

AMF: Asset Backed Yield Trust

1H08 Result - Solid result in jittery credit markets

Event

At its results announcement, AYT reiterated forecast for an annualised return of between 10.78% and 11.28% for FY08, which is between 400bps and 450bps above the average 30-day BBSW. AYT expects to meet this forecast despite significant volatility in financial markets. AYT's Net Asset Value (NAV) remains around \$1.93 per unit, and the Fund does not use leverage to boost returns. Credit quality remains strong and no losses have been incurred from AYT's margin lending investment.

Implications

We are buoyed by the fact that loss rates for investments held by AYT are still tracking considerably below the point at which the Fund will be impacted. We were previously concerned that AYT would sustain losses related to its margin loan investments flowing from the extreme movements in stock prices in early 2008. The absence of any losses flowing from the margin loan portfolio during this period gives us a heightened confidence in the 62% of the portfolio that is backed by margin loans. AYT's results were closely aligned to our forecasts, reflecting the fact that AYT's earnings are intricately linked to BBSW and expenses are predominantly interest costs and management fees. We remain confident in AYT's ability to achieve distribution guidance and do not foresee imminent credit losses on the underlying investments, particularly as the Australian economy is currently supported by very low unemployment levels. Notwithstanding, the outlook of further RBA rate rise is likely to see loss rates increase, particularly in the mortgage-backed investments. We value AYT at \$1.81 based on the NAV of each unit as at 31 December (\$1.927), combined with a 6% discount (\$0.12).

Investment Opinion

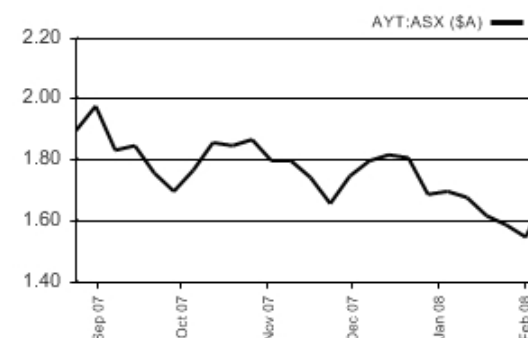
The research on this company has been commissioned, and, as such, Aegis has received a fee for its initiation and ongoing research coverage.

We believe it is inappropriate or misleading to provide a recommendation, investment opinion and/or share price target. However, we provide a valuation and earnings forecasts, as well as other relevant information, to assist investors to form a view on the investment prospects of AYT.

Key Information

Share Price	\$1.64
Valuation	\$1.81

Price Performance



Market Statistics

Market Cap (M)	\$164
Shares (M)	100.0
% of Market	0.01
% of Sector	0.03
12 Month Range	\$1.50 - \$1.98
Company Risk	★★★★☆
Share Price Risk	★★★★☆☆
Ethical rating	★★★★★

	Performance against indices (%)		
	3 Months	6 Months	12 Months
AYT	(10.4)	n/a	n/a
Sector	(21.6)	(13.2)	(18.8)
Market	(14.7)	(4.6)	(2.9)

Earnings Summary

Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2007A	16.7	16.7	16.7	n/a	9.8	0.6	0.7	9.2	5.6	0	11.8
2008F	20.8	20.8	20.8	24.5	7.9	0.6	0.6	19.6	11.9	0	10.8
2009F	19.5	19.5	18.8	(9.5)	8.7	0.7	0.8	19.0	11.6	0	9.8
2010F	20.9	20.9	18.2	(3.3)	9.0	0.8	0.9	18.0	11.0	0	9.5

¹ NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

AMF: Asset Backed Yield Trust

Valuation: \$1.81

Company risk ¹: ★★★★★

Share Price risk ¹: ★★★★★

Ethical rating ²: ★★★★★

Year end Jun. All figures in A\$M

Profit & loss summary					Ratio analysis				
	2007A	2008F	2009F	2010F		2007A	2008F	2009F	2010F
Operating revenue	20.4	25.1	24.0	26.5	Revenue growth (%)	0.0	23.4	(4.4)	10.4
Invest & other income	0.0	0.0	0.0	0.0	EBITDA growth (%)	n/a	14.9	(4.8)	10.5
EBITDA	19.9	22.9	21.8	24.1	EPS growth (%)	n/a	24.5	(9.5)	(3.3)
Depreciation/Amort	0.0	(0.8)	(1.5)	(1.5)	EBITDA/Sales margin (%)	97.8	91.2	90.8	90.9
EBIT	19.9	22.1	20.3	22.6	EBIT/Sales margin (%)	97.8	88.0	84.7	85.3
Net Interest	(3.2)	(1.3)	(0.8)	(1.7)	Tax rate (%)	0.0	0.0	0.0	0.0
Pre-tax profit	16.7	20.8	19.5	20.9	Net debt/equity (%)	48.4	(8.6)	0.3	(0.7)
Tax expense	0.0	0.0	0.0	0.0	Net debt/net debt + equity (%)	32.6	(9.4)	0.3	(0.7)
Minorities/Assoc./Prefs	0.0	0.0	0.0	0.0	Net interest cover (x)	6.2	17.4	25.4	13.5
NPAT	16.7	20.8	19.5	20.9	Payout ratio (%)	55.4	94.2	101.0	98.9
Non recurring items	0.0	0.0	0.0	0.0	Capex to deprec'n (%)	0.0	0.0	0.0	0.0
Reported profit	16.7	20.8	19.5	20.9	NTA per share (\$)	1.91	1.93	1.92	1.93
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	10.6	9.8	9.7	9.8
Adjusted profit	16.7	20.8	19.5	20.9	ROE (%)	11.8	10.8	9.8	9.5
Cashflow summary					Multiple analysis				
	2007A	2008F	2009F	2010F		2007A	2008F	2009F	2010F
EBITDA	19.9	22.9	21.8	24.1	Market cap (M)	164			
Working capital changes	0.0	0.1	(0.0)	(0.1)	Net debt (\$M)	(14.5)			
Interest and tax	(0.7)	(1.3)	(0.8)	(1.7)	Peripheral assets (\$M)	(0.0)			
Other operating items	(6.3)	(2.7)	0.0	0.0	Enterprise value (\$M)	149.5			
Operating cashflow	12.9	19.0	21.0	22.3	EV/EBIT (x)	7.5	6.8	7.4	6.6
Required capex	0.0	0.0	0.0	0.0	EV/EBITDA (x)	7.5	6.5	6.9	6.2
Maintainable cashflow	12.9	19.0	21.0	22.3	EV/EBITDA All Ind (x)	8.2	7.3	6.8	6.3
Dividends	(3.3)	(9.6)	(20.2)	(20.2)	EV/EBITDA rel All Ind (x)	0.9	0.9	1.0	1.0
Acq/Disp	0.0	0.0	(20.0)	(20.0)	P/E (x)	9.8	7.9	8.7	9.0
Other investing items	(190.4)	3.5	0.0	0.0	P/E rel All Ind (x)	0.6	0.5	0.6	0.7
Free cashflow	(180.8)	12.9	(19.2)	(17.8)	P/E rel All Ind ex banks (x)	0.5	0.5	0.6	0.7
Equity	92.6	97.7	22.0	22.0	P/E sector (x)	14.5	12.5	11.2	10.1
Debt inc/(red'n)	99.7	(103.5)	(2.8)	(4.2)	P/E rel sector (x)	0.7	0.6	0.8	0.9
Balance sheet					Assumptions				
	2007A	2008F	2009F	2010F		2007A	2008F	2009F	2010F
Cash & deposits	6.2	16.6	0.3	1.6	GDP growth (%)	2.50	3.02	3.64	3.32
Inventories	0.0	0.0	0.0	0.0	Interest Rates (%)	6.33	7.12	7.50	7.38
Trade debtors	1.0	1.1	1.2	1.3	Inflation (%)	3.09	2.47	2.50	2.50
Other curr assets	98.6	0.0	0.0	0.0					
Total current assets	105.9	17.7	1.4	2.9					
Prop., plant & equip.	0.0	0.0	0.0	0.0					
Non-curr intangibles	0.0	0.0	0.0	0.0					
Non-curr investments	190.6	186.3	224.8	245.3					
Other non-curr assets	0.0	0.0	0.0	0.0					
Total assets	296.5	204.0	226.2	248.2					
Trade creditors	0.6	0.5	0.5	0.6					
Curr borrowings	98.7	0.0	0.0	0.0					
Other curr liabilities	6.0	9.6	9.6	9.6					
Total current liab.	105.2	10.1	10.2	10.2					
Borrowings	0.0	0.0	0.8	0.0					
Other non-curr liabilities	0.0	0.0	0.0	0.0					
Total liabilities	105.2	10.1	11.0	10.2					
Minorities/Convertibles	0.0	0.0	0.0	0.0					
Shareholders equity	191.2	193.8	215.2	238.0					

Notes To Accounts

AYT was established in August 2006 and as such there are no results for financial year 2006.

Notes:1. The risk ratings are on a 12 month perspective, where five stars denotes low risk and one star denotes high risk. Company risk takes into account expected financial, strategic and execution risks associated with the company. Share price risk is a measure of the expected volatility of the price and other trading factors.

2. The Ethical rating rates a company on an ethical investment basis where five stars denote very good and one star a poor rating. The score is based on four key factors: areas of operating, environmental, corporate governance and social factors. For more information see www.aegis.com.au.

AMF: Asset Backed Yield Trust

TABLE 1: AYT RESULTS FOR 1H08

A\$M	1H07A	2H07A	1H08A	1H08A v 2H07A	1H08A v 1H07A
Income	7.1	13.3	13.4	1.2%	89.4%
Expenses	-0.4	-0.9	-1.2	30.4%	162.1%
EBITDA	6.7	12.4	12.3	-0.9%	84.6%
Depreciation & Amortisation	0.0	0.0	-0.1	na	na
EBIT	6.7	12.4	12.2	-1.4%	83.7%
Interest Expense	-0.7	-2.5	-1.3	-49.1%	75.4%
Profit before tax	5.9	9.9	10.9	10.7%	84.7%
Taxation	0.0	0.0	0.0	na	na
Reported NPAT	5.9	9.9	10.9	10.7%	84.7%
EPS (cps)	5.9	10.8	11.2	4.1%	89.2%
DPS (cps)	3.33	5.91	9.58	62.1%	187.6%
Franking	0%	0%	0%	na	na

Source: Company/Aegis Equities

Comment:

- AYT's 1H08 NPAT of \$10.9M came in marginally under our \$11.0M forecast and reflects the transparency of AYT and the predictability of returns, barring a credit event. AYT's investments generate a weighted average yield that is 5.52% above 30-day BBSW (refer to Table 2); after expenses are taken into account, the spread is likely to range between 425bps and 450bps on BBSW.
- AYT's investment in the Lighthouse No.4 Trust (62.7% of portfolio assets), which is backed by margin loans, appears to have incurred no losses following the sharp declines in Australian stock prices during January 2008. We have increased confidence in AYT's most substantial investment following this news. If the margin lending business avoids a single loss when the ASX declines around 7% in a single day, then the investment is reasonably robust.
- The other investments held by AYT appear to have been resilient to the turmoil in the global credit markets, as evidenced by only marginal movement in the loss rates from 31 October 2007 to 31 December 2007. The loss rates on the Q10 Trust Notes and MIS Program have increased by 0.04% and 0.16%, respectively, in the three months to 31 December; however, these remain well below levels at which AYT will be impacted. While loss rates on the Medical Financing Program #2 have decreased by 0.15% they are significantly below the point at which AYT will be impacted.
- AYT is to move from paying half-yearly to quarterly distributions. Given AYT's guidance of distributions between 10.78% and 11.28%, based on the Fund's NTA, investors can expect annual distributions ranging between 20.8cpu and 21.8cpu. As AYT's share price is trading around \$1.65, this represents a before tax yield of between 12.6% and 13.2%. Given the outlook is for further interest rises in CY08, it is likely that distributions will fall at the top end of AYT's guidance range.
- We believe with further RBA rate rises on the horizon the investments in mortgage-backed securities are likely to see loss rates rise above current levels. However, AYT is protected in two ways: 1) with the equity that has been put up by the underlying mortgage borrowers; and 2) with the requirement for loss rates to rise to 13x current level before returns are impacted. Further, low unemployment, a general housing shortage and the sharp drop off in housing approvals for December 2007 is likely to support housing values in the near term.
- We remain confident in AYT's ability to achieve distribution guidance and do not foresee credit losses on the underlying investments when the Australian economy is supported by low unemployment levels

TABLE 2: INVESTMENT HELD BY AYT AND ACTUAL LOSS RATES TO 31 DECEMBER 2007

Name	Asset Category	Value \$M	% of Portfolio	margin over BBSW (%)	Original Loss Assumptions	Loss Rates to 31-10-07	Loss Rates to 31-12-07	Loss where AYT impacted
Lighthouse No. 4 Trust	Margin Lending	75.0	40.2%	1.25%				
Lighthouse No. 4 Trust	Margin Lending	41.9	22.5%	12.50%	0.35%	0.06%	0.06%	>1.75%
Q10 Trust E Note	Mortgage backed	13.7	7.3%	3.75%				
Q10 Trust F Note	Mortgage backed	11.0	5.9%	6.00%	0.74%	0.06%	0.10%	>1.30%
Mortgage Program No. 1 B Note	Mortgage backed	1.0	0.5%	6.00%	6.00%	1.75%	0.82%	> 13.0%
Program No.1 B note	Medical Financing	1.5	0.8%	3.75%	1.02%	0.74%	0.74%	>1.87%
Program No.1 D note	Medical Financing	13.2	7.1%	6.00%	0.49%	0.29%	0.14%	>4.15%
MIS Program 1C Note	MIS loans	20.1	10.8%	4.50%				
MIS Program 1D Note	MIS loans	9.1	4.9%	12.50%	1.88%	0.51%	0.67%	>2.60%
Total		186.5						
Weighted average margin over BBSW				5.52%				

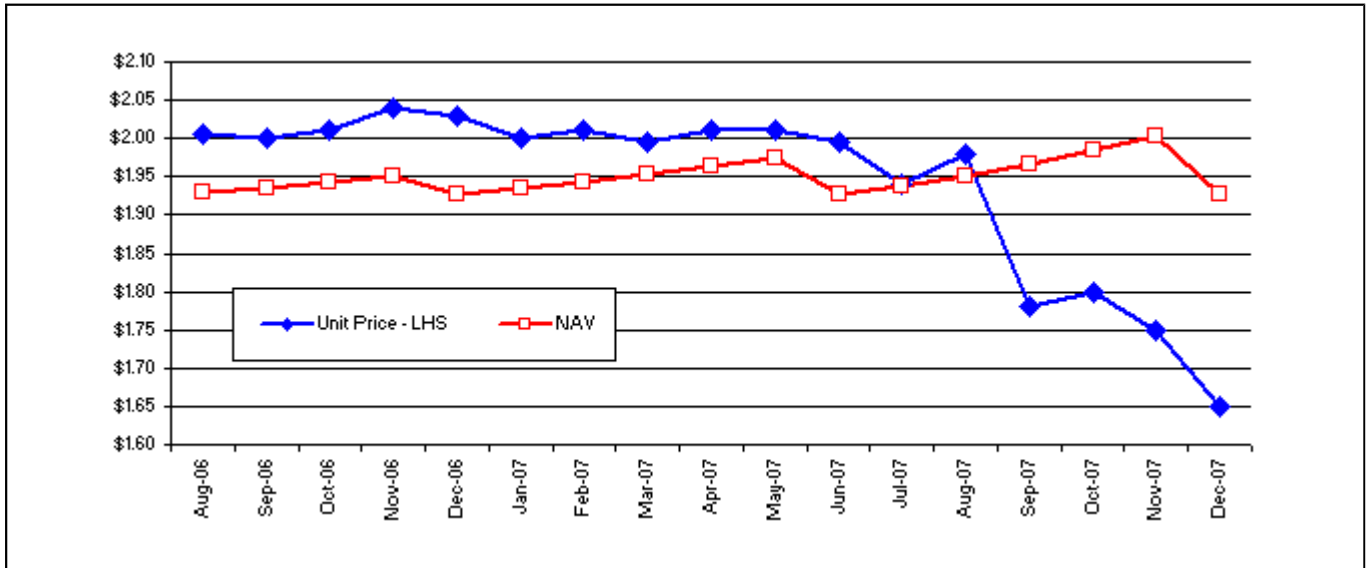
Source: Company/Aegis Equities

AMF: Asset Backed Yield Trust

Movement in AYT's Unit price:

The price of AYT relative to its NAV has fallen precipitously since the onset of the subprime issues around August 2007, in line with other high-yield funds. We believe the investments held by AYT are sound and the discount AYT is trading at relative to its NAV primarily reflects significant negative investor sentiment towards high-yield stocks. Another factor impacting the price of AYT is the lack of market depth, which, in the case of AYT, contributes to the daily volatility in AYT's unit price.

FIGURE 1: NET ASSET VALUE PER UNIT VS. AYT'S UNIT PRICE



Source: Company/Aegis Equities

Disclaimer & Disclosure of Interest

This publication has been prepared by Aegis Equities Research Pty Limited (ACN 085 293 910) ("Aegis") an Australian Financial Services Licensee. Whilst the information contained in this publication has been prepared with all reasonable care from sources, which Aegis believes are reliable, no responsibility or liability is accepted by Aegis for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgement and assumptions of Aegis as at the date of publication and may change without notice. Aegis and its officers, agents, employees, consultants and its related bodies corporate, exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the fullest extent permitted by law. This publication is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any securities recommendation contained in this publication is unsolicited general information only. Aegis is not aware that any recipient intends to rely on this publication or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether recommendations contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Aegis. Aegis its officers, employees, consultants or its related bodies corporate may, from time to time hold positions in any securities included in this report and may buy or sell such securities or engage in other transactions involving such securities. Aegis and its Directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from securities mentioned in this publication.

Aegis, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any recommendation contained in this report and/or on this web site. Aegis discloses that from time to time, it or its officers, employees and its related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the recommendations in this publication; may have directorships in the companies mentioned in this publication; and/ or may perform paid services for the companies that are the subject of such recommendations. HOWEVER, UNDER NO CIRCUMSTANCES, HAS AEGIS BEEN INFLUENCED, EITHER DIRECTLY OR INDIRECTLY, IN MAKING ANY RECOMMENDATION CONTAINED IN THIS REPORT AND/OR ON THIS WEB SITE.

This information must be read in conjunction with the [Legal Notice](http://www.aer.com.au/disclaimer.asp) which can be located at <http://www.aer.com.au/disclaimer.asp>