Stitch fix on the table

Embattled surfwear brand fields buyout bids

DANIEL PALMER
RETAIL

SURFSTITCH shares have surged after the troubled sportswear retailer admitted it was fielding a series of buyout proposals.

The group said it had hired consultant 333 Capital to advise on its strategic options as it mulled unsolicited offers from several parties, including a group that has been amassing a stake in Surfstitch while simultaneously launching legal proceedings against it.

"The company has recently received a number of unsolicited, non-binding and indicative expressions of interest and these are being assessed as part of stage two of the strategic review," Surfstitch said in a statement to the stock exchange yesterday.

"None of these is at an advanced stage and there is no assurance that any will lead to a transaction."

Surfstitch shares rose 14 per cent in early trade before settling 2.9 per cent higher at 18c.

However, one bid — from Coastalwatch — has already been shunned, given a modest premium on offer.

Coastalwatch is tied to Crown Financial, a company that has built a 10.4 per cent holding in Surfstitch in the past few months.

The suitor has also instigated legal proceedings against Surfstitch in relation to disputed licensing deals between the parties.

Surfstitch's board said it formed the view a 20c-a-share offer from Coastalwatch was not in the best interests of shareholders given it was highly conditional, came from a group raising legal actions against it and offered a scant premium on its 30-day average trading price of 19c.

"(This) does not, in the board's view, reflect an appropriate premium for securing control," Surfstitch said.

"Accordingly, the board does not propose to engage with CW in respect of the indicative proposal as received and shareholders are advised that they are not required to take any action."

Surfstitch is defending itself against the litigation amid a strategic review designed to reset the company after a horror year.

THE AUSTRALIAN

Vitaco in trading probe

HEALTH

NUTRITIONAL products supplier Vitaco admits the corporate watchdog is probing suspicious trading activity in the lead-up to the group's announcement of a $314 million takeover by Shanghai Pharma and Primavera Capital.

The Australian Securities and Investments Commission has launched an investigation into suspected insider trading ahead of the August agreement, focusing on parties close to suitor Shanghai Pharma.

"The alleged insider trading does not involve any of Vitaco's officers or employees," the Australian vitamins group said. "Vitaco also assures shareholders it is fully co-operating with ASIC in relation to its investigations and is committed to ensuring an efficient and informed market with respect to trading in its securities."

The takeover target added it was confident the ASIC probe would not affect the completion of the sale.

A shareholder vote on the deal is slated for November 30.

Vitaco shares were unchanged yesterday at $2.18.

CSR managing director Rob Sindel says apartment developments in not-so-desirable locations may flounder.

HAMMER TIME'S OVER FOR APARTMENTS

BUILDING PRODUCTS

HOUSING construction is going strong but the high-rise apartment market looks like slowing down, says building materials supplier CSR.

The company behind Gyprock plasterboard, Bradford insulation and Viridian glass has posted record earnings from its building products division for the six months to September, citing strong growth in residential construction.

That contributed to CSR's 48 per cent growth in first-half net profit to $114.5 million. Its shares rallied 8.6 per cent to $3.91 in the wake of the revelation.

Managing director Rob Sindel said overall strength in the east coast residential construction market had supported CSR's earnings growth, but warned of a potential slowdown in apartment construction.

"While detached housing construction remains robust, high-rise apartment approvals are showing signs of slowing across Australia," Mr Sindel said.

Work on projects in poorer locations might not commence even if they had approval.

"If you drive around, you'll see a lot of holes in the ground where the site has been cleared," Mr Sindel said. "Some will never get built because either the banks have pulled out on financing or haven't got the numbers."

Property to fall 'slowly'

CONSTRUCTION

PROPERTY prices are headed for a gradual fall rather than a crash as approvals for new homes slow, economists say.

Approvals for the construction of new homes fell 8.7 per cent in September, and were down 6.4 per cent in the past year, Australian Bureau of Statistics figures show.

Nods for private sector housing rose 2.3 per cent in September, while the "other dwellings" category, which includes apartment blocks and townhouses, fell 16.3 per cent.

JP Morgan economist Henry St John said the figures indicated the widely speculated fall in home prices over the next three years as supply floods the market would be gradual rather than abrupt.

Overall building approvals were up 2.2 per cent in the three months to September, he said, improving from a 2.4 per cent fall the previous quarter, and over the same two periods annual house price growth cooled from 8.4 per cent to 6.8 per cent.

"This suggests some adjustment in the housing market is occurring," Mr St John said.

Great Australian dream growing faster than our budgets

THE SHORT CUT
with ROGER MONTGOMERY

I AM calling a short sell on Australian residential apartments. If you wait for the swallow to sing, spring will already be over.

In other words, waiting for the data to prove a trend has changed may be more expensive than you'd like.

And while there is plenty of mounting data to suggest that property prices are heading for a big fall, there are also less obvious signals.

One possible signal for a property market peak was the 'For Sale' shingle being placed on the century-long held Soul Pattinson building in Sydney's Pitt Street Mall by one of Australia's most successful and respected investors and patriarch of listed investment firm Washington H Soul Pattinson (ASX:SOL), Rob Millner.

Another signal may just be property market patriarch John Symond listing his waterfront mansion on Sydney Harbour for sale.

More recently, we have been struck by the stunning growth in the number of practising real estate agents.

Australia's population is growing at 1.6 per cent per annum, so we don't think the number of real estate agents required to service the population needs to grow at a rate in excess of this. Yet, in 2016, Victoria, NSW and Queensland have seen real estate agent numbers grow almost 8.7 per cent according to the NSW Office of Fair Trading, Consumer Affairs Victoria and Queensland Office of Fair Trading.

Another observation is the preponderance of property developers making the rich lists and in particular the mushrooming number of property developers under 40 — who were still at school during the last recession.

If you invest for long enough you will see business owners in a variety of sectors come and go like the tide.

A final sign is the increasing prevalence of deniers — those that suggest there is no problem in the property market.

These individuals represent Exhibit A for an emerging problem.

As one much more experienced investor wryly observed: "It's only when the tide goes out do you see who was swimming naked."

Outside of signals what is the data telling us?

Here are some facts worth keeping in mind.

According to a UBS survey, more than a quarter of 1228 Australian home buyers who had taken out a mortgage over the past two years admitted they misrepresented some information on their loan application.

According to Morgan Stanley, apartment oversupply would be about 100,000 units, which could spark a sudden downturn and put about 200,000 jobs at risk.

We have written extensively about bubble-like conditions in Australia's property market, particularly apartments.

Australian residential real estate, despite being on the cusp of oversupply, is some of the most expensive in the world on a house price-to-income ratio basis.

Record prices and oversupply cannot co-exist for very long. At the same time that house prices are rising stratospherically, debt is being accumulated at an alarming rate.

There is always, and without exception, one common theme to the vast number of crises the world has experienced — excessive debt accumulation, irrespective of whether it is by the government, banks, businesses or consumers.

Quite simply, Australians have taken on more debt, typically to chase more expensive houses, and have less money to pay for it.

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