Rising demand to stoke coal revival

EVAN SCHWARTEN
RESOURCES

DEPRESSED coal prices could be headed for a swift rebound as demand for Australia's second-largest export catches up with supply, the chief of Whitehaven Coal has said.

Paul Flynn said coal prices could lift 10 per cent from their present lows within 12 months.

"From our analysis of the supply and demand around the world, it does look like we are very close to balanced," Mr Flynn said after Whitehaven's annual meeting yesterday.

"We are not projecting a massive return to the heydays of three years ago but we are foreseeing some improvement in price in the order of 10 per cent over the next 12 months."

Thermal coal prices have dropped to about $US75 ($85) a tonne from $US140 a tonne at the start of 2011 due to excess supply. That has hurt producers like Whitehaven, which has posted net losses for the past two financial years.

Chairman Mark Vaile said the Maules Creek mine, which has been the subject of environmental protests, would help transform the miner into Australia's largest, independent, listed coal company. First coal at Maules Creek is due to leave in January.

Mr Flynn said the mine's high quality of coal had a role to play in alleviating greenhouse gas emissions.

Coal, he said, was widely expected to remain the world's dominant energy source for the foreseeable future and was cheaper than renewable alternatives, which meant it would be a factor in the economic development of China and India.

Whitehaven shares yesterday closed 1c lower at $1.52.

AAP

BC IRON STUMBLES ON WEAK SALES

JUNIOR iron ore miner BC Iron's shares have plunged after a weak quarterly sales report revealed it was struggling to break even.

The Pilbara miner's cash operating costs in the three months to September 30 climbed to about $69 for a tonne of iron ore. BC Iron reaped just $US72 per tonne in the September quarter.

Its shares closed 18.5c, or 14 per cent lower yesterday at $1.14.

The iron ore price fell to five-year lows in the September quarter.

ECHO TAKES CHALLENGE TO CROWN

GAMING

ECHO Entertainment will go head to head with gaming rival Crown Resorts for the right to develop a casino on a prime Brisbane CBD site after submitting its proposal yesterday.

Like Crown, Echo has teamed up with an Asian consortium to compile a detailed offer to develop the Queen's Wharf site.

Echo, which owns The Star casino and hotel complex in Sydney, said it was unable to reveal details of its proposal given the confidential nature of the bidding process.

It has joined forces with Hong Kong's Chow Tai Fook Enterprises and Far East Consortium to bid for a new casino licence for the Brisbane site.

It is one of two consortiums short-listed by the Queensland Government for the project.

Rival Crown, which has paired up with Chinese partner Greenland Holdings Group for its bid, also lodged yesterday, wants to develop a six-star hotel and casino at the site, which contains heritage properties, several government buildings and riverfront land.

Echo, which is headed by chief Matt Bekier, said it expected the Government would announce the successful bidder early next year.

The battle for Brisbane shapes as a crucial one for Echo, which has already lost out to Crown in the race for Sydney's second casino licence. Crown plans to operate a VIP-only casino in Sydney from 2019.

Echo shares closed unchanged at $3.53.

Matt Bekier's Echo Entertainment group is bidding against Crown Resorts.

Property tax overhaul to woo investors

COMMERCIAL PROPERTY
OLGA GALACHO

REFORMING Victoria's property tax regime would make the state a more attractive investment for an expected wave of venture capital heading Melbourne's way, real estate experts say.

Last week's $120 million deal by US private equity firm KKR and Abacus Property Group to snap up a stake in Docklands' World Trade Centre has raised hopes of a strong influx of investment dollars.

Several asset managers are cashed up and under instruction to invest in Australian property, according to Jones Lang Lasalle's Ben Hunter, who eight weeks ago brokered the sale of 70 per cent of the World Trade complex at 18-38 Siddeley St. The remaining 30 per cent of the 53,000 sq m complex will continue to be owned by the vendor, Asset 1.

"Private equity activity in property markets has definitely picked up after an increase in the sector's ability to raise more capital," Mr Hunter said.

Australia was favoured because it had high returns, with yields of between 7 per cent and 8.5 per cent, coupled with a stable political and legal system, he said. Another US firm, The Blackstone Group, has spent $1.2 billion on Australian property in the past few years and is believed to be considering investing a further $3 billion.

The Property Council of Australia said tax barriers should be streamlined to help boost investment credentials.

Victorian executive director Jennifer Cunich said the recent influx was boosting construction activity but further investment was desirable.

There's price and then there's value

THE SHORT CUT
with ROGER MONTGOMERY

ONE of the parts of managing the wealth of private investors that I like the best is meeting successful business owners and founders.

Last week I was fortunate to be meeting with the owner of a large number of shopping centres. I enjoy this individual's company enormously because we have a similar range of interests, we're in a similar stage of life and we share a common value-set. I reckon we could fill an auditorium with people who would have liked to listen in on our conversation.

Well, fortunately, you won't have to bother going to an auditorium.

Let's first take a look at property. Inner-city apartments in some capital cities are now selling for up to $12,000 per square metre. Think about that. Ten-by-ten metre apartments selling for $1.2 million. Immediately you realise all is not as it should be.

Now compare the apartments to a commercial building with an A-rated tenant — like a big-four bank — on a long-term lease of 10 years. I am reliably told that such buildings might command a market value of $6000 per square metre.

It pays to understand the difference between price and value. Price is what you pay but value is what you get. When you hear someone tell you that an asset is worth "what someone else will give you for it", you can respectfully and politely correct them; what someone is willing to pay for something is merely its price. An asset's real worth is based on the present value of its future income. And the more reliable the income stream the more confident you can be in purchasing the asset.

I would guess that a large bank tenant on a 10-year lease is a more reliable tenant, and rental payer, than a couple of hipsters renting a flat in the city.

Despite this, apartments are selling for more per square metre than the securely tenanted commercial building.

The risk appetite among residential property investors is such that they will at some point suffer from a serious bout of reflux or worse. Much, much worse when interest rates rise again.

It is time for residential property investors to realise that even though the band is still playing and the party still in full swing, that you should be dancing very close to the door.

Interest rates are also on the agenda for share market investors. Low interest rates suggest the economy is not as robust as it once was. My friend tells me that turnover at his centres is going OK but that is because of great management. Elsewhere, I am reliably informed that turnover has been flat or even declining. What does that mean? It means that retail sales aren't growing and in some centres are actually declining.

For share market investors thinking there might be some bargains in the beaten-down retail stocks (JB Hi-Fi and The Reject Shop come immediately to mind), be warned; it might just pay to be a little patient and avoid trying to catch a falling knife. Flat to declining retail sales is not the rising tide you need to help paint over any timing errors when buying retail stocks.

Roger Montgomery is founder of Montgomery Investment Management