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TRADING

Macquarie set to go lower before possible rise

TECHNICAL ANALYSIS
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MACQUARIE Group (previously Bank) was the quintessential creature of the structured-finance boom from early last decade.

As it created a web of infrastructure investments through listed offshoots using what was known as the "Macquarie model", its share price rose 300 per cent to reach $98.64 in May 2007.

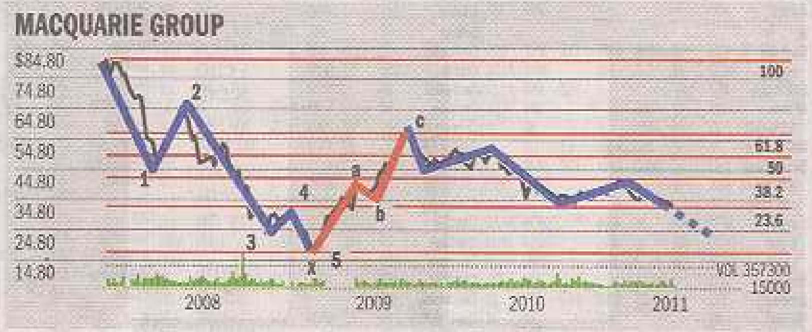
Then the global financial crisis struck.

Macquarie managed to survive the bust while some of those that tried to emulate it went under. However, the "model" was seen to be broken and most of the famed listed infrastructure stable was dispensed with. Revenue fell from $8.2 billion in 2008 to $5.5 billion in 2009, though it has picked up to $7.6 billion this year.

With Macquarie now trading at about $32.70, the question is "where to from here?" Rob Shelley, a councillor with the Australian Technical Analysts Association, brings his skills to bear this week to try to provide an answer.

His chart shows Macquarie went off an intra-day low of about $44 in March 2008 (point 1) before hitting a $66 high in May that year (point 2). It then plunged to a post-GFC low of $15 in March 2009 at point 5.

The journey from point 1 to point 5, Shelley says, is a classical Elliot wave formation. Interestingly, that was followed by a Fibonacci retracement of 61.8 per cent of its previous high at point 2 (marked in red). Since then the stock has restarted its downward trend and Shelley says that, going by the chart, it may even return to points 3 and 5, creating a "double-bottom" pattern.



Then, depending on the company's performance, we may see some retracement of the losses.

From a fundamental viewpoint, Macquarie's tale of woe is understandable. Dividends have almost halved from $3.45 a share in 2008 to $1.86 this year. And earnings per share have dived 58 per cent from $6.53 in 2008 to $2.75 this year. But we may now be near the nadir for Macquarie, with profit expected to lift from this year's $956 million (down 9 per cent) to $1.26 billion.

Macquarie is trading on a price-earnings ratio of 11.45 times compared with the average of 10.57 for the sector and its dividend yield is 5.9 per cent compared with 6.3 per cent for the banking sector. But remember the sector comparison is not an exact fit as Macquarie, unlike its big colleagues, is an investment bank.

Neither BusinessDay nor Rob Shelley is offering investment advice. Would-be investors should seek professional guidance and do some homework.

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