Bye bye, Bluestone

Thousands in limbo after collapse

PETRINA BERRY
JOBS

THOUSANDS of truck drivers, machinery operators and boilermakers have lost their jobs, at least temporarily, after mining services provider Bluestone Global tumbled into administration.

About 3500 contract workers and 180 full-time staff have been retrenched from the Melbourne-based group.

The majority of Bluestone's subsidiaries, including labour hire division ResCo, went into liquidation while the parent company went into voluntary administration on Monday.

ResCo was a major provider of mining services in New South Wales' Hunter Valley, and liquidator KordaMentha is working to redeploy the workers. Bluestone, which is listed on the Australian stock exchange, also employed workers in a host of other suburbs and regional centres, including Altona, Ballarat and Dandenong in Victoria.

KordaMentha said about 80 ResCo staff were expected to be placed in new jobs and about 220 ResCo truck drivers and trainees would be transferred to labour hire company Skilled Engineering today.

KordaMentha's joint liquidator and administrator Craig Shepard said the priority was to redeploy every worker.

"We are also optimistic that a good proportion of supervisory and office staff will also find new roles," he said.

The company is yet to disclose how much Bluestone owes in unpaid wages and employee entitlements.

Bluestone shares were put in a trading halt on Tuesday last week and suspended last Thursday ahead of yesterday's revelation.

They last traded at 0.5c.

AAP

NO RISKS, SO NO JOBS

SERVICES

THE services sector is still going through a soft patch with businesses remaining unwilling to commit to hiring more staff due to the relatively flat economic outlook, research suggests.

The Australian Industry Group's Australian performance of services index was up 1.7 points to 49.3 in July. Readings below 50 indicate the sector is contracting. The lower the number, the faster the pace of contraction.

CREDIT CALL PLACES GROWTH ON AGENDA

COMMERCIAL PROPERTY
OLGA GALACHO

LISTED commercial trust Growthpoint Properties Australia is preparing to tap debt markets after achieving a maiden, medium-grade rating from Moody's.

Growthpoint's new credit rating of Baa2 — two notches into investment grade — was issued against bank loans of about $995 million, of which $885 million is drawn.

The trust plans to add to its portfolio of 51 properties after dipping into cheaper funds the rating will help it access.

The recognition cements the A-REIT's (Australian real estate investment trust) position in the top 10, behind heavyweights such as Mirvac Industrial Trust, Charter Hall and Goodman Group.

Growthpoint South Africa is the trust's largest shareholder with 64 per cent.

Growthpoint Australia chief financial officer Dion Andrews said the trust would use the new investment grade rating to diversify its debt sources away from its current reliance on bank finance.

The group would now be able to reduce the overall expense of its credit during the next 12 months and attain longer maturities with issuances into debt capital markets, the trust said.

"Combined with strong demand for the group's equity, (Moody's rating) will drive down our cost of capital, allowing accretive acquisitions should property that meets our strict investment criteria become available for purchase," Mr Andrews said.

The trust now lets more than a million square metres across 35 industrial and 16 office properties with an estimated value of $2.07 billion.

Its industrial portfolio, which has a 99 per cent occupancy rate, is largely concentrated in Victoria where the main tenant is Woolworths. The supermarket chain accounts for a quarter of the portfolio's rental income.

Growthpoint's office properties are mostly in Queensland and boast a 97 per cent occupancy rate. It also owns offices at GE's Melbourne headquarters.

In February, the group posted an interim profit of $63.5 million, 87 per cent more than the previous corresponding period.

Moody's said Growthpoint's risk profile benefited from the fact it did not develop property.

"Growthpoint will likely continue to purchase properties to be developed, fund construction of developments, or enter a joint venture where the group becomes the owner of the property on completion, but only where material leases are in place," Moody's noted. "Over the next 12-18 months, we expect Growthpoint will maintain net debt/EBITDA (earnings before interest, tax, depreciation and amortisation) of between five and six times and EBITDA to interest of between 2.7 times and 3.5 times."

Just before applying for a credit rating, the trust late last year reduced its gearing range of between 40 per cent and 45 per cent with a placement and rights issue.

GE Money's headquarters in Burnley, a Growthpoint site.

THE SHORT CUT
with ROGER MONTGOMERY

Mermaid needs to chart new waters

MERMAID Marine (MRM) is one of Australia's largest marine services providers with a domestic fleet of 34 vessels.

The company's earnings have been buoyed by the considerable wave of investment into Australia's offshore oil and gas sector. But what are the prospects for the business now that foreign investment is starting to dry up?

At Montgomery Investment Management, we are typically not attracted to capital-intensive businesses. You see, expensive equipment and machinery needs to be well utilised, maintained and ultimately replaced, and this means there is less capacity to return profits to shareholders. Yet Mermaid Marine has enjoyed strong profitability in recent years.

Since 2009, Mermaid Marine has grown its earnings per share and asset base by around 17 per cent per annum while maintaining relatively stable margins. Strong levels of foreign investment into the oil and gas sector would normally have encouraged competition to enter the market, thus lowering margins.

The jewels in Mermaid Marine's crown are its supply base and slipway in the North West Shelf of Western Australia. The asset is a virtual monopoly in the region.

A monopoly is only useful if your assets are in demand. A number of large gas projects have now started transitioning from the construction phase to the production phase, which is less lucrative for Mermaid Marine.

Mermaid Marine elected to expand offshore via the acquisition of Singapore-Based Jaya Holdings for $550 million.

The transaction has considerably expanded Mermaid Marine's addressable market, which now includes the Philippines and West Africa.

Management considers that having one of the youngest fleets in the world will provide the company with an advantage over its competitors when bidding for contracts. Yet in a few short years I believe management will be forced to spend considerable capital to renew or maintain the fleet.

In order for Mermaid Marine to become more attractive as an investment, it needs to separate itself from their traditional capital-intensive model. How can it do this?

The world's insatiable demand for energy is resulting in producers funding larger projects to satisfy demand. Technological advances and growing economies of scale are making projects like Floating Liquefied Natural Gas structures more economically viable. With larger projects comes increased complexity, which means producers will be more inclined to pay a premium for consultants with an intimate knowledge of elemental forces.

With the acquisition of Jaya, Mermaid Marine has experience within Australasia. Mermaid Marine may be able to transition into offering global consultancy services.

Unique knowledge applied to its consultancy services may result in more handsome rewards.

Management has indicated that Mermaid Marine may explore this option in the next five years. Until then, we will be watching any progress from the shoreline.

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