'Keep hands off our gas'

THE re-elected Coalition government must resist any urge to intervene in the gas sector and trust in the market to resolve a supply squeeze, major energy producers say.

The call for the federal government to abstain from taking a more hands-on approach to the east coast gas market comes after major industrial users pleaded for action to lower prices to support manufacturing jobs.

PERRY WILLIAMS
ENERGY

Dow Chemical announced this week its plant at Altona, in Melbourne's south west, would close because of high gas prices, costing 26 jobs. The plant has operated since the 1970s.

The Australian Petroleum Production and Exploration Association, which represents major oil and gas producers, warned government intervention inevitably led to distortions that damaged the economy.

"Governments historically are never good at intervening in markets and you always end up with the pendulum swinging too far the other way and markets get distorted," chief executive Andrew McConville said yesterday.

"I can understand the desire for the government to want markets to work, but I would resist the temptation to see continuous intervention in markets to make that happen."

Major liquefied natural gas producers recommitted last year to the Australian Domestic Gas Security Mechanism, which gives the government power to limit exports if it anticipates a domestic shortfall the following year.

While the scheme has helped divert gas to the Australian market rather than be shipped as LNG to customers in Asia, there have been concerns it is failing to deliver enough supplies domestically as prices remaining inflated.

The three Queensland LNG export projects led by Santos, Origin Energy and Royal Dutch Shell have tipped more gas into the Australian market, and prices have eased from the $20 a gigajoule they hit two years ago.

But a gas price still sitting between $10 to $12 a gigajoule remains a major challenge for many large users.

The nation's biggest gas consumers are lobbying Resources Minister Matt Canavan and Energy Minister Angus Taylor to push for a short-term domestic gas support fund and the establishment of a Commonwealth gas company to ease pressure on the industry.

THE AUSTRALIAN

Salina Hainzl runs her online tea business from home. Picture: DAVID SWIFT

TAPPING INTO A VIRTUAL SUCCESS STORY

TECHNOLOGY means being your own boss is easier than ever for most small business owners.

Almost two-thirds of owners who took part in a poll said technology gave them the flexibility to tap into business information remotely, while 57 per cent used it to work away from the office.

The findings come from a survey commissioned by Officeworks, in partnership with the *Herald Sun*.

PATRICK TADROS
TECHNOLOGY

Working from home has enabled small business owner Salina Hainzl to operate her e-commerce store teas.com.au.

"I started 15 years ago with the humble spreadsheet and now I use Xero, an accounting platform, to help control my finances," she said.

But Ms Hainzl is in the minority. Almost 60 per cent of small business owners still used manual methods or spreadsheets such as Excel to manage their ventures' finances, the survey found.

While technology can unlock new opportunities for small business, it also brings new risks.

Ms Hainzl learned this the hard way. After her website was hacked several times, she found that five days' worth of orders had been lost.

"The confidence repair was exhausting," Ms Hainzl said. The incident prompted Ms Hainzl to move her business to an e-commerce platform that offered better security options.

"It makes my life robust and flexible — it's extremely safe," she said. "I don't need a web developer to be on standby anymore."

MARKET WRAP

THE share market dipped yesterday amid pessimism about global growth prospects and concerns over US-China trade tensions.

The benchmark ASX 200 index closed down 44.8 points, or 0.7 per cent, at 6440 points while the broader All Ordinaries was down 43.8 points, also 0.7 per cent, at 6536.6.

Bell Direct analyst Julia Lee said the market was once again focusing on US President Donald Trump's comments while in Japan that he wasn't ready to make a deal with China, and US tariffs on Chinese imports could go up "very, very substantially, very easily".

Telstra bucked the trend, however, gaining 0.3 per cent to $3.57 after announcing it was making progress on its sweeping cost-cutting strategy.

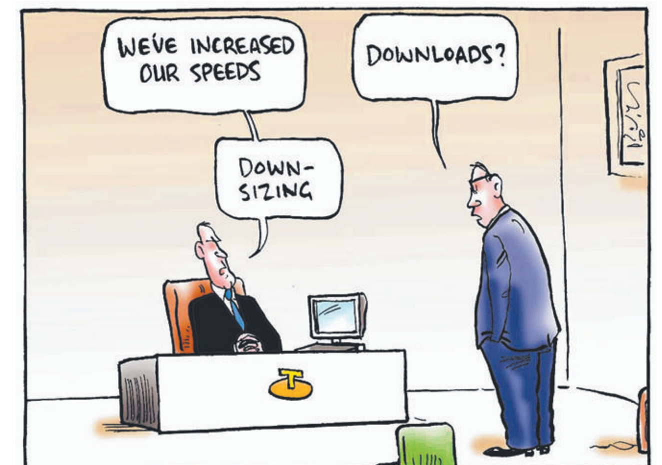
Industrials fell most. **Downer EDI** slumped 9.1 per cent to a three-month low of $7.16 after investment bank Credit Suisse downgraded its rating on the stock from "neutral" to "underperform".

The downgrade came a day after Downer announced its partner in the Murra Warra wind farm near Horsham, in western Victoria, was having financial problems in Germany.

In mining, heavyweight **BHP** was down 0.6 per cent to $38.36 and **Rio Tinto** fell 0.7 per cent to $104.53.

But rare earths miner **Lynas** surged 16.3 per cent to a one-year high of $2.78. With China threatening to use its dominance of the rare earths mineral trade as a bargaining chip in the trade war, Lynas suddenly finds itself well positioned.

In banking, **Westpac** fell 0.5 per cent to $27.74 and the **Commonwealth Bank** dropped 0.2 per cent to $77.89, while **National Australia Bank** gained 1 per cent to $26.40 and **ANZ** was up 0.1 per cent at $28.04.



DOLLARS & SENSE by MACCA

Mad multiples infect Aussie market too — but for how long?

THE SHORT CUT

ROGER MONTGOMERY

IN my past couple of columns, I have discussed the dangers of investing in the pointy end of the US tech boom and specifically warned about Uber.

Shares in the ride-hailing company have begun to trade on the New York Stock Exchange but its initial public offering price was below the valuation struck during its last round of private equity funding.

From original hopes of listing at a valuation of $US120 billion ($173 billion), Uber finally took to the stockmarket at less than $US75 billion. And that is still an insane price for a company that may or may not make a profit in the future.

Here in Australia, both profitable and profitless companies have also achieved extraordinary multiples.

Take the case of Appen, a company that crowdsources cheap labour to tag millions of photos, subsequently collated and fed into the search algorithms of clients including Facebook and Google.

Appen trades on an enterprise value (EV) that is 33 times its earnings before interest, tax, depreciation and amortisation (EBITDA).

This number is about four times higher than the multiple on which its near competitor, US-based Lionbridge, was purchased for two years ago by a private equity firm.

Back in 2016, Lionbridge was a Massachusetts-based provider of globalisation services to technology companies. It had more than 6000 employees worldwide and served more than 800 customers via its technology platforms and a global base of more than 100,000 contract translators. Lionbridge's customers included Microsoft, Google, RollsRoyce, The Gap, HTC and John Deere.

In December of that year, Lionbridge agreed to be acquired by H.I.G Capital for about eight times EV to EBITDA. And even though neither Lionbridge nor HIG appear to have any business in Australia, they plan to list here this year. It doesn't take a rocket scientist to work out the vendors are probably looking to take advantage of some of the world's most ridiculous multiples that "investors" here are willing to pay. But Appen isn't alone at the top of the EV/EBITDA tree in Australia.

Afterpay Touch trades at 294 times EV/EBITDA, Nearmap is at 109 times, Wisetech Global trades at 65 times, Altium is at 43 times, Superloop 37 times while NextDC, Technology One, Fisher & Paykel and Jumbo interactive are all at between 25 and 31 times.

And even truly high-quality large cap business with decades-long histories have been dragged up in the rush to buy growth. CSL is one of the Australia's finest listed companies and continues to grow thanks to demand for its immunoglobulin products rising faster than supply.

But if we were to halt CSL's growth and prevent it from ever raising prices, it would earn about $US2 billion.

And if we capitalised this number at 8.5 per cent — a reasonable return for a business that doesn't grow — we might be willing to pay $US23 billion for CSL.

Currently, however, the market values CSL at $US64 billion. In other words, the market is willing to pay the equivalent of three current CSLs to buy one CSL with some growth.

Since 2014, the lowest price-to-earnings (PE) ratio CSL has traded at has been about 15 times. The average PE has been 25 times. Today, CSL trades at almost 31 times.

I don't know when these companies will return to earth in terms of their multiples, but decades of investing experience tells me they always do. And when that happens, it will be painful for many who have not experienced a correction.

For now, low interest rates will make sure cash in savings accounts is far less attractive.

While that remains the case, it is probably the case that blind optimists will continue to look like winners.

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