Homing in on Europe

Weak Aussie takes toll on Kathmandu

JANE HARPER
RETAIL

OUTDOOR clothing retailer Kathmandu has set its sights on European horizons as a weaker Australian dollar weighs on earnings.

The group said it would invest almost $5 million extra in the UK and Europe over the coming year to lift sales.

Kathmandu management announced the push yesterday as it reported a net profit of $NZ42.15 million ($38.4 million) for the year to July, down 4.6 per cent on the previous year. Though founded in Melbourne and listed on the Australian Stock Exchange, the group is based in Christchurch and reports its results in New Zealand dollars.

Investors wiped $80 million off Kathmandu's market value in June after chief executive Peter Halkett warned full-year earnings could fall by up to 15 per cent on the back of mild autumn weather.

But the retailer announced last month that a colder than expected July had helped it claw back many of its expected losses. Total sales rose 2.3 per cent to $NZ392.9 million.

Kathmandu's stores in Australia — where it does most of its business — performed well, with sales jumping 14.8 per cent. Key like-for-like sales, which strip out the impact of stores that have opened or closed, rose 6.9 per cent.

But the group said the sales boost was offset by a weaker Australian dollar, which wiped $NZ5.8 million from earnings.

Pre-tax earnings rose 1.4 per cent to $NZ64.3 million.

Kathmandu chairman David Kirk said the company was focused on growing its UK business and also was aiming at customers in Europe.

"We are excited to be beginning a new stage in Kathmandu's development," he said.

It declared a fully franked dividend of NZ9c a share, with the full-year payout at NZ12c.

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Kathmandu chief executive Peter Halkett

$3.4M FOR STEINERT

EXECUTIVE PAY

STOCKLAND chief Mark Steinert took home $2.3 million in his first full-year in the helm of the property developer.

He was paid $1.5 million in cash and collected $750,000 in short-term bonuses in the year to June, the group's annual report reveals. His total remuneration package was $3.4 million, including more than $558,000 in long-term incentives.

Stockland lifted its full-year profit fivefold for the year to June to $527 million.

NEW CHIEF FOR FARMERS

BOARDROOM

THE peak farmer's lobby group has a new chief executive in former Kraft-Cadbury executive Simon Talbot. He will take over the top job at the National Farmers' Federation from Matt Linnegar, who left in July after three years.

The former state government adviser more recently headed regional corporate affairs in Australia for Mondelez International — previously known here as Kraft Foods and Cadbury — for seven years.

Industrial property returns point to healthy sector

COMMERCIAL PROPERTY
OLGA GALACHO

RETURNS on industrial property outstripped those on retail and office assets across Australia by almost a third in the year to June, new research shows.

According to a report by investment consultants Atchison, industrial space returned 12.1 per cent, compared with 9.8 per cent for retail and 9 per cent for offices.

A separate report from Savills Australia says the past financial year saw the biggest jump in sales for six years, with about $70 million worth of property changing hands in Melbourne's west alone.

"There is no doubt that we are now seeing a significant recovery in the industrial market," Savills director Tim Casanelia said.

"Demand and sales began to show a rise in activity early last year, but over the past six to nine months, we have seen the most dramatic turnaround since the GFC," Mr Casanelia said.

Atchison analyst Lev Driker said strong demand for industrial property from investors seeking high yields was likely to ensure prices kept rising.

Although the total return on Melbourne industrial property has recovered since the financial crisis, it is yet to achieve the near-24 per cent level reached in the year to June, 2005.

But Mr Casanelia said the fact speculative builders were buying land at today's high valuations showed economic recovery was under way.

"These buyers are making a statement, if you like, that they have confidence that they are going to get a return on their investment," he said.

Cautious time for Carsales

THE SHORT CUT
with ROGER MONTGOMERY

Carsales.com.au (CRZ: ASX) is one of the highest-quality companies listed on the ASX.

Since 2010 it has grown earnings per share by 20 per cent annually while maintaining a return on equity above 50 per cent.

But even the highest-quality companies can lose you money if you pay too much and investors appear to be getting a little too excited despite potential speed bumps on the road ahead.

Carsales has been able to generate impressive and profitable growth, thanks to a valuable competitive advantage as the must-have platform for car dealers who want to sell their stock.

The company's powerful position afforded it the ability to increase prices but from the manufacturers' perspective, Carsales simply has too much power.

In 2013, many manufacturers ordered their dealers to remove new car advertisements from Carsales.

While this adversely affected Carsales earnings, this was nothing compared with the drop in sales major manufacturers suffered.

It soon became clear that Carsales attracted buyers because of a rich library of market information. New car buyers would still place inquiries to the dealers during the exodus, but there was limited inventory to satisfy this demand. Dealers were put in the difficult position of turning down leads while still required to hit sales targets.

Many of the manufacturers have since returned to the site, affirming our belief that Carsales offers a key value proposition in the supply chain.

So why have we become cautious?

There are two reasons.

The first is that Carsales has acquired a 50 per cent stake in a car financing company called Stratton Finance.

Financing commissions are a large source of income for car dealers.

While the dealers may have been able to absorb increasing inquiry fees and advertising rates, the economics will become even more challenging if Carsales claims a sizeable share of these margins as well.

Management at Carsales is aware of this perceived threat and has a desire to keep the golden goose happy.

But if inventory levels on the Carsales site have reached a natural ceiling, then management must tread carefully when searching for additional revenue streams to sustain growth, lest it bites the hand that feeds it.

Some investors may be comfortable with a mature domestic outlook because management is also seeking growth offshore, but here again we remain cautious.

Carsales has expanded into South Korea, Brazil and South-East Asia by acquiring sizeable interests in the leading car classifieds websites.

The plan is to transform each of these classifieds sites into lead-generating networks.

The development of these sites is in the very early stages, and the divisions are barely generating revenues, let alone profits.

The Carsales share price, however, is incorporating considerable growth from these offshore divisions where no evidence of success is yet available.

And it is by no means certain that management rather than the consumers themselves are responsible for the success of online classifieds.

Roger Montgomery is founder of Montgomery Investment Management