A new lease of life

Scentre shops 'near full'

COMMERCIAL PROPERTY
OLGA GALACHO

WESTFIELD offshoot Scentre Group says a sustained recovery in retail sales has helped it post strong results for the first half of the year.

Handing down Scentre's results yesterday, chief executive Peter Allen said the group's shopping centres enjoyed "almost full occupancy".

Established in June, Scentre — which runs the Westfield-branded shopping centres in Australia and New Zealand — says the results show its business is highly resilient.

The results reveal revenue surged 17.2 per cent to $782 million and comparable net income — an underlying measure of profit — grew 2.3 per cent in the six months to June, compared with the same period last year.

For the rest of this year, income is forecast to grow between 2 per cent and 2.5 per cent.

Yesterday's results were not a true reflection of Scentre's performance because they included income from pre-merger businesses in the parent group, management said.

But lease levels remained at 99.5 per cent for the 47 Scentre properties, despite rental growth of nearly 2 per cent.

"Comparable specialty store sales were up 3.3 per cent for the first half and more than 5 per cent higher in July (this year, compared with the same month last year)," Mr Allen said.

Average sales were more than $10,000 a square metre for specialty retailers — a result of Scentre's "intensive management of the existing portfolio to maximise the sales productivity of retailers", the group said.

Security holders will receive 10.8c a share off the back of the half-year profit, but the company is forecasting a slight drop to 10.2c for the six months to December.

Mr Allen said he was confident more international retailers would set up shop at the group's centres.

"We see ... the integration of food, fashion and entertainment experiences, combined with the greater use of digital technology as key trends which will underpin the strength and relevance of our existing centres and future redevelopments," he said.

Four new retail spaces are being built in New South Wales and Queensland, with Scentre bearing about two-thirds of the cost.

Work will start on two more centres in Sydney next year. These projects are worth $1.5 billion combined.

Following a restructure of debts, Scentre has kept A1 and A credit ratings from Moody's and Standard Poor's respectively.

Scentre securities 2.3 per cent lower yesterday at $3.47.

CONFIDENCE RECOVERS FROM JOBLESS JOLT

THE ECONOMY

CONSUMER confidence has bounced as rising house prices and low interest rates outweigh concerns about growing unemployment, according to pollster Roy Morgan.

Confidence took a hit earlier this month as Australia's jobless rate surged to 6.4 per cent — its highest level in 12 years — and amid geopolitical concerns in Ukraine and the Middle East.

But confidence is now back above the long-term average, rebounding 0.9 points to 113.5 in the weekly index compiled by Roy Morgan and banker ANZ.

Confidence was continuing to recover from the shock rise in joblessness, supported by low interest rates and rising house prices, ANZ chief economist Warren Hogan said.

Mr Hogan said there were encouraging signs for consumer spending.

"Signs that consumer confidence is bouncing back, combined with strengthening business surveys, gives us more confidence that the non-mining recovery remains on track," he said.

"We expect consumer spending to remain moderate in 2014 before improving in 2015."

EXPANSION ALL ADDS UP FOR 3P REVENUE

EDUCATION

THE US is set to become one of the main stops on 3P Learning's expansion drive as demand for its educational software increases.

The company behind online education tools Mathletics and Reading Eggs added 304,000 American licences in the year to June — a jump of more than 80 per cent, taking the regional total to 662,000. Chief executive Tim Power said while 3P Learning's outlook was excellent across the board, it sold more than 90,000 licences in the US beyond expectations.

"The outlook is we are set to smash our US forecast by quite some margin," he said yesterday as 3P unveiled its full-year results. The group holds the distribution rights to several online education brands — most notably Mathletics, a numeracy program for kindergarten to year 12 students.

Reading Eggs is a literacy program for infants and primary school students.

3P Learning has 4.7 million licences worldwide. It posted a net profit of $5.1 million for the year in its first earnings result since its debut on the Australian Securities Exchange last month.

Its pro-forma net profit leapt to $8.5 million from $2.7 million, beating the prospectus forecast of $8.3 million.

Revenue rose from $32 million to $36.5 million, $1.2 million more than forecast.

Shares in 3P closed at $2.54, up 5.4 per cent.

Avoiding losers a winning strategy


THE SHORT CUT
with ROGER MONTGOMERY

SUCCESSFUL stock market investing — the kind that leads to financial independence — isn't as much about picking the winners as it is about avoiding those events that lead to the permanent impairment of capital.

Serious wealth-building is as much about avoiding the losers as it is about finding that 100-to-1 outsider.

I have to cringe when I hear fellow TV panellists saying something like, "only trade with money you can afford to lose".

I don't know about you, but I can't "afford" to lose money. Set yourself up to protect every cent.

One of the keys to doing well is to get forecasts of the future reasonably right. Charlie Munger, who is Warren Buffett's second in command over at Berkshire Hathaway (a company whose shares have risen from under $40 each in the 1960s to more than $200,000 each today), was asked: What makes you such a successful investor? His response was illuminating: "My guesses are better than yours."

It's one of the great challenges — estimating future growth rates — but provided you stay within your sphere of expertise and focus on stable businesses in industries that don't change much, you can lower the risk.

It's also worth remembering that no business can continue to grow at jaw-dropping rates forever.

So we thought it was worth looking at JB Hi-Fi (JBH) earlier in the month.

JB Hi-Fi is a company that has rewarded its shareholders with double-digit returns since its $1.55 listing in 2003. And when the share price was recently at nearly $20, we couldn't help but notice that extremely optimistic estimates of future growth rates would have to be adopted to justify that.

So what returns would the company need to generate?

We estimated that to justify the share price, JB Hi-Fi would most likely need to complete its 75 JB Home store rollout over the next two years, as well as open roughly 10 JB Hi-Fi stores a year over the next three years. Earning growth would need to be in the vicinity of 9 per cent to explain a price of around $20.

We reckon one of the most telling insights into future rates of growth can be found in the firm's financial statements, which noted management's hurdle for long-term performance was reduced from 10 to 15 per cent earnings per share growth per annum over a three-year period to five to 10 per cent.

In the company's full-year results, comparable sales growth in Australia in the second half of FY14 was 0.1 per cent per annum. Total sales growth in the same period was 3.5% per annum.

Comparable software sales growth in FY14 was a negative 11.7 per cent per annum and sales growth in July 2014 was negative 3.2 per cent.

The company is not generating the kind of growth required to justify the share price of $20. We sold our holdings back then. With the shares since declining to around $17, we are still not convinced the growth needed will be forthcoming.

Avoiding losses is a significant part of what we do at Montgomery. Be sure you're doing the same.

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