

## THERE'S A REASON WHY MYER SHARES ARE GOING CHEAP

**W**ITHIN the retail sector in Australia, there are many segments.

While some, such as online, are growing and grabbing the headlines, one segment is doing it tough, and that's department stores.

Back in June 2017, South African-owned David Jones posted a slump in like-for-like store sales and a fall in foot traffic for the year to June 25.

Increasing competition and a fall in consumer confidence amid record household debt make retailing a tough business. But nobody knows "tough" better than the owners of department stores, and Myer in particular.

With an arguably confused offering and diminishing relevance, analysts have cut Myer's earnings forecasts by up to 19 per cent for 2018.

Back in 2006, private equity firm TPG Newbridge bought Myer, with the Myer family, for \$1.4 billion. The group used \$400 million of their own money and borrowed the rest.

Before their first anniversary, a very long-term lease on Melbourne's Bourke St store was sold for about \$600 million, and a clearance sale netted \$160 million.

All this additional cash allowed the new owners to reduce debt, pay a dividend of almost \$200 million and produce a capital return of \$360 million. In other words, before the first year was out the owners had received all of their \$400 million outlay back, and arranged a free ride on a business with \$3 billion of revenue.

When the company subsequently floated at \$4.10, amid a less than encouraging shopping experience and uninterested casually employed staff, I wrote prolifically that investors should steer clear and that the valuation was much lower than the IPO price.

Two years ago the company announced its New Myer strategy and raised an additional \$221 million (of your money).

## NUMBERS GAME

with Tim Harcourt

IT is not just broadcast rights, ticket sales, food and drink sales and spin-off merchandise that make the Ashes a bonanza for Cricket Australia.

Thirty-thousand extra visitors from the UK are expected to have flocked to our shores for the series.

According to Tourism Australia, an Ashes series can create a spike in British tourist arrivals of 12 to 20 per cent on average in the November-January period compared with years when there is no Ashes.

**30k**

This is known as "The Barmy Army effect", and England's famous cricket fans spend generously on Aussie goods and services between Test matches.

So, after the Brisbane Test, they head north to the Great Barrier Reef, or at least Noosa on the Sunshine Coast or the Gold Coast.

So how does cricket fare as a money spinner? It's a solid second after AFL, then comes tennis, rugby league and the soccer's FFA.

**TIM HARCOURT IS THE JW NEVILLE FELLOW IN ECONOMICS AT UNSW**

## IN MY OPINION



**ROGER MONTGOMERY**

One of the aims of the strategy was to sustainably lift sales. In financial year 2016 sales fell 11 per cent and in financial year 2017 they fell 2 per cent.

It appears that sales aren't about to turn around soon and if sales fall significantly further, the company's debt covenants — requiring a circa 30 per cent fall in operating earnings — would be breached.

Today, with the share price at 65c, investors need to remain cautious.

Second quarter year-to-date sales are down 2.3 per cent and like-for-like sales are down 1.8 per cent, so conditions aren't improving for Myer or for department stores in general.

If sales continue to weaken or the weakness accelerates, there is a possibility that Myer could be forced to raise additional capital and/or alter, or even suspend, its dividend.

The arrival of Amazon and continued competition driven by the desire to maintain market shares, means sales and margins will remain under pressure. Value investors who think Myer is cheap should pause, reflect and seek advice.

**The Montgomery Global Fund owns shares in Amazon**

**ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT MONTGOMERY INVESTMENT MANAGEMENT**



## Michael Hill looking for a lucky charm

JEWELLERY chain Michael Hill International says a flat performance in Australia and a sharp fall in the US have offset solid sales growth in New Zealand and Canada.

The locally listed jeweller yesterday said revenue rose 4.7 per cent to \$310 million for the

### RETAIL

six months to December.

But its crucial like-for-like sales, which strip out the impact of stores opening and closing, rose a slim 0.7 per cent.

The weak like-for-like growth was due to a flat per-

formance in Australia and a 10 per cent fall in the US, which offset a 3.4 per cent rise in New Zealand and a 4.8 per cent lift in Canada.

Fourteen new Michael Hill stores and one Emma & Roe outlet opened during the half, lifting Michael Hill Interna-

tional's total network to 347.

The company said it was continuing to closely monitor its US business given its on-going poor performance.

It also said the group was in the final stages of a brand review. Shares yesterday closed down 0.4 per cent at \$1.24.



**NAB's innovation chief Jonathan Davey wants to seamlessly integrate digital payments into everyday life.**

**NATIONAL** Australia Bank is predicting a world where digital payments become so entwined with our lives that voice-activated assistants help us to do all our shopping from the couch.

Voice-activated chatbots similar to Siri or Google Assistant will be built into banking apps on our smartphones, telling us our bank balances, paying our bills, transferring money and even ordering groceries.

Banking and everyday life will also become further entwined over the next couple of years, with NAB predicting customers will soon be able to

### EDWARD BOYD BANKING

arrange a car loan while inspecting a car in the dealership.

NAB's executive general manager, digital and innovation, Jonathan Davey, said people were becoming more comfortable using chatbots to find answers to basic questions.

"It won't be long before we see these devices becoming common in every household and having the capability to provide consumers with the ability to perform more personalised tasks, like being able to tell you your bank account balances or transaction history

and even paying bills or transferring funds at your voice command," he told *Business Daily*.

"Banking will continue to be integrated with other services, such as NAB's partnership with realestate.com.au, which combines property searches with the home loan process to eliminate stress for homebuyers by creating a "one-stop-shop."

"This is giving buyers confidence — they know that when they turn up to an auction at the home of their dreams they have approval for finance."

Realestate.com.au is a subsidiary of REA Group, which is

majority owned by *Herald Sun* publisher News Corp.

Mr Davey said people will eventually be able to instantly apply for loans without any paperwork.

"For example, being able to finance a new car on the spot when while you're at the dealership ... removing physical paperwork and waiting time," he said.

Another advancement on the horizon will allow payments to be processed automatically with the consent of the user — similar to when a customer pays for an Uber ride at the end of a trip.

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## MARKET WRAP

### FATAL ACCIDENT HURTS SKYDIVE COMPANY

SHARES in an Australian adventure tourism company have fallen sharply following a fatal skydiving accident in New Zealand, three months after three people died jumping in north Queensland.

Experience Co, which recently changed its name from Skydive The Beach Group, resumed trading yesterday after going into a halt when a tandem skydive customer went missing in the incident in New Zealand on Wednesday.

Shares in **Experience Co** fell 10.6 per cent to close at 77c.

The sell-off came as the local bourse closed flat with strong gains by miners and some energy companies offsetting losses among financial, property and consumer stocks.

The benchmark ASX 200 index closed 2.5 points, or



### DOLLARS & SENSE

0.04 per cent, higher at 6070.1 while the broader All Ordinaries was up 0.6 points, or 0.01 per cent, at 6,176.8.

CommSec market analyst Steven Daghlian said a positive lead from the US and two sessions of sharp losses

on Wednesday and Thursday should have lifted the market but lighter volumes and uncommitted trading halted momentum at the close.

"We're treading water at the moment and it shows a lack of enthusiasm," he said.

**BHP Billiton** rose 2.2 per cent to \$31.53 while **Rio Tinto** gained 1.7 per cent to \$80.62 after iron ore spot markets hit their highest in more than four months.

Explosives manufacturer **Incitec Pivot** fell 4.2 per cent to \$3.70 after warning profit would take an \$81 million hit over five years after losing a second key supply contract in recent months.

The major lenders were weaker, with **National Australia Bank** flat at \$29.53, **Westpac** down 0.4 per cent at \$31.30, the **Commonwealth Bank** 0.5 per cent lower at \$80.88 while **ANZ** gave up 0.7 per cent to close at \$28.52.

**JB Hi-Fi** continued its Amazon-defying run, gaining 1.3 per cent to \$28.36. Shares in the electronics retailer have surged 30 per cent since November.