Housing surge galvanises CSR

TREVOR CHAPPELL
HOUSING

BUILDING products maker CSR says its outlook is positive amid expectations for a record level of housing construction across Australia in coming months.

Builders are tipped to start work on more than 200,000 houses and flats in the year to March, official figures suggest.

"The lead times from approval to construction means strong demand for our products should continue over the next few years," managing director Rob Sindel said at CSR's annual meeting yesterday.

He said an increasing number of people wanted to live closer to where they worked, which was fuelling demand for flats closer to city centres.

That part of the market — the so-called multi-residential sector — now represented 45 per cent of all Australia's new dwellings, he said.

Mr Sindel said CSR's brickmaking joint venture with Boral was expected to generate initial overhead savings of $7 million-$10 million a year once the businesses were fully integrated.

The venture was formed in May through the combination of the two companies' Australian east coast brick operations.

He also said the turnaround of CSR's Viridian glass business was ahead of schedule. Viridian returned to profitability in CSR's previous financial year, ending in March.

Management was now targeting new opportunities to grow revenue, particularly in residential "performance windows" and the commercial and architectural design markets.

Mr Sindel said the group's aluminium division was experiencing increased volatility in pricing, partly due to a rise in exports from China, but this had been partially offset by the weaker Australian dollar.

CSR continued to make operational improvements at the joint venture Tomago aluminium smelter in New South Wales' Hunter region, he said.

Shares in CSR closed 2.9 per cent higher at $3.60.

AAP

ROBOTS PUT SIBLINGS IN THE BOX SEAT

CLAIRE HEANEY
SMALL BUSINESS

A SMALL electrical contracting company run by a brother-and-sister team has been named Victoria's best business in the Telstra Business Awards.

Furst Electrical Services was started by industrial electrician Mark Furst and his accountant sister, Lee, in 2012.

Through automation and innovation, the self-funded start-up has grown quickly to take on key contracts.

These include the $1.6 million project to install an electrical control system for chemical giant Accensi's Geelong crop protection product manufacturing plant.

Furst took out the Victorian Business of the Year and the start up award at the ceremony last night in Melbourne. It has also automated the warehouse of e-commerce business Catch of the Day, installing "robots" to pick and pack orders.

With a workshop in Bayswater and an office in St Kilda, Ms Furst, the finance director, said the siblings felt limited in their previous roles, prompting the decision to go into business.

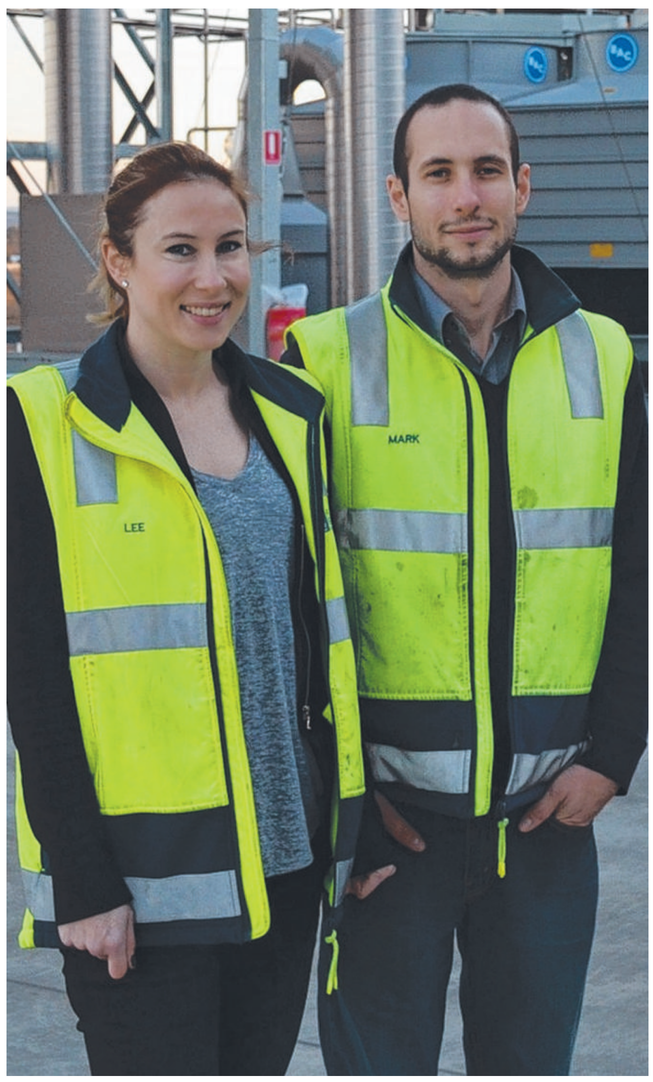
"We come from a small business family and have always aspired to work for ourselves," she said.

Ms Furst said working with multinationals meant it was "critical for us to demonstrate credibility and authority beyond the size of our business".

Elite Executive Services, of Cheltenham, won the micro-business award. The relocation business has moved into Asia and Europe, employed Mandarin and Cantonese interpreters and developed an app called Applocation Australia.

Online hospitality and corporate uniform specialist Cargo Crew, based in Brunswick, took out the small business award for revolutionising the way people dress at work.

Knoxfield-based Setec, which makes power-saving products, won the medium business award.



Furst Electrical Services founders Lee and Mark Furst.

Be different but be sure you're right

THE SHORT CUT with ANDREW MACKEN

AS INVESTORS, we are taught to be contrarian. Be greedy when others are fearful and fearful when others are greedy — as goes the famous advice from Warren Buffett.

But this is only half of the formula for success. To generate outsized returns, yes, you need to be different; but you also need to be right. All too often we see investors being contrarian for its own sake — and this often leads to disastrous results.

Which brings us to the world of coal — used in both the generation of electricity and the manufacturing of steel. Companies that produce this commodity all over the world have been doing it tough for a number of years now.

To understand why, we need to appreciate one very important aspect of the market structure: that China accounts for roughly half of the world's entire production and consumption of coal.

And the size of the seaborne import/export markets pale in comparison to China's domestic behemoth of a coal market.

Small changes in Chinese production and consumption of coal can have large implications for coal prices and coal production globally.

What's happened in recent years is three trends:

THE rate of growth of China's coal consumption has started to slow — a social imperative given the unbreathable air that exists in some major Chinese cities;

THE rate of growth of China's coal production has accelerated — as heavily indebted coal-producing companies try to generate more cash flow to service its debts; and

THE cost of producing coal in China has also fallen.

Just one of these trends would be enough to push coal prices down globally and act as a headwind to all other producers of coal.

All three at the same time has been coal Armageddon.

And we can see the impact these dynamics have had on the share prices of coal companies around the world. In the US, for example, Walter Energy has fallen from $US141 per share in 2011 to just US16c, Alpha Natural Resources has fallen from $US67 per share to US25c and Arch Coal from $US36 per share to US27c.

Even in Australia, Whitehaven Coal has fallen from $7 per share in 2011 to just over $1 per share today. It can be tempting for investors to take a contrarian view at these levels.

After all, when a stock has fallen 85 per cent, surely it cannot fall much further, right? Well, as a colleague at Montgomery recently quipped: "A stock that is down 90 per cent is a stock that was down 80 per cent — and then halved."

If a stock will ultimately end up at zero, then there is no price at which an investment makes sense.

One rule of thumb to suggest if this is likely is to look at how much debt the company is carrying.

After all, the equity of a business — what you own as a shareholder — is simply the difference between the value of the company's assets and its liabilities.

If a business is debt-free, the equity is unlikely to be worth zero as assets are typically always worth something. But when a business carries lots of debt and falls into decline, this can be lethal to shareholders.

The drivers of the headwinds we are seeing in coal are not going away anytime soon. This will continue to challenge producers of coal globally.

For those who are considering taking a contrarian view — buyer beware.

Andrew Macken is a portfolio manager at Montgomery Global Fund