

Toll plans to ride the next iron ore boom

TIM BOREHAM
CRITERION



Iron ore's price bounce this week might be encouraging, but the trends are erratic and the ferrous road looks no easier for emerging or small producers.

Given this, Criterion's shell-lives pricked up when Gordon Toll explained his plans to build the world's fifth-biggest iron ore producer — and the biggest magnetite miner with mooted output of 100 million tonnes — in South Australia.

Are you serious? How can this one fly when the low-cost Pilbara majors can ramp up output at the flick of a switch, with smaller near-producers also poised to start a recovery?

But Toll has more street cred than the average bear. He chaired Fortescue when he and Andrew Forrest were greeted with John McEnroe's catchcry in many an investment bank's boardroom. And Toll is mulling a future iron ore/steel boom, not the current cycle.

Toll heads **Magnetite Mines (MGT, 3.9c)**, which owns the Mawson Project in South Australia's eponymous iron ore province. Mawson hosts a 4 billion tonne resource of magnetite iron, which is richer than the Pilbara's hematite iron and increasingly a preferred input for Chinese blast furnaces.

The project has won the loosely worded support of two non-exclusive offtake partners, Ningbo Iron and Steel and Sinosteel (one of Rio's Pilbara partners). One or both might invest in the project as well.

Costed at \$4 billion for initial output of 25 million tonnes per annum, the project involves building a 275km slurry pipe to transport the iron fines to a floating port — and straight on to the boats to China without touching land.

Oddly, Magnetite needs a "fair poltice" of dough — \$20 million or more — to fund a pre-feasibility study. Toll hopes Chinese interests might chip in and he's dusting off his old Middle Kingdom contact book.

Toll contends that rather than being glutted with the stuff, Chinese mills are "racing around like chooks with their heads cut off" looking for magnetite.

Toll is scathing of explorers who have not lasted the distance in a given commodity, a non-too-subtle reference to the 200 or so companies that have suddenly discovered lithium.

"Your typical juniors fold the tent when times get tough and look for something else on the periodic table," he says. "If you do that, you are not there when the next upswing comes."

Toll contends the economics would be "compelling" at today's prices, especially with an expected 15 per cent quality premium. Meanwhile, Citi this week slightly lifted its iron ore projections for the current year to \$US49 a tonne, but expects next year's price to settle at \$US42 a tonne.

NSL Consolidated (NSL) 1.1c

Toll reckons the Chinese steel mills are doing an excellent job

at tackling the downturn, including moving facilities to coastal areas where the output is cheaper to transport.

Great news, me old China, but what about India?

NSL, which has the honour of being the only foreign iron ore developer in India, has turned the first sods on a plant near its deposit in the new southeastern state of Andhra Pradesh.

Funded from a recent \$3.2m raising and \$5m debt facility, the plant will process the low-grade ore into the acceptable 60-62 per cent content favoured by local steel mills.

NSL envisages eventual annual output of 8 million tonnes, underpinned by offtake deals with steelmakers JSW Steel and BMM Ispat.

"We are well and truly on track to start third quarter and have positive cash flow in the fourth quarter," say CEO Cedric Goode. He says domestic India iron prices move to their own tune, rather than the highs and lows of seaborne ore.

NSL claims a shipping advantage of \$15-\$30 a tonne on stuff carried from distant Pilbara mines. The current economics point to a \$30 a tonne margin, on a cost base of \$22 a tonne.

"India is not a country you can ignore," says Goode. True, but this one is not for the faint hearted. **Speculative buy.**

The next \$100 stock?

Despite Blackmore's brief flirtation above the \$200 a share level, Australians are still unfamiliar with triple-digit share values and prefer their stock in more bite-sized denominations.

We know, it's not logical: a company with one million shares at \$100 is worth just the same as one with ten million shares at \$10. But investor perception is a strange beast. But with six shares trading above \$50, perhaps investor attitudes to "expensive" stocks are changing after all.

Stocks trading around \$70 or above are **Commonwealth Bank (CBA); Macquarie Group (MQG) Ramsay Health (RHC)** and doughty darling **Domino's Pizza (DMP), REA** (a subsidiary of News Corp, owner of *The Australian*) and **Iron Mountain (IRM)** linger above \$50.

Expensive? Based on earnings per share multiples, some are and some aren't. CBA, which is also the biggest company with a \$130bn market cap, trades on 14 times current-year earnings.

That's pretty standard for a bank. Ditto Macquarie on a multiple of 12 times, although the silver doughnut's earnings will whipsaw with the variation of investment markets.

Domino's looks overpriced on a PE of 65 times — but we were saying that when the stock traded at \$10.

While investors should always look at the fundamental behind the share price, on a superstitious note the stocks flirting with the \$100 level in the past have tended to fall to earth.

Think of it as the bourse's equivalent of the Mt Everest death zone above 8000 metres.

Happily though our current centenarians — health sector heroes **CSL (CSL, around \$115)** and **Cochlear (COH, \$120)** — have both defied hypoxia.

The Weekend Australian accepts no responsibility for stock recommendations. Readers should contact a licensed financial adviser. The author owns CBA and CSL shares.

End-of-year, tax-deductible snake oil is still snake oil

JAMES KIRBY
WEALTH EDITOR



EOFY ... it's Christmas for accountants, brokers and all manner of product sellers. But the End Of the Financial Year is actually a dangerous time for investors, as the seduction of a tax deduction can lead to costly mistakes.

Certainly, it makes sense to prepare through the year to optimise taxes (Monica Rule outlines some very good ideas below) but more recently the aggressive marketing of EOFY ideas needs to be taken with caution.

Product pushers

Just recently I listened to an extended radio interview with an insurance agent who extolled the opportunity of buying "tax deductible income protection insurance" before June 30 since it can be used to offset against your annual income. That's true — and it's also true that income protection insurance is often not necessary for many people, it's very expensive by any measure and its terms need to be read very carefully. In other words, this is typical of the least impressive EOFY campaigns — at its worst it could lead investors to spend money they didn't need to spend to get a tax deduction ... do the maths.



Beware the end of financial year sales hype

In a very similar vein stock-brokers will implore their clients to assess their share portfolio and take advantage of the tax year by selling their loss-making shares before June 30 so that losses may be offset against investment gains. In many cases shares that are most obviously struggling will be those getting a blizzard of negative attention: bank stocks fit that description just now. But selling shares should never be a tax consideration — how many times over the years have you heard "sell" calls from brokers and over time how often has it made sense for the long-term retail shareholder to sell? Take a look at the long-term Commonwealth Bank share price in today's graphic.

Perhaps the most abused EOFY tactic of all is the potential

to prepay interest and take the deduction in the current financial year.

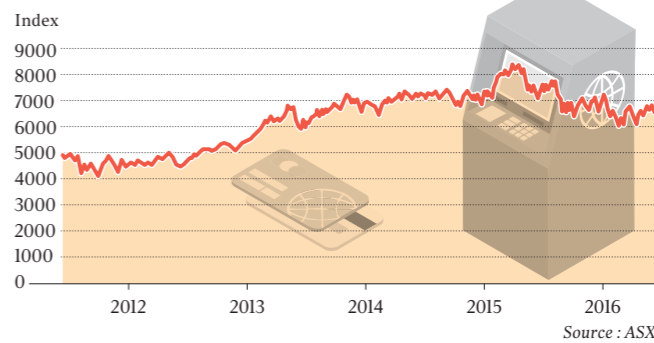
This is the time of year investors get "special invitations" to seminars on this issue and the evidence is compelling that the only guaranteed winners in these situations are the advisers and brokers who get the revenue that has been eluding them all year.

What's the panic?

This year the hot issue would have to be advice that suggests you should move "fast" before the new rules in superannuation come into effect: but should you?

First, the vast majority of the new rules in super do not come into effect until July 1 2017, more than a year away. The only ruling that may affect you immediately is the lifetime cap on post-tax

Bank stocks over 5 years



contributions, which is meant to start from 2007.

Second, not all the rules will go through as planned — a lot depends on the outcome of the election. Even if the Liberal Party is to win, it must get the laws in relation to all superannuation changes passed. If rules such as the lifetime super cap do not go through as planned then major financial moves by private investors may have been unnecessary.

Next financial year, starting next month, looms as a new phase in the EOFY saga when the government's start-up tax breaks kick off. As always the scheme is mounted with the best of intentions just like MIS agricultural schemes 10 years ago or special tax exemptions for movie making and wineries before that.

Under the terms of the scheme any investor in a start-up company is entitled to an instant 20 per cent tax offset and a 10-year capital gains tax exemption — the scheme has been described as "one of the most generous in the world".

From a nation-building point

Income protection insurance is often not necessary for many people, it's expensive and its terms need to be read carefully.

JAMES KIRBY



With the end of the financial year fast approaching, what superannuation concessions are available that my wife and I should consider? I am 45 and work fulltime, earning \$140,000 a year. My wife is 43, works permanent part-time and earns \$34,000.

Your end of financial year planning really should begin on July 1 each year, allowing you the full year to plan and take advantage of opportunities to save more for retirement and reduce the impact of tax. But you still have time to consider a number of opportunities.

Assuming you are receiving 9.5 per cent employer super support, you could make salary sacrifice contributions to your super. Your age-based annual limit (concessional contribution cap) on employer super contributions is \$30,000.

Allowing for employer contributions of \$13,300 a year, you could salary sacrifice an additional \$16,700 a year. Salary sacrifice contributions are taxed at 15 per cent in the fund, as opposed to your marginal tax rate of 37 per cent plus Medicare levy.

The tax saving is the difference between the two tax rates — about 24 per cent or \$4000. However, your contributions will be locked into the super system.

Talk to your payroll department to see if in the time remaining this year, you could forgo salary and make as an employer contribution to your fund. Salary sacrifice contributions are ideally planned over the year to avoid any last-minute catch-up. Be careful not to exceed the contribution limits, as additional tax will apply to any excess. Note also under proposed budget changes, from July 1, 2017 your concessional contribution cap will fall to \$25,000.

Your wife would qualify for the government super co-contribution. As she earns less than \$36,021, if she makes a personal non-concessional (after-tax) contribution of up to \$1000 to her fund, the government will contribute up to \$500 as a co-payment. There is a sliding scale of government support for income above \$36,021, phasing out completely at \$51,021 or more.

You do not need to apply for the super co-contribution. The ATO will automatically calculate the appropriate amount and deposit it to your wife's fund after she declares the contribution in her tax return and lodges it.

You could make a spouse contribution to your wife's fund. As your wife's income is greater than \$10,800, you will be ineligible for the 18 per cent tax offset on contributions made up to \$3000. While you won't receive tax benefits or additional co-contributions by doing so, you will increase the size of your wife's fund. Note under the proposed budget changes, the 18 per cent tax offset on spouse super contributions will be extended to spouse income of up to \$37,000 from July 1, 2017. Given your wife's income, she may qualify at that time. Consider the impact on your cashflow in making additional contributions to super. Note you will be unable to access your super under normal conditions until you are 60.

Visit the Wealth section at www.theaustralian.com.au to send your questions to Andrew Heaven, an AMP financial planner at WealthPartners Financial Solutions.

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Ten tips for self managed super funds ahead of June 30

MONICA RULE

As June 30 approaches there are many things SMSF trustees must consider. Here are my top 10 things to consider. Where relevant, I've also included the 2016 budget's proposed changes so you can see what the future of superannuation could look like.

1. Valuation. The assets in your SMSF must be valued each financial year based on objective and supportive data. Refer to ATO publication "Valuation guidelines for SMSFs". One of the proposals in the budget is in relation to introducing a \$1.6m limit on super balances that can be transferred from an accumulation account to a pension account. A valuation of the SMSF's assets will be required in determining superannuation pension account balances if the proposed law takes effect on July 1, 2017.

2. Contributions. Ensure contributions are received by your SMSF on or before June 30, especially if made by electronic funds transfer. A day late could cause problems.

Check non-concessional contributions made during the previous three financial years to see if the two-year bring-forward provision has been triggered. If it has, it will affect the amount you can contribute in the current financial year. Only people under 65 years can bring forward two years of non-concessional contribu-

tions and contribute \$540,000 in one year or over three consecutive years. The government proposes to lower the concessional contribution cap to \$25,000 for all taxpayers from July 1, 2017, as well as introduce a \$500,000 lifetime cap on non-concessional contributions effective from May 3 this year. Non-concessional contributions made since July 1, 2007, will count towards the lifetime cap. SMSF members need to re-evaluate non-concessional contributions into their SMSF, especially if they will exceed the lifetime limit of \$500,000.

3. Employer contributions. Check whether Superannuation Guarantee contributions for the June 2015 quarter have been received by your SMSF in July 2015. If so, include this contribution in your concessional contribution cap for the 2015-16 financial year.

4. Salary sacrifice contributions. These are concessional contributions. Check your records before contributing more to avoid exceeding your concessional contributions cap.

5. Tax deduction on your personal super contributions. The deduction is claimable by self-employed people, retirees and people who receive less than 10 per cent of their income from work performed as an employee. If you are eligible to claim a tax deduction then you will need to lodge a "notice of intention to claim a tax deduction" with your SMSF trustee before you lodge your personal tax return. Your



It's tax time

SMSF trustee must also provide you with an acknowledgment of your intention to claim the deduction. By claiming the deduction, your non-concessional contributions will be reclassified as concessional. The government proposes that from July 1, 2017, it will allow everyone under the age of 75 to claim a tax deduction for personal contributions.

6. Spouse contributions. These must be received by your SMSF on or before June 30 for you to claim a tax offset. The maximum tax offset claimable is 18 per cent of non-concessional contributions of up to \$3000.

Your spouse's income must be \$10,800 or less in a financial year to receive the full offset and it decreases as their income exceeds \$10,800 and cuts off when it is \$13,800 or more. The government proposes, from July 1, 2017, to increase the income threshold for spouses from \$10,800 to

\$37,000. The cut-off threshold will rise from \$13,800 to \$40,000. The government will also allow contributions to be made for spouses up to the age of 74.

7. Contribution splitting. The maximum amount that can be split for a year is 85 per cent of concessional contributions up to your concessional contributions cap.

You must make the split in the year after the one in which your contributions were made. This means you can split concessional contributions made into your SMSF during the 2014-15 financial year in the 2015-16 year. You can only split contributions you have made in the current financial year if your entire benefit is being withdrawn from your SMSF before June 30, 2016, as a rollover, transfer, lump sum benefit or a combination of these. The government proposes, from July 1, 2017, to introduce a \$1.6m limit on individual superannuation balances that can be transferred from accumulation phase to retirement phase. SMSF members could consider contribution splitting to maintain their pension account balances under the \$1.6m threshold per member.

8. Co-contribution. To be eligible for the co-contribution, you must earn at least 10 per cent of your income from business and/or employment, be a permanent resident of Australia, and under 71.

The government will contribute 50c for each \$1 of your non-concessional contribution to a maximum of \$1000 made to your

SMSF by June 30, 2016. To receive the maximum co-contribution of \$500, your total income must be less than \$35,454. The co-contribution progressively reduces cuts out altogether once your income is \$50,454 or more.

9. Low income super contribution. If your income is under \$37,000 and you and/or your employer have made concessional contributions into your SMSF by June 30, you will be entitled to a refund of the 15 per cent contribution tax up to \$500 paid by your SMSF on your concessional contributions. To be eligible, at least 10 per cent of your income must be from business and/or employment and you must not hold a temporary residence visa. The government proposes, from July 1, 2017, to introduce the Low Income Superannuation Tax Offset which will replace the existing low income superannuation contribution tax offset.

10. Minimum pension payments. Ensure that the minimum pension amount is paid from your SMSF by June 30 to receive the tax exemption. If you are accessing a pension under "Transition to Retirement" ground, ensure you do not exceed the maximum limit. The government proposes, from July 1 to remove the tax exempt status of assets supporting a transition to retirement pension.

Monica Rule is the author of the book *The Self Managed Super Handbook* www.monicarule.com.au

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