The Rock
INVESTMENT PLANNING LIMITED

Investment Market Update No. 11

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Editorial

Welcome to the new financial year. We were extremely busy in the lead up to the end of the financial year and now look forward to catching our breath, but only momentarily. With the federal election just around the corner, and opinion polls predicting a close race, we expect this election to be far more entertaining than the last couple.

In this issue we cover:

1. Changing tax rates;
2. Interest rates;
3. Pandering to minority interests;
4. Investment briefs.

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Changing tax rates

As announced in May's federal budget, the thresholds at which the higher income tax rates apply changed on July 1. This is shown in the following table.

Old and new income tax thresholds

Old	Tax rate (%)	New
6,000	0	6,000
21,600	17	21,600
52,000	30	58,000
62,500	42	70,000
62,501 +	47	70,001 +

The media have often focussed on the fact it is only higher income earners who will receive a tax cut. Scant mention has been made that by raising the income levels at which the higher rates of tax apply, a large portion of the population will benefit by avoiding bracket creep.

For years the media and tax professionals have been arguing that bracket creep, where inflation linked pay rises push workers into higher tax rates, is unfair and that tax rates should be indexed to inflation. Whilst not indexing the tax rates, raising them is the next best thing. Receiving a pay rise and not being taxed at a higher rate is still a tax cut, even if it's not apparent.

Interest rates

The US Federal Reserve has recently announced a 0.25 per cent increase to official interest rates. As we have indicated numerous times recently, rates here and overseas will (and must) rise and it shouldn't come as a surprise. The only surprise will be when the rise is announced and the magnitude.

Minority interests

We saw it in the recent QLD government elections and we're seeing it again now - the threat that if the government doesn't do something to bail out the sugar cane farmers in North QLD, the Mitsubishi plant in SA or whoever else with an agenda, that they're going to lose votes.

This argument fails to consider a number of issues. With the sugar growers the first problem is that the numbers employed in the industry are dwindling and therefore the proportion of sugar voters in a specific electorate are falling.

Perhaps of more concern to the government is that workers in other industries, who haven't received generous 'reform' packages, will feel hard done by and change their vote. For instance, in QLD the federal government is providing grants worth $137 million to be split between 9,169 cane growers and 26 mills (including those owned by the likes of CSR and the farmers) for the purpose of "sustaining the industry in the transition phase towards further reform" (*sources:http://www.affa.gov.au/corporate_docs/publications/df/ag_industries/sugar/faq_sustainability_grant_final.pdf; www.johnston-independent.com/sugar.html+%27sugar+mills+queensland%27&hl=en; ABS 2001 Census of Population and Housing).* This benefit is being provided to 0.25 per cent of QLD's population of 3.6 million and hardly represents an election swinging number.

This compares to the package offered to fishermen following the introduction of the extended green zones. Master ticket holders are entitled to a payment of $5,000 and other crew $3,000 to cover short-term dislocation and potential relocation expenses. In addition the government has offered up to $200,000 to eligible businesses to help meet restructure costs and $1,000 to help with the cost of business plans. With over 20,000 employed in the fishing industry it's easy to see who got the better deal!

Investment Briefs

Macquarie Bank Group (**MBL**): Fee income is expected to fall this year as its subsidiary, Macquarie Infrastructure Group (**MIG**), failed to meet its performance target. MBL was in line for a $66 million fee from MIG but this has now fallen to $6.1 million.

Woolworths (**WOW**): WOW has made a play at the pubs business that was spun out of Fosters last year (ALH). FGL received $2.25 per share from retail investors from the spinout but WOW has been willing to pay $2.75 per share. It appears the FGL board may have short-changed the owners (shareholders) of the company from the listing of ALH. ALH looks to be a nice fit to WOW who already have a strong presence in retail liquor outlets.

Transurban (**TCL**): Traffic numbers and profitability is up for the financial year as TCL goes from strength to strength. A rise in official interest rates may put the share price under pressure, but this eventuality should already be factored into the share price.

Wesfarmers (**WES**): WES hit $30 per share which is the highest price in over twelve months. No material has been released explaining the rise, other than a valuation upgrade from a broker due to high coal prices.

National Australia Bank (**NAB**): UBS are speculating NAB will offload its Irish banking assets. This has helped the share price recover and investors are beginning to look beyond the forex losses and boardroom battles. Annual result will be eagerly awaited by many.

General Property Trust (**GPT**): Still benefiting from the takeover premium. GPT have just announced the purchase of P&O's Australian resorts for approximately $227 million. This will increase GPT's tourism assets to approximately 9 per cent of their portfolio (*source: news.com.au*).

Pacific Brands Group (**PBG**): Licensing agreement signed between PBG and Espirit is expected to result in $5-8 million per year in sales. After listing at $2.50 PBG traded as high as $2.79 and is now trading at $2.70.

Macarthur Coal (**MCC**): MCC have doubled their profit guidance for the financial year from $4-5.5 million to $10-11 million due to an improvement in coal shipments in the last quarter (s*ource: UBS)*. MCC is currently trading at around $2, which seems more than fair value.

Rivkin Financial Services (**RFS**): The Rivkin Family have sold their interests in RFS. Usually when Directors sell shares it's not a good sign. Investors in RFS will be hoping that the company can throw off the recent scandals and improve profitability.

Westfield Group (**WFD**): Following the merger of the three Westfield trusts, the consolidated group has begun trading. The company is worth close to $26 billion. Rising interest rates are a concern not only in terms of managing company debt and cash-flow, but because during a tightening phase consumers are more likely to repay debt than spend money on discretionary items.

Commonwealth Bank (**CBA**): CBA have indicated they are on target to meet the goals set in their 'which new bank' strategy. Management have stated that industrial action in relation to wages is a non-issue as the individual contracts in place with branch managers indirectly puts pressure on staff not to strike. Union representation of bank staff has fallen to 40 per cent, which further erodes the effectiveness of the strike (*source: UBS*). Arguably still the number 1 brand in banking and continues to pay strong franked dividends, which helps underpin the share price.

Australian Magnesium (**ANM**): Following negotiations between ANM, and the QLD and federal governments, the two governments have agreed to forgive the $125 million of debt the company owes. Negotiations between ANM and the ANZ bank over a $60 million debt facility continue (*source: news.com.au).*

Australian Infrastructure Fund (**AIX**): AIX is forecast to raise its distribution from 5.5 cents to 6 cents per share for the half year ending June 30. Distributions are 50 per cent franked and 50 per cent tax deferred. The tax deferred portion is taxable as a capital gain on the sale of the asset. AIX has the potential to grow its asset base off-shore through its alliance with British Airways. This remains a well-run company with quality assets.

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