# Noni aiming to pass tinsel test

FASHION

LOSS-making women's fashion retailer Noni B says this Christmas will be a critical test as its turnaround program shows early signs of success.

It has made a loss in each of the past three financial years, and its founding Kindl family handed control to private equity group Alceon last year.

Speaking at its annual meeting yesterday, chairman Richard Facioni said there were positive signs in the second half of the year to June.

They had continued into this financial year, with like-for-like sales on the rise, he said, but added there remained plenty of work to be done.

"While there has been a material improvement in the company's performance over the past few months, we still have a long way to go to improve our performance to an acceptable level," he said.

The impact of a falling Australian dollar was being closely monitored, and consumer sentiment was cautious at best, Mr Facioni said.

"As in previous years our results for the first half will depend on the critical Christmas period," he said. "We remain cautiously optimistic about the underlying operating performance of the business."

Managing director Scott Evans said 12 new stores would be open by Christmas, each with a revamped look.

# CHINA BUYS INTO BEEF

FOOD

**ONE of China's biggest meat processors has taken a 45 per cent stake in the Bindaree Beef Group.**

**Shandong Delisi Food will pay $140 million for the stake in New South Wales-based Bindaree, which has been seeking a partner to help it expand.**

**The transaction, which is subject to Foreign Investment Review Board approval, is one of the first major deals to be announced since the signing of the China-Australia free trade agreement in June.**

**Bindaree is one of Australia's biggest meat processors, with an abattoir at Inverell in northern NSW which can process 1300 cattle a day and employs more than 600 people.**

**Pork processor Shandong Delisi is listed on China's Shenzen Stock Exchange with a market capitalisation of about $1 billion.**

# Clouds hang on projects: Worley

KIM CHRISTIAN
ENGINEERING

ENGINEERING and construction group WorleyParsons is forging ahead with its cost-cutting drive as mining, oil and gas companies struggle with low commodity prices.

Chief executive Andrew Wood says he expects market conditions for the company's customers to remain uncertain for at least the rest of this financial year, with conditions in the minerals and metals sector to remain depressed.

"We expect trading conditions to remain difficult in the resource infrastructure market as both the hydrocarbons and minerals and metals sectors reevaluate new project viability in an era of low commodity prices," Mr Wood said yesterday.

Speaking at the group's annual meeting, he said the decline in market activity would be partially offset by opportunities in power generation, ports, passenger rail and water.

He said WorleyParsons would continue to cut costs as it adjusted for subdued market activity.

It has axed 6000 jobs since 2013 in order to offset the effects of the downturn in the resources industry and slide in commodity prices.

The company expects to record redundancy and related costs of $20 million to $30 million in the six months to December, with offsetting benefits flowing through in the second half. WorleyParsons is freezing executive fixed pay this financial year, with Mr Wood agreeing to take a 10 per cent pay cut from last July.

The company made a $54.9 million loss in the year to June, dragged down by $198.6 million worth of previously announced goodwill writedowns.

WorleyParsons shares fell 6.2 per cent to close at $6.65.

AAP

# Bega looking up

## Big cheese optimistic on prices

TREVOR CHAPPELL
DAIRY

Barry Irvin, chairman of Bega Cheese, says a new business platform is being developed.

BEGA Cheese says prices for dairy goods have improved but the recovery is still uncertain.

And directors of the dairy company warn increasing competition in Australia and from offshore are likely to put downward pressure on prices.

Speaking at the group's annual meeting yesterday, Bega chairman Barry Irvin said dairy commodity prices had improved, "albeit on reduced volumes".

It was "yet to be established" if the recovery was sustainable, Mr Irvin said.

Bega expected increased price competition and price pressure as a result of lower farmgate milk prices from competing regions such as New Zealand, he said.

While global market volatility affected Bega's business last year, demand for quality, competitive and sustainably-produced dairy products was expected to continue to grow.

Chief executive Aidan Coleman said 60 per cent of Bega's output was in consumer or food service pack formats. Bega's objective was to expand this further by 2020, he said.

Mr Coleman said Bega was seeking to develop a new business platform: so-called bionutrients.

Bionutrients include products such as milk protein hydrolysates, nutritional proteins and specialised milk protein extracts. Non-dairy bionutrients include plant extracts.

"The initial foundation of our bionutrient platform will be (the protein called) lactoferrin," Mr Coleman said, speaking at the annual meeting at Kalaru, east of Bega in regional New South Wales.

"The company is one of the world's largest producers of lactoferrin, and from that base we intend to expand the capacity at Tatura Milk with ongoing research and development in value-added derivatives."

Tatura Milk is a Bega dairy brand produced at Tatura, near Shepparton, and Derrimut, in Melbourne's west.

Mr Coleman said Bega would also invest in new capacity in micronutrient extraction at Bega, using the whey stream available there from cheese manufacturing. Bega shares closed flat at $5.05.

AAP

# Too early to call the bottom on commodity cycle

THE SHORT CUT
with ANDREW MACKEN

FOR Australians, forecasting commodity prices is as much a national pastime as predicting the winner of the Rugby World Cup.

And perhaps for good reason.

Our national income is driven in large part by our terms of trade (the ratio of export prices to import prices); and almost every Australian investor either owns, has owned or will own shares in the likes of BHP Billiton and Rio Tinto.

We all know that commodity prices have fallen significantly over the past year or so. Iron ore and oil has halved, while coal and copper continue to slide.

This has prompted many in the marketplace to "call the bottom" — often for no other reason than prices having already fallen by so much.

To assess the prospects of a particular commodity price, it is often sensible to look at the drivers of underlying demand growth and supply growth.

If the drivers that have caused the current price weakness to persist, then it is sensible to suggest that prices will decline further from here.

And for many commodities, this is where we appear to be today.

Take iron ore, for example — the key ingredient to produce steel.

China accounts for more than 60 per cent of global iron ore imports — and has accounted for a substantially higher share of iron ore demand growth.

Yet, the latest data shows that China's steel production growth has turned negative by 3 per cent a year.

Global steel production is falling at an even faster rate.

Against this declining demand backdrop, is supply declining to match?

Far from it.

On the most recent iron ore production numbers put out by the major suppliers, all were growing significantly.

Indeed, if you aggregated Vale, Rio Tinto, BHP Billiton and Fortescue into one hypothetical iron ore company producing more than one billion tonnes per annum, this supply base is growing at an annual rate of around 7 per cent.

Such rapidly growing supply against falling demand suggests iron ore prices are headed south.

Then there is oil — a fascinating market given the politics of the major supplying nations, most of which form part of OPEC.

While demand is much more evenly distributed around the globe (a quarter in North America; a fifth in Europe; and a third in Asia), supply is anything but.

OPEC nations produce more than 40 per cent of the world's oil supply, the largest of which is Saudi Arabia.

Late last year, Saudi Arabia shocked the world when it became clear it was content to let the oil price continue its slide. On the one hand, this behaviour seems odd given its national budget is funded by proceeds from oil sales.

On the other hand, many believe the Saudis are frustrated with the rate of increase in North American supply — much of which has stemmed from the fracking boom in recent years.

The only way for the Saudis to knock this capacity out of the market is by keeping oil prices lower for longer. The data certainly supports this hypothesis.

OPEC oil supplies are the highest they have been in three years — despite the fall in oil prices.

And this does not even include the additional Iranian barrels that will likely materialise should international sanctions be eased.

Many OPEC nations are suffering badly from the collapse in oil prices.

Perversely, the incentives for these nations are now to produce as much oil as possible, and as quickly as possible before the price falls even further.

And it is this precise behaviour that will guarantee just this.

ANDREW MACKEN, MONTGOMERY INVESTMENT MANAGEMENT