RURALCO HIT BY LIVE EXPORT BLOWOUT

AGRIBUSINESS

AGRIBUSINESS Ruralco has blamed start-up costs for an inaugural first-half loss at its new live export business.

Ruralco says its Frontier International Agri business reported a first-half loss before tax of $2.1 million due to higher-than-expected establishment costs. But Frontier International had orders in the pipeline, Ruralco said, and was procuring cattle for shipments to short and long-haul destinations in the second half of the group's financial year.

Ruralco managing director John Maher said costs had been higher than expected but the sales pipeline was "on track".

Despite the loss by Frontier, which Ruralco took control of last October, the agribusiness group returned to the black with a $5.1 million net profit for the six months to March.

Ruralco suffered a $500,000 loss in the same period a year earlier. Ruralco shares closed up 3c at $3.68.

Age to access super 'will rise'

BELINDA MERHAB
THE ECONOMY


Treasury Secretary Martin Parkinson has predicted changes to superannuation.

TREASURY Secretary Martin Parkinson has conceded the age at which Australians can access their superannuation will inevitably rise.

The debate over the preservation age — currently 60 for people born after June 30, 1964 — has been raging after federal Treasurer Joe Hockey indicated this week that it could be changed in the Government's present term.

"I think it is inevitable that pressure will build for changes in that area," Dr Parkinson said yesterday, speaking at a business lunch.

"We have to get a bit more sensible about the way we talk about and think about retirement incomes."

Prime Minister Tony Abbott said yesterday the Government would not be making any adverse changes to the superannuation system in its first term.

Dr Parkinson also said more community discussion would be required on the contentious issue of the retirement age being raised to 70 by 2035.

"It is unrealistic to imply that someone who is doing heavy manual labour can necessarily work through to age 70," he said.

"What that leads us to is the need to start to think more seriously about how people manage different careers throughout their life and how we manage the transition."

Dr Parkinson said the Budget's measured approach to fiscal consolidation would put Australia "in a better position to respond to future economic shocks".

The $11.6 billion in infrastructure initiatives would prove timely as large resource sector projects reached completion, he said.

"This infrastructure investment is good for economic growth in the short term and can help support productivity over time."

Meanwhile, the Reserve Bank has all but confirmed it expects the official interest rate to stay on hold at 2.5 per cent throughout 2014 and beyond.

In the minutes from its May meeting, released yesterday, the RBA said the economy had evolved in line with its expectations, meaning its forecasts for activity and inflation were little changed.

AAP

Land sell-off spurs market

COMMERCIAL PROPERTY
OLGA GALACHO

THE State Government's fire sale of surplus properties around Victoria is reaping a bumper harvest to help bankroll Premier Denis Napthine's ambitious infrastructure program.

The Government will this weekend reveal the size of the windfall it has collected and flag the remaining sites to be offloaded in coming weeks, a spokesman says.

Commercial property agents said they couldn't remember an individual vendor — in this case the Department of Treasury and Finance — having boosted the property sector so spectacularly in recent years.

Rather than create a glut and a slide in prices, the sudden availability of so much land was sparking unprecedented interest from cashed-up, Asian-based buyers, agents said.

Buyers recognised the rare opportunity to buy huge parcels of land so close to the CBD for large-scale development of medium-density housing, they said.

The sales rush provided more choice than usual for buyers and a buzz had been created by the fact stamp duty was not payable on the transactions because the vendor was the Government, industry experts said.

Savills agent Nick Peden, who has just sold the plot of 12,100sq m at 191 Rosamond Rd, Maribyrnong, told *BusinessDaily* many of the public assets on the block were in prime locations and thus attracting prices beyond expectations.

"The levels of suburban infill sites on the market this year has increased significantly, with the majority being government sales," he said.

"Land values are being pushed upwards ... due to the significant competition for each site and the influx of offshore based buyers."

The Maribyrnong site sold to a private developer for $7.1 million, or $588 a square metre, and was 75 per cent more than the vendor had anticipated.

Four "highly motivated" parties put forward tenders for the property, which is opposite the expansive Highpoint Shopping Centre and adjoining a large homemaker centre, 8km northwest of the CBD.

The property has wide frontages to Rosamond and Raleigh streets, but does not include the small parcel directly on the corner.

That is occupied by a Beaurepaires outlet that is likely to be surrounded by a sparkling new development soon, instead of the current drab warehouse.

> **The levels of suburban infill sites on the market this year has increased significantly**
> NICK PEDEN

Another government site sold in the past few weeks by Savills was the 13.74ha plot at 30 Brandon Park Dve, Wheelers Hill, which collected $47.5 million.

Including 55,623sq m with approval for a five-storey development, this site was described as the single biggest parcel of vacant land still available in a built-up, residential area southeast of the city.

A vacant 1.83ha site next to Metropolitan Golf Club at 17 Beryl Ave, Oakleigh South was sold for $13.5 million by Melbourne Acquisitions.

Read between the lines as IPO frenzy set to hit shelves


THE SHORT CUT
with ROGER MONTGOMERY

WHEN I think of big brands, I think of the likes of Apple, Nestle, Walt Disney and Coca-Cola. They're usually very big, and very global.

And so I was surprised to hear of the possible initial public offering of a company with some mighty brands based in Australia.

With share prices of companies already listed being expensive, taking advantage of IPOs might just be the only opportunity to generate returns from an inefficient market.

New floats can sometimes be misunderstood, under-researched or mispriced.

What I am interested in is whether the upcoming float of a company with a business in which a large portfolio of No.1 and No.2 brands are housed, could provide our clients with an additional boost to their pre-retirement wealth and income.

And currently, I am restricted to talking about the company without sharing the name. In any event, the steps I will outline would be useful when assessing any IPO.

Building a powerful brand and the associations and share of mind it commands represents the pinnacle of brand building and design.

Very high rates of return on equity can be generated because higher prices can be charged for a product that many others are replicating.

Fast-moving consumer brands, however, have not been generating the kinds of returns that university case studies say they should.

Why? Because supermarkets have seen the great returns that brands have been making and want some of the action. And successive Australian governments have been napping while monopolies, duopolies and oligopolies were forming.

Another explanation is that even where competition was permitted or encouraged, it proved too little, too late. The promise of low prices will soon become a consequence.

One only needs to look at the fate of Coca-Cola in Australia. Coke is the most recognised brand on the planet and yet the power of the Australian supermarkets is such that they can squeeze brands in a way that you cheer the lower prices now, but will later rue the lack of variety and much, much higher prices.

So if Coke and Tip Top are suffering in Australia at the hands of supermarkets — and both Coca-Cola and Goodman Fielder have been demonstrating declining revenues — what other brands could possibly stand up to the onslaught?

The other issue for me has been that these brands are mature in Australia and we have only 23 million people.

The final point is always about the prices at which the IPOs are being offered.

At the commencement of a bull run in the stock market, IPOs are frequently generously priced. At the end of the bull run, absurd multiples are sometimes paid.

Today, however, we are neither at the beginning of a bull market nor at the end, and at this time, IPOs offer a mix of pricing.

The particular IPO that I looked at might be priced on a multiple not far from its globally listed peers, but those peers are giant global companies with deeper pockets, and even *they* are sometimes struggling in the war with the Aussie supermarkets.

We think you should keep an eye on the quality of the forecast profits that are being used to justify the valuations. If the company has been making losses in the past, they will be revealed on the balance sheet under retained earnings. And you might also look to see if those previous losses or gearing have reduced the tax bill.

Those carried forward losses might not last forever and if they don't, the profits of a stable company that isn't growing revenue can take a hit. On the other hand, if the losses did continue, you'd be the one taking the hit.

So there you have it, when assessing IPOs — even those that house iconic brands — don't simply dive in.

Be sure to look at the history of profits, the dynamics of the industry and whether the company is cheap. Keep those things in mind because the IPO frenzy may just be warming up.

ROGER MONTGOMERY IS FOUNDER OF MONTGOMERY INVESTMENT MANAGEMENT