Cover's falling short

Buyers in the dark: ASIC

STUART CONDIE
INSURANCE

MANY Australian home insurers are still not doing enough to help customers pick the policy that is right for them, according to the corporate watchdog.

The Australian Securities and Investments Commission said yesterday the industry can do more to help consumers avoid being underinsured.

With natural peril claims on the rise, ASIC is concerned that customers could be left out of pocket if disaster strikes.

"Our goal is to make sure that consumers buy insurance that better meets their needs including by helping to reduce levels of underinsurance, especially when there are natural disasters," ASIC deputy chair Peter Kell said in a statement.

The insurance industry paid out more than $4 billion due to damage from major weather events, such as Cyclone Marcia, in the summer of 2014-15.

Nonetheless, five of 12 companies surveyed by ASIC do not provide upfront information about full rebuilding costs due to natural perils, despite the watchdog urging them to do so in October 2014.

Two still don't provide an online calculator for consumers to estimate their required cover, while one doesn't even define what the sum insured is.

The insurers participated on the condition of anonymity.

The performance was even worse when it came to customers buying insurance over the phone.

ASIC wants companies to better explain that the sum insured needs to cover the complete replacement of contents or the complete rebuilding of a customer's home.

Insurance Council of Australia chief Rob Whelan said the industry had improved its performance from a year earlier, when no insurers defined the sum insured online, but conceded it could do better.

> **Our goal is to make sure that consumers buy insurance that better meets their needs**
> PETER KELL

Mr Whelan said insurers were trying to eliminate jargon and better provide clear information to consumers.

"Like all financial products, insurance can be complicated and implementing all of the effective disclosure taskforce's recommendations is a long-term process."

AAP

Tassal chief executive Mark Ryan says salmon outcomes were in line with expectations

Tassal swims against current

AQUACULTURE

SALMON farmer Tassal says growth and death rates among its fish in Tasmania's Macquarie Harbour have been in line with expectations, despite challenging summer conditions.

Tassal yesterday acknowledged that the island state's west coast had an unusually hot, dry summer, bringing challenging dissolved oxygen levels and temperatures.

But Tassal said, overall deaths and growth among its salmon had been in line with expectations and long-term strategies. Tassal chief executive Mark Ryan said conditions have improved over the past two weeks.

"Environmental conditions are also in line with expectations with the science undertaken by both the salmon industry and the Tasmanian government underpinning the regulation of salmon farming in Macquarie Harbour," he said.

"All of Tassal's fish stock are from our selective breeding program which has focused on breeding fish adapted for Tasmanian conditions — meaning they are more resilient."

The company's strategies for such conditions included more frequent net-washing and reviewing feeding practices, Mr Ryan said.

On Friday, rival salmon farmer Huon Aquaculture said conditions in Macquarie Harbour had become challenging since December.

Hotter temperatures and reduced dissolved oxygen had led to slower fish growth.

It said reduced growth rates were expected to affect future production volumes and fish cost.

Tassal shares fell 1 per cent to $3.80.

Rivals join forces to buckle up

MERGERS

BEACH Energy has merged with rival Drillsearch Energy, with Beach shares expected to be issued to Drillsearch shareholders yesterday.

Drillsearch is now a wholly owned subsidiary of Beach.

Trading of the new Beach shares is expected to begin today.

Beach acting chief executive Neil Gibbins said the company would initially target cost reductions and portfolio optimisation, with a large portion of the expected $20 million in synergies to be realised during full year 2017.

The integration of the Drillsearch business is expected to be completed by the end of the financial year.

Beach shares closes 8.5 per cent or 4.5c higher at 57.5c.

GO NORTH AND GRAB A FUTURE

ACQUISITIONS

PACKAGING company Orora has acquired US marketing and print company IntegraColor for $US77 million ($107.8 million).

The Amcor spin-off says it has bought the Dallas-based visual communications provider to expand its North American footprint.

"This creates a second stream of earnings for Orora in North America and provides a platform for further organic and bolt-on acquisition growth," chief executive Nigel Garrard said.

Orora in February reported a 27.2 per cent rise in net profit for the six months to December of $87.9 million. Orora shares closed 3c higher at $2.31.

Private equity floats disappoint on smaller scale, too

THE SHORT CUT
with ROGER MONTGOMERY

HAVING just completed the reporting season and while the big story is BHP's dividend drop and progressive dividend backflip, the rest of corporate Australia, it seems, is doing OK.

Some results have been sufficiently surprising that analysts following them have upgraded their outlooks including for annuity income security seller Challenger (owned by the Montgomery Funds), Cochlear, JB Hi-Fi and Sydney Airport.

Others have also beaten analysts' forecasts, including Qantas, Domino's Pizza, and Bendigo Bank.

But the real story this reporting season has been the results of smaller companies recently listed by private equity players.

Private equity has been getting a bad rap lately thanks to the collapse of electronics retailer Dick Smith, which was purchased by financiers from Woolworths in 2012 for about $90 million, sold to stock market investors in 2013 for $520 million and has since collapsed with no buyers.

While a Senate inquiry seeks to uncover what went wrong and what could be fixed, other smaller companies floated by private equity are also disappointing investors.

The Australian Private Equity and Venture Capital Association's annual study of floats says 67 private equity-backed initial public offerings since the start of 2013 that raised more than $100 million had delivered an average return totalling 40.9 per cent by last December.

Of course statistics can be massaged to reflect a myriad of views and it is also true the longer a bull market runs, the lower the quality of floats.

That would explain why the performance of companies listed by private equity (PE) in 2015 underperformed non-PE-backed floats.

According to the report, non-PE-backed IPOs in 2015 achieved an average return of 19.3 per cent and a weighted average return of 18.9 per cent up to the end of December, outperforming PE-backed IPOs by about 6 per cent and 9.5 per cent respectively.

During reporting season, travel insurer Covermore, Mathletics inventor 3P Learning and mobile phone services company Amaysim all disappointed investors.

Some companies — Spotless comes to mind — didn't surprise with poor results because they had already warned the market.

What is common, however, to all companies is they were floated relatively recently by private equity.

3P Learning reported on February 19, with adjusted earnings before interest, tax, depreciation and amortisation up 12 per cent to $7 million but this was about 10 per cent less than some analysts had been expecting. Because revenues grew, the implication was that margins have declined. In other words, in order to sell more they might have to charge less.

Sure enough, the lead indicator, invoiced billings, increased 11 per cent in the first half of the 2016 financial year compared to 26 per cent in the first half of 2015.

SIM-only phone and data plan provider Amaysim's share price plunged by more than one third after a disappointing half-year result — its first results announced since listing in July 2015.

With 65 per cent of smart phones purchased outside of a lock-in contract in 2015, Amaysim reported rising revenues, but the company also reported a 96 per cent fall in net profits to $681,000. Its shares lost 37 per cent, falling below their IPO price of $1.80.

Amaysim said increased competition placed pressure on revenue and earnings, which leaves one to wonder why it didn't draw attention to this at the time of the float just over six months ago.

Investors are not being well served by the disclosure regime surrounding floats. It seems companies, prospectuses and auditors can all comply with the law as well as the requirement to disclose, and yet many professional and private investors are none the wiser. Let's hope the Senate inquiry digs a little deeper this time.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT THE MONTGOMERY FUND