Diversa shares surge on confirmation of Equity offer

JOHN BEVERIDGE
DEALS

SHARES in superannuation and investment company Diversa have surged after the company confirmed a $26 million takeover approach by Melbourne's Equity Trustees.

Responding to an exclusive report in *BusinessDaily*, Diversa initially put its shares into a trading halt yesterday.

Trading resumed after Diversa admitted Equity Trustees had offered 53c a share in a scheme of arrangement last week.

Diversa has been growing rapidly, reaching $6.1 billion of funds under management in February, making its wholesale and retail superannuation business a juicy target for the much larger Equity Trustees. Both Equity Trustees and the Brisbane-based Diversa warned the conditional approach might not result in a deal, describing it as "confidential, incomplete, non-binding and indicative".

However, the offer confirms Equity Trustees is back on the acquisition trail after bedding down the transformative purchase of ANZ Trustees last year, which came close to doubling operating revenues and operating profit. Equity boasts a strong balance sheet, no debt and operating margins that have firmed from 26 per cent to 33 per cent.

Diversa shares closed up 18.5 per cent at 48c. Equity Trustee shares fell 20c to $21.50.

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Dollar probe all clear

JASON CADDEN
THE DOLLAR

A PROBE into suspicious trades in the Australian dollar before the Reserve Bank's February and March interest rate decisions has uncovered nothing improper, the central bank says.

In the minutes of its April board meeting, released yesterday, the RBA said the movements could have been caused by automated trades.

There was very little trade in the Aussie just before the bank's interest rate announcements, the minutes said.

"The illiquid conditions that existed in the foreign exchange market at that time meant that small trades could move the price by relatively large amounts."

RBA board members said the Australian Securities and Investments Commission had "not identified any evidence of procedural lapses or conduct that could have led to the early release of (market sensitive) information".

The RBA referred the matter to ASIC after the Australian dollar fell in the seconds before it cut the official interest rate in February, and surged seconds before the March decision to keep the rate on hold. The Aussie also rallied moments before the central bank kept the cash rate on hold earlier this month. ASIC is also investigating that spike.

Minutes from the April 7 RBA meeting also showed board members wanted to see updated economic figures, including inflation figures due today, before deciding whether to cut the cash rate further.

The bank also wants to assess the impact of the last cash rate cut — February's 25-basis-point reduction to a historic low of 2.25 per cent — the minutes show.

March quarter inflation figures are expected to show falling petrol prices dragged the annual rate back to 1.3 per cent, well below the RBA's target band of 2 per cent to 3 per cent.

Citi economists Josh Williamson and Paul Brennan said the RBA's decision to keep the cash rate on hold this month was "unsatisfactory".

The cautious approach on rates could dilute the impact of the next rate cut, the economists said.

AAP

LEIGHTON BY NAME NO MORE

DEVELOPMENT

CONSTRUCTION heavyweight Leighton insists its history is not being rejected despite changing its name amid allegations of bribery and corruption in its international operations.

The 66-year-old company will now be known as CIMIC Group after its shareholders yesterday overwhelmingly approved the new branding.

The name stands for Construction, Infrastructure, Mining and Concessions.

It is being adopted amid calls for a Senate inquiry into allegations that Leighton Holdings, Leighton Offshore and Thiess have been involved in bribery overseas.

Executive chairman Marcelino Fernandez Verdes declined to comment on the allegations, or suggestions they were the reason for the name change.

"Right now we live in a moment that is a difficult one because of (the) allegations, but don't think that we're rejecting our history," he said, speaking after the company's annual meeting yesterday.

"A company with this history, with this value — Leighton is a very, very good company."

The Leighton name will remain for its operations in Asia, along with its Leighton Properties subsidiary.

Despite strong approval from shareholders for the new name, several spoke out during the meeting.

"There's valuable goodwill in the name Leighton Holdings and that will be totally lost," one shareholder said.

Only a matter of time before popularity proves fleeting

THE SHORT CUT
with ROGER MONTGOMERY

HERE'S an interesting fact for you. The stockmarket — as measured by the ASX 300 — over a five-year period, has generated a return of just over 26 per cent to February 2015.

It's interesting to think that over the longer run, the stockmarket is driven by two things: earnings growth and price-to-earnings multiples.

The latter is simply the multiple of the earnings that investors are wiling to pay for the same dollar of earnings.

In other words, earnings, and sentiment around those earnings drive stockmarket returns.

With that background in mind we arrive at our second fact: the earnings index for the ASX 300 was 343.81 at the beginning of our observation period in 2010 and was just 362.63 at the end of the period.

In other words the earnings of about 81 per cent of companies by market capitalisation have grown by just 5.47 per cent over five years.

If the gains in the stock market over five years of 26 per cent are explained by earnings growth of only 5.47 per cent, the rest of the gains can only be attributed to a willingness to pay higher prices.

Indeed more than 20 per cent of the 26 per cent return is due to a change in the popularity of stocks.

And what has made stocks so popular?

Believe it or not, it is simply the low interest rates offered by bank accounts and term deposits. Low interest rates have forced people out of saving and into the stock and property markets.

I don't know about you, but at The Montgomery Fund, we fancy ourselves as reasonably competent at projecting profits or earnings.

We don't, however, fancy ourselves as being able to predict changes in investor sentiment.

Given that most of the recent rise is due to favourable sentiment towards stocks, and that this popularity could change at any time, we reckon investors should be very, very careful.

Let's suppose for a brief moment you could put your money — which has grown because its been invested in Telstra, CBA and ANZ shares for the last five years — back into a term deposit and earning 5 or 6 per cent.

Would you be keeping your money in the stockmarket, with all of its risks, or would you be switching at least some of it into a term deposit?

I reckon there are a lot who would switch.

In that case, sentiment towards stocks would change and share prices might fall.

Suddenly the paltry 3 per cent your money earns on a term deposit today is looking very attractive indeed.

Given our estimate that the stockmarket is about 8 to 10 per cent overvalued compared with recent history, its worth keeping a decent amount of money in cash, ready to pounce on the inevitable opportunities that will be presented when the popularity of stocks changes.

That's what we have been doing at The Montgomery Fund and it has the additional benefit of protecting and preserving capital in the event of any decline.

Roger Montgomery is chief investment officer at The Montgomery Fund