ANZ in choppy waters

Update irks investors

ANZ investors have handed the bank its worst market session in nine months after the group warned conditions were increasingly volatile, partly due to falling commodity prices.

Shares in the lender fell 2.5 per cent yesterday — their biggest single-session slide since last May — after chief executive Mike Smith said conditions were "slightly tougher, (and) more volatile".

He was speaking as the bank announced a cash profit, which excludes "one-offs", of $1.79 billion for the three months to December, up 3.5 per cent on the same period a year earlier. ANZ's net profit was flat at $1.65 billion. Both profit measures are unaudited.

"We have seen some tailwinds associated with the lower Australian dollar in the first quarter however these have been partially offset as a result of global economic conditions including lower commodity prices," Mr Smith said.

He said that, in the group's international and institutional business, economic conditions were having an effect, "including the impact of central bank monetary policy on margins".

The trading update showed the bank's net interest margin — broadly the difference between what it pays for deposits and takes in on loans —

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dropped six basis points over the quarter. ANZ attributed the slide in part to changes in exchange rates and the impact of rules requiring it to set aside more "liquid assets" relative to the size of its loan book.

Bell Potter analyst TS Lim, who had predicted the margin slide, said the bank was being squeezed as interest rates fell here and abroad.

He said the market had been "spooked" by a decline in ANZ's common equity tier 1 capital — effectively the cash it sets aside to absorb losses — to 8.4 per cent, from 8.79 per cent three months earlier.

Mr Lim said it was a "solid" result but some industry experts would be reassessing their outlook for the first half, due to the soft conditions outlined by Mr Smith.

Mr Smith said market conditions had "created a challenging environment for the Global Markets business although we expect this to improve throughout the year."

The trading update reveals its domestic business performed well, notching up another quarter of mortgage growth about the industry average. ANZ shares closed 88c lower at $34.99.

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> We anticipate achieving our objective of more than 10 per cent of retail sales online well before (financial year) 2017
>
> NICK ABBOUD

Mixed reception for Smith

DICK Smith shares have taken a nosedive despite the electronics retailer flagging a 10 per cent rise in full-year sales.

Shares in the group tumbled 6.7 per cent yesterday after the company unveiled first-half results that disappointed the market.

OptionsXpress market analyst Ben Le Brun said stunted sales growth in the company's New Zealand arm was weighing on investors' minds, with concerns of a flow-on effect into Australia.

Dick Smith's New Zealand division suffered a 53 per cent slide in first-half earnings, as sales fell 9 per cent amid tough competition from rival retail-

LUCY HUGHES JONES
RETAIL

ers and softer consumer sentiment.

Mr Le Brun said the NZ electronics market had experienced a spike in sales in December 2013 following the country's switch over from analogue to digital TV.

"Those sorts of repeats are not something you can bank on next time around," he said.

Total sales in Australia rose 12.2 per cent during the half, aided by new store openings, with earnings up 16 per cent.

Like-for-like sales, which strip out the effect of stores that have opened or closed, increased 4 per cent. Despite tough trading conditions, the company posted a flat net profit of $25 million.

Revenue increased 9 per cent to $693.8 million, aided by 11 new store openings and strong sales growth.

Dick Smith managing director Nick Abboud said the retailer anticipated full-year sales growth of about 10 per cent. The retailer has nine more stores to open in the second half.

"We anticipate achieving our objective of more than 10 per cent of retail sales online well before FY2017," he said.

Dick Smith shares closed 15c lower at $2.10.

Asciano bemoans malaise

LOGISTICS

PORT and rail operator Asciano says it is getting tougher to meet its targets for earnings growth because of weakness in the economy.

Unveiling the group's results for the six months to December yesterday, chief executive John Mullen said he still expected earnings to grow at least 5 per cent for the full financial year.

But he toned down the rhetoric around Asciano's growth target of 10 per cent to 15 per cent by June 2016, citing an economic malaise.

He was speaking as Asciano announced chairman Malcolm Broomhead would retire at the group's annual meeting this year.

Mr Broomhead, chairman since 2009 and also a director at BHP Billiton, had decided to retire "as part of the board's succession planning", the company said. Asciano is yet to announce a successor.

The company's net profit clocked in at $190 million for the six months to December 31, little changed from a year earlier. Shares in Asciano closed down 10c at $6.31.

Hancock in settlement

LEGAL

GINA Rinehart's Hancock Prospecting has reached a settlement with Wright Prospecting over access to their joint venture documents.

Wright had alleged Hancock, the managing partner, had refused to hand over their JV forms.

Wright lost access to the records after an office move several years ago. Following negotiations on Monday the companies reached a confidential agreement.

Hangover looms for revellers when market party's over

THE SHORT CUT with ROGER MONTGOMERY

BREAK out the punch, the party's started. Last year, I listed three reasons why we were on the cusp of a stock market boom.

I described it as a boom "we have to have".

While everyone was jumping at shadows, a simple appraisal of three very large forces was all that was necessary to determine the market's next move.

And those three reasons remain in place: Firstly, we have the largest ever population cohort — the baby boomers — heading toward retirement. And all of them want to live off the income their nest eggs produce.

The problem, however, is my second point; interest rates are appallingly low and even with $1 million sitting in a term deposit, boomers are earning less than the poverty line in terms of income.

The more cash you have in the bank, the worse off you are. And that's my third point: baby boomers who sold out of stocks at the bottom of the GFC now have a disproportionately large amount of cash sitting in the bank, earning low rates.

Those three forces — boomers, low rates and high cash — are conspiring to drive investors into the stock market.

Now, take a step back and think about how this might play out.

Rarely, if ever, has a boom provided lasting wealth for the majority.

Rushing into the stock market either because cash rates are low, or because you are afraid that the market might go higher, are both unsophisticated strategies.

Unsophisticated investors are now buying the banks and Telstra for their yields and unsophisticated investors tend to do worse on the averages over the long run.

Which brings me neatly to my next point: The averages are telling us future returns are going to disappoint.

Take a look at these figures. They read like a popularity contest where every company is the recipient of undying adulation.

The price-to-earnings ratios of these companies measures how many years, at the current rate of earnings, it would take for you to be paid back for your investment: Ramsay Health (P/E: 42); 3P Learning (42); Bursons (53); Aristocrat (46); TPG (33); Domino's Pizza (68); Invocare (33); Cochlear (44); Corporate Travel (60); Boral (41); REA Group (44); Freedom Foods (39); Bega Cheese (38).

To put some perspective on just how popular these companies are today, Dominos Pizza traded on a PER of 30 times just before the GFC. It subsequently fell to a PER of 19. It now trades at 68 times.

REA Group traded as low as 20 times after the GFC. It now trades at 44 times.

In 2007, the year of the pre-GFC bull market, Cochlear traded at 33 times and fell to 20 times during the depths of the GFC. Today, it's 44 times earnings.

In the year ending June 30, 2007, the stock market rallied over 20 per cent but there was little or no growth in aggregate company earnings.

At different times, different fads will move the market, but it cannot disengage from underlying earnings forever.

Right now, earnings for many Australian businesses are being threatened by an economic slowdown that has the end of the resources boom as its epicentre.

Additionally, investment bank Goldman Sachs has found that since 2001, buying industrial stocks trading on more than 25 times forward earnings has generated an average return of minus 5 per cent over the following 12 months versus an average annual gain of the market of 10 per cent.

So the party is up and running, the punch is flowing and revellers can't seem to get enough. But outside, there's an ill wind blowing.

Like every other stock market party, there simply aren't enough cabs to take everyone home to safety.

Roger Montgomery is chief information officer at The Montgomery Fund