Cimic's Devine calling

Bid to 'protect' value

BELINDA TASKER
DEALS

CONSTRUCTION heavyweight Cimic has lobbed a buyout bid for struggling property developer Devine, saying it wants to ensure the group's value is "protected".

Cimic, formerly called Leighton, announced yesterday that it planned to make a conditional offer for the 49.37 per cent of Devine shares it did not already own, at 75c each.

That price is nearly a third more than the stock's average since Devine warned last month that it no longer expected to turn a profit this year.

The bid values the residential developer at about $120 million.

"As a major shareholder in Devine for more than eight years, Cimic has been supportive of its management and board," Cimic directors said in a statement yesterday.

"However the recent profit downgrade and rapid deterioration in Devine's performance have caused the Cimic board to conclude that decisive action must be taken to ensure that the value of Devine is protected for all shareholders."

Shares in Devine surged yesterday in the wake of the revelation, closing 25.6 per cent higher, or 15.5c, at 76c.

But Cimic shares took a hit, sliding 4.7 per cent, or $1.28, to $25.99.

Devine directors called on investors to "take no action", saying they would consider the offer.

Based in Brisbane, Devine was listed on the Australian stock market in 1993. It has projects in Queensland, Victoria and South Australia.

Victorian projects include sites at Pakenham and Casey Fields, in Melbourne's south east, and at Melton and Bacchus Marsh, to the city's west.

In a trading update last month, then Devine chief David Keir said a series of operational issues would weigh on the group's performance this year.

Among them, there had been a slide in settlements "as a result of delays in civil construction and land title registration", Mr Keir said.

Devine Constructions general manager Mike Tucker resigned ahead of the announcement, and Mr Keir has since resigned, with finance director Craig Bellamy now acting chief executive.

The group had forecast a pre-tax profit of $10 million to $13 million for the year to December but said it now expected a "nil profit result".

AAP

HIGH HOPES IN ECONOMY

THE ECONOMY

CONSUMERS are happy and business conditions are at their best level since the financial crisis, polling suggests, yet business confidence has taken a hit.

ANZ's weekly consumer confidence index, compiled with Roy Morgan, is at its highest level in almost two years following Malcolm Turnbull's rise to Prime Minister eight weeks ago.

However, a monthly survey by National Australia Bank shows while business conditions were strong in October, business confidence fell. NAB economists said the short duration of the bounce in business confidence came down to worries about the economic strength of Australia's trading partners.

"While the leadership resolution appeared to have a notable, albeit temporary, effect, it is difficult to disentangle it from concerns about growth in emerging markets and financial market volatility," they said.

Day, night, and global

FINANCIAL SERVICES

FOREIGN exchange group OzForex says it will transform itself into a 24-hour service in an attempt to beef up its customer numbers worldwide.

The currency trader outlined its plans yesterday as it reported a rise in underlying profit — which strips out "one offs" — and a record turnover of $10 billion for the six months to December.

The bulk of the company's business is in Australia and New Zealand, but OzForex has been expanding in North America, Britain, Europe.

Chief executive Richard Kimber said there was plenty of opportunity to expand overseas and take advantage of the increasing use of smartphones.

The group's underlying profit rose 12 per cent to $12.3 million. However its net profit, which included one-off effects from rebranding and a restructure of the company's executive team, fell 6 per cent to $11.223 million.

OzForex shares closed 2.9 per cent higher at $2.82.

SurfStitch founders Lex Pedersen and Justin Cameron. Picture: TOBY ZERNA

Surfing the net lands a haul for retailer

JACINDA TUTTY
RETAIL

SURFSTITCH is forecasting double-digit sales growth this year as it rides the online retail wave, helping shore up its vision to become the "Netflix and Amazon" of action sports.

The online fashion retailer says revenue has surged 40 per cent year-on-year in the first four months of its financial year.

SurfStitch, which has been one of the Australia's best performing retail stocks since its $83 million float last December, says it now expects earnings to rise up to 134 per cent in the year to next June.

In a trading update to coincide with its annual meeting yesterday, the group said revenue in Australia and New Zealand climbed more than 30 per cent in the four months to October.

Asian sales doubled, while turnover was up 30 per cent in Europe and 50 per cent in North America.

Chief executive Justin Cameron said the group's push into media platforms had fuelled its performance.

SurfStitch earlier this year bought online surf forecast site Magicseaweed and online publication *Stab Magazine* in a $21 million deal.

Mr Cameron said he wanted SurfStitch to continue to evolve its content so it became the "Netflix and Amazon of action sports".

IG Analyst Evan Lucas said other retailers would need to "sit up and look" at the SurfStitch approach given the difficult trading environment for bricks-and-mortar retailers in recent years.

SurfStitch shares rallied 4.1 per cent yesterday to close at $1.78.

Profiteering from paper losses makes perfect sense

THE SHORT CUT
with ROGER MONTGOMERY

IF I suggested you open a chain of bookstores, would you be enthusiastic about the prospects or would you be wary?

There's a chain of 1372 US-based bookstores whose revenues are declining at a rate of 10 per cent annually.

They carry between 22,000 and 164,000 titles, which is a lot of inventory.

Their competitors aren't minnows either and include Amazon, Apple and WalMart.

Happily the company launched an ebook reader.

Only problem was that the competing products are iPad and Kindle. No surprise then that the business of selling eReaders is declining at 48 per cent per annum.

If you were running this business, would you be content or would you put your hope in other business lines?

What about CDs and DVDs? And how about you carry 12,000 video titles focusing on current and classic movies, documentaries, fitness and instructional titles, British television series and movies, and foreign films?

The music selection centres on classical music, jazz, pop rock, and show tunes. And how about trying a strong selection of titles in vinyl record format in all stores, along with turntables?

The company is called Barnes & Noble and store closures and declining same-store sales growth seems to be the norm.

But it seems that analysts haven't caught up. Despite negative same-store sales growth and the rate of closures, consensus analyst revenue growth is too high. And despite declining revenue growth, consensus still has EBIT margins increasing.

There was a ray of hope for this company — its marginally more attractive 724 college campus stores called Barnes & Noble Education.

Only problem for any new Barnes & Noble shareholders is that this was spun out of the company. And CEO Mike Husby has left B&N and joined the education spin-off.

The business generates a return on equity of just 3 per cent, which is only slightly more than can be achieved in a bank account term deposit.

The business however is a lot riskier than the term deposit. Sales are down about 7 per cent and cost of goods sold were down 10 per cent, which meant the company maintained its gross profit margin, but the company has also been cutting costs and closing stores.

These latter tactics have seen selling general and administrative expenses down by about 7 per cent.

While it might sound good, one wonders how long the cuts can continue.

Free cashflows is negative for B&N Retail after cashflow from operations are eroded by capital expenditure.

With a capitalisation of about a $1 billion, we believe that the market is valuing this company too optimistically.

If you believed the business would deteriorate further and/or the analyst community would eventually catch up and downgrade its expectations — in turn causing the share price to fall — how could you profit?

A "sold" portfolio of stocks is the answer and it works like this. Imagine you knew the local car dealership would launch a "50 per cent off" sale in the next few weeks on the very same car as your neighbour's new vehicle.

To make a profit from this opportunity you could "borrow" your neighbour's car and sell it online at the current price (receiving cash).

When the dealership conducts its sale, you buy a replacement car for a much lower price, return the car to your neighbour and pocket the difference as a profit.

You can apply the same principle to the shares of companies that you believe are going to decline in value.

We do this in our Montaka Global Access Fund.

We borrow the shares today, sell them for cash — knowing we will be buy them back later, and if successful, at a lower price, keeping the difference as profit.

Selling shares of business that are deteriorating gives you the opportunity to make a profit in a falling market.

Barnes and Noble is one example of the sorts of opportunities available to investors when the markets aren't rising.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT THE MONTGOMERY FUND