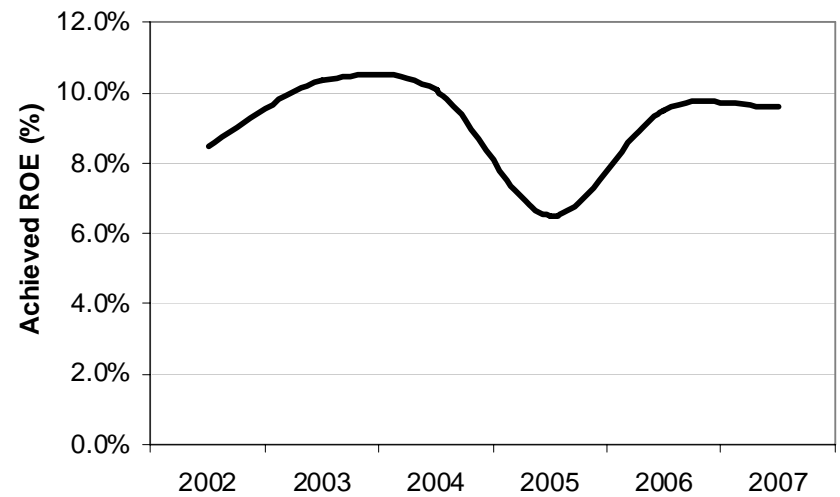


# Emera Valuation

## EMA valuation vs. group

	P/E		EV/EBITDA	
	2007	2008E	2007	2008E
Emera	16.8x	16.3x	8.4x	8.2x
Comparative group average	19.2x	17.5x	9.0x	8.7x

## NSPI achieved ROE in recent years





## Conclusion

- The ROE formula appears to be working
- *But evidence may be masked by:*
  - Fund flows away from other yield product
  - Modest increase in allowed equity
  - Loosening of regulatory framework
- So a reduction in allowed returns could be detrimental
- The whole framework and its effectiveness is contingent on its stability and reliability



**Important disclosures:**

**Recommendation definitions**

**Recommendation definitions**

**Macquarie – Australia/New Zealand**

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)  
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)  
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

**Macquarie – Asia**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South – South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie – Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Recommendation – 12 months**

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Recommendation proportions**

	AU/NZ	Asia	RSA	CA
Outperform	47.39%	64.32%	64.58%	71.65%
Neutral	40.77%	19.28%	33.33%	25.98%
Underperform	11.85%	16.40%	2.08%	2.36%

For quarter ending 30 September 2007

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

**Added back:** goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

**Excluded:** non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit /efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit /average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

**All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).**



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