

## DIVIDEND DETECTIVE

### Steadier ANZ has greater appeal

ANZ

ASX CODE: ANZ  
SHARE PRICE: \$26.51  
INDUSTRY: Banking  
FORECAST FY2017 DIVIDEND: \$1.63 fully franked

DAVID WALKER

ANZ's turnaround under new chief executive Shayne Elliott is working and income investors should take notice. Many SMSF investors seek adequate income and moderate, low-volatility capital growth. ANZ is one of our preferred stocks for these objectives because the strategy to de-risk the bank by shrinking the volatile institutional (large corporate) loan book is not only driving the share price higher, it increases our confidence future dividends will be steady — especially now the dividend has been rebased lower to more sustainable levels.

ANZ cut its financial year 2016 interim dividend 7 per cent to 80c and forecast a final dividend at least the same as the interim. We think incremental growth to a dividend of \$1.63 is realistic for FY2017, which puts the stock on a forward yield of 6.1 per cent fully franked. This is attractive in a world of 2.5 per cent term deposit yields.

We expect general banking and economic conditions to remain stable, so the yield should support the share price.

Until now we have not reviewed ANZ in Dividend Detective because the dividend payout ratio, or the proportion of earnings ANZ paid as dividends, was too high for a bank with an institutional loan book prone to negative surprises like higher bad debts.

We thought ANZ would have to cut its dividend and this happened. ANZ now plans to gradually lower its payout ratio from the current 75 per cent to 60-65 per cent in coming years. It can do this without cutting the dividend further because total earnings are stabilising and supported by cost savings and the reweight from Asia to the more profitable Australian market.

ANZ is trading about 9 per cent below our \$29 a share valuation, which reduces capital downside and highlights the opportunity in the stock. Value investors rationally choose a margin of safety, or discount to value, at which they would buy a stock and a 5-10 per cent discount arguably is consistent with the degree of risk in ANZ at the moment. The bank was undervalued for the entire eight years (2007-15) of the Asian super-regional expansion because the strategy lowered return on equity and increased earnings volatility and the market correctly priced this in. Now the strategy has changed to something more shareholder-friendly, the discount to value has already closed markedly.

David Walker is senior analyst at Clime Investment Management.

# Technology delivers chance to dine out on food offerings

Change is on the menu, and investors need to keep up

EMMA KOEHN

From self-serve kiosks to pizza delivery robots, the world of fast food is being reshaped by technologies that cut out the middle man between customers and their fodder.

The biggest name brands have been facing headaches in this new landscape. Over the past three months, McDonald's US shares have lost 6 per cent and experienced sell-offs in the face of weak second-quarter sales numbers, while “fast casual” restaurants with strong tech integration have been busy grabbing headlines.

When it comes to fast food, should investors be looking to tech to predict long-term share-price growth, or are there more important factors? Here are four things to consider when investing in dining on the go:

## Fast versus casual battle

Those watching the space recognise two competing forces at play, as traditional fast food businesses face off against the world of “casual dining”.

These operations offer a more intimate and individualised experience, but are still “fast food”.

“You are already seeing small shop fronts promising fast but individualised dining showing up in Sydney and Melbourne,” says University of Melbourne Associate Professor of Management and Marketing, Anish Nagpal.

That's not stopping the giants from adopting “artisan” menu items across a broader variety of cuisines as they try to win back customers from smaller operators, but this is made difficult for operations with well-honed processes.

“I think the bigger, more traditional fast food brands are waiting to see this trend play out — but these brands (operate) in such a way that it's hard for them to move downstream to this new kind of dining,” Professor Nagpal says.

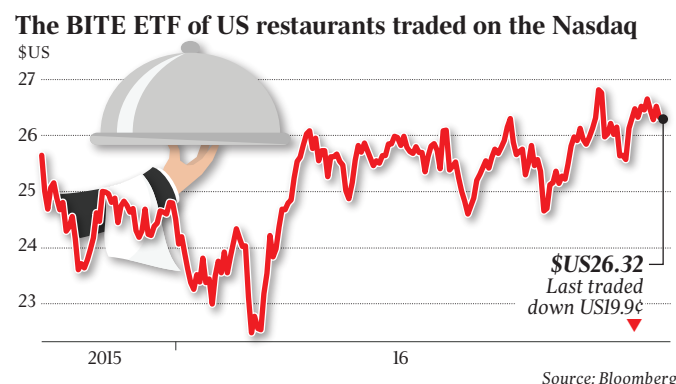
## There are areas yet to play out

There is more to this sector than the flagship brands.

Not only do investors have access to individual stocks both on the ASX and overseas, there's also the option of taking up exchange-



The challenge is finding tech-savvy companies that promptly deliver what diners want, just the way they want it



traded funds and managed funds that track both consumer discretionary and restaurant sectors, like the Nasdaq-listed BITE ETF, tracking the biggest restaurant chains across the US that has returned more than 9 per cent so far this year.

Beyond restaurants, there's another key area of growth left to play out — food delivery services. These include listed and unlisted operations that allow app-based

ordering and delivery of a full range of food products. The past two years has witnessed an explosion of enthusiasm — British operator Deliveroo has so far raised more than \$300 million in various funding rounds, while US and European venture capital markets also took off throughout 2015 — but fund inflows are slowing.

Venture capital database CB Insights believes that 2016 is on track for about half the amount of

funding to food delivery companies compared with last year, as the global marketplace becomes crowded. It may be some time before investors can see which brands survive.

## Tech for tech's sake

On the local exchange, Domino's is the market darling when it comes to integration of tech and food — from letting consumers place orders by using emojis to allowing them to track their driver's delivery route online.

The stock has posted an 86 per cent gain over the past 12 months — as well as recently announcing a 29 per cent profit rise for the latest year — with many calling it a tech company rather than a pizza maker.

The company's most recent results highlighted an increase in same-store sales growth as punters continued to take up digital ordering. “Consumers are a bit more intelligent, and they can tell

if changes (to a business) are just being done for the sake of it,” says Professor Nagpal.

Tech for tech's sake will probably not be enough to guarantee long-term growth, so investors should think about what a brand's use of these platforms does to keep consumers coming back for the longer term.

## The vigilant customer is king

Both the use of tech and artisan products speak to a desire on the part of consumers to have their food matched to their tastes, and delivered with their individual timetables in mind. As such, casual dining companies want to instantly match the consumer to the desired product.

While fast food might not be going anywhere, the challenge will be finding tech-savvy companies that promptly deliver what diners want, just the way they want it.

## Super changes raise equity, fairness issues

TONY NEGLINE



Equity and fairness are two words used to justify the government's super changes. Before we get to this we need to consider some background.

The Murray Financial System Inquiry came up with two particular recommendations about superannuation — it referred to Treasury research that said most of the tax concessions attaching to superannuation were skewed to higher-income earners and secondly that the objective for the superannuation system should be to “provide income in retirement to substitute or supplement the age pension”.

It's important to notice some key attributes about this objective. First, the age pension is broadly set at 27 per cent of male average earnings. In June 1992 the Keating government set a “replacement rate” for retirees — that is, what retirement income needs to be to ensure your living standards don't decline once you have stopped work — at 40 per cent of pre-retirement income.

It's difficult to know precisely what replacement rate this Murray objective is aiming to achieve — on one reading it would appear to be aiming at the current age pension rate plus not much more. From my experience, many people approaching retirement don't know how much they spend and therefore don't really know what replacement rate they personally need. You can only do this by preparing an accurate expense and cash-flow budget.

I think this Murray objective is primarily about the government and saving it money. But the super system's objective should be about each individual. If super can enable us to be self-sufficient in retirement then the net result will presumably be savings in government outlays.

In its recent federal budget the government more or less accepted both of these Murray inquiry recommendations, including various reductions in the tax concessions the top 10-20 per cent of income earners get from super.

But is this fair and equitable? From time to time, *The Australian* publishes articles about limiting access to the age pension. Regular responses in

online subscriber “comments” for these articles will often say, “When I was younger, I was told that once retired I would receive the age pension in compensation for my lifetime of hard work and the taxes I paid”.

Given how often this comment is made there is no doubt that a few politicians from two or three generations ago must have said this.

Now we come to a controversial aspect about these recent government changes. The latest ATO tax statistics for the financial 2014 show that about 600,000 Australians earn at least \$150,000 in income. In total they earned about \$170 billion income and paid \$60bn of this in income tax, or an average 35 per cent tax rate. Good many will think, “well, they can afford it”.

In contrast there are about 8.1 million taxpayers who earn

## Should someone be eligible for the age pension if they haven't paid any net tax?

less than \$100,000. They earned \$441bn and paid net tax of \$72bn or an average 16 per cent tax rate.

Last year, the federal government released research that showed about half of households receive more in government handouts than they pay in tax.

A sizeable proportion of these households are working families and whatever tax is paid is returned as various different tax offsets and other assistance such as Family Tax Benefit and Childcare Rebates and Benefits and other tax transfers.

The majority of those earning less than \$100,000 each year during their working life will be eligible for the age pension.

I think this raises three questions about fairness and equity:

- If the age pension represents, in part, a refund of taxes paid while working, then should someone be eligible for the age pension if they haven't paid any net tax?
- As higher-income earners contribute net tax and will be predominantly ineligible for the age pension, then shouldn't they receive the majority of the tax concessions in the super system?
- As lower-income earners will end up on the age pension why do they have to compulsorily save for retirement and why do they receive any superannuation tax concessions?

Tony Negline is author of *The Essential SMSF Guide*.

## Getting true market value key to SMSF selling an asset to the fund's members

MONICA RULE



Although the superannuation law prohibits certain assets owned by members being sold to or transferred into their self-managed super fund, there is no restriction on SMSFs selling assets to mem-

bers. Whether an SMSF is acquiring assets from members or selling assets to members, the law requires that the purchase and sale price reflect the true market value of the asset.

Where an asset falls within the definition of “collectables or personal use assets” (for example: artwork, jewellery, antiques, artefacts, coins, postage stamps, memorabilia, wine, cars), the law requires SMSF trustees to obtain a valuation on the asset from an independent, qualified valuer prior to selling the asset to members at the recommended price.

The valuation of other assets can be undertaken by the SMSF trustee as long as these valuations are based on objective and supportable data. The trustee must also be able to demonstrate that the value arrived at was based on a reasonable process that took into account all relevant factors and is able to be explained to a third party, such as the SMSF's auditor or the tax office.

There are many situations where SMSFs may sell assets to their members. An SMSF may use an asset to pay a retirement benefit. A mem-

ber may want to live in a residential property owned by their SMSF once they retire from employment. An asset can be transferred to the member as an in-specie lump sum superannuation benefit.

By the same token, an SMSF may not have enough cash to pay out a death benefit. In this case an asset with an equivalent market value to the value of the deceased's superannuation savings can be used to pay a lump sum death benefit to the deceased's beneficiaries.

Incorrect borrowing arrangements generally mean that the

transaction needs to be “undone”. An SMSF trustee may have structured a limited recourse borrowing arrangement incorrectly when acquiring a property. In order to remove the loan arrangement, the property can be sold to the member of the SMSF.

Contraventions of the superannuation law also need to be rectified and this may necessitate selling an asset. If, for example, an SMSF member renovates a property owned by their SMSF without charging the SMSF for the renovation, the increase in the value of the property is treated as a contri-

bution and may exceed the member's contributions caps. If the member does not want to incur excess contributions tax, then one option is to remove the property from the SMSF by acquiring the property themselves.

Cash flow problems can also be a reason to sell an asset to members, if an illiquid SMSF does not have enough cash to satisfy the minimum pension payment requirement for a member. In order to resolve the cash flow issue, the SMSF commutes part of the pension and elects for the commutation to be treated as a lump sum,

and then pays the lump sum using assets in the SMSF.

SMSFs can sell assets to members but it is important to remember that the asset must be sold at its market value so that the SMSF is not disadvantaged and members are treated no more favourably than if the asset was sold on the open market.

Monica Rule is an SMSF specialist and author of *The Self Managed Super Handbook: Superannuation Law for SMSFs in Plain English*.

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