Labor policy fear drives dividends

ELI GREENBLATT
INVESTMENT

BKI Investment Company has become the latest major investor to re-engineer its share portfolio to make use of franking credits ahead of tax changes being promised by federal Labor.

BKI, which manages $1.1 billion in blue-chip stocks, issued a surprise dividend yesterday and vowed to pay another one later this year.

The fund, part of the Washington H. Soul Pattinson investment empire, also revealed it had sold $15 million of BHP shares to capture the value of franked dividends on offer from the mining giant. The nation's biggest listed investment company, Australian Foundation Investment Company, this week revealed it had sold down $120 million worth of shares in BHP and Rio Tinto and paid an unscheduled dividend to beat the stripping of cash refunds for excess dividend imputation credits by an incoming ALP government.

BKI unveiled a fully franked interim dividend of 3.625c per share, as well as a special dividend of 1.5c per share, both payable on February 28.

It also intends to pay another special dividend of at least 1c per share at the end of the financial year as it shifts $16.8 million of imputation credits to beat any ALP policy that could come into effect if the party wins the election.

"It is a big concern," BKI portfolio manager Tom Millner said.

"We are paying a fully franked 1.5c per share dividend and this shows we are concerned about it.

"And there is more to come because we have this concern."

Franking, or imputation, credits provide shareholders with a tax refund for tax a company has paid on profits distributed as dividends.

Labor has vowed to end a concession that allows some individuals and superannuation funds to receive a refund when their franking credits exceed the tax they owe.

Mr Millner described the policy as a poor one.

"It will affect a lot of people nationally and it's not a good policy, simple as that," he said.

THE AUSTRALIAN

MARKET WRAP

API MOVES FORWARD ON SIGMA TAKEOVER

AUSTRALIAN Pharmaceutical Industries chairman Mark Smith says the company will soon sign a non-disclosure agreement with target Sigma Healthcare to kick off due diligence on its $727 million bid for its rival.

Priceline owner API, which has a 13 per cent interest in Sigma, last year lodged a deal that offers Sigma investors 0.31 API shares and 23c cash for each Sigma share.

Sigma told its shareholders in December to take no action but it has appointed Goldman Sachs as its financial adviser and has agreed to engage with API while it continues its own review on growth and cost-saving opportunities.

Shares in **API** dropped 1.7 per cent yesterday to close at $1.48. Shares in **Sigma** gave up 3.4 per cent to 57c.

The drop came amid a general sell-off on the Australian share market with the financial and energy sectors weighing the heaviest.

The benchmark ASX200 index lost 15.1 points, or 0.3 per cent, to close at 5843.7, while the broader All Ordinaries was down 15.6 points, also 0.3 per cent, at 5908.7.

Bell Direct equities analyst Julia Lee said despite the market lows earlier in the day, January was faring well.

"The market is up about 3.6 per cent for the month and has done pretty well in recovering those earlier losses," Ms Lee said. "Altogether, trading volume is still relatively light and won't be back at normal levels until school and the market returns."

The big four banks were all down, with **Westpac** falling the furthest, down 0.6 per cent to $25.60. **National Bank Australia** gave up 0.3 per cent to $24.51, **ANZ** was down 0.4 per cent to $25.71 while **Commonwealth Bank** lost 0.07 per cent to $72.13.

Macquarie Group closed 0.02 per cent lower at $116.29.

It was a tough session for fund managers, with **Pinnacle Investment** plunging 12.4 per cent to $4.40 despite it forecasting a 25 per cent rise in half-year profit to $10.1 million.

Continuing the downward trend, **Challenger** plummeted 17.1 per cent to $7.65 after it warned its first-half profit would be almost totally wiped out.

Energy producers also had a bad day, with **Santos** falling 1.5 per cent to $5.96 and **Beach Energy** down 2.9 per cent to $1.65. **Origin Energy** lost 1.7 per cent to $7.08 while **Sundance Energy** fell 6.7 per cent to 42c.

Shares in car dealer **AP Eagers** climbed 7.3 per cent to $6.63 after it unveiled a bumper sales report.

Among the miners, **BHP** continued to lose ground, down 0.4 per cent to $32.63 while **Rio Tinto** dipped 0.5 per cent to $79.60.

South32 was down 0.6 per cent to $3.34 and **BlueScope Steel** 1.9 per cent to $11.98.

COLLECT NBN REFUNDS, URGES ACCC

SUPRATIM ADHIKARI
REGULATION

THE competition regulator is urging National Broadband Network consumers stung by slow internet speeds to collect refunds, with more than 90,000 customers yet to take up the offer.

The Australian Competition and Consumer Commission has, over the past 15 months, forced Telstra, TPG, Vocus and Optus to provide refunds to customers who received sub-par NBN services.

However, the ACCC says only a third of the 142,000 affected customers have contacted their service provider for a refund.

"They may be eligible for refunds, some in the hundreds of dollars," ACCC acting chair Mick Keogh said of the 90,000 yet to act.

The ACCC is urging eligible NBN customers to contact their NBN retailers.

The ACCC says 90,000 customers have not sought refunds for slow NBN speeds.

DOLLARS & SENSE Best of MACCA

E-commerce is inexorable, even for homeware retailers

THE SHORT CUT
with ROGER MONTGOMERY

IT'S impossible to put the modern retail sector into one basket — from pet food to clothing to cars, there are almost as many sub-categories as there are consumers.

But whether they are selling Lego or lingerie, one thing they are all trying is e-commerce.

I cannot remember the last time I couldn't find something I was looking for online.

The questions for investors, however, is not whether an item will be available online.

The really important questions investors need to ask are: 1) How much of the retail dollar will migrate online for each category? And, therefore, 2) How much will bricks and mortar operators be disrupted in those categories?

I don't believe the online juggernaut will kill bricks and mortar shops, but I do believe retail strips and malls will, in a decade, look nothing like they do today. I suspect the change might be painful too, which might explain why the Lowy family chose to quit retail real estate when it did.

But some categories are succeeding with a traditional shop concept. Australian fast fashion jewellery chain Lovisa, with its low prices, small basket size and the instant gratification that spur-of-the-moment purchasing provides, has hit on a formula that is being rolled out globally.

Some fascinating research by investment bank UBS, into e-commerce migration and how penetration rates might evolve in each category, predicts online will grow from about 13 per cent of US retail sales today to about 20 per cent by 2022.

This represents growth of 15.4 per cent a year — much faster than the expected 1 per cent aggregate growth of bricks and mortar shops.

So, there will be some good opportunities, especially if the market falls in the meantime.

E-commerce has been most widely embraced by the younger generation. If we remember that younger people usually don't have the money to make big ticket purchases, e-commerce is dominated, now at least, by categories where prices are relatively low.

The categories with the highest online penetration, and therefore the most disruption for traditional retailers, are books and music.

More than 50 per cent of retail sales in these categories in the US is conducted online.

Categories with 30 to 50 per cent online penetration include sports goods, power tools, electronics, appliances, clothing, shoes and toys.

Bath and bedding is just under 30 per cent and groceries around 10 per cent.

But, according to UBS, bath and bedding — think towels and pillowcases — is a category in which bricks and mortar shops face great risk. And that puts businesses such as locally listed Adairs, which must also contend with the slump in house prices, in the firing line.

Adairs reported a strong 2017-18 result.

Thanks to a 19 per cent jump in sales, the company reported a 45 per cent increase in earnings per share and a 69 per cent rise in dividends per share. But the outlook for 2019 and 2020 is perhaps not as rosy.

If our economy slows, not only will it hurt revenue, but a weaker Australian dollar could also increase the cost of its imported items.

Meanwhile, falling consumer confidence related to the housing market suggest it may have a tough time maintaining the growth rates of previous years.

While Adairs' share price has already fallen considerably from its October 2018 highs, the risk of further downgrades and the longer-term threat of increasing online penetration in the category suggests investors should be more alert, if not alarmed.

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