NOT AWE INSPIRED

DEALS

AUSTRALIAN energy company AWE has knocked back a takeover bid from a private equity group, labelling the offer "opportunistic" and below fair value.

The oil and gas producer, established in 1997, yesterday informed the local share market that private equity group Lone Star Funds's Japan branch had attempted to buy out AWE for 80c a share. The proposal was unsolicited, non-binding, indicative and conditional.

"The AWE board has met to consider the proposal and has decided to reject it," the company said in a statement.

"The board concluded that it is opportunistic and does not reflect the fair underlying asset value of the company."

AWE's shares shot up 10c, or 16.3 per cent, to 71.5c.

Kingsgate seeks help

RESOURCES

KINGSGATE Consolidated is seeking Canberra's support to reverse a Thai government decision to shut down its gold mining operations.

The call from the Australian company follows the Thai industry minister's move to close all gold mining operations in Thailand and curb further mining licences.

That decision comes after a seven-month review of the Kingsgate offshoot Akara Resources mine and its health and environmental impacts.

Akara oversees Thailand's largest gold mine at Chatree, 280km north of Bangkok.

The mine employs about 1000 people, 65 per cent from the local community, and produces 100,000 ounces of gold a year. Kingsgate shares were in a trading halt yesterday after tumbling 11.8 per cent to 41c on Tuesday.

Safe as housing

CSR says growth will continue

KIM CHRISTIAN
BUILDING PRODUCTS

BUILDING materials company CSR has dismissed concerns about speculation in Australia's housing market, insisting that strong immigration and low interest rates are driving growth.

CSR shares gained more than 5 per cent after the company reported a 13 per cent increase in full-year profit, largely thanks to its key building products business.

Managing director Rob Sindel painted a rosy picture of residential construction markets around the nation for the year ahead.

Mr Sindel said CSR's building products business had delivered record earnings as it increased its market share in the apartment and townhouse sector.

"You've got a 350,000 increase in population, both through immigration and underlying population growth, so that's the real driver for us," Mr Sindel said yesterday.

He said he was not sure the housing market was "all driven by speculation".

"It's a combination of low interest rates, low unemployment, better affordability and difficulties in the share market," he said.

However, he acknowledged that apartment and townhouse approvals were flattening amid reports of bad debts and empty apartments relating to offshore property buyers.

"The facts are they continue to sell and they continue to get built, so when that situation changes it may impact us, but you're talking two years down the track."

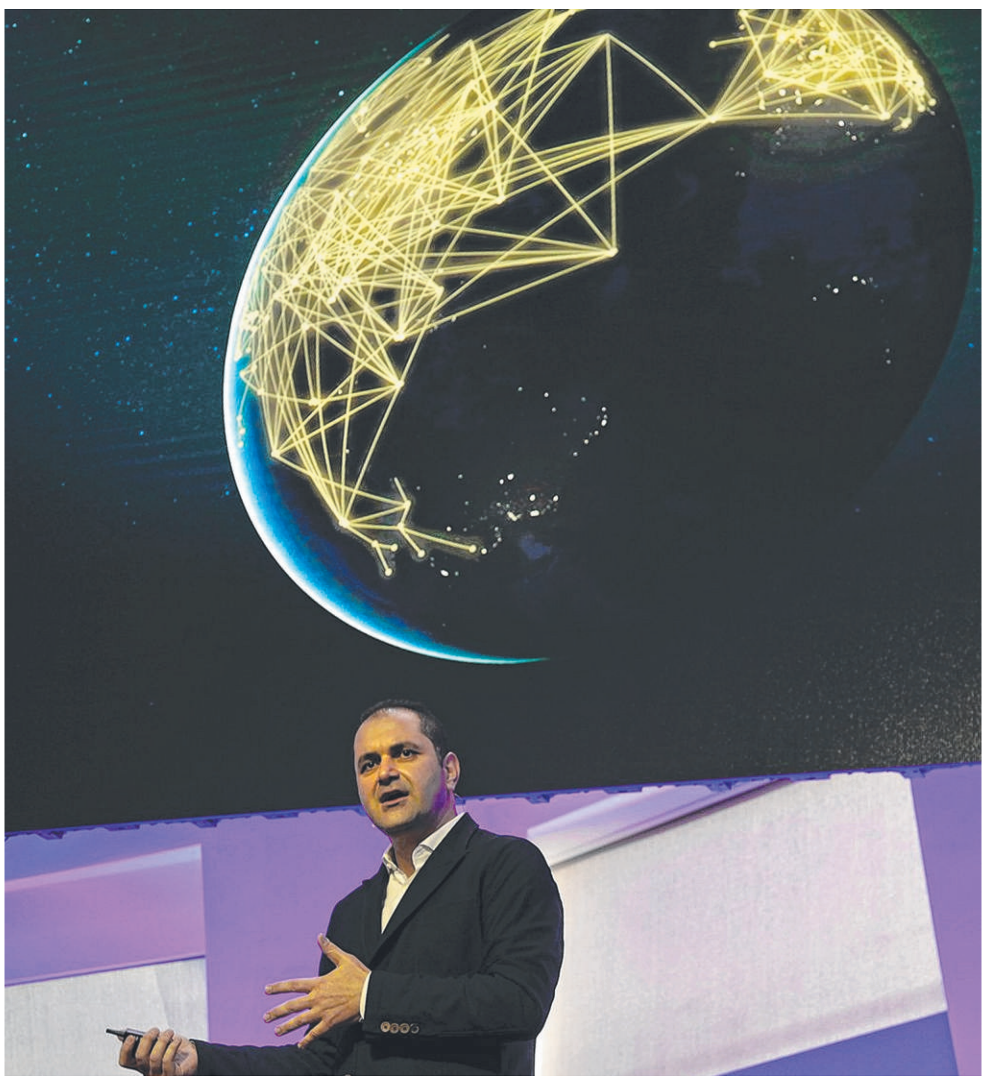
Mr Sindel said CSR was identifying "very stable" housing market indicators, and that record levels of residential construction activity would continue to support demand for the company's building products in the next 12 months.

CSR's net profit of $142.3 million for the year to March compares with $125.5 million for the same period a year earlier, while revenue grew 14 per cent to $2.3 billion.

The company's profit after tax and before significant items rose 13 per cent to $166 million — a result CSR said was the best since the divestment of its sugar business in 2010.

CSR said its financial position remains strong with net cash of $73.1 million underpinning the share buyback of up to $150 million launched in March.

Its shares closed 19c, or 5.5 per cent, higher at $3.65.
AAP



Hyperloop co-founder Shervin Pishevar pitches his vision yesterday. Picture: AFP

AT 1200km/h, BACKERS ARE UP FOR THE RIDE

TRANSPORT

A LOS Angeles company developing futuristic transportation technology has secured more than $100 million to help with its bold plan.

Hyperloop One says it now plans to conduct a full system test before 2017.

A hyperloop would whisk passengers and cargo in pods through a low-pressure tube at speeds of up to 1200km/h.

Maglev technology would levitate the pods to reduce friction in the city-to-city system, which would be electric powered. New investors include the French national rail company SNCF and GE Ventures.

They have invested $US80 million ($107 million) to help develop the technology.

The proposal builds off a design pioneered by Elon Musk, chief executive of burgeoning electric car company Tesla.

Speaking on the eve of the first demonstration test in the Las Vegas desert, Hyperloop One chief Rob Lloyd tried to dispel criticism the technology was unproven and better suited for science fiction than practical use.

"It's real, it's happening now, and we're going to demonstrate how this company is making it happen," he said.

He likened hyperloop technology to the emergence of the US railway system and the era of prosperity it ushered in.

Mr Lloyd also announced a competition to determine where the first Hyperloop One system should be built, with an announcement expected next year.

Early applications could centre around ports — possibly replacing the trucks and trains that carry cargo from ships to factories and stores.

Executives in Hyperloop One, formerly known as Hyperloop Technologies, include Shervin Pishevar, a venture capitalist well known for his investments in innovative companies such as Uber and Airbnb.

Woolies' struggles against interloper are just beginning

THE SHORT CUT
with ROGER MONTGOMERY

AS a consumer I love it when Woolies offers lower prices.

If I was still an investor in the shares of the company, I'd be much less sanguine.

Since Montgomery sold its Woolworths shares in November 2014 — above $30 — the stock has been in decline. At around $21 today, the share price could represent an opportunity to make a lot of money or an opportunity to lose a great deal more.

To help resolve the dilemma, it's worth briefly understanding how Woolies arrived at this position. The primary cause of Woolworths' woes is the arrival of Aldi.

A further contributor is corporate governance, although there is only so much even the best oarsman can do if his boat has a leak.

Aldi makes a profit globally on a 2.5 per cent margin for earnings before interest and tax. Not long ago Woolworths was reporting 8 per cent margins.

Aldi can operate and expand on 2.5 per cent margins because it is simply a more efficient business.

When Aldi enters a new country, it only does so if the salaries of the employees in that country are very high.

Why? Because it gives the company an immediate operating advantage. That's the only way its model works.

You see, an Aldi supermarket might have three employees in a store of the same footprint that Woolies requires 30 people.

Aldi can operate with less staff because its promise is to offer the best price, not the biggest range. Where Woolies might have 30 tomato sauce products, Aldi has just one.

That means it has better buying power for that tomato sauce than Woolies and Coles, even though the incumbents have enjoyed 80 per cent market share and Aldi just 10 per cent.

With fewer individual products needing replenishing on the shelves, fewer staff are required to operate the business.

Aldi doesn't enter a country unless it displays high average gross domestic product and high wages.

Ideally it also likes to find territories where there isn't already a hard discounter established. Then Aldi rolls out its 20-year plan.

Aldi is a debt-averse business and so it was always going to grow slowly because it needs to buy sites and build stores. When it gets to 350 stores, and about $3.5 billion in sales then the company is in a position to source its products locally. It is then the biggest purchaser of the products it is interested in.

It then buys local and at a cheaper price than Coles and Woolies. It also demand the recipe it wants and it starts hitting Australians' taste and quality expectations.

What can Woolworths do? To begin, they are now playing by Aldi's rules.

Their first return volley was to "invest in lower prices".

This is a euphemism for cutting prices (and cutting profits for shareholders, by the way).

Woolies is discovering that it's simply not working and they have now reported four quarters of negative same-store sales growth.

Some analysts believe Woolies will recoup the lost margin from suppliers because the volume has gone up and that it will cut staff costs. But customers have long complained there aren't enough staff in the stores so if staff are cut, presumably customer satisfaction will decline further.

And whenever Woolies cuts its prices, the others, including Aldi respond meaning it will have to continue "investing" in lower prices. Nowhere in the world have incumbents survived the entry of Aldi with their margins intact.

Woolies will survive, but Aldi is here to stay and Woolies must be a smaller business (spinning off Big W, exiting Masters) and/or report lower margins and profits.

Roger Montgomery is Montgomery Investment Management chief investment officer