OZ MINERALS SEES STRONG YEAR DESPITE EARLY EARNINGS SLUMP

COPPER and gold miner Oz Minerals says it is expecting another strong year for production despite suffering a 43 per cent slump in first-half earnings.

Oz Minerals' net profit for the six months to June fell to

MINING

$29.5 million, from $51.8 million a year earlier, dragged back by lower copper prices and costs associated with legal action against the company.

But underlying profit — which strips out "one offs" — rose from $51.8 million to $55 million.

The net result was weighed down by $25.5 million in legal costs associated with the settlement of a class action filed by former Zinifex shareholders who received shares in Oz Minerals following the merger between Oxiana and Zinifex in 2008.

Oz Minerals maintained its full-year forecast for contained copper production at 115,000 tonnes to 125,000 tonnes, following a record year of production last year.

"We expect 2016 to be another strong year of production, with increasing high-grade copper ore from the underground," Oz Minerals chief Andrew Cole said, unveiling the results yesterday.

Oz Minerals will pay an unfranked interim dividend of 6c a share.

Just warming up

Rebound beckons – AGL boss

PRASHANT MEHRA
ENERGY

AGL Energy expects earnings to grow this financial year despite unseasonably warm weather at the outset and fierce competition for customers.

Unveiling a worse-than-expected $408 million net loss for the year to June, the energy producer and retailer yesterday warned of a series of headwinds.

Warm weather last month, the difficulty in passing on electricity price rises to customers due to competition, and ongoing enterprise bargaining agreements at two of its major power plants were among key negative factors, the group said.

Even so, AGL said it still expected earnings to grow this financial year.

The subdued outlook did little to cheer investors, with AGL shares diving more than 5 per cent after the results were released and closing 3.8 per cent lower at $19.58.

AGL chalked up a profit of $701 million on an underlying basis, which strips out "one offs".

That tally was up 11.3 per cent on the previous year and midway through its forecast range of $650 million to $720 million, but lower than analysts' expectations for a $711 million result.

The bottom line was buffeted by $640 million of impairment charges related to its previously announced exit from gas exploration and production, as well as restructuring costs. Last year, AGL made a $218 million net profit.

The company has been caught up in drawn-out negotiations over a new workplace agreement with staff at the Loy Yang power station in the Latrobe Valley.

Managing director Andy Vesey defended the performance. "We are quite pleased with the result given how volatile some of our markets have been and the changes we have seen," he told analysts.

"The year has started off a bit soft for us but we continue to execute on our strategy."

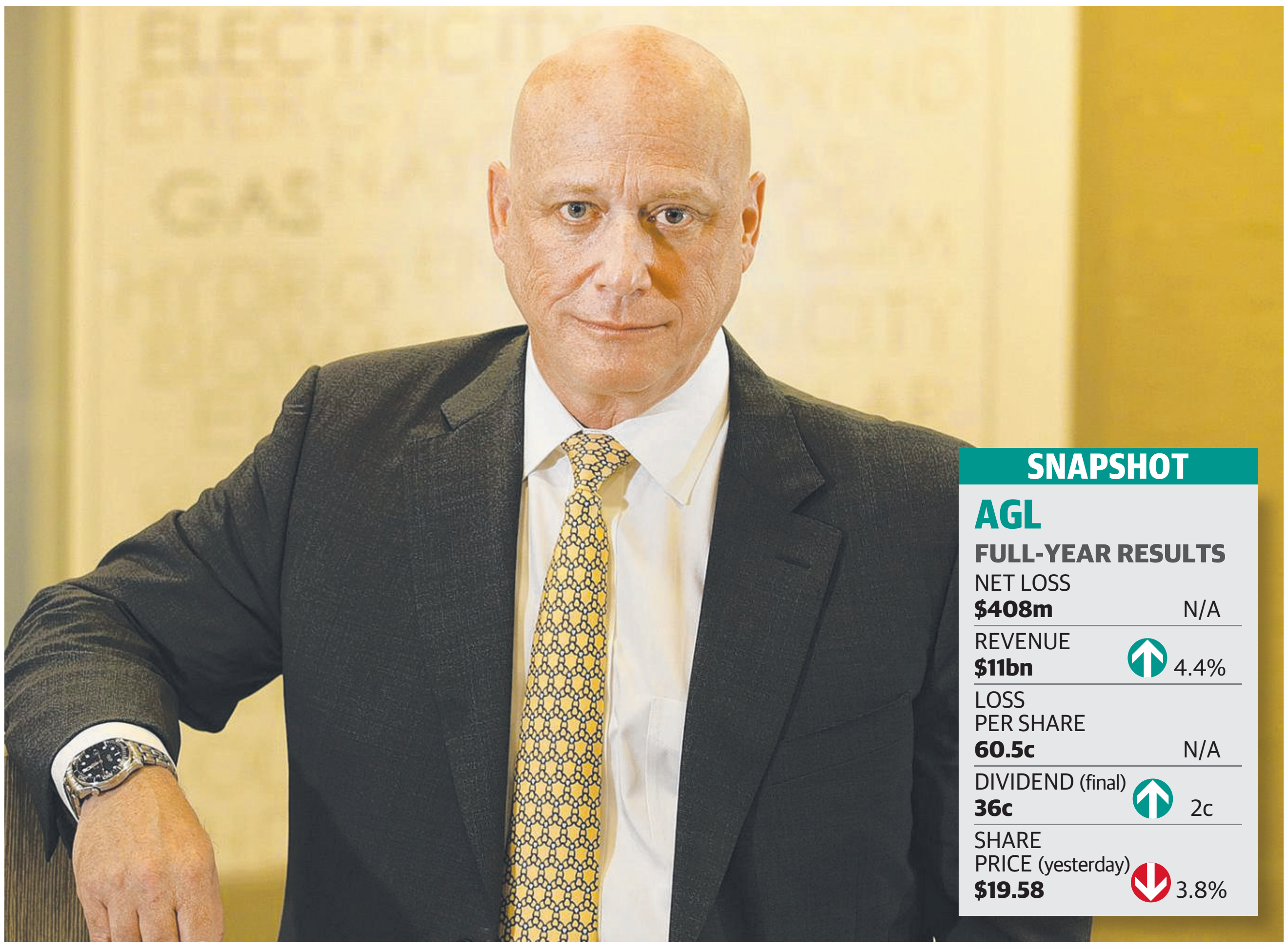
Mr Vesey said the results reflected AGL's steady margins and cost discipline.

He said it was on track to cut operating costs by $170 million a year and investment spending by $100 million by the end of the financial year.

AGL also announced plans to invest $300 million over three years to improve its digital interface with customers.

It will pay a final dividend of 36c, up 2c.

AAP



SNAPSHOT
AGL
FULL-YEAR RESULTS

NET LOSS **$408m**		N/A
REVENUE **$11bn**	↑	4.4%
LOSS PER SHARE **60.5c**		N/A
DIVIDEND (final) **36c**	↑	2c
SHARE PRICE (yesterday) **$19.58**	↓	3.8%

AGL Energy managing director Andy Vesey says he is proud of the company's result in a volatile market.

Better batteries 'a must'

JOHN DAGGE
POWER

FURTHER advances in battery storage and energy-efficient appliances will likely be needed if Australia is to meet its climate change commitments and keep the lights on, the nation's energy authority says.

The Australian Energy Market Operator also says Victoria is likely to need to remove 800MW of brown-coal generation by 2021 — more than half the capacity of the Hazelwood power station — if Australia is to adhere to climate change commitments struck in Paris last year.

The findings are part of the operator's annual 10-year electricity forecast to be released today.

All up, about 1360MW of coal-fired generation capacity will need to be removed from Victoria, New South Wales and Queensland for Australia to meet its 2030 commitments.

Current reliability standards will start to be breached in South Australia from 2019 and Victoria and NSW from 2025 if withdrawals happen without network upgrades or advances, the report says.

"Possible solutions could include an increased interconnection across NEM (national electricity market) regions, battery storage and demand side management services."

The report models what the authority considers to be the most likely path to meeting climate change commitments.

Quick price growth a challenge for the Seven stable

THE SHORT CUT
with ANDREW MACKEN

AT the beginning of this month, Seven West Media (SWM) announced its full-year financial results, which fell short of market expectations.

In addition, earnings guidance for the next financial year were also below expectations.

The challenges facing the traditional media industries have been well documented: at a time when eyeballs are increasingly hard to come by (unless you are Facebook or Google) — and advertising revenues waning, content costs are increasing.

In a brutal two-day period following the announcement of its results, Seven West Media's share price declined by 28 per cent.

In dollar terms, more than $400 million was wiped off the value of the company.

And since the stock's most recent 52-week high achieved in June, $700 million in value had been wiped off the company's value .

So what does this have to do with Kerry Stokes' Seven Group Holdings (SVW)?

Well, Seven Group Holdings owns approximately 41 per cent of Seven West Media. So the approximate maths is as follows: for every $700 million Seven West Media declines in value, Seven Group Holdings should decline by approximately $290 million.

Now, over the period during which Seven West Media declined in value by $700 million, Seven Group Holdings actually increased in value by approximately $500 million.

So to be clear, this implies that the non-media assets in the Seven Group Holdings portfolio increased in value to the tune of nearly $800 million (or by about 30 per cent) over just a two-month period. This is a fantastic outcome for Stokes' non-media assets.

The next question is: what are these non-media assets — and why are they doing so well? Seven Group Holdings' primary non-media assets include 100 per cent ownership in WesTrac — a dealer of Caterpillar equipment in Australia and China; 46.5 per cent ownership of Coates Hire — a leading construction equipment hire business; and 100 per cent ownership in Allight Sykes — a manufacturer of industrial lighting, pumps and generators.

In addition, Stokes' conglomerate owns interests in energy assets, property and other listed investments.

Now, it's fair to suggest Stokes' energy, property and listed assets probably are not responsible for the 30 per cent two-week gain observed in his non-media portfolio.

So that leaves his equipment businesses.

But according to Macquarie, WesTrac is not expecting sales growth at all over the next 12 months — and if Caterpillar's global outlook is anything to go by, demand for mining and construction equipment is unlikely to improve soon.

All in all, Macquarie expects these non-media assets to deliver earnings that are down around 5 per cent over the coming year versus the year just gone.

Is a 5 per cent annual earnings decline worthy of a 30 per cent re-rating in value?

It could well be, depending on how low the market's expectations were leading into the result. For example, if the market were expecting, say, a 10 per cent decline, then 5 per cent is a great outcome.

Whichever way you cut it, investors in Seven Group Holdings need to pay a lot more for a business that is barely growing today, than they have for some time.

Upon considering the ratio of the company's enterprise value to its expected full-year earnings (before interest, tax, depreciation and amortisation): just three years ago it was below six times; at the beginning of 2016 it was a little over 10 times; and today, it is more than 13 times.

It may well be justified. But as the price goes up, so too do the required future earnings the business needs to deliver for investors to make money.

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