

# Business Day

FLOAT

## Advisers wary of QR's big price tag

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DESPITE a glossy \$15 million marketing campaign QR National has been rejected by many advisers to retail investors, while some fund managers are still baulking at the \$2.50 to \$3 offer range.

However the float's lead managers and the Queensland Treasurer, Andrew Fraser, have ruled out any change to the pricing of the \$5 billion share sale, destined to become the second-largest float in Australia's history.

The offer closes to retail investors on Friday. They will find out the price they are expected to pay for each share, at a 10¢ discount to fund managers, by November 22.

Fund managers are still cavilling at the price, with some of them considering placing bids for stock below the indicative range.

A range of analysts and advisers to retail investors have criticised a high price-earnings ratio of 21 to 25 times on next year's earnings and a low dividend yield of 2.1 per cent to 2.5 per cent next year.

Analysts from smaller stockbrokers and newsletters, including State One Stockbroking, Fat Prophets and Wise Owl, have rejected the price being asked as too high.

Roger Montgomery, an analyst and author of *Value-able*, values the stock between \$1.09 and \$1.48 in 2012, about half the price being asked.

Most investment banks have been restricted from issuing recommendations on the stock because they are involved in selling the shares.

But of the two major investment



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Macquarie report on float

Running on schedule ... the retail component of the offer closes on Friday. Photo: Bloomberg

banks that issued independent valuations, Deutsche valued the stock at \$2.53, at the bottom of the range, and last week Macquarie valued it at \$2.75, the mid-point of the range.

Macquarie found the return on funds employed would be about 6 per cent, or about the same as a term bank deposit, and warned in part: "Return profile across the group is weak."

"[The] risk is no material free cash-flow generation for next five years due to ongoing capex [capital expenditure] requirements," a summary of its report stated.

A spokesman for the float said supporters included Ian Huntley at Morningstar and ING Asset Management.

Managers of the float concede QR, which is being sold as a growth stock, does not meet the criteria of retail investors focused on yield.

They also agree that the complexities of QR's float – including debates about the appropriate metric to value QR – may suit institutional investors better than retail investors.

However, lead managers are relaxed about the ability to sell the required amount of stock in the

float, after allocating \$1.05 billion worth to stockbrokers for sale to one component of retail investors.

The additional proceeds from the broader retail offer are expected to lift the amount invested by retail investors to anywhere between 30 per cent and 40 per cent – or \$1.5 billion to \$2 billion – of the overall share register.

Institutional investors, with strong support from international investors, are expected to add to demand during the tender process that will set the price for the remainder of the shares.