Virgin boss trumps rival

Airline, mining chiefs rewarded despite losses

PETRINA BERRY
EXECUTIVE PAY

VIRGIN Australia chief John Borghetti has chalked up $2.8 million in take-home pay for the past year, topping the pay packet dished out to his biggest adversary, Qantas chief Alan Joyce.

Mr Borghetti's salary and bonus package for the year to June was slightly higher than the $2.66 million he collected the previous year, despite Virgin posting a $355.6 million net loss.

Mr Joyce took home $2 million for the year after giving up 5 per cent of his salary and missing out on bonuses after Qantas' $2.8 billion loss.

Details of Mr Borghetti's pay package were disclosed yesterday in Virgin's annual report as another loss-making company, gold miner Newcrest, revealed it had increased short-term bonuses.

Newcrest, based in Melbourne, lifted short-term bonuses to top executives more than 11-fold this year despite its heavy loss.

Last year, the miner's top executives received up to 8 per cent of their potential short-term incentives payments.

This year, most of the 15 current or recently departed executives received more than half.

Former chief executive Greg Robinson received a $1.03 million short-term bonus plus a $1.6 million severance package on top of $2 million in base pay for the year to June.

Total short-term bonuses paid out were $6.2 million — well above the $544,000 the previous financial year.

Newcrest posted a $2.2 billion annual loss for the year to June.

Separately yesterday, developer Lend Lease revealed chief executive Stephen McCann received a pay and perks package worth $7.6 million for the year to June, up from $4.76 million.

AAP

Plan puts shops front and centre

COMMERCIAL PROPERTY
OLGA GALACHO

DEVELOPERS and institutional investors are rejuvenating suburban retail and office complexes with gusto, spurred on by the State Government's Plan Melbourne initiative.

The recently built 1 McNab Avenue commercial complex in Footscray, 6km west of the CBD, is one of the more prominent examples.

Launched by construction firm Grocon, the 14-storey building houses 18,000sqm of offices and ground-floor shops.

Refurbishment of the nearby road and railway reserve to improve pedestrian links between the building and public transport is also underway.

The Footscray Plaza redevelopment will be launched this weekend.

At the corner of Paisley and Albert streets, the five-storey centre owned and developed by Banco Group will have 234 new apartments above the revamped shops.

In Melbourne's southeast, GPT Group will soon unveil the completed reconstruction of the 61,400sqm Dandenong Plaza. A major facelift of the 25-year-old shopping mall on the corner of McCrae and Walker streets began late last year.

The $173.5 million project has replaced Myer with four "mini-major" retailers — supermarket Aldi, Trade Secret, Dasio and JB Hi-Fi — to add to the existing 180 tenants.

In the north, Summerhill Shopping Centre in Reservoir will be offered for sale by commercial agencies CBRE and Colliers International.

The former Coles supermarket and carpark site at 850 Plenty Rd is being rebuilt by new owner LAS Group and private equity firm Qualitas.

Colliers retail investment chief Lachlan MacGillivray said yesterday Summerhill, expected to fetch $80 million, was the first new sub-regional shopping centre to go on the Melbourne market since the start of the year.

Four similar-sized centres valued at about $100 million have sold in the past 12 months.

In Victoria, 19 shopping centres are either under construction or being refurbished outside of the CBD, according to Savills Australia's second-quarter retail report.

New centres are expected to open in Pakenham, Mentone, South Morang, Altona, Williams Landing and Bundoora between now and May 2016.

Harvey Norman head honchos Gerry Harvey and Katie Page. Picture: BRENDAN RADKE

HARVEY NORMAN REWARDS EXECS

DREW CRATCHLEY
RETAIL

HARVEY Norman executives have received generous pay increases after the retailer chalked up a big rise in profitability.

Chief executive Katie Page received pay and perks worth $2.8 million for the year to June — up 54 per cent on the previous year, the group's annual report reveals.

Her husband, chairman Gerry Harvey, received $1.1 million, up on the previous year's $1 million, due to a $106,000 long-term cash bonus. Chief operating officer John Slack-Smith received a little more than $2 million in pay and perks, up 14 per cent, while finance director Chris Mentis' pay also rose 14 per cent, to $1.55 million.

Harvey Norman directors said the pay rises reflected the group's improved profit, which rose to $212 million thanks to stronger sales and property values over the year.

The group's share price and earnings per share also improved. Mr Harvey's stake in the company is worth more than $1.1 billion, while Ms Page's shareholding is worth $61.5 million. The report was published yesterday.

Harvey Norman reiterated it expected its performance over the medium term would be underpinned by the booming housing market.

"Favourable trends are evident in the Australian housing market, and we are positioned to harness our market-leading position in homemaker product categories to build additional market share," Mr Norman and Ms Page wrote in the report.

Shares in the group closed up 1.7 per cent at $3.63.

US offer looming for Recall

DEALS

A US data storage company is considering making a play for Australian counterpart Recall, sources say.

Boston-based Iron Mountain is considering a plan to offer more than $2 billion for Recall, according to insiders.

The American company is working with advisory group Evercore Partners and investment bank Goldman Sachs on the potential deal, they said.

Shares in Recall, which was spun out of pallet provider Brambles last year, surged in early trading yesterday amid talk of the possible approach.

They slipped later as Recall said it was "not in discussions" with Iron Mountain or another buyer, but still closed 11.6 per cent higher at $5.60.

Brambles spun out Recall late last year after trying and failing to sell the business in 2012. Recall stores corporate documents and information physically and digitally.

According to one of the sources, the company might be valued at $2 billion to $2.5 billion if it were bought out.

Melissa Marsden, a spokeswoman for Iron Mountain, said the company doesn't comment on market rumours or speculation.

Pressure still on for firms that service mining industry

THE SHORT CUT
with ROGER MONTGOMERY

AFTER a disappointing year to June 2014 for most companies servicing the mining sector, there has been some modest share price recovery from the likes of Southern Cross Electrical, Sedgman, Bradken and Ausdrill.

Some investors may see this and wonder if a sector bottom has been reached.

But before you dip your toe back in the water, we recommend a close read of the latest announcement by ALS Limited (ALQ).

ALS Limited has a market capitalisation of $2.1 billion and net debt of $730 million. The company provides testing services for minerals, life sciences, energy and industrials. ALS is widely diversified, both by division and geographically.

However, with the most recent profit warning, the share price has dropped by 40 per cent from above $9 in July to the current four-year low of $5.30.

Back in 2012-13, when ALS produced a record net profit of $232 million, its share price hit a high of $13.80.

In the most recent announcement, ALS noted that conditions are tight in all sectors. And while activity has improved, all business divisions are still experiencing pressure on prices.

The announcement suggests that while there is work in the market, competition has intensified. Contractors are struggling to take costs out of the business fast enough to minimise the impact on their bottom line (aka "right sizing" the business).

We believe many mining services companies are facing a double whammy — the top line is flat or falling and margins are getting squeezed.

And for those companies that have relied on debt to grow their business, the pressures from financial leverage and operational leverage will be even greater.

But how long is this likely to continue?

At Montgomery we continue to see a congruence of events that does not augur well for the sector.

That is: high value LNG projects heading towards completion and new onshore projects unlikely to proceed; continued relative softness in the iron ore and gold price; and a continuing overvaluation of the Australian dollar.

This will lead to a serious decline in capital expenditure within the Australian resource and mining services sector over the medium term.

And ALS Limited — the global, diversified mining servicing company — is experiencing pressure across all business units and all geographies.

While work remains, the severe competition and clear indication that the major mining houses are intent on taking further costs out of their businesses, points to a mining services sector that may have to give even more on price to win work.

Further, industry feedback suggests that these cost reduction efforts are likely to continue for the medium term. At some point in the future the industry will rebound and when this occurs, prices will rerate for those mining services contractors that still exist.

However, if your argument for buying a mining services company is founded on share price movements rather than sustainable fundamentals, we do not think that this is conducive to building long-term value.

We will make no apology for beating the anti-mining services drum while the prospects for the industry remain unattractive.

Roger Montgomery is founder of Montgomery Investment Management