

Here's one bank that really has the numbers

TIM BOREHAM



Kina Securities (KSL) 86c

Which ASX-listed bank is the most "unquestionably strong" of its listed cohorts on a capital adequacy basis and also produces the highest net interest margins and sector-leading lending growth?

Not Commonwealth Bank, which is all about what went unquestionably wrong with its money-laundering affair rather than how unquestionably strong its balance sheet is.

Don't look at the other four pillars, either. Look further north — no, not at Bank of Queensland but even further upwards to Port Moresby-based Kina Securities.

On the raw comparisons, Kina should be the poster child of the banking sector: its capital adequacy stands at a whopping 30 per cent compared with a local average of about 12 per cent.

Despite the drag of holding so many assets as capital, the bank's return on equity is a creditable 13 per cent.

Last year, Kina generated loan growth of 62 per cent with a net interest margin of more than 8 per cent. In comparison, CBA last week reported 5.6 per cent loan growth — on a much bigger book, of course — and on an across-the-board margin of 2.1 per cent.

Kina listed in July 2015 at \$1 a share, the product of broker and wealth manager Kina Group merging with Maybank, PNG's fourth-biggest bank. The bank competes with Westpac, ANZ and Bank South Pacific, which makes for an Aussie-style oligopoly. Ahead of its August 23 half-year results, Kina last week pre-announced an underlying profit of 10 million kina (\$4m), down 50 per cent.

The statutory profit of 3m kina reflected a one-off 7 million kina lease termination payment.

The reduction in first-half earnings was attributed to lower foreign exchange income because of the termination of a former relationship, implying a strong reliance on trading income.

Kina trades on an earnings multiple of less than 10 times, a sharp discount to the Australian sector average of about 14 times.

There's a fundamental reason: while the company might be well run, earnings are 100 per cent exposed to Papua New Guinea, a nation reliant on a few resource projects for economic growth.

The talking point of this month's disputed election — which saw Prime Minister Peter O'Neill returned to power — was the country's budget blowout and its uncomfortable public debt, now 34.5 per cent of GDP.

While the kina (as in the currency) has depreciated in recent years, it is still considered too high for the country's good.

Kina is a quirky and oft-overlooked member of the ASX banking club. But with higher returns there are also risks, and the country's parlous economy explains why. Then again, a

money-laundering scandal is something you would expect to afflict a third-world bank and not our leading domestic financial institution.

In June, Kina said long-serving chief executive Syd Yates would step aside in favour of Greg Pawson. As a former Westpac head honcho for the bank's southeast Asia-Pacific operations, Pawson is familiar with the travails of operating in the region.

MyFiziq (MYQ) 6c

The last thing your columnist wants to know is the true gruesome extent of his middle-age spread, but there are plenty of exponents of the body beautiful who want an accurate measure of weight loss.

MyFiziq has devised an app that not only measures overall body weight more accurately than the standard BMI (body mass index) or tape measure, but also measures specific bodily regions across 72,000 data points. "It can even adjust for breathing," CEO Vlado Bosnac says.

The app is based on creating an on-screen avatar, in effect an updated pic of the user's body.

The app has been available on the Apple store for a number of months, with 8500 users to date.

But the company realises no one — except Apple — makes money from direct consumer apps, with MyFiziq's real prospects based on "business to business to consumer" partnering deals. A former competitive bodybuilder, Bosnac knocked on the door of 27 fitness-related companies to solicit interest. "I can put my hand on my heart and say there wasn't a company that said they didn't get it," he says.

In June, the expended shoe leather paid off and the company signed a deal with Singapore's Gold Quay Capital, which entails Gold Quay injecting \$2m of cash into MyFiziq and then spending a further \$3m to fund a version of the app for medical diagnostics.

The key target markets are health and life insurers, which would love to receive the updated and reliable vital statistics of their customers for risk assessment purposes. (Australian health insurers can't price on health risks but the rules are different elsewhere.) Doctors and hospitals are also obvious targets.

On the fitness side, the company also cites global brands "whose interests are aligned with the product". These include Nike, Under Armour (sports clothing), Adidas/Reebok and Asics, and one can assume they are potential partners.

MyFiziq burnt \$766,000 in cash in the June quarter and is yet to record any revenue.

The company raised \$6m in its August 2015 IPO at 20c apiece and now has \$1.2m of cash, but with a \$1.5m down payment from the Singaporeans due any day.

The company also expects a "substantial" R&D refund.

Bosnac says the company doesn't need to pass the hat around and is in good shape despite the languishing share price. But a deal with a global fitness giant would really get investors' hearts pumping.

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Finding bargains around the globe

MY WAY

Jacob Mitchell is sceptical about some big tech companies

RICHARD FERGUSON

Jacob Mitchell, a former star fund manager at billionaire Kerr Neilson's Platinum Asset Management, took a major risk leaving to form his own company two years ago. Now as managing director of the Antipodes Group he is emerging as a key player among specialists in offshore investing.

You invest all around the world. Just now there are real fears of a correction led by the tech stocks in the US — what do you think?

Wall Street certainly been outperforming. I think the more boring names like Microsoft are still pretty attractive. And you could argue a lot of these major tech names are not "tech stocks" but platform stocks. Take Google or Amazon or Netflix. What they're doing really is enabling technology for other means.

So I don't see the situation as analogous to 2000 and the dot-com boom where you saw a lot of weak companies become very expensive.

Having said all that — I don't see Amazon as an attractive investment.

You don't like Amazon — Why not?

What we would argue is that Amazon has become irrational around Amazon's success. The market's acting like every other retail model is not going to survive ... and that's where the opportunity lies. It's looking at the retail companies, especially in North America, which have become cheap in expectation of disruption. You have brands that will last because they're well known. Michael Kors, for example, doesn't care where it sells its handbags.

Where could a problem arise in the tech sector globally?

A lot of investors expect the current winners to always be the winners. That's not the way the markets work. Success ultimately attracts imitation.

Take a company like the social media group Snap, which was riding a very trendy social media wave and came to market on a



MILAN SCEPANOVIC

Antipodes managing director Jacob Mitchell: 'I don't see Amazon as an attractive investment.'

Irrational? Amazon share price has soared over five years



pretty irrational evaluation. Maybe it will be a long-term competitor to Facebook, but it's not today. These companies can lose be-

cause they're up against a very powerful incumbent. The shocks are going to come from imitators that are mispriced.

Are you going to short your stocks in anticipation of a Wall Street correction?

We don't try to time markets from a top-down perspective and we're definitely not trying to short Wall Street.

We are trying to short stocks regardless of where they are in the world, where they're weak, and we can see lots of ways of exposing that weakness.

How has the Antipodes Group fared since you launched it back in 2015?

It's been a busy couple of years. We currently manage over \$4 billion. Over the last 12 months we've expanded the team to 13 investment professionals and

opened a research office in London. We've also launched a listed investment company in the local market which is basically offering our flagship long-short global fund as a listed company.

With an office in London and a UCTIS fund in London, do you think Europe is the next hot region for investors?

Obviously, we are truly global and where you base your analysts isn't really that relevant. The benefit of a London office is corporate access and probably has more advantages than, say, Hong Kong and New York.

Europe is interesting at the moment and a large part of Antipodes' portfolio today is made

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up of European domestic companies.

We see that as being timely. Europe is moderately outperforming. The European banks and telcos — we particularly like Telecom Italia — are doing even better when you dig into the figures. There has been the eurozone distraction, some may call it a crisis, which has deferred consumption, but we reckon the domestic consumption cycle has a long way to go.

What sort of stocks is Antipodes focusing on?

In North America and places like Japan and South Korea, it's more multinational stocks. In the US, it's the large-cap software names. As for developed Asia, it tends to be hardware companies like Samsung and Hyundai.

A lot of leading groups like Platinum, where you were before Antipodes, are cutting their fees. Is Antipodes reflecting this?

We think the best way to align ourselves with our investors is performance fees, which we earn if we outperform the index.

What was your first big investment?

I was pretty green when I started and I think the first stock I invested in was a resource one, Savage Resources (a zinc miner) and it really was a punt. I have to admit (laughs). It worked out, which was more about luck than anything else. But I was indoctrinated later about the idea of investing as a science.

What are your own current investments?

I'm now pretty exposed to the Antipodes strategy so I really don't have time to do much in my own name, and that's worked out pretty well. Overall we're anticipating to build up a fair amount of employee capital in the funds.

Inheritances stranded but new rules reinforce super's original purpose

MONICA RULE



As the new rules on superannuation contributions become more clear with each passing month since their introduction on July 1, we start to realise there are winners and losers — and many investors have been asking about the situation with inheritance and super under the new regime.

It's quite reasonable that people ask why there are restrictions

on how much you can put into superannuation.

Unfortunately, as you will see there is no special provision made for money that may be an inheritance, but if you are in that fortunate position it is well worth knowing the key principles of the new rules.

The objective of superannuation is to provide income in retirement. According to federal Treasurer Scott Morrison, the intent of recent changes to superannuation is to improve the fairness, sustainability, flexibility and integrity of the system.

The changes will ensure that superannuation is used for its intended purpose.

Under the old laws, wealthy people would put money into

super for tax minimisation and estate planning.

Changes to the law, such as the \$1.6 million limit placed on retirement pension accounts, ensure that the tax-free investment earnings in the pension account are sustainable.

The limit does not restrict how much people can have in their superannuation fund. The limit just puts a cap on the earnings that are tax-free.

You might be wondering how the government settled on the \$1.6m limit. My understanding is that the \$1.6m limit was settled on because it could support a retiree at four times the level of the single age pension. (That is the earnings on the \$1.6m may be in the order of \$90,000 or four times the single

person pension of about \$23,000).

Separately, lowering the contributions limits to \$25,000 for pre-tax contributions and \$100,000 for post-tax contributions per annum still allows people to make enough contributions over their working life to be self-sufficient in retirement. Allowing people also to claim a tax deduction for personal superannuation contributions, irrespective of their employment arrangements, allows more people to make pre-tax contributions.

One of the big changes which had been under-reported is that the government has also increased the income thresholds for low-income earners from \$10,800 to \$37,000: this makes the "low income" group much larger. Part-

ners of low-income spouses can now make contributions for their spouses and claim a tax offset on the contributions, now that their partner falls within this income range.

Additionally, the removal of the earnings tax exemption on transition-to-retirement income streams cuts out the tax advantage but it ensures these pensions fulfil their intended purpose of supplementing a member's income as they reduce their work hours and gradually move to retirement.

This is all well and good, but I understand the frustrations of a beneficiary of a large inheritance. With many benefiting from the generous old laws, you would feel hard done by that you could not

place your entire inheritance into superannuation because of the much lower contributions caps and your total superannuation balance.

However, the reduction of the caps is a key element in improving public confidence in superannuation.

Superannuation must be used for its intended purpose. It cannot become a two-tier system where the wealthy can use it as a vehicle to minimise their tax while the less well-off struggle to even make a personal contribution.

Monica Rule is an SMSF specialist and author of *The Self Managed Super Handbook*.

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