BID FOR $3M COSTS

RETAIL

OUTDOOR clothing retailer Kathmandu is trying to recover $3 million in costs linked to the Briscoe Group's failed takeover bid.

Kathmandu has lodged a claim in the New Zealand High Court to recover expenses, including legal fees and tax advice, which it says it is entitled to under the New Zealand Takeover Code.

Finance director Reuben Casey said the legal action was standard process there.

"The board had to take the appropriate steps to fully advise shareholders of the merits of the offer and under the NZ Takeover Code, the company that launched the takeover incurs those costs," he said.

Briscoe has paid almost $NZ638,000. Shares in Kathmandu closed down 2c yesterday at $1.37.

Jeweller's tax bonus

RETAIL

MICHAEL Hill International stands to reap a tax benefit of up to $20.6 million as part of a restructure to shift its primary listing to Australia.

The Brisbane jewellery retailer will ask shareholders at a special meeting in Auckland on June 23 to approve a restructure so it will be incorporated in Australia, with its primary listing on the Australian Securities Exchange.

Michael Hill, which is listed on New Zealand's bourse, will keep a secondary listing there.

A report by adviser Korda-Mentha said there was a potential tax benefit of between $9.4 million and $20.6 million.

Moving to Australia would align the board, management and business operations, allowing shareholder meetings to be held here and earnings and dividends to be declared in the same currency.

Renewables hitch

State grid needs 'significant' upgrade

JOHN DAGGE
ENERGY

THE bulk of renewable energy projects slated for Victoria will struggle to get off the ground unless the state's electricity grid is significantly upgraded, the nation's energy planning authority says.

The Australian Energy Market Operator says at least $60 million of upgrades to the grid in the state's west and northwest will be required if projects that could deliver some 1500MW of renewable energy are to be integrated into the area's network.

The findings are part of a report, to be released today, that also finds the key driver for grid upgrades is shifting away from managing peak demand to focus on integrating high levels of concentrated renewable generation in areas of low grid capability.

Increased certainty around the nation's renewable energy target has bolstered interest in large-scale wind and solar projects, with the state's west and northwest attracting much attention from developers. The Waubra Wind Farm, near Ballarat, has been operating since 2009 while the Ararat Wind Farm is to send its first power into the grid next month.

Low-cost transmission line upgrades and better local grid management could support the connection of up to 200MW of additional generation in the state's west and northwest. But major upgrades will be needed if proposed large-scale wind and solar projects are to go ahead without overburdening the network.

"Generation connected to areas with limited network capability is at risk of being constrained," the report says.

"New generation connections in North West Victoria will likely be limited by network strength or constrained by network capacity."

Investing in grid upgrades will produce $30 million in benefits over the next 40 years provided more than 400MW of renewable generation is built, displacing coal and gas generation, the report finds.

john.dagge@news.com.au

Tim Tam maker Arnott's may soon see competition from British brand McVitie's. Picture: PHILLIP ROGERS

TIM TAM SLAM? DIGEST THIS, ARNOTT'S

FOOD

THEY'RE little known here, but British snackfood staples Digestives and Jaffa Cakes could soon do big business down under — at least if their parent company has its way.

Yildiz, the Turkish conglomerate that owns a host of brands including McVitie's of Britain, has unveiled plans for an aggressive global expansion.

It is eyeing markets including Australia and China for McVitie's, which makes Digestives — similar to Arnott's Wheaten biscuits — Jaffa Cakes and a Tim Tam-style chocolate biscuit called Penguin.

Yildiz is bundling its biscuit and confectionery brands, which include McVitie's parent United Biscuits and the Godiva Belgian chocolate business, into one company called Pladis.

It expects to float Pladis, which has a value of $US5.2 billion ($7 billion), on the London stock exchange by 2020.

Pladis chief Cema Karakas said the new company would use its global distribution network to bolster McVitie's presence in America and push it into the Middle East, Turkey, China, Australia and Sub-Saharan Africa. But the group had no plans to snap up other food businesses.

The combination of the four firms will create a food industry heavyweight with 36 factories in 13 countries, employing 26,000 people including 5000 in the UK.

Would an American invest in an Australian bank?

THE SHORT CUT
with ANDREW MACKEN

LIVING on a tropical island has the potential to make one a little bit inward looking.

Availability bias will dictate that island inhabitants favour domestic investment opportunities over global ones. And we need not look any further than Australia's listed banks to see this idea in action. But first, how do banks generate economic profits for shareholders?

There are four key drivers:

NET interest margin, or NIM — that is, the difference between the interest rate on a loan received by the bank versus the interest rate paid by the bank on its funding of the loan;

LOAN growth, which simply reflects how many loans the bank is making;

OVERHEAD growth, which reflects the cost base of the bank including employees and branch expenses; and

CAPITAL requirements, which reflects how much shareholders' equity is required by regulators to be held by the bank.

In essence, shareholders want the first two drivers to be as high as possible and the second two drivers as low as possible.

In Australia, the economy is weakening. The best days of the mining boom are behind us, the Budget is consolidating and there is increasing noise of oversupply in segments of the housing market.

It is for precisely this reason, along with a stubbornly strong currency, that the Reserve Bank of Australia has cut its cash rate target again this year.

These two factors create downward pressure for Australian banks' NIM and loan growth.

Now, with respect to overheads, Australian banks are remarkably efficient already. On the one hand this is positive; on the other hand, it potentially limits the extent to which future reductions can be made in light of weaker top-line growth.

When it comes to capital requirements in Australia, they are only going up.

Regulators globally are becoming stricter on banks to help ensure the protection of taxpayer money in the event we go into another global financial crisis.

Compare the Australian situation to that in the US.

Interest rates have been about as low as they can go and, as of last December, have started to increase.

To the extent interest rates continue to rise, bank NIMs will also expand.

Instead of a weakening economy, the US economy is recovering, albeit slowly.

Wages are growing, unemployment is low, new home sales are at their highest since the crisis and annual auto sales are not far off their all-time highs. This bodes well for credit growth.

On the overheads side of the equation, US banks are nowhere near as efficient as Australian banks, in general.

Again, while this sounds like a bad thing, it actually suggests there is a big opportunity for focused management teams to rationalise their operations.

Finally, on capital requirements, these too have been going up.

Yet, for many US banks, the bulk of the heavy lifting has been completed.

The long run prospects for US banks are not bad at all.

Now the astute reader will be thinking: yes, US banks are better positioned, but what about their price?

If quality is already priced in, then they are not necessarily a better investment.

But surprisingly, many US banks are actually cheaper than Australian banks.

Consider JPMorgan Chase, Citigroup and Wells Fargo: the average price-to-book ratio is 1.06 times. The average price-to-book ratio of the four major Australian banks? 1.68 times. How many American investors do you think are piling into Australian banks right now?

ANDREW MACKEN IS A PORTFOLIO MANAGER AT MONTGOMERY GLOBAL INVESTMENT MANAGEMENT @amacken