WINDING IN DEBT

RESOURCES

FORTESCUE Metals is taking advantage of firmer iron ore prices to further trim its massive debt pile.

The world's fourth biggest iron ore exporter will buy back corporate bonds worth $US577 million ($745 million) on June 1, a move it says will also deliver interest savings of $US48 million a year.

"This debt repayment delivers on our sustained commitment to reduce all-in costs, further generating strong cash flows and continuing to reduce our debt," chief executive Nev Power said.

Fortescue has raced to cut costs this financial year as it grapples with the mining downturn. It has also focused on trimming its debt, which stood at $US5.9 billion at the end of March. Spot iron ore prices had recovered from a decade low of $US38 late last year to nearly $US63 a tonne yesterday.

Insolvency cases rise

DEBT

THE number of Australians in financial distress is on the rise, with new figures showing an increase in the volume of people entering insolvency in first three months of the year.

Personal insolvencies rose 1.5 per cent in the three months to March, compared to the same period in 2015, figures from the Australian Financial Security Authority show.

Queensland had the highest number of debtors entering insolvency with nearly 2250 people doing so in the March quarter, about 200 more than three months earlier.

New South Wales was second with just over 2000 entering insolvency, although that figure was down slightly on three months earlier.

Victoria was next, with just under 1500 cases.

The Melbourne municipality contributing most to the rise was Cardinia, where the number of debtors rose 7.6 per cent.

Premier Investments chief executive Mark McInnes and chairman Solomon Lew.

PREMIER REASONS TO STAY

EXECUTIVE PAY

PREMIER Investments, the owner of Smiggle stationery stores, has handed chief executive Mark McInnes a bumper pay rise and the means to build a new home in a bid to retain his services for the long term.

Premier said it has increased Mr McInnes' base remuneration and maximum short-term incentives by $500,000 apiece, taking his total annual package from $4 million to $5 million.

The retailer has also given the former David Jones boss the go-ahead to sell shares worth more than $12 million to pay for the construction of a new home near Premier's Melbourne headquarters.

Chairman Solomon Lew defended Premier's largesse, saying the new contract terms represent Mr McInnes's first salary increase since he was appointed in 2011.

The company's market capitalisation has increased from $900 million to $2.5 billion in that time, while shareholders have received a total of $313 million in fully franked dividends.

"Over the past five years, Mark has led a first-class team to deliver significant returns to Premier shareholders," Mr Lew said in a statement.

"The board is delighted that Mark has today recommitted himself to a long-term future with Premier and we look forward to his continued contribution and leadership."

Mr McInnes will sell 800,000 shares to build his home, two years after he sold 600,000 shares to buy a holiday home on the Mornington Peninsula.

Clouds on the radar

Airlines expect slowdown

LILLY VITOROVICH
AVIATION

THE global aviation industry has enjoyed a record year thanks to low oil prices, but earnings growth may be tempered in the year ahead.

Further profit improvement is anticipated in the first three months of 2016, but fewer industry chiefs now expect the year ahead will see growth as strong as in 2015, the International Air Transport Association's latest quarterly survey has found.

Fare and pricing pressure, diminished expectations of cost reductions and modest global economic growth are expected to put downward pressure on yields, according to the IATA.

"Expectations of further gains in profitability over the year ahead have eased markedly in recent surveys, as yields have come under strong downward pressure and expectations of future cost reductions have diminished," the IATA said yesterday.

Long-run expectations for growth remained positive for both passenger and cargo businesses, although expectations of the latter had moderated since the start of 2015 as structural headwinds, such as ongoing global trade growth weakness, had risen to the fore, the IATA said.

Just under 42 per cent of survey respondents expected profitability to increase over the next 12 months, while the number expecting profitability to remain unchanged increased to a third.

Qantas, Australia's biggest airline, earlier in April said lower consumer demand had prompted it to abandon plans to increase seat capacity in the three months to June.

That came after the national carrier in February cemented one of the most remarkable turnarounds in corporate Australian history, tabling a $688 million first-half profit after embarking upon a major cost-cutting drive.

Rival Virgin Group is expected to release its third-quarter update in May.

AAP

iPhone sales dip bites

TECHNOLOGY

QUARTERLY revenue at US technology giant Apple has fallen for the first time in more than a decade on the back of declining iPhone sales.

The result puts more pressure on the company to come up with its next big product.

Apple sold more than 51.2 million iPhones in the first three months of 2016, racking up $US10.5 billion ($13.56 billion) in quarterly profit.

That was more than many analysts expected but still fewer than the 61 million iPhones sold a year earlier. Nearly two-thirds of Apple's $US50.6 billion in quarterly revenue came from iPhones.

Devil wears Prada down but there's still time to bag profit

THE SHORT CUT
with ROGER MONTGOMERY

IT WAS almost a year ago that we picked the Hong Kong-listed global luxury retailer Prada as the world's leading short candidate.

Beijing's crackdown on corruption would hit sales and — when combined with overly bullish analyst expectations and the opening of new stores to boost sales and disguise declining same-stores sales growth — almost all the elements for an opportunity to profit from a declining share price were in place.

The share price has since declined from $HK45 to $HK23.65. The question, of course, is whether the opportunity has now passed.

Before we update the story — and demonstrate whether the opportunity to profit remains — a quick lesson on short selling.

Suppose your neighbour owned a new Toyota Camry with a retail price of $30,000.

Now assume that you knew Toyota would run a 50 per cent-off sale in a month's time. How could you profit from this? Easy.

You could borrow your neighbour's car for a month and promise to return to them a brand new Camry.

After borrowing the car, immediately it sells for $30,000. You now have $30,000 cash and an obligation to return a new Camry to your neighbour in a month's time. When the sale is underway, go buy a new Camry for $15,000 — keeping the remaining $15,000 as profit — and return the just-purchased Camry to your neighbour.

What you have just conducted is a short sale.

Derived from warehousing and inventory management, the trade is called a short sale because you sold stock that you were 'short' in inventory.

The interesting quirk about short selling is that no matter what price you sell a company's share at, the maximum return always remains 100 per cent — if the stock falls to zero.

In other words, even though the share price might have already fallen, the opportunity to profit may not be diminished.

Back to Prada, and it appears the story has not diminished. In the most recent sales update, the company's revenue was flat but a look under the bonnet reveals revenue was down 8 per cent in constant currency terms and down 12 per cent on a same-store sales basis.

The company also confirmed that margins are declining. Earnings before interest and tax fell 28 per cent year on year, cash flow from operations fell 24 per cent year on year and free cash flow is only €30 million ($44.4 million).

Given the market capitalisation of Prada is €6.86 billion, that latter free cash flow number suggests there is arguably still an opportunity to profit from short selling.

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