Bright future being built by the robo-bricklayer

TIM BOREHAM

Fastbrick Robotics (FBR) 14.5c

The robotics innovator is on the noblest of human quests: to eliminate the scourge of brickie's crack from building sites globally.

Come to think of it, if Fastbrick succeeds in automating the ancient art there will be no brickies at all to wolf whistle at eligible female passers-by, or to down hods when the wet bulb temperature hits 31.5 degrees.

The Perth-based Fastbrick's endeavours enjoyed an enormous boost this month, with US machinery giant Caterpillar signing a memorandum of understanding after a year of talks between the parties.

The deal, which also involved Caterpillar signing up for $US2m ($2.6m) Fastbrick shares in a placement at 10c apiece, sent Fastbrick shares soaring 50 per cent on enormous volumes.

The idea is that Caterpillar will make and distribute Fastbrick's "Hadrian X" machines, which are capable of laying 1000 bricks an hour to an accuracy of half a millimetre. A good brickie at full clip can manage around 200 an hour.

Caterpillar would pay royalties — possibly on a per-brick basis — to Fastbrick.

"They bring 90 years of machinery manufacturing know-how to the table," says chuffed Fastbrick chief Mike Pivac. Like other machinery makers, Caterpillar has also invested heavily in 3D robotics technology over the last decade.

Hadrian X is Fastbrick's second iteration of an automated bricklaying gizmo and is in factory-testing phase ahead of field testing early next year. The Hadrians, which are expected to sell for around $2m, are the size of a garbage truck with a 30m robotic arm.

Your columnist's earlier aspersions on hard-working brickies aside, bricklaying is an arduous trade carried out in dangerous conditions. With pampered millennials not exactly queuing to learn the craft, brickies are in short supply.

Initially at least, Hadrians would be used under the guidance of brickies who would still use their skills without having to do the dangerous manual stuff.

But the units are quite capable of working alone and if autonomous vehicles take off they may even drive themselves to the site!

Having backdoor-listed in late 2015 after raising $5.75m at 2c a share, Fastbrick looks like being the runaway techie-speccie story of 2017-18.

It's worth remembering the MOU is just that and both parties can withdraw at any time. But the fact that Caterpillar is bothering with a small investment relative to its $US64bn market cap shows the boys from Illinois are serious.

"These guys don't have failure in their DNA," Pivac says.

Caterpillar has an option to subscribe for $US8m more shares, but at 20c apiece and subject to investor approval.

Should Fastbrick need more cash — which it doesn't — there are plenty of brokers and instos scrambling to throw some its way.

In addition to its 764 million ordinary shares on issue, Fastbrick has 77.6 million options on issue. Most have a 2c strike price so are heavily in the money.

Key management figures also hold 503.7 million performance shares.

So if Fastbrick succeeds, there will be far more shares on issue to dilute existing holders.

It's possible that Caterpillar will acquire Fastbrick — now valued at around $100m — outright. But the history of innovation shows the minnows are much better at inventing stuff than the multinationals.

1st Group (1ST) 2.7c

First Group chief Klaus Bartosch says the health services portal's share price "does not remotely reflect our performance".

You're no Robinson Crusoe there, Klaus. But he's got a point given subscription-based revenue has been building well, with the shares languishing well below their June 2015 IPO price of 35c.

While ostensibly oversubscribed, the raising turned into a damp squib after one institution pulled out at the last moment, causing others to follow.

Having targeted $5m to $12m, the backers scrambled together $5.3m. But 1st Group is not exactly friendless: the Gandels (Australia's fifth richest family) own 15 per cent, having bought into a subsequent $2.9m raise last July.

John Plummer, who founded and then sold the recruiter Chandler McLeod, accounts for 30 per cent.

1st Group is an online search and appointment service for health and beauty care professionals.

In December, the company inked a deal with Alphapharm to provide online bookings through 320 Priceline chemists and 90 retail stores.

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Beaumont breaks the glass ceiling

She is following in the footsteps of the BlackRock founders

GLENDA KORPORAAL

JAMES CROUCHER

BlackRock's senior portfolio manager in Australia, Madeleine Beaumont, says the local tech sector is underestimated

There are few women fund managers in Australia or the world. How have you been able to get through the system and what lessons have you learnt?

I am surprised by the lack of female fund managers — particularly in Australia, which is a lot worse than the UK, for example. It is something that I would like to help change.

BlackRock is not just talking the talk, it is actively pursuing diversity. I was lucky enough to meet Barbara Novick, one of the founders of BlackRock, who recently visited the Sydney office. The fact that two of the original eight founders of BlackRock are female has had a strong positive impact on the culture.

I would definitely encourage young women to enter the fund management industry. After all, the market is a harsh but a fair judge. It doesn't discriminate.

What stocks do you cover?

While I have to be across all sectors as a portfolio manager, I have specific responsibility for the consumer, media, retail and technology sectors. I have covered these sectors for over 20 years in Australia and the UK/Europe. It is fascinating to see some of the themes that played out in the UK, now translate to Australia — just a few years behind.

What industry themes do you see emerging in the areas you cover?

I am spending a lot of time looking in detail at the Australian technology sector as we think it is an area that is under-appreciated by the market. We like companies that have anticipated the shift to mobile. If you think about the mobile apps that you have on your phone — we have invested in the companies that have built many of these apps.

The Australian food and wine industries are well placed to benefit from the emerging middle class in Asia. As an example, the research group Wine Intelligence interviews around 10,000 Chinese consumers each year and predicts that the number of Chinese residents able to buy imported wine will treble again by 2020.

> 'We believe that "Amazonaggeddon" has been overdone. We like retailers with good loyalty programs and a strong customer database'
>
> MADELEINE BEAUMONT
> BLACKROCK

You have a bachelor of agriculture — why did you study agriculture?

I attended The Women's College at Sydney University and while there I met the dean of agricultural economics, Carolyn Tanner. She had done a lot of research on the impact on consumers of the European Common Agricultural Policy, which was fascinating to me. I guess at that stage I was just beginning to understand Australia's place in the world in terms of global trade. Dr Tanner helped me get my first job, as an economist for Meat and Livestock Australia.

I was lucky enough to move to New York with MLA at the age of 23 and work on the Uruguay round of the general agreement on tariffs and trade. In turn, that experience gives me confidence in the Australian Agricultural industry for two reasons. Firstly, as Australia has had to depend upon export markets, our quarantine and inspection services are second to none.

Our clean and green image is well earned. Secondly, Australian farmers have had to be efficient, with much lower subsidies than either their US or European counterparts.

People are predicting Amazon could be a real killer for retail here. What's your take on its arrival in Australia?

The pricing transparency that the internet has brought to consumers cannot be underestimated. Amazon will be part of this; however, the change was already well under way.

At the moment, we believe that "Amazonaggeddon" has been overdone. We like retailers with good loyalty programs and a strong customer database.

We like retailers that are serving a niche customer and have a strong focus on services as well as products. For example, putting vet clinics into a pet retailer is something that cannot be replicated on the internet. At the other end of the spectrum, generalist department stores and discount department stores are more structurally challenged.

You made a big call on Fairfax last year last November at the Sohn Hearts and Minds conference (a fund manager charity event that supports medical research). What is your view now on media?

Australia was quick to embrace online market places for real estate, jobs and cars, and we have several world-class companies in this sector that Australians can invest in. Last year I outlined our positive outlook for the real estate portal Domain. Domain has pricing power and it is still relatively cheap to advertise on Domain compared with other forms of real estate advertising.

More broadly, the traditional media sector in Australia is struggling to compete with the US technology giants and it is not a level playing field.

What sectors or stocks do you like now?

The average retail investor in Australia is heavily exposed to the Australian residential house market. Typically, they will own their own home as well as owning shares in at least one of the big four retail banks — which are ultimately mortgage banks and also exposed to the same theme.

To diversify away from this theme, Australian retail investors need to move away from just owning the largest local stocks. When we started the BlackRock Concentrated Industrial Share Fund — Charlie Lanchester (Head of Australian Fundamental Equities) and I purposely excluded the largest five stocks from our benchmark, which at the time were the big four retail banks and Telstra.

Madeleine Beaumont is a senior portfolio manager in Australia for one of the world's biggest fund management groups, Blackrock.

The long and short of it: hedge your bets against extreme events

ROGER MONTGOMERY

If the bears are right, an Australian property bubble, a recession for retailers and dramatically slowing Chinese growth rates towards the end of the year, combined with record high asset prices — especially assets that produce no income such as art and two-digit licence plates — are a recipe for a meltdown.

Then the question arises: is there anything you can do to potentially protect and even grow your capital and purchasing power during such a "fat tail-risk" event?

The answer of course is yes. Funds that were once described as "alternatives" are fast becoming mainstream, thanks to an increasing level of inquiry by sophisticated and wealthy individuals and family offices.

The opportunity to profit from some shares falling in price is one way investors can "hedge" or "insure" their portfolios against the more extreme events that some commentators are now openly warning investors against.

And if the most bearish predictions for Australian construction activity and retail spending come to pass, an expected fall in the Australian dollar (note the Aussie dollar was at US50c the last time the yield differential was this low) could mean that the best way to protect capital may be a global fund that can short sell.

With that in mind there are some interesting themes emerging in various global jurisdictions.

- In China, monetary stimulus measures are tightening the most since 2013 as are regulatory controls on non-bank credit in an effort to contain financial risks. Property sales are cooling due to recently imposed curbs on residential purchases and this could slow construction activity and broader economic growth.
- In the US, a variety of sectors are experiencing either structural or cyclical challenges or both. Over 52 per cent of American households now have Amazon Prime accounts and to put that in perspective, that is more households than the number that say they attend church!
- Previous predictions of "zombie" malls have proven correct with foot traffic to malls having declined by 50 per cent in the last three years. Opportunities to profit from short selling retailers, that grew their store footprint at well above the rate of population growth, abound.

While bricks and mortar retailers have been decimated with a litany of operators having filed for Chapter 11 bankruptcy protection, there may also be opportunities among the winning online providers. Shopify provides its online retailing platform to more than 400,000 vendors.

The problem is its price and it trades at a market capitalisation of $US8 billion ($10.5bn) but generates only $US500 million in revenue. And while revenues are expected to rise to $US800m in 2018, it currently does not make a profit. The US automotive sector has grown sales enormously since the 10.4 million unit lows of the GFC in 2009 to 17.5 million today.

What isn't widely known is the extent to which new car sales and leasing volumes are dependent on used car sale values. Because the success of a new car transaction is dependent on the equity value of the trade-in, when used car values slump so does the volume of new car sales.

During the GFC, dismal new car sales volumes created a shortage of used cars, which in turn caused used car values to soar from 2009 to 2015.

In turn, this boosted new car sales volumes. After ramping up production, an oversupply of vehicles is now forcing manufacturers to dump stock and offer incentives, and as a consequence used car values are falling again.

This will impact new car sales. Car dealers and institutions with large car financing operations are now in the firing line.

A trickle to a flood

Returning to Australia: Mortgage borrowers now hold a record level of debt so the recent 70-basis-point out-of-cycle rate hike from the banks has hit more than half of mortgage holders must put future discretionary retail sales under pressure.

Meanwhile, the inevitable end of the residential construction boom and a slump in residential renovations and additions, will put pressure on suppliers of building products and furniture and white goods sellers. In turn these effects will be compounded by the eventual increase in unemployment and underemployment.

A large number of first-time property investors are in for a rude shock. The oversupply of apartments is already forcing developers to discount in some areas and the tightening of lending criteria for many suburbs and for certain types of loans will pull the rug out from under current and prospective buyers.

I have a close friend who is trying to sell an apartment for which there are simply no bids. None.

So what is the real value of that apartment? Prices are transient. Mortgages are far more permanent and interest rates could rise further. All of this will have an impact on our banks, which command a uniquely high weighting in the ASX 200 index.

With China slowing and with components of the US economy weakening, with the prospect for a property activity, and a property price, slump leading to pressure on retailers, and with aggregate share price multiples extended locally and at extremes elsewhere in the world, you have to wonder whether the trickle of sophisticated money towards hedge funds, alternative funds and long/short funds turns into a tidal wave.

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