Toll looks to add rails

TRANSPORT

TRANSPORT and logistics firm Toll Group is in talks with stevedore DP World Australia over a $50 million plan to increase rail use to move freight in and out of Port Botany.

The 50-50 joint venture includes construction of a new terminal on the Southern Sydney Freight Line at Villawood in Sydney's west and improvements to sidings at a container staging zone at Port Botany.

Using an existing rail line, the project could carry 180,000 container units per annum.

"That's 100,000 fewer trucks on the already-congested roads around the port and Sydney Airport," Toll's Brian Kruger said.

DP World spokeswoman Nicole Holyer says the total project, which is due for completion in 2017, will cost between $30 million and $50 million.

JOINT EFFORT

PHYTOTECH Medical has completed its merger with MMJ Bioscience in a move that will allow the Australian-listed group to become a farm-to-pharmaceutical medical marijuana company.

The rebranded MMJ PhytoTech Limited will control the complete supply chain from cultivation to distribution after Phytotech raised $4.8 million in an oversubscribed shareholder placement to acquire MMJ.

The company expects to process medical grade marijuana from its Canadian operations into pill form for the European markets. Its first product sales are scheduled for August.

The company will add former MMJ executives to its board as part of the merger, with Andreas Gedeon appointed chief executive.

PhytoTech shares added 4.4 per cent to 35.5c.

Chasing minnows

CPA chief Alex Malley. Picture: SIMON BULLARD

CPA casts doubt on reach of GST plan

COLIN BRINSDEN
TAX

INDUSTRY group CPA Australia has questioned how many foreign online retailers will be captured to pay GST if the threshold is lowered or done away with completely.

Treasurer Joe Hockey and his state and territory counterparts will aim to level the playing field for Australian retailers when they meet next month by again looking at the $1000 GST threshold on goods bought from overseas.

Removing the threshold that has been in place since the GST was introduced in 2000 will mean customers will no longer have the benefit of GST-free goods.

In 2011, the Productivity Commission found that while removing the threshold would generate about $600 million of additional revenue, the cost of collecting it would be in excess of $2 billion.

Mr Hockey is now confident that through talks with other Group of 20 partners he has found a way to impose the GST on overseas suppliers, although he is yet to say whether the threshold will be lowered or axed.

CPA Australia chief executive Alex Malley said assuming the Government was able to get big retailers such as Amazon to apply the GST to Australian purchases, there remained a significant number of small online retailers around the world to be dealt with.

"So while you may be able to address global elephants, like Amazon, the risk is that we get overtaken by the millions of mice following along," he said in a statement.

Mr Malley said part of this latest initiative would involve international suppliers having to register for GST as though they were an Australian resident, a process that could be made to work with the assistance of the G20.

But he said working with the G20 had its own complexities, so it was far from a "done deal".

Another option to deal with the administrative costs would be to apply a new processing levy to enable the Government to collect the additional GST revenue.

"(But) with a very strong anti-red tape agenda, it's hard to see the Government going ahead with a new processing tax," Mr Malley said.

AAP

CSL: slice tax rate to boost investment

MANUFACTURING

AUSTRALIA needs a more competitive corporate tax rate if it is to attract more investment in advanced manufacturing, according to the nation's leading biotech, CSL.

The company's chief financial officer, Gordon Naylor, said Australia had a well educated workforce and strong research institutions, but its corporate tax rate was too high.

"One of the most significant impediments to Australia's competitiveness, at least as a location for advanced manufacturing for export markets, is its high corporate tax rate, fully three times that of some other jurisdictions," Mr Naylor told a business lunch.

CSL has suggested that Australia adopt a highly targeted tax rate of 10 per cent for advanced manufacturing.

Mr Naylor said Australia's competitors were not low-wage, low-cost countries but affluent developed countries such as Switzerland, the UK, US, Singapore and Ireland.

"The problem is, we are not strategic, when other countries are, in seeking to make Australia a commercially attractive location for investment in advanced manufacturing.

"So other countries secure the investment and we do not."

Mr Naylor pointed out that while much of CSL's research and development was based in Australia, the company opted to establish a state-of-the-art specialty blood products plant in Switzerland last year.

CSL's Gordon Naylor

Where Buffett and Apple jump in, it may pay to follow

THE SHORT CUT with ROGER MONTGOMERY

INTEREST rates are low. They won't be forever.

Provided you can fund it, the time to borrow for the very long term is when interest rates are low.

The problem of course is typically, when interest rates are low, asset prices are high.

And the best time to buy assets is when their prices are low.

So the trick is to buy the very best quality assets with the very brightest prospects. Using leverage to do it makes sense if you can lock in ultra-low rates for a very long time.

Recently US software companies Apple and Microsoft each borrowed more than $US6 billion and $US10 billion respectively, to buy back shares.

In other words they borrowed at ultra low rates, fixed for up to 40 years, to invest in their own shares by buying them back.

Warren Buffett, someone who eschews debt and often advises investors against it, teamed up with a leverage buyout firm to buy Heinz in 2013 and Kraft this year.

These companies and individuals are taking advantage of conditions they know we will look back on in 10, 15 or 20 years' time wishing we'd taken advantage of those 'ridiculously low' interest rates. In Australia the longest term fixed rates are for 15-year mortgages and rates are around 7.5 per cent.

As an aside, this compares to Microsoft borrowing for 40 years at around 4 per cent without having to put the house up for collateral!

Borrowing a million dollars in Australia will set you back $75,000 in interest per year. OK, so now that we've sorted the funding what are the best assets to buy?

Many go directly for property because houses are what the banks will lend the most against, but this could be a mistake now.

As a result of the changes being adopted following David Murray's Financial System Inquiry, the banks are tightening up their lending practices, raising the deposits required to buy, and reducing or removing the discretion once given to lending officers.

These tend to be the straws that break the back of a property boom.

It doesn't look like bonds are the right assets to go and buy either. The last time US interest rates were this low it was the 1930s and if you'd invested $100 in 10-year bonds in 1934 for 20 years until 1954, your $100 would have grown to about $160. Inflation, however, required your $100 to grow to over $200 just to maintain your purchasing power.

I think your best chance of maintaining purchasing power comes from owning real businesses with bright prospects and the ability to increase in intrinsic value at a good clip by retaining profits and re-employing those retained profits at high rates of return.

In Australia, a few companies meet this criteria — and we own them for our clients in The Montgomery Fund — including iSentia, Challenger, CSL and perhaps Cochlear.

Internationally, the Montgomery Global Fund owns Essilor, with 40 per cent global market share in corrective eyewear lenses, and Qualcomm, who own the rights to 3G, 4G and wifi.

The Montgomery Global Fund also owns Apple who will benefit from almost 10 billion various mobile phones being shipped in the next five or six years and where 60 per cent of revenue growth is coming from China.

Borrowing money to buy outstanding companies sounds like a high-risk activity, and to be sure, share prices can be volatile, but if it's good enough for Buffett, Microsoft and Apple it might just be good enough for a few of us too.

Roger Montgomery is chief investment officer at the Montgomery Fund