Off the spectrum

Security operator pans return offer

TREVOR CHAPPELL
DEALS

DETENTION centre operator Broadspectrum says it is undervalued by a $692 million takeover offer from Spanish company Ferrovial.

Broadspectrum, formerly known as Transfield Services, says shareholders should do nothing about the Ferrovial offer.

Ferrovial has offered $1.35 for each Broadspectrum share in its second buyout attempt, after putting a takeover proposal to Broadspectrum a year ago at $2 a share.

The Broadspectrum board rejected that offer.

In a letter to investors yesterday, Broadspectrum directors said the latest offer "compares poorly to the trading prices of Broadspectrum (shares) over the past 12 months".

"While Ferrovial has cited some short-term comparisons in its bidder's statement, it has not shown how the offer compares against the trading prices of Broadspectrum shares over a broader period," the letter said.

Directors said that by way of example, Ferrovial's offer slots in at a 15.6 per cent discount to Broadspectrum's share price of $1.60 on June 5, 2015 — six months before the offer was made.

The offer price was also less than Broadspectrum's average share price over the past year of $1.36. Broadspectrum shares closed 1.1 per cent higher yesterday at $1.33.

The company said the Ferrovial offer was opportunistically timed to take advantage of short-term weakness in its share price.

The maintenance and asset management firm noted Ferrovial had not had access to any confidential Broadspectrum information in a year.

Broadspectrum said that its performance had continued to improve over the past 12 months, and the outlook was positive.

The company had work in hand of more than $10 billion, and on Monday it upgraded its financial forecast for the year to next June.

Broadspectrum is the Federal Government's preferred bidder to operate the Nauru and Manus Island detention centres for another five years. It has been operating the centres since 2013.

Broadspectrum also said Ferrovial's offer was highly conditional. The Australian group expects to make a formal, detailed response to Ferrovial's offer next month.

AAP

Declines but no disaster on radar

HOUSING

A LEADING housing industry group is tipping a smooth landing for the sector in the new year, but warns there are bigger risks ahead.

After three consecutive years of growth, the Housing Industry Association predicts moderate declines next year.

"(But) in 2015-16, there's enough pent-up demand and work in the pipeline that it should be a very healthy year," HIA chief economist Harley Dale says.

In the year to June, work started on a record number of properties nationally — almost 212,000. New home starts are forecast to exceed 200,000 this financial year and should hold up above 180,000 for the coming calendar year, the association says.

And while there was downward momentum in nine of the 13 variables measuring conditions in the sector for the HIA Housing Indicator Profile, they were coming off in a fairly measured way, Dr Dale said.

"None of the leading indicators is falling off a cliff," he said.

"The heavily populated markets in Australia look as though they've got some juice in them going into the new year."

He cautioned the environment did not look as rosy next financial year.

HIA expects housing commencements to drop by about 15 per cent in the 2016-17 financial year.

Dr Dale said at that point the population growth impact of slowing net overseas migration would start to bite.

"And we may well be seeing talk of rising interest rates, which will have an adverse impact on confidence," he said.

"We probably are going to see two or three years where the industry comes off quite sharply compared to the record levels we currently have."

SHIPWRIGHT'S $70M TRADE WIND

AUSTRALIAN ship builder Austal won a contract worth more than $70 million to support a US Navy shipbuilding effort that could extend to a three-year deal.

Austal USA will help with the navy's 11-ship Littoral Combat Ship contract, with work including design services for upgrades to the ships and preliminary design for the navy's future frigate.

JOHN CONROY
MANUFACTURING

The initial deal is worth $US51 million ($71 million) and it could increase to $US198.4 million over three years if options are exercised, the company said in a release to the Australian Securities Exchange yesterday.

"This contract directly reflects our customer's confidence in Austal's ability to build and support highly advanced ships and to meet today's changing requirements," Austal chief Andrew Bellamy (right) said.

Work will be performed at Austal's ship manufacturing facility at Alabama in the US. Austal shares closed up 6.4 per cent yesterday at $1.57.

THE AUSTRALIAN

High yield chasers can miss power of the true blue chips

THE SHORT CUT
with ROGER MONTGOMERY

IT WASN'T that long ago, with the ASX 200 stock market index at about 5700 points, that some commentators were suggesting it would top 6000 points by the end of the year.

Well here we are, on the cusp of 2016, and the index is barely above 5000.

These commentators will either blame the US Federal Reserve, or China or some other external factor for their inaccurate forecast but what you should take away from their failure is that forecasting is simply a mug's game.

When we observed that the market was expensive and that banks and mining companies, at the highs, were unsafe investments, we weren't making a prediction about the direction of the share prices of these stocks or what would happen next.

What we simply observed is that investors were behaving dangerously and without regard to risk, chasing high yields and ignoring whether those dividends were being supported by growth.

We were simply saying it was a mistake to chase yield at the expense of growth.

History and basic arithmetic demonstrates that a growing income is far more valuable than a high yield.

Investors who chase higher yields, especially from companies that pay the bulk of their earnings out as dividends, are missing out on major financial benefits that would otherwise accrue.

Investors in 2005 who invested $100,000 in the higher, 5.9 per cent-yielding, Telstra shares could have alternatively invested $100,000 in M2 Telecoms.

The major difference between these two companies was not just their yield — Telstra's management elected to pay the bulk of the company's earnings out as a dividend. Indeed under Sol Trujillo, Telstra's dividend exceeded earnings over a number of years.

While Telstra's payout ratio was near 100 per cent, M2 Telecommunication's payout ratio was much lower.

Investing $100,000 in Telstra in 2005 for 10 years has produced an investment of about $117,000 or an average annual compounded capital return of 1.5 per cent

Many of you will immediately jump to Telstra's defence and point out that I have excluded the dividends from the calculations.

Firstly, I note that I have not assumed a reinvestment of dividends.

This article is about retirees who have been chasing income to spend on food and clothing and other essentials like BMWs and annual overseas holidays.

In 2005, the yield on Telstra shares was 5.9 per cent, equating to $5900 of fully franked income.

Of course Telstra has increased the dividend since then from 28c to 30c per share and the low level increase reflects that profits have not grown markedly. In any event, the income on your $117,000 investment in Telstra currently would be about $6400.

Contrast this with M2 where the ability to generate high returns on large amounts of capital have turned $100,000 into $3 million and importantly for those desperate for income, turned $3900 of dividends in 2005 into almost $100,000 of fully franked dividends in 2015. And M2 is not an isolated case.

Investors chasing the highest yielding blue chip shares are missing out on the returns and income available from true blue chips — the type that we prefer to fill our portfolios with.

It's an expensive mistake to eschew those companies with lower yields today but which are able to grow their income. And that's a forecast I can confidently make.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT THE MONTGOMERY FUND