Eye on a packaged deal

THE packaging company built by wealthy Melbourne businessman Raphael Geminder has revealed it is in talks about a buyout of consumer goods group Jalco.

Pact Group, which was floated late in 2013, yesterday confirmed market rumours it was in discussions with Jalco.

Management at Pact said it had not struck a deal to buy Jalco and "nor is there any certainty" a deal would be done.

TREVOR CHAPPELL
DEALS

Jalco makes products ranging from washing powders to shampoo, sunscreen, automotive fluids and dietary supplements on a contract basis for some of the world's biggest brands. Those brands include Unilever, Alberto Culver, Avon and Colgate.

Melbourne-based Pact makes plastic packaging for many household products, with clients including Coles, Woolworths, Schweppes and Unilever. It also recycles plastics.

Mr Geminder — the co-founder and chairman of Visy Recycling — set up the company in 2002 and is its chairman.

He is married to Fiona Geminder, the youngest daughter of late packaging tycoon and Visy Group chairman Richard Pratt and his wife Jeanne.

Jalco, based in Sydney, is a private company chaired by Barry Smorgon, a member of one of Australia's wealthiest families.

It was put up for sale in 2014 and has been in talks with Pact for several months, according to market speculation.

Mr Smorgon became executive chairman in 1996.

He was previously a director and executive of Smorgon Consolidated Industries, one of Australia's biggest private companies.

Pact has 62 manufacturing plants across Australia, New Zealand and Asia, with more than 3500 employees.

Listed on the Australian sharemarket in December 2013, it made a profit of $41.8 million in the six months to December.

Pact shares closed 0.5 per cent higher yesterday at $4.19.
AAP

Raphael Geminder.

THE SHORT CUT
with ROGER MONTGOMERY

Apps delivering food for thought

HERE'S another warning for complacent investors and those looking for bubbles in financial markets.

The epicentres this month are online takeaway food-ordering and delivery platforms.

In the US, it's GrubHub and Seamless.

GrubHub posted better-than-expected first quarter results with revenue of $88.3 million and earnings before interest, tax, depreciation and amortisation at $28.2 million.

Forecast revenue for 2015 is as high as $361 million, and average daily orders exceed 234,000.

The company also reported a 5.2 per cent year-on-year increase in its average order size at $27.93 during the quarter.

Park those numbers for a second.

Investors in this space are very excited because the size of the prize is enormous — take-out is a $70 billion market in the United States.

Investors are also attracted to the relative stability and defensive characteristics of the "take-out" industry.

History shows that the "network effect" (more people visit a site because more suppliers are on it, and more suppliers are on it because more people visit the site) can be a powerful economic moat that results in a winner-takes-all endgame.

As a result, GrubHub's two-sided network across 35,000 restaurants is attracting some heady price multiples.

In the first quarter, it earned 12c a share.

Assuming GrubHub earns the most optimistic analyst's forecast of 64c a share, the stock is trading at 62 times its earnings.

Based on the most bearish forecast for earnings per share, the company's shares are trading at 83 times earnings. But if GrubHub's growth is not enough to get excited about, consider the growth of Yemeksepeti.

Based in Turkey and operating across Greece, Qatar, Jordan and Saudi Arabia via the ordering platforms foodonclick.com and ifood.jo, Yemeksepeti processes 3.5 million orders a month and is growing at 60 per cent per year.

Assuming 5 per cent a month growth and a $25 average order size (on which it earns, say, a 12 per cent commission) the company will process 58 million orders in the next 12 months and earn revenue of $175 million.

We are assured the company is profitable.

That's good to know because in early May, the company was purchased by Frankfurt-based Delivery Hero for $589 million or just more than three times the forecast revenue.

Things are heating up.

But first prize — and the inspiration for this warning — has to go to the owners of Australian-based food ordering platform, Menulog.

It's an online service that allows users to order delivery and takeaway food from more than 5000 restaurants around Australia.

Menulog processed only 6.5 million orders last year and according to my colleagues, the average order size is about $40. Menulog takes a 10 per cent commission.

Roughly speaking, of course, the company earned revenues of $26 million.

Drum roll please ....

Delivery Hero's competitor, Britain-based Just Eat, has "just bought" Menulog and "just paid" $855 million.

Roger Montgomery is chief investment officer at the Montgomery Fund