

# QR National float may be ASX bonanza

Several listed companies and a few waiting to list stand to gain, directly and indirectly, from a successful QR National float, writes **Justin Bailey**.

Downer EDI, UGL and Computershare are among a handful of companies that could benefit from the impending \$6 billion-plus float of QR National.

It may take time, though, for some companies — particularly those in the engineering sector — to see any benefits, market watchers caution.

Investors have been lining up to get a slice of the company freight rail operator and are expecting a decent return thanks to its exposure to burgeoning Asian demand for coal. Some of those returns will be had as QR National streamlines its business, adopts best practice standards and makes a transition from public to private company.

QR National could become more efficient by expanding its rail network, adopting new technology or reducing its workforce.

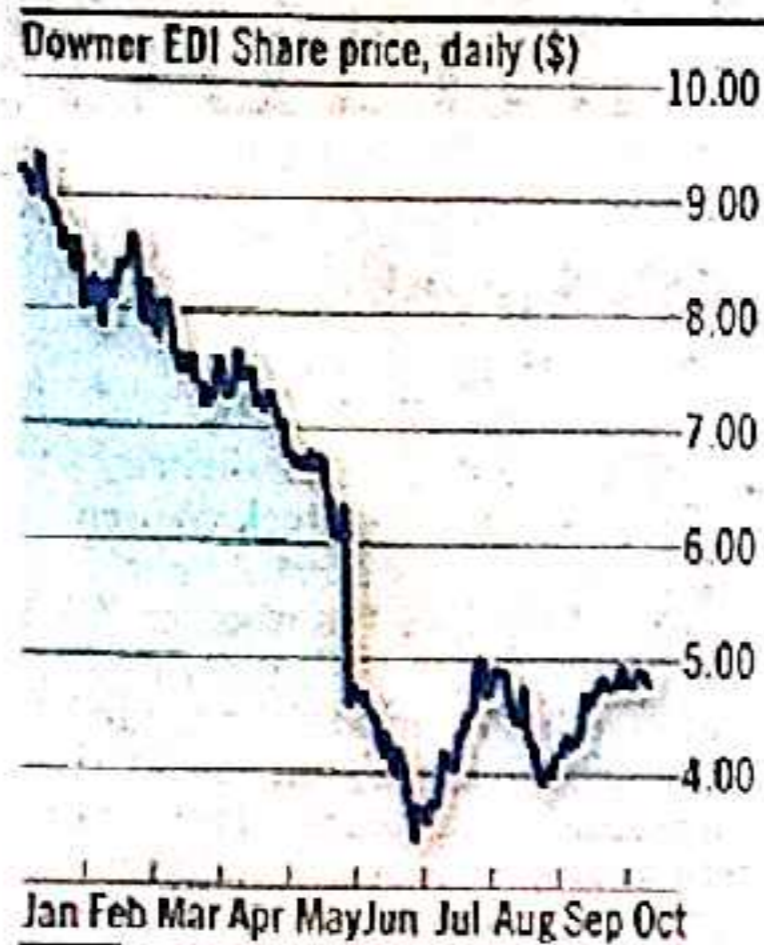
Naos Asset Management fund manager Sebastian Evans said government companies typically stripped "a lot of fat" from their business once they became public.

If QR National goes down the same path then it could open up opportunities for a number of contractors to take on roles previously run in-house.

"At some juncture they [QR National] could consider outsourcing the production of rolling stock, which could potentially have a benefit for Downer or UGL, but they are unlikely to do anything in the short term," White Funds Management chief investment officer Angus Gluskie said.

Downer EDI designs, builds and provides maintenance services for locomotives and wagons.

## Outsiders

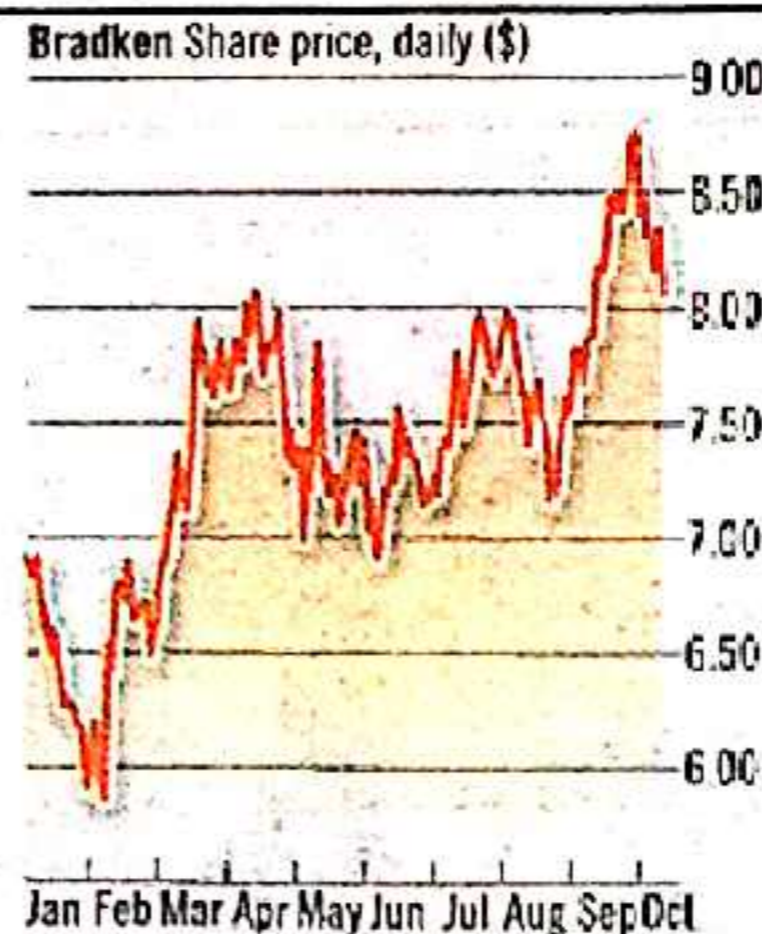


The company has three manufacturing sites and has delivered more than 1500 locomotives and 1700 passenger cars to Australian customers. Downer EDI also builds the track these trains run on and has previously worked closely with BHP Billiton and other major miners.

Stock in Downer EDI has had a difficult run so far this year despite an up tick in mining infrastructure projects, shedding 48 per cent.

United Group runs a fully integrated rail division similar to Downer EDI. It bills itself as Australia's largest and most experienced provider of rolling-stock and infrastructure. The company already has links with QR National, having refurbished a number of the company's locomotive fleets. UGL shares are up 7.4 per cent so far this year and are trading at a 12-month high.

QR National currently has its own network services division which is comprised of three businesses: QR network, infrastructure services and rolling-stock services. The rolling-stock services division designs, builds and maintains rail locomotives, wagons and rail components.



Bradken could also be in a good position to take advantage of possible changes at QR National. Bradken's rail division designs and manufactures freight wagons used for shipping iron ore and coal, and the company has previously made them for QR National.

So far this year shares in Bradken have put on 19.4 per cent.

Constellation Capital investment analyst Peter Chilton said it was

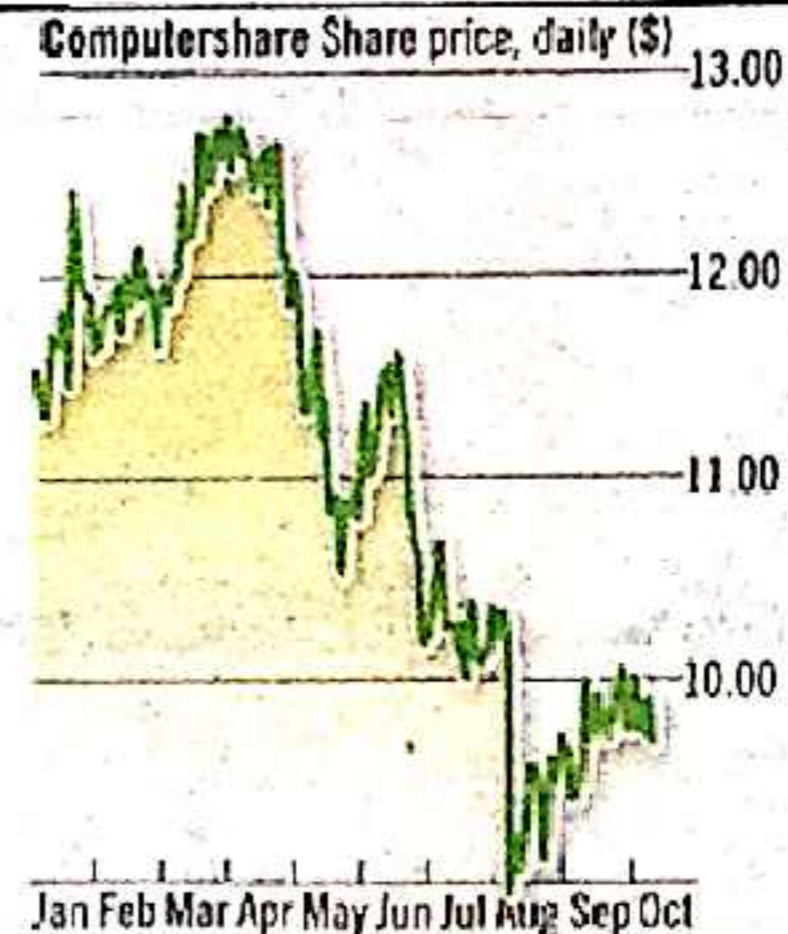
### IT consultancies will be hoping QR National overhauls its IT systems.

difficult to judge which engineering services companies would get a boost out of the float.

It is likely to be "business as usual" for QR National he said, which means any potential contracts will not eventuate for a couple years.

Another winner of the QR National float is probably Computershare. The investor services provider stands to benefit if the QR National float helps prise open the market for IPOs.

"If this comes off and it doesn't do



what Myer did, it will be a huge benefit for Computershare because there are a lot of private equity shops looking to list," Mr Evans said.

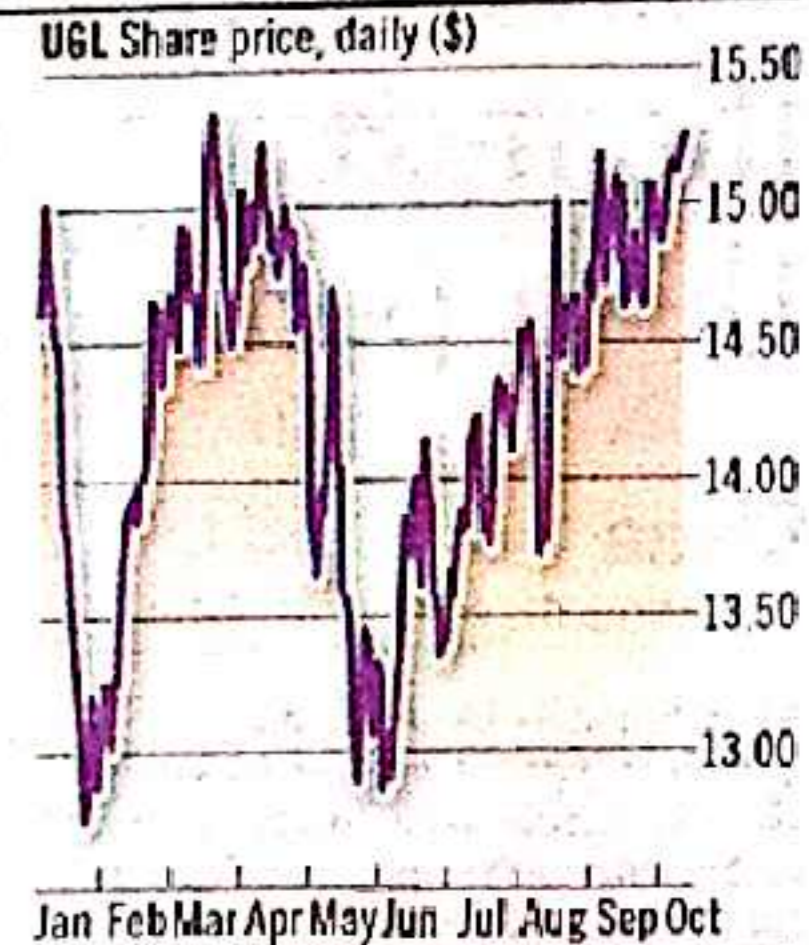
"A good performance by QR National will definitely open the door for a few more IPOs," Platypus Asset Management portfolio manager Prasad Patkar said.

Computershare shares are down 14.6 per cent this year, underperforming the benchmark S&P/ASX 200, which is off 4.1 per cent.

Macquarie Group will be hoping the IPO market picks up too. The investment bank has been suffering because of a lack of corporate activity and new share issues. So far this year it has dropped 27.2 per cent. Similarly, ASX would be another financial that could benefit indirectly. More listings on the exchange will help drive an uptick in fees.

Among the larger potential floats waiting in the wings is Valemus Group, a subsidiary of German giant Bilfinger Berger.

Smaller floats that could come to market include Hoyts (\$700 million), retailer Rebel Group (\$600 million),



bookstore operator RedGroup Retail (\$400 million) and food importer Manassen Foods (\$300 million).

IT consultancies SMS Management and Oakton will be hoping QR National overhauls its IT systems. The two companies specialise in delivering IT strategy and solutions.

Like the mining services companies they have benefited from an uptick in capital expenditure programs that were delayed during the financial crisis.

Longer term, the real winners will probably be Australia's iron ore and coal miners, Mr Patkar said.

If QR National becomes a more efficient business, they will no doubt benefit from being able to get their coal or iron ore to port faster, he added.

That will make BHP Billiton and Rio Tinto big winners, but it should also help a number of smaller names who have struggled to get mined products to export markets.

In Queensland's Bowen Basin QR National is the dominant rail operator.

The area is home to over 30 mines operated by the likes of Macarthur Coal and Wesfarmers.

SOURCE: BLOOMBERG