

DIVIDEND
DETECTIVESmall-cap
industrial
landlord
has value

APN PROPERTY GROUP LIMITED
ASX code: APD
Share price: 37c
Industry: Real estate
Forecast FY2018 distribution: 2c

ADRIAN EZQUERRO

With the ASX 200 accumulation index delivering a return of about 14 per cent this financial year, many could be forgiven for thinking all is going swimmingly across the breadth of the Australian market.

However, this performance does conceal some real differences between what has occurred between large and small-cap market segments over this period. The Small Ordinaries has delivered a return of just 5 per cent, with much of that coming from dividends. As a result, pockets of value are starting to appear in select smaller companies.

One such opportunity is APN Property Group, a specialist real estate-focused fund manager with about \$2.5 billion of funds under management. Established in 1996 and listed on the ASX in 2005, APD continues to build a strong platform that includes management of a listed REIT, a real estate securities business and direct property syndicates.

APD shareholders have recently benefited from the lucrative sale of the company's management rights and co-investment stake in Generation Healthcare (GHC). A portion of the proceeds from the sale funded a special fully franked dividend of 10c a share.

There are several avenues for management to drive growth in an era when investor appetite for sustainable yield remains robust. The APD-managed Industria REIT (IDR) continues to steadily and sensibly grow its asset base, evidenced by the purchase of a large industrial property in the first half. IDR assets under management now total \$558 million.

APD also looks set to list its Retail Property Fund in the next six months, a portfolio focused on long WALE (weighted average lease expiry) petrol stations and whose asset base may amount to \$350m. Another driver of growth has been the top-performing APN AREIT Fund, whose funds under management has more than doubled in recent years to exceed \$1.2bn.

As December 31, cash on hand exceeded \$27m. APD continues to directly hold another property asset valued on balance sheet at \$24.2m. If this were sold, net cash may balloon to more than \$40m.

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Gold: The bulls are winning

The precious metal is shining brighter due to political intrigue

TONY KAYE



It was pure gold last week, as allegations of political misconduct against US President Donald Trump drove down global sharemarkets en masse during the week and fuelled a flight to the precious metal many consider to be the ultimate safe-haven asset.

Curiously, the allegations of impropriety against Trump over his previous dealings with now-sacked FBI director James Comey had more influence on the gold price than the rogue ballistic missile tests undertaken earlier in the week by North Korea.

As investors poured swathes of capital into gold exchange-traded funds, goldmining stocks and physical gold bullion, the metal's spot price soared more than \$US20, or almost 2 per cent, to a two-month high of \$US1258.50.

It was a welcome kicker for gold bulls such as US billionaire hedge-fund manager John Paulson, who has been a huge backer of SPDR Gold Shares, the world's biggest gold ETF, and Australian investors in goldminers such as Newcrest, St Barbara and Evolution which all enjoyed gains.

However, while the gold price is up about \$US200 an ounce since the start of this year, it is still well shy of the dizzying heights above \$US1900 an ounce achieved in August 2011. For now, given current global geopolitical events, it is likely gold will trend higher, but within a fairly tight and volatile trading band.

It's all down to supply

The big question for investors is: What are the longer-term dynamics on gold?

In attempting to answer that question economic fundamentals really come into play because, while gold is currently captive to short-term fears and events, the real story over time will come down to what's in the ground and how much is extracted.

That's where the story gets even more interesting, because the mid-range forecasts are for a supply-demand imbalance across the gold sector globally.

New data from the World



Recent political events have been a boost for hedge fund billionaire John Paulson who is a huge backer of gold

Gold Council, the gold industry's peak lobby group, shows that ETF gold holdings grew by 109.1 tonnes in the three months to March 31 compared with a record inflow of 324.1 tonnes in the first three months of 2016. Why? With many central banks holding large reserves of gold and still buying, albeit at a much slower pace than in recent years, supplies of "fresh" gold coming onto the market are dependent on mining output.

The Gold Council's March-quarter analysis of the industry shows a four-tonne decline in the supply of freshly-mined gold in the first three months of this year to 764 tonnes, coupled with a drop in supplies of scrap gold.

One factor in the decline was reduced supply from Indonesia's large Grasberg copper and gold mine, but the fall is also an indication of an impending supply drop over the longer term.

Macquarie Bank noted in its latest gold report that while the March-quarter slide was likely to be reversed over the next few quarters: "One of the biggest negatives for the gold supply and demand balance over the past few years (excess supply) is finally subsiding".

If gold supply declines in a way predicted by the Gold Council then it should support Macquarie's gold price forecasts,

which incorporate the current period of uncertainty. The investment bank has given a June-quarter average price prediction of \$US1175/oz (down 4.5 per cent on the current price), recovering to \$US1325/oz in the December quarter.

Another investment bank, UBS, reckons gold will average \$US1219/oz in the June quarter before rising to \$US1350/oz by the end of the year, and then up to \$US1425/oz in 2020.

Price predictions like these from Macquarie and UBS sit comfortably within the Gold Council's surprisingly pessimistic projection about future gold supply, which is based on gold production likely to drop beyond next year as the project pipeline is squeezed.

in a lack of big gold discoveries.

"We have seen this before," the Gold Council said. "Lower gold prices in the late 1990s and early 2000s also negatively impacted production and exploration in the years that followed. "While there are signs of renewed interest in brownfield development and extending the life of existing mines, these are not yet sufficient to offset steep cuts in project development of recent years."

The challenge for goldminers is to balance out the supply and demand equation, taking into account the demand from gold buyers such as central banks, ETFs, mints, jewellers and retail investors with the level of supply.

As of this month, world gold holdings totalled just over 32,000 tonnes, with the US ranking as the biggest gold hoarder with 8133 tonnes. Australia is down the list, with a ranking of 80 tonnes.

It's how global gold holdings are traded that ultimately dictates day-to-day price fluctuations, but the longer outlook comes back to new supply and demand. If the supply pipeline is squeezed, that can only point to a higher gold price down the track.

Not enough investment

According to the Gold Council's March-quarter report, total capital spending by major gold companies fell 65 per cent between 2012-16, a fall which was mirrored

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Value starts to appear at the major bank stocks

DAVID WALKER



The major banks and Macquarie Group have corrected substantially this month. The recent reporting season showed the banks' lack of revenue growth as interest margins compress. Investor lending is set to slow in response to regulatory macroprudential policies and the budget's bank levy will constrain profitability until banks find offsets. These concerns add to uncertainty about how much more capital the regulator APRA will require banks to hold. Also the Trump trade which inflated bank share prices globally is fading.

Value investors, ever alert to opportunities created by bad news, will be watching with interest and refining the prices at which they would buy out-of-favour, undervalued banks.

The ASX 200 index is often criticised for its excessive concentration in banks, which comprise 30 per cent of the index, but this misses the point banks provide consistent trading opportunities. There is so little liquidity outside the ASX 50 that brokers have to bounce clients between buying and selling banks, where some of the ASX's deepest liquidity is available, to generate enough brokerage for the broking industry to survive.

Get on the right side of this behaviour and profits are available. The tendency of banks to trade in a relatively tight range between 11 and 14 times earnings makes the task easier, as do the 5 to 6 per cent dividend yields perennially available.

The banks are far from ex-growth, at least if consensus earnings per share forecasts are to be believed.

Over fiscal 2018 the market expects growth of as little as 2.9 per cent for NAB and as much as 6.2 per cent for ANZ. This is growth at rates of between GDP and GDP-plus, or what investors should expect from institutions which lend across the economy.

• **ANZ:** The Melbourne-based bank which has just withdrawn significant from Asian operations is showing a forward p/e of 11.9 which is only slightly above its long term average since 2009 of 11.4. However, the expected earnings growth at ANZ at 6.2 per cent is the

strongest of all the major banks.

• **CBA:** The biggest bank in the market and one that has traded at a premium to its peers for a long time continues to trade very close to its long time p/e average of 13.3 with a current reading of 13.7

• **NAB:** The smallest of the major banks is trading at a significant premium to its average p/e ratio since 2009. However the relatively strong p/e at present of 12.3 reflects a recovery from a number of years when the bank was weighed down by a variety of problems including its former British subsidiaries. The long-term p/e at NAB is 10.9

• **Westpac:** The bank which has a reputation as one of the steadiest in the sector is showing a p/e ratio of 12.6 — a small premium to its long-term average of 12.3.

• **Macquarie:** The investment bank operates in a very different world from the big four, however it has a p/e history remarkably similar to its rivals in the mainstream. Macquarie's forward p/e at present is 12.6 against an average since 2009 of 12.

Banks are cheaper than they were without offering compelling value yet

One general observation is the recent share price falls have taken bank earnings multiples back down towards post-GFC average multiples.

In fact, banks are cheaper than they were without offering compelling value yet. But two of the historical averages are not a fair guide to the future. ANZ and NAB should trade on higher multiples than in the past after divesting capital-intensive, low-return businesses and narrowing their strategic view to businesses where they can earn more than their costs of capital.

Indeed ANZ's former super-regional strategy added no value at all while NAB was, until last year's divestment of Clydesdale Bank, a series of rolling strategic failures since it acquired Clydesdale in 1987.

Only with this year's interim result is NAB finally back as a clean, leading business bank, a reputation it last held in the 1980s and early 1990s.

So ANZ and NAB should now trade on sector-average multiples of 12-13 times. ANZ, currently trading on less than 12 times fiscal 2018 earnings, should be on the short list while other banks and Macquarie have a few dollars further to fall before they are demonstrably cheap.

David Walker is senior analyst at Strategic Value.com.au

Limited lifespan for super loopholes but opportunity knocks with one loan type

MONICA RULE



When drafting a new law, legislators try very hard to make the law as explicit as possible so the law achieves its aim and is not interpreted or applied in ways that were never meant to be: the so-

called "unintended consequences" we often hear about in policy debates.

Inevitably though, clever people find loopholes in these laws and exploit them to achieve their own aims. Laws that impose limits and restrictions, in particular, are closely examined for potential loopholes.

The new superannuation laws have been closely scrutinised and the government is already aiming to close loopholes to prevent superannuation fund members getting around the new laws which take effect from July 1.

Here are three potential loopholes in the new super rules:

1. The "total superannuation balance" law is already under siege. From July 1 a superannuation fund member's total balance must be below \$1.6 million in order to make non-concessional contributions into their superannuation fund. One strategy to overcome this restriction is for a member to withdraw money from their self-managed superannuation fund and pay themselves a lump sum superannuation benefit to reduce their superannuation balance.

The money withdrawn is then loaned back to their SMSF under a Limited Recourse Borrowing Arrangement to acquire an asset. This allows a member to keep making non-concessional contributions into their SMSF by keeping their balance below the \$1.6m limit each financial year.

2. The "\$1.6m transfer balance cap" is also a law in which loopholes have been identified. The cap limits the amount a superannuation fund member can have in their total retirement pension account. The cap is based on the net asset value and not on the actual asset value. This means, if an asset

is worth \$2m but it has a \$500,000 debt (such as an LRBA) attached to it, the asset's net worth is only \$1.5m. This allows the member to put more assets and money into their retirement pension account while their balance is below \$1.6m.

3. There is also an issue where a member pays the outstanding debt of an SMSF's asset that is funding both the accumulation account and retirement pension account, by paying the outstanding loan from money in the accumulation account. As the LRBA is paid off using money from the accumulation account, the value

of the asset in the pension account would increase and see the member obtain an increase in the tax-free pension account without affecting the transfer balance cap.

The government is concerned that these strategies may be used to get around the total superannuation balance and the transfer balance cap. As a result, the government will amend the law so that the outstanding balance of an LRBA each year will be included in the calculation of a member's total superannuation balance.

Crucially, the amount included will be the proportion of the out-

standing loan based on the member's share of the asset.

The draft legislation for the above amendments states that the changes will only apply to LRBAs entered into by SMSFs after the act receives royal assent. Therefore, existing LRBAs and LRBAs entered into now and before the act takes effect will not be affected.

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July 1st 2017

Own tomorrow

Hurry, the clock is ticking.

From July 1, super contribution caps will change.

For example, the after-tax (non-concessional) contribution caps will drop from \$180,000 to \$100,000 per year. This means that after June 30 you won't be able to put as much in your super as you could right now.

To find out more about the changes to super, speak to an AMP adviser or visit amp.com.au/superchanges

AMP