‘Miner knew’ of dam’s danger

MINING

THE miner responsible for Latin America’s biggest environmental tragedy knew in 2013 its dam in southeast Brazil was at risk of bursting, according to reports.

Brazil’s TV Globo has reported that consultants hired by mining firm Samarco warned more than two years ago that safety was compromised at the Mariana dam in Minas Gerais state.

Samarco is a joint venture between Australian miner BHP Billiton and Brazilian counterpart Vale.

A lawyer for Samarco said the group took precautions after the 2013 warning. The dam burst on November 5, killing 17 people and polluting 850km of waterways in two states.

TV Globo said it had documents showing consultants had warned Samarco about the dam’s danger.

It also said Minas Gerais investigators believed Samarco neglected key documents to obtain a licence for the dam.

The company has rejected those allegations.

The media group said the investigation by the Minas Gerais attorney-general’s office showed concerns about the mine’s safety dated back to 2007.

Samarco managed to secure the environmental licence from the state’s government, even though it failed to provide all necessary documents to operate the mine.

Last week, Brazil’s federal police said Samarco and seven of its executives faced criminal charges following the collapse of the dam.

Among them were Samarco’s chief executive, geology experts and an engineer who issued a document last July saying that the dam was stable.

Brazilian police have not filed charges against BHP Billiton.

Samarco said it disagreed with the federal police decision because no conclusion had been made about what caused the burst.

Brazil’s Federal Government and the Minas Gerais and Espirito Santo states filed a lawsuit in December asking Samarco, Vale and BHP to pay about $US5 billion ($7.3 billion) in damages.

BHP shares closed 0.7 per cent higher yesterday at $14.73.
AP

JOBS ON LINE IN CYCLE OF COST CUTS

JEFF WHALLEY
THE ECONOMY

MORE Australian employers expect to lay off staff this year as part of a cost-cutting crusade, new research suggests.

A survey of the nation’s corporate leaders by accounting heavyweight PricewaterhouseCoopers found 73 per cent planned to cut costs this year in the face of economic uncertainty.

Forty-one per cent of Australian chief executives said they would reduce headcount, compared with just 12 per cent last year.

The survey reveals business leaders are less confident about their companies’ growth prospects than a year ago.

Australian executives were polled as part of PwC’s 19th Annual Global CEO Survey.

The results have been released to coincide with the launch today of the 2016 World Economic Forum in Davos, Switzerland.

PwC Australia chief Luke Sayers warned corporate Australia might be reaching the point where it had cut too deeply.

PricewaterhouseCoopers chief Luke Sayer. Picture: KRISTIAN GEHRADTE

“The cost-cutting cycle has more or less continued since the financial crisis, so you have to question whether organisations are now starting to cut muscle rather than fat,” Mr Sayers said.

“You can’t cut your way to growth, so companies that want to prosper over the longer term should be looking at where they can make judicious investments, particularly in innovation, technology, and entering Asian markets.”

Australian corporate captains are also less optimistic about growth in the global economy.

They also believe the nation’s spiralling budget deficit makes it a “make or break” year for reform to ensure future prosperity, the survey results show.

“Australia’s 24 years of uninterrupted economic growth is frequently highlighted, but we mustn’t forget the history of difficult reforms that made this record possible,” Mr Sayers said.

PwC polled 1409 chief executives — including almost 50 in Australia — across 83 countries over the four months to December.

Vodafone’s $1bn TPG tie-up ahead of schedule

TELCOS

VODAFONE Hutchison Australia says its $1 billion deal to use TPG Telecom’s telecommunications infrastructure is ahead of schedule.

Vodafone chief executive Benoit Hanssen yesterday said progress was “slightly ahead of plan” and the program would take another two years to complete. “Drawing fibre to all the base stations takes a bit of time,” Mr Hanssen said.

“The first sites have come on air, where we replace the existing transmission with the TPG transmission, but the bulk of the network is still to be done.” Vodafone Hutchison — a joint venture between Britain’s Vodafone and Hutchison Telecommunications in Australia — announced the infrastructure deal in September.

At the time, TPG announced it would spend $300 million to $400 million on the fibre project, which is forecast to deliver at least $900 million in revenue over the 15-year contract.

Under the deal, TPG will resell Vodafone Australia’s mobile services, dropping Optus as its supplier.

It would help Vodafone Hutchison strengthen its 4G mobile coverage in Australia.

THE SHORT CUT
with ROGER MONTGOMERY

Spotting value in uncertain climate

TODAY we will discuss aggregate returns, but just remember what happens in the market may not be what happens for us or our investors.

We start 2016 with a similar disposition to 2015 — markets are generally expensive — however as we are often asked whether better value might emerge, it might be useful to explore some of the factors that suggest you may get a better bite of the cherry if you remain patient before adding to existing holdings.

In the long run, returns from investors’ portfolios should roughly approximate the growth of equity of the companies owned.

The larger the return on equity, and the larger the proportion of the profits that can be retained — and compounded at that attractive rate of return — then the higher the returns will ultimately be on the portfolio of shares.

The challenges for 2016 may be greater than in previous years.

According to analysts at US research outfit Variant Perception, the aggregate tax-accounted (rather than pro-forma or after extraordinary items) corporate profit numbers — those profits for all US corporations not just S&P500 companies in the US — and the associated returns on equity, have been declining since 2012.

And the indicator of corporate profits as a percentage of US Gross National Product — something Warren Buffett has previously indicated is a good explainer of stock market returns — has also been declining since 2012.

According to another measure of earnings, there has been a large spike in the amount of “extraordinary” items reported by companies listed in the Russell 2000 index.

As earnings growth becomes more challenging to generate, companies fall to the temptation of “creating” an improvement by moving expenses to the “extraordinary” or “unusual” pile. Of course such behaviour cannot be sustained for long.

Large spikes in extraordinary items, reflecting a deterioration of earnings quality, preceded or coincided with the stock market corrections of 2000 and 2008.

We find that using a variety of measures such as stock market capitalisation to GDP, and the Shiller Cyclically Adjusted Price to Earnings, the market was only more expensive than it is now, in 1999 and 2000.

According to Ned Davis Research the price earnings and price-to-sales ratio of the median stock is today higher than both October 2007 and March 2000 — the months that preceded the most recent stock market corrections.

If profit margins and returns on equity continue, while valuations remain extended, it suggests the market doesn’t require much impetus to tip it over.

At present merger and acquisition activity remains high, as does share buybacks by US corporates and margin lending.

Of course any slowing in this source of market support could be the catalyst for a sell-off that presents good buying opportunities.

If you remember that you should buy stocks like groceries — when they are on sale — 2016 may be the year to take advantage of everyone else’s panic.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT THE MONTGOMERY FUND