

UBS Cuts Its Macquarie Rating

By REBECCA THURLOW

SYDNEY -- Macquarie Group Ltd. shares fell 9.6%, touching a 3½-year low, after broker UBS AG cut its rating on the stock and warned the Australian investment bank's profit may be hit by asset write-downs.

UBS analysts cut their rating on Australia's biggest investment bank by revenue to "neutral" from "buy," slashing their price target to 48 Australian dollars (US\$41.05) a share from A\$60.

"With the global credit crunch and bear market entering its second year, and with little end in sight, we believe this is placing ongoing pressure on Macquarie's businesses and outlook," said UBS analysts Jonathan Mott, Chris Williams and Shu-Ling Liauw in a report.

In the heaviest volume in 12 months, Macquarie hit an intraday low of A\$41.31, a level not seen since November 2004, amid fears other brokers would follow UBS's lead.

"There are still eight brokers with 'buy' recommendations on the stock...so there is a high risk of more cuts to recommendations and earnings estimates," said a senior institutional trader.

Macquarie's Response

A spokesman for Macquarie declined to comment on the UBS report or drop in the bank's share price. Macquarie shares ended down 9.6% at A\$41.61 in a flat Sydney market. In a response to a query from the Australian Securities Exchange, Macquarie said it isn't aware of any explanation for the sharp fall in its shares.

Macquarie has avoided the big write-downs that have plagued many of its global investment-banking peers. But its shares have fallen 60% from their May 2007 peak of A\$98.64 amid worries about the sustainability of its specialist infrastructure-funds business amid the credit crunch.

Macquarie combs the globe for assets exposed to limited competition, such as airports, toll roads and utilities, and sells them in initial public offerings of shares or bundles them into managed funds, taking capital gains as well as advisory and management fees along the way.

The business has been aided in recent years by access to cheap debt and rising asset prices.

'Knee-Jerk Reaction'

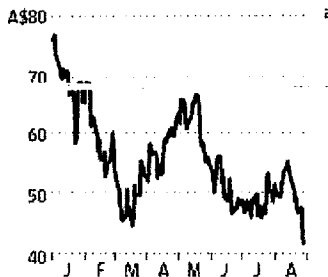
"Judging by the knee-jerk reaction [to the UBS report], people are voting with their feet," said Justin Gallagher, head of institutional sales at ABN Amro. "I think people are just concerned about the high gearing and intricate financial structure of Macquarie and all its satellites."

The UBS analysts said Macquarie may require impairments on some investments in associated companies or asset-valuation write-downs, and that its capital flexibility isn't as great as generally perceived.

DAILY SHARE PRICE IN AUSTRALIA

Macquarie Group

Wednesday's close: A\$41.61
(\$35.71), down 9.6%



Source: Thomson Reuters Datastream

Macquarie Bank Group in Sydney

