A milestone and a millstone for NBN

SUPRATIM ADHIKARI
TECHNOLOGY

NBN chief customer officer John Simon is seeking customer feedback on poor service.

THE company building the National Broadband Network has hit a major milestone, rolling the network past five million Australian homes and businesses.

NBN Co announced yesterday that it had hit the target and the rollout was gathering pace this quarter. It is aiming to ensure 5.4 million homes and businesses are capable of connecting to the network by the end of this month.

The company says it is on track to connect eight million homes and businesses to the network by 2020.

However, concerns are rising that the patchwork nature of the network and its reliance on copper-based fibre-to-the-node technology will lead to poor services for consumers and might hurt take-up rates.

So far, 2.2 million premises are connected to the network and early feedback on the fibre-to-the-node service has been less than ideal, with NBN Co last week confirming that the use of the technology had led to an uptick in complaints.

Telstra last month said it would refund 1 per cent of its NBN customer base — about 7920 customers — after selling them high-speed services that could never be delivered.

Most of these customers, according to Telstra and NBN Co, are on the copper-based fibre-to-the-node NBN, as opposed to having fibre running to their homes or businesses.

However, NBN Co maintains such technologies have been critical to rolling out the network as quickly as possible.

"The NBN network is being deployed faster than ever with an average of 250,000 premises made serviceable each month this year so far," it said in a statement yesterday.

With about 130,000 premises connecting to the network each month, NBN Co chief engineer Peter Ryan said that using a mix of technologies was the best way to get a service into homes quickly.

"We have the flexibility and the right technologies in place to design and build the network at the speed and scale needed to reach our end goal by 2020," Mr Ryan said.

Critics of the model say it will leave millions of households on a substandard service.

NBN Co chief consumer officer John Simon told a Senate committee last week many service issues were a result of gaps between where the NBN's responsibilities ended and retail service providers took over.

THE AUSTRALIAN

In short, value is difficult to find

ROGER MONTGOMERY
SHORT CUT

ASSET prices across all investment classes are at record highs, including and perhaps especially assets that produce no income.

That takes in items such as the two-digit New South Wales numberplate that sold for $745,000 and the Basquiat painting sold this week for $US110.5 million — a record for post-1980 art and for an American artist.

It's not surprising, then, that precious few assets are trading at prices that represent good value. When asset prices are high, returns will be low. The higher asset prices go, the lower future returns will be for the buyer.

Therefore, these are the times when a strategy that can profit from falling asset prices makes perfect sense.

Consider the many industries in Australia that are being disrupted or are at cyclical turning points.

Starting with residential property developers, we can see that a 23 per cent fall in residential approvals will lead to similar, if not larger, falls in construction activity.

This will have negative consequences for owners of businesses that profit from building and selling houses.

With yields pushed to record lows, future returns on long-term commercial real estate assets are now unappetising when compared to cash returns.

Cash, however, is still seen as a liability and so people are exiting in droves.

At the very time investors should be more cautious, they're the most enthusiastic. This is common to the end of all booms.

An oversupply of apartments will lead to a collapse in construction activity, putting many tradespeople out of work or with less work.

The construction industry employees about 9 per cent of Australia's workforce, so any change to activity could have serious economic consequences.

When you factor in that mortgage, household and credit card debt are all at record highs, it's easy to determine that rising construction industry underemployment will lead to a decline in retail sales.

The collapse of fashion retailers from Rhodes & Beckett to Pumpkin Patch and Topshop is a sign that unemployment in the sector will only continue to rise.

And what of retailers who supply appliances and furniture to fit out all those shiny new apartments and houses? A slump in housing activity always leads to falling demand for additions and alterations.

The lag is about 10 months, so at some point in the next year retailers from Bunnings to Nick Scali could see a slide in same-store sales growth.

That will put an end to the increasing employment dreams of those retailers.

If unemployment rises, the hundreds of thousands of property investors with mortgages will be forced to reduce their rents or lose tenants. It follows that financial stress will also hurt retail sales and the desire to borrow for asset purchases.

That brings me to the banks, which have used a host of techniques to quell the demand of unwitting property speculators.

While they may yet have prevented a property bubble and subsequent mess, they too must realise their future growth rates will be slower.

From builders to retailers to the banks, the ground for profitable short-selling opportunities is fertile.

Perhaps that's why at Montgomery, we have seen an increasing level of inquiry from sophisticated investors who see short-selling not as a high-risk alternative but a necessary part of their portfolio for the new post-bubble era.

ROGER MONTGOMERY IS MONTGOMERY INVESTMENT MANAGEMENT CHIEF INVESTMENT OFFICER

LATE PIZZA DELIVERY

LEGAL

DOMINO'S Pizza Enterprises says an audit of its Australian stores in response to allegations of widespread staff underpayments has slipped six months behind schedule.

The pizza maker announced yesterday that the audit of more than 700 franchised and corporate stores was taking longer than expected.

Auditors would not be able to meet their June deadline, it said. The company now expects the audit to be finished within six months.

The Fair Work Ombudsman is also investigating some Domino's stores after media reports this year of widespread underpaying of staff and a visa scam at one franchisee-owned store.

Domino's has been conducting store audits over the past three years and in March extended the audit across its national network.

Shares in Domino's closed yesterday at an 18-month low of $57.47, down 1.6 per cent.

Shops tipped to flop

THE ECONOMY

THE slump in consumer spending is expected to continue this year as a major headwind for retailers across the country, economists say.

Research by the Commonwealth Bank says weak wages growth is the biggest factor weighing on the retail sector as households devote a greater portion of their wallets to health, utilities and education.

"Consumers have a fine amount of disposable income and even with the assistance of a falling savings rate, record low wages growth has weighed significantly on the discretionary parts of retail trade," CBA senior economist Gareth Aird said in a report on the sector.

Mr Aird said demand for clothing and other discretionary goods had been weak for the past two years, as reflected in falling department store sales and the collapse of a string of apparel retailers.

Retail trade figures for April will be released today by the Australian Bureau of Statistics and while economists tip a slight rise, the underlying trend is predicted to stay weak.

MARKET WRAP

MAY-HEM HAS INVESTORS LICKING WOUNDS

THE Australian share market has closed out its worst month since January last year thanks to significant falls by the major banks and other financials.

The benchmark ASX 200 index rose 6.7 points to 5724.6 points yesterday as banks rallied and property developers starred despite falls by the big miners. The broader All Ordinaries index was up 5.3 points at 5761.3.

But the benchmark index fell 3.4 per cent in May, its largest monthly fall in 16 months, due mainly to the poor performance of banks and miners.

"Lower iron ore prices have weighed on the miners, while selling in the banks was sparked by concerns about the new bank tax, the possible property downturn and the fact their earnings were not as strong as expected," CMC Markets chief market analyst Ric Spooner said.

Weaker iron ore futures offset positive Chinese manufacturing figures yesterday, dragging the miners lower, he said.

Rio Tinto fell 46c to $62.81, **BHP** shed 10c to $23.90 and **Fortescue Metals** rose 6c to $4.85.

Coal miner **New Hope** plunged 20c, or 11 per cent, to $1.62 after the Queensland Land Court recommended its New Acland mine expansion be rejected.

The energy sector also fell, with **Origin Energy** the biggest loser, shedding 23c, or 2.9 per cent, to $7.70.

Shares in **Domino's Pizza Enterprises** continued their decline, losing 91c, or 1.6 per cent, to $57.47 as it said its audit of Australian stores in response to allegations of widespread staff underpayments was six months behind schedule.

Logistics group **Qube** was in a trading halt at $2.64 after it launched a $350 million capital raising program, partly to fund a new warehouse.

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