Kidman offer 'too low'

Wesfarmers' tilt at miner opens door to others

MELANIE BURTON
RESOURCES

WESFARMERS' bid for Kidman Resources undervalues the lithium miner, reflecting the financing difficulties the sector faces even as electric carmakers warn of raw material shortages, industry experts say.

Analysts at investment banks JP Morgan and Canaccord Genuity say there is potential for another bidder to see more value in Kidman and trump the Wesfarmers offer.

The retail and industrials conglomerate last week tabled a buyout offer at $1.90 a share, valuing Kidman at $776 million. The offer was a 47 per cent premium to Kidman's share price before it was tabled.

Kidman is developing the Mount Holland project in Western Australia through a joint venture with battery chemicals maker Sociedad Quimica y Minera de Chile, or SQM. Analysts have said prospects for lithium demand look strong over the next decade as governments worldwide set ambitious targets to increase electric vehicle sales.

A year ago, Kidman signed a lithium supply agreement with electric carmaker Tesla, which has forecast a shortage of key minerals needed for electric vehicles.

JP Morgan said Wesfarmers' bid "fundamentally undervalues" Kidman's share of the joint venture, adding that Mount Holland was a "Tier-I" project.

Canaccord said the bid "falls short" of its valuation of $2.15 a share for Kidman.

JP Morgan said: "The chance of an interloper seeing greater value in Kidman, either joint venture partner SQM or an outside party, is real."

Part of the reason for the lower valuation stems from problems companies in the lithium mining sector have faced in securing financing.

The Mount Holland site reportedly will need about $600 million in capital. SQM has pledged $100 million.

Analysts say miners have struggled with financing as equity markets do not provide the scale of funding needed and banks are reluctant since it is not easy to hedge exposure to lithium prices.

ANZ global resources head Aaron Ross told an industry event in Melbourne: "It's next to impossible to hedge so therefore project financing becomes really difficult."

Mr Ross said major car and battery makers could seek equity stakes in companies instead of signing supply offtake agreements, as Chinese companies had done.

Kidman shares closed 0.3 per cent lower at $1.80.

REUTERS

Louise Cooper with her father, Tim Cooper.

BREWER DRAWS FROM FAMILY TREE

ELI GREENBLAT
BEVERAGES

COOPERS Brewery, the biggest Australian-owned beer maker, has added another family member to its management team.

Louise Cooper, the daughter of managing director Tim Cooper, has joined the business as legal affairs and risk manager.

Ms Cooper, who has degrees in law and health sciences, has worked as a lawyer for more than seven years. She is the third member of the sixth generation since the brewer was founded to take up a full-time role at the Adelaide-based group.

Andrew Cooper, the son of Coopers chair Glenn Cooper, began working with the company in Melbourne in 2017, while sister Rachel Cooper-Casserly worked in marketing between 2009 and 2016.

Tim Cooper said Louise had always expressed an interest in the brewery, but added that family members were "not guaranteed a job".

"They are encouraged to establish their own careers, and, if a position becomes available, they may be invited to join the company," Dr Cooper said.

Ms Cooper said: "I have always been interested in working at the brewery, but I understood I had to make my own way and worked in a number of different areas of law before I was offered a position at Coopers".

"Now that I have joined, I'm looking forward to developing my understanding of how each area of the brewery operates and interacts," she said.

MARKET WRAP

TWO tweets by US President Donald Trump weighed on the bourse yesterday as investors worried the US-China trade stoush might not be so close to a resolution after all.

The benchmark ASX 200 index fell 52.1 points, or 0.8 per cent, to 6283.7 while the broader All Ordinaries was down 57.3 points, or 0.9 per cent, at 6369.9.

They tumbled after Mr Trump warned China not to take too hard a line on trade talks, tweeting that tariffs on Chinese goods had helped the US economy and they were scheduled to increase on Friday.

IG analyst Kyle Rodda said it "was taken as a pretty clear signal to sell".

Treasury Wine Estates, whose single biggest export market is China, was a major loser as its shares fell 4.8 per cent to $16.24. Infant formula maker **Bellamy's Australia** closed 7 per cent lower at $9.74

In banking, **Westpac** shares fell 1.2 per cent to $27.11 after the group's first-half net profit slumped 24 per cent on customer remediation and restructuring costs, and a weak property market.

The other big banks fared better, led by **National Australia Bank**, which was up 1 per cent to $25.92. **ANZ** was up 0.5 per cent to $27.55 and the **Commonwealth Bank** climbed a slender 4c to $74.94. **Macquarie** dropped 2.5 per cent to $125.62.

Cimic shares fell 7.1 per cent to $46.50 on a report raising questions about the accuracy of its accounts. The construction heavyweight told the stock exchange its annual reports "are fully audited and in compliance with the accounting standards".

Income yield a smokescreen too many investors focus on

THE SHORTCUT
ANDREW MACKEN

A 'RED herring' is something that distracts from a more important area of focus.

There are numerous different attributions to the etymology of this saying.

These include 17th century fox hunters deceiving dogs with herring; 19th century bandits using herring to throw bloodhounds off their scent; and early New England settlers leaving bits of red herring along their trail to confuse wolves that were following.

In equities today, perhaps income yield is the red herring — throwing investors off the scent of total returns.

Does the following investment proposition sound appealing to you? A note which guarantees 5 per cent yield on your principal for a minimum of 20 years.

If you answered yes, read on. Anyone could sell you such a note, simply by taking your principal of, say $100, and handing back $5 per year for the subsequent 20 years.

Of course, under this example, there is nothing left of the principal after 20 years — your $100 was literally just handed back to you over a long period of time which, of course, achieves nothing. The point of this simplistic example is to illustrate how a focus on yield alone is meaningless.

And yet, many investors let yield determine which equities and funds to own.

In 2015, the stock price of the Commonwealth Bank was around $90 per share and the dividend yield at the time was around 5 per cent.

At a conference with a large number of CBA shareholders — most of whom were retirees — your author was struck to learn that the primary reason for owning CBA was the 5 per cent dividend yield.

Today, four years later, CBA's stock price has fallen to around $75 per share.

An investor over this period would have received their roughly 5 per cent dividend each year — but the capital value has reduced by the same amount.

Said another way, the investor's total return over these four years has been roughly zero.

This is not unlike our hypothetical investment proposition above that simply takes your money and hands it back to you over time.

Meanwhile, a diversified global equities portfolio over this period would have resulted in a total return in the order of 50 per cent.

Back to the conference with CBA shareholders: when pushed with this thought, the answer was that the dividends are fully-franked and, therefore, many of the retirees could benefit in the form of tax refunds from the government — in addition to the 5 per cent dividend yield.

This is true — for now — but is this not a red herring as well?

Sure, CBA's effective dividend yield for these investor-types might be closer to 7 per cent, not 5 per cent, but when the capital value of one's investment is falling at around 4.5 per cent per year, even a 7 per cent yield results in only a 2.5 per cent annual return — little more than the rate of a term deposit.

And for how long will these franking credit refunds from the government persist? We will find out in a few weeks following the federal election.

The point is that franking credits appear to have created an unhealthy overemphasis on the importance of income yield in the consideration of equity investments made by many Australian investors.

Solving for higher total returns must be a superior strategy to one that solves only for high income yields — even in a world of franking credits.

And for those who need the income to live on, sell down some assets over time.

Don't be thrown off the scent of total returns by the red herring of income yield.

ANDREW MACKEN IS CHIEF INVESTMENT OFFICER AT MONTGOMERY GLOBAL INVESTMENT MANAGEMENT