‘We’ll fix this’

Lendlease apologises for engineering woes

BEN WILMOT
CONSTRUCTION

DEVELOPER Lendlease has apologised for the poor performance of its engineering and services business, which has been marked for a potential sale.

At a subdued annual meeting yesterday, Lendlease chair David Crawford said external advisers had been hired to work on a strategic review of the division.

Last week, Lendlease flagged plans to take a hit of $350 million after tax to account for the “underperformance” of the unit.

Shares in the group tumbled more than 18 per cent on the revelation, wiping about $1.8 billion off its market value.

Boutique advisory house Gresham Partners, which has close ties with the company, will lead the review.

“This will include consideration of structural alternatives for the engineering business, such as retaining the business, demerger or divestment,” Mr Crawford said. “All options will be considered.”

He did not provide further detail of the review but analysts have estimated the unit could be worth about $1 billion.

Lendlease chief Steve McCann also apologised for the “very disappointing” position and revealed he would forgo any short-term bonuses this financial year.

Mr Crawford said the company would attempt to get the troubled engineering unit back on track. He handed over to incoming chair, former banker Michael Ullmer, as the meeting closed.

The departing chair earlier told investors the $350 million provision flagged last Friday was “extremely disappointing” and had overshadowed the company’s otherwise strong performance the past year.

Mr Crawford said it had advised the market as soon as it became aware there would likely be a material earnings impact from underperforming engineering projects.

It comes as Lendlease faces the prospect of a class action from law firm Maurice Blackburn about its disclosure practices and with the board under heightened scrutiny from proxy houses.

Mr Crawford, who has been chair for 15 years, said the board considered the provision announced last Friday was “conservative” and was sufficient to cover the issues with the projects in question.

Mr McCann said about 90 per cent of the $350 million provision related to three projects.

THE AUSTRALIAN

Aussies ‘wasting $4.6bn’

MATHEW SHARP
PERSONAL FINANCE

Dog socks might have seemed a good idea at the time.

AUSTRALIANS squander a fortune each year on items that are then left to gather dust, according to research.

Talking fish, toilet golf and socks for dogs are just some of the weird and wacky items consumers buy but then barely use, polling has found.

About 1000 people were surveyed by telco provider Dodo. Respondents said that on average they spent $240 a year on such items.

By Dodo’s calculations, that means Australians squander $4.6 billion a year on goods of little value.

Spokesman Andrew Wynne said the research showed there were plenty of opportunities for shoppers to save money for necessities.

“There are many easy ways Aussies can decrease their wastage, particularly when it comes to spending on everyday products and services,” Mr Wynne said.

Of those surveyed, 58 per cent said that they wasted groceries and food. At least 37 per cent wasted money on clothing and accessories.

Baby Boomers were the worst offenders.

Travel insurance, gym memberships and plane tickets were some of the products consumers left untouched.

Most of the items were valued at less than $100. Men were found to spend more on unused items each year than women, as well as more on entertainment products such as subscriptions or season passes.

Two in three of those surveyed said they made wasted purchases online, and 12 per cent said they had forgotten to use online vouchers.

YOUR HIP POCKET

with Karina Barrymore

THERE are an awful lot of “shoulds” when it comes to saving money, especially retirement money.

Almost daily we are told we should do this or should do that.

Most of these instructions, however, come from people with a vested interest; financial advisers, superannuation managers, banks, insurance companies, so-called investment specialists and the thousands of institutions and consultants which take a slice of our money along the way.

And, of course, there’s the government, too — the organisation with the biggest vested interest in our superannuation and the legal clout to also make us do what it wants.

I’m sick of all this “should” talk. In most cases it isn’t to benefit us at all, but to benefit everyone telling us what to do.

So I’ve got a new motto: beware the “should” talker.

The more we jump through their “should” hurdles, the more money we stand to lose and the more they stand to gain.

Let’s just consider the word “should” for a minute.

It carries a lot of guilt with it, but also implies ignorance and stupidity if we don’t do what the “should” talker wants us to do.

You should make extra deposits to your super fund. You should be in a higher-risk investment when you’re young. You should have life insurance. You should take a pension not a lump sum.

And if we don’t want to follow these “should” instructions we’re automatically at risk of being labelled a loser, no-hoper or stupid.

So it’s hard to resist a “should” and that’s why the finance sector uses it. In fact, that’s why it loves to use it.

So let’s just unpack what’s really behind these instructions as most of the “should” talk about superannuation is all about fees — the bigger and the longer they are paid, the better.

Putting additional deposits into your super fund will build up our account balances much faster — and since fees are charged as a percentage of our total account balance, it also provides a bigger slice of fee income for all the hangers on.

Ditto for higher-risk investments. The managers of higher-risk assets charge higher fees because they are supposed to do more work.

Ditto, life insurance. And we can add income, trauma and disability and all the other types of insurances we “should” have.

The more insurance we have, the more money we pay in premiums. And, as the statistics demonstrate, the only winners on those payout ratios are insurance companies.

And of course, ditto, the pension versus lump-sum “should”. After all, if we take all our money in one big lump, there’ll be nothing left for the hangers-on to keep taking fees from.

But if it’s dribbled out to us over 20 years, well, hey, that’s 20 more years of fee grabbing.

Of course, the more we save of our own money, the less the government (us) will need to spend on welfare; which is a good ambition.

But along the way, governments have artificially fuelled this private company feeding frenzy on our compulsory savings.

Tens of billions of dollars every year is shaved off our retirement accounts by fee grabbers. Perhaps its time to keep those funds in-house and consider a government-run Future Fund for all.

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Opportunity knocks as property sell-off puts prices in tailspin

THE SHORT CUT

with ROGER MONTGOMERY

WE have written regularly over the past two years about the looming correction in property and it will come as no surprise we believe the sell-off has only just begun.

On the demand side buyers are fewer and have less money, and on the supply side more owners are being forced to consider selling.

Demand-wise, credit is tightening by value and by volume, limiting the number of potential buyers and restricting funds available to those who qualify for a loan.

Leveraged buyers are absent in suburbs banks have black-listed, and foreign investor inquiries have plunged.

Supply will increase. Up to 30 per cent of off-the-plan purchases by overseas buyers are apparently falling over.

But with interest rates rising and many borrowers in the next two years being forced to move to principal-and-interest loans from interest-only terms, local vendors will add to foreign-owned supply and likely swamp local buying interest.

More importantly, with 70 per cent of vendors now losing money on their purchases in Darwin, 50 per cent in Perth and 14 per cent in Brisbane — and with Melbourne and Sydney just starting their cycle of losses, it could be some time before a bounce is seen.

I expect peak-to-trough price falls to average 15-20 per cent, Some individual suburbs such as Sydney’s upper north shore are already showing declines of that magnitude.

And if the investment banks start suggesting 10-20 per cent, expect the actual falls to be worse.

Notwithstanding higher interest rates, the falling property cycle is positive for a generation of first-home buyers. But it is potentially negative for businesses servicing the property industry such as renovators, interior designers, architects, real estate agents, and furniture and appliance retailers.

Many of these businesses will be currently reporting strong demand but we have yet to see the full effects of declining housing activity.

According to Ai Group and the Housing Industry Association, the monthly performance of Construction Index revealed apartment construction activity fell 14.6 points to 29.6 last month and the overall index fell 2.9 points to 46.4. It’s the lowest level in two years. Further falls below 50 would indicate the contraction is accelerating.

Importantly, the forward-looking new apartment orders index has slipped and the apartment-specific index is down to 38.8.

As value investors, we are keen to buy quality businesses when they are cheap, and the dominant furniture and appliance retailers should do well over the next few decades.

Back in 2002 the Australian Intergenerational Report predicted Australia would hit 25 million people by 2042. We hit that target in 2018 — 24 years earlier than predicted.

One can safely assume that the population will hit 40 million much sooner than the year 2060 currently predicted.

And that growth will ensure more fridges, sofas, mattresses, and toasters will be needed.

But while the long term is almost assured, the short term will see some volatility.

Companies that come to mind include, JB Hi-Fi and their Good Guys stores, Harvey Norman, Nick Scali, Breville, Joyce Corp which owns The Bedshed and Kitchen Connection store networks. Many of these companies have indicated business conditions in the first quarter of the 2019 financial year are tough.

We would suggest investors can expect it to get tougher.

Another group of companies exposed to property are those that supply the hardware and consumables for construction — such as Adelaide Brighton Cement, CSR and Boral.

If both sentiment and business performance deteriorate simultaneously, it would not only see earnings estimates reduced but also the multiples these companies’ shares trade on would de-rate.

That’s a double whammy on the share prices.

Investors who have a long-term perspective, however, might do well taking advantage of any over-reaction.

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