WEALTH

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“SMSFs can provide the platform for investment in a wide range of assets.”
LUKE STAR, STAR & ASSOCIATES

Intrigue drives mini-me into value territory

CRITERION
TIM BOREHAM

iCar Asia (ICQ) 70c

The Carsales.com-backed mini-me is edging to break-even status as it seeks to emulate the Australian giant’s local online success in Thailand, Indonesia and Malaysia.

But will it be taken over by another global online giant before it can reach maturity? iCar is in the sights of the Nasdaq-listed Autohome, China’s biggest car ads portal in the world’s fastest-growing auto market. It’s inevitable that iCar has attracted attention, given what CEO Damon Rielly dubs its “clear leadership position” in the three biggest ASEAN markets. They are also undeveloped when it comes to online ad migration: iCar estimates the Australian car advertising market at $US1 billion ($1.4bn) (for new cars only), of which online channels have a 39 per cent share.

The combined car spend in the three Asian nations is $US1.7bn, while the online penetration is a mere 4.1 per cent.

“We are forecasting this will grow to 15 per cent penetration by 2020, equating to a $US400m market” says Rielly.

The more established online classifieds houses have been quick to snaffle strategic stakes in up-and-comers. Seek’s Asian arm acquired 100 per cent of JobsBD and merged it with its existing JobStreet.

Realestate.com owns 19.9 per cent of iCar’s “cousin” Iproperty and there is similar speculation about a full acquisition.

German multimedia giant AxelSpringer and partner India Today acquired the five-year old Indian site CarWale.com in 2010.

Both iCar and iProperty were founded by techpreneur Patrick Groves, whose Catcha Group has a 34 per cent stake in iCar.

Thus, Autohome’s ambitions hinge on the stance of both Groves and Carsales.com, which has a 23 per cent iCar stake. Fund manager Acorn Capital holds a further 6 per cent.

Adding to the intrigue, Carsales and iCar have a “strategy agreement” by which CarSales can’t compete in any country in which iCars operates.

Given the prospect for corporate intrigue and iCar’s stand-alone prospects, we rate iCar a **spec buy**.

Enice (not yet listed)

China might not envisage a national broadband network but the government-owned telcos are going gaga over 4G in a country of 1.29 billion mobile users. Given the ever-ratcheting demands for data transmission, it’s crucial for the carriers to optimise their efficiency across their network of towers, especially with one million new structures planned at a cost of $160bn over the next two years.

The frenetic rollout — which has little sensitivity to China’s economic woes — presents an opportunity for the Shenzen-based Enice, which has devised tools to maximise data traffic and network management.

Enice’s prospectus lists 22 patents and 27 applications for various gee-gaws. One is an antenna that reduces background noise (called PIM) that affects capacity.

Another is a tool for remote monitoring of the antennae, obviating the noise for regular human visitations.

Enice is in the midst of a local capital raising of $25m-$38m, ahead of ASX listing on October 2. As with other Chinese debutantes on our bourse, Yu says the ASX provides the credibility and transparency to enable Enice to do business abroad. Australia and the US are target markets. Locally, the presence of former Telstra International chief Drew Kelton should open doors.

The 15-year-old Enice is profitable, mainly because of its network engineering services arm. The prospectus discloses pro-forma 2015 net profit of $8.8m, on revenue of $90m.

Meanwhile, Wonhe Multimedia’s $3m-4m raising which we referred to on September 4 and due on September 17 has been postponed after ASIC whacked on a temporary stop order.

The watchdog, it seemed, was unhappy about Enice’s use of a Byzantine corporate structure called a Variable Interest Equity.

NetComm Wireless (NTC) $1.25

The maker of routers and other wireless equipment will be watching with more than passing interest at the new Canberra regime and what a new communications minister means for the National Broadband Network rollout.

NetComm is exposed to the non-fibre rural broadband aspect of the project via a deal with Ericcson to provide devices such as powerline converters.

NetComm chief David Stewart says rural broadband opportunities abound elsewhere as carriers and government wind back fixed-line networks. While fibre can be supplied to most of the population, typically 10 per cent needs to be serviced by wireless means.

Boston Consulting Group estimates the size of the “rural broadband” market at $80bn globally. Otherwise, NetComm is tapping a broader emerging market in machine-to-machine (M2M) wireless comms, otherwise known as the internet of Everything. Similarly, NetComm is pursuing smart metering opportunities globally.

Driven by the NBN involvement, NetComm’s full-year net profit surged 142 per cent to $2.5m, on revenue of $74m, up 15 per cent. With a substantial uplift expected next week as the delayed NBN gathers pace, we signal a **buy** call.

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Advice crucial to navigating the superannuation maze

JAMES GERRARD

Active investors without an SMSF should compare different retail and industry options and carefully read the fine print

With more than $2 trillion in accounts across Australia, super is a key part of most working Australians’ retirement plans.

But with more than 200 retail and industry funds as well as self-managed super, choosing the best account can be complex.

In days past, the most lucrative super accounts were of the defined-benefit style. Account balances were determined based on a statutory formula, calculated by multiplying the member’s final average salary by years of employment and applying a multiple. At retirement, the member was given the option to take a generous lump sum, receive a guaranteed pension for life or sometimes a combination of both. Although quite popular in the 1980s and 90s within government departments, today these types of accounts are rare because of the large cost to the employer relative to contemporary market-linked super accounts that are set at 9.5 per cent a year contribution rates.

The largest and fastest growing class of super is in the self-managed space. There are more than 550,000 SMSFs in Australia and collectively they hold just under $600 million of assets.

Luke Star, principal of Sydney accounting firm Star & Associates, believes “the rapid rate of increase in the number of SMSFs being established in Australia is attributable to several factors, particularly due to Australians having access to the appropriate knowledge about this structure”.

Star believes Australians increasingly want more choice and control over how their retirement nest egg is invested. “The product offerings within retail and industry super funds have limitations around the investment mandate governing the funds,” he says.

“SMSFs can provide the platform for investment in a wide range of assets.

“The capacity for leverage in commercial and residential property has been an additional driver of the growth in the establishment of SMSFs.”

Outside SMSFs, private sector retail super funds and not-for-profit industry super funds compete for business.

Industry funds traditionally have been known for their simplicity and low cost, suitable for people seeking a “set and forget” approach to super, whereas retail super funds have been known to charge higher fees but provide more comprehensive investment options.

To attract more clients, industry and retail super funds have bolstered their offerings by working on their respective achilles heel: lack of choice.

During the past few years, industry super funds have added capacity to their investment depth and many now offer comprehensive menus including the ability to buy term deposits and shares. Meanwhile, retail funds have tried to shake off their high-cost reputation by shedding fees.

Newcastle certified financial planner Chris Kourmpatsos advises that “in deciding what class of superannuation fund is most appropriate, one should think about their objectives, super requirements and the fees payable”.

Kourmpatsos gives the example that “if life insurance linked to superannuation is important, you must understand the differences between super accounts. Industry funds do not offer level (lock-in) life insurance premiums; however, many industry funds do offer automatic acceptance for basic life insurances, a feature that many retail funds lack.”

Overall, the difference between retail and industry super is narrowing. Kourmpatsos notes: “For active investors without an SMSF, they should compare different retail and industry options that offer a variety of investment choices and carefully read the fine print in the product disclosure statement and investment guides.”

Some super funds offer the ability to buy shares on the Australian sharemarket, although they limit this to the top 100 shares, while other super funds allow shares to be bought anywhere in the top 300.

Kourmpatsos advises “for passive investors, a low-cost fund with good returns on their in-house managed fund options is a safe approach”.

If an SMSF is considered, Star recommends that people should “carefully consider the role and responsibilities they take on as trustee within an SMSF and be aware of the costs associated with setting up and operating the SMSF”. He notes: “Studies conducted by ASIC in 2013 indicated that super fund balances in excess of $250,000 would support entering into an SMSF structure, given the associated annual costs.”

Unless you are among those lucky few workers holding an older defined benefit account, understanding what you are looking for in a super fund and seeking professional advice will go a long way in the quest for the right super account.

James Gerrard is the principal and director of independently owned Sydney financial planning firm FinancialAdvisor.com.au.

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Finding winners is hard but losers often pick themselves

ROGER MONTGOMERY

When a blacksmith first spotted a horseless carriage driving past his workshop, one suspects that had he considered it more than a fad, he might have realised his business would be disrupted.

But would he have referred to the car or its builder as a disrupter? Probably not. Disruption is the new buzzword to describe change or transition.

It is difficult to pick winners from change and transition. Even when technology changes the world, it can be difficult to pick a long-term winner.

Consider television, which first appeared in the 1950s. More than 90 US manufacturers, including Admiral, General Electric, Magnavox, Philco, RCA, Silvertone and Westinghouse, dominated the market.

In 1953 there was even a Radio Electronics Television Manufacturers Association, which reported almost 7.3 million TVs were made that year in the US. By 1995, the last remaining US television company, Zenith, was sold to Korea’s LG.

From supermarkets to postal services, from transport to entertainment, established businesses and entrenched incumbents are fighting a new wave of online, international and cheaper solutions to customer problems.

And by the way, managing your own share portfolio just became a lot more challenging. Say goodbye to set-and-forget.

But there is an interesting corollary to this disruption. While it’s challenging to pick the winners, it can be easy to pick the losers. One industry becoming a rather obvious loser to disruption is the bricks-and-mortar retailing of books.

Once a dominant presence in malls and shopping strips, the bookshop has been relegated to smaller footprints and specialisations such as industry specific or kids. Barnes & Noble is a bricks-and-mortar plus e-commerce bookseller with stores across 50 US states.

It is also in structural decline.

Revenue is shrinking 10 per cent year-on-year, and given competition from companies such as Amazon, Apple and Wal-Mart, this structural decline is likely to be unrelenting.

Many Barnes & Noble stores sell products that themselves are being disrupted, including CDs, vinyl LPs, DVDs and Blu-ray discs — that’s right, vinyl LPs — and may stock more than 12,000 titles.

Happily, Barnes & Noble has its own e-reader, Nook, but thanks to iPad and Kindle, Nook revenue declined almost 40 per cent from the fourth quarter of 2014 to the fourth quarter 2015.

There was one bright spot for the company — a business called B&N Education, with 724 stores at university campuses. Sadly this company was spun out. It trades under a newer stock ticker. It also snared Barnes & Noble’s chief executive after he jumped ship.

It’s all well and good identifying an opportunity to profit from the structural decline of a business. But it is also helpful to have unrealistic and optimistic expectations built into analysts’ revenue and earnings assumptions.

Given negative same-store sales growth at Barnes & Noble and the rate of store closures, we believe consensus revenue growth estimates are too high and will need to be revised lower. And despite declining revenue growth, consensus analysts still have EBIT margins increasing.

Finally after identifying a business possibly in structural decline and with irrationally exuberant expectations, it is also helpful to have an expensive price.

For the past 12 months, net profit amounted to just $20 million, but the market capitalisation of this business, with challenging prospects at best, is $US1.1 billion ($1.5bn). That’s a price-to-earnings multiple of 59 times.

The Montaka Global Fund went short Barnes & Noble, and shortly afterwards the shares fell almost 30 per cent. When thinking about this company, it’s worth remembering the blacksmith.

Roger Montgomery is principal of Montgomery Asset Management

THE COACH

I am getting married in September and I have been told I should review my estate planning. Can you please explain why and what are the consequences of not making changes?

Marriage is an important trigger to reviewing your estate planning, the process of managing who receives your assets on your death and determining the best way to ensure this minimises costs, both legal and financial.

Your will is a legal document that sets out your wishes for the distribution of assets owned directly by you on your death.

There are some exceptions such as assets owned jointly with another person as joint tenants. Another exception is superannuation, unless your estate is the nominated beneficiary. If you die and you don’t have a will, you are deemed to have died “intestate”, meaning the distribution of your assets will be dealt with by the courts.

In many states, marriage invalidates a will (unless the will is made in contemplation of marriage). Marriage will not affect a gift to your spouse at your date of death.

But it will lead to partial intestacy in reference to gifts to other beneficiaries such as children from a previous relationship.

Given many people remarry and have children from previous relationships, not reviewing your will may lead to unintended consequences.

If you divorce after you make your will, divorce cancels any gift to that former spouse, but not other beneficiaries.

Unlike divorce, marriage separation does not invalidate a will. So if you have been separated from a partner but have never filed the divorce papers, they would still be entitled to receive proceeds of your estate if they were a beneficiary of your will.

If you own assets as joint tenants, regardless of your marital status, the asset will revert to the other owner on your death. You could consider changing the ownership to tenants in common, which means your share of the asset will revert to your estate and be dealt with via your will.

Your super assets are typically dealt with under a death benefit nomination to the trustee of the fund. Broadly, there are two types of death benefit nominations: binding and non-binding.

A non-binding nomination is not binding on the trustee of the super fund to pay out the funds to your specified beneficiary.

In some circumstances a trustee may allocate a portion of your super benefit to an individual regardless of your nomination, provided they meet the definition of a beneficiary.

A valid binding nomination compels the trustee to pay the death benefit to the nominated beneficiary provided they are an eligible beneficiary at the time of your death. Marriage does not invalidate an existing binding nomination. Divorce may.

Visit Wealth at theaustralian.com.au to send questions to Andrew Heaven, an AMP financial planner at Wealth Partners Financial Solutions.

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