FINANCIAL REVIEW

Street Talk

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Time to prepare for next year's issues

Predictably enough, in the final week of the 2005 financial year there are some strange market moves and signs that window-dressing is helping to maximise the returns that fund managers will report to their investors.

The banks, BHP Billiton and Rio Tinto were the major beneficiaries of these antics yesterday and it remains one reason to think that the market will finish the year on a strong note. How long this lasts into the new year is another thing as many fund managers remain worried about a tough earnings season coming up.

Investors will also be hearing a lot more about Telstra before the year is out and it will be no surprise to learn there is a lot of work going on behind the scenes by investment banks to get named as one of the joint global co-ordinators.

In looking at recent European telco sell-downs as some sort of guide, it should be noted there is not as high a level of retail share ownership in Europe as there is in Australia. For this reason, a lot of the sell-downs in Europe have been large block trades focused on the institutional market.

As demonstrated by France Telecom, which had five banks on call to lead manage this month's sale of 3.4 billion shares, there is a case for a big syndicate of lead bookrunners though with Telstra there's less of a focus on global investors because most of the stock will have to be sold to Australian punters.

Finally, Telstra's capital raising challenges actually seem to pale in comparison with upstart Unwired. Unwired is purportedly trying to raise about $110 million in some sort of preferred/convertible equity deal, with Allco and Credit Suisse First Boston thought to be helping out. This is a sizeable sum considering Unwired's market cap of only $76 million but the company apparently needs even more. All serves only to put more pressure on its depressed ordinary share price.

Hedley takeover brewing slowly

Coles Myer has been notably slow in consummating the rumoured $150 million-plus purchase of the Queensland-based Hedley Group.

Hedley, one of the last independently owned liquor businesses on the market, has 22 pubs spanning Cairns to the Gold Coast, but perhaps more importantly, two remote liquor stores for every pub.

Hedley is thought to have entered an exclusive arrangement whereby Coles is conducting due diligence in order to finalise the transaction.

However, this exclusivity period is said to run out tomorrow.

What is causing the hold up is unclear, but perhaps the vendor sees an opportunity to bring other parties into the sales process.

Coles's offer price is said to represent around eight times earnings before interest, tax, depreciation and amortisation, whereas Australian Leisure & Hospitality sold to Woolworths for more than 10 times. Hedley, which bought the Grape Group for about $45 million last year, is thought to earn around $20 million a year.

The sale would not include the Cairns assets, which Hedley boss Tom Hedley is keen to retain.

Private equity players are thought to be eager to intervene in Coles's and Woolworths' efforts to carve up the

Australian liquor market, both in respect of Hedley and the other pub asset on the market, the largely Victorian-based Taverner Hotel Group. Taverner's controlling shareholder Catalyst Investment Managers is thought to be looking for a price of more than $250 million and is running a dual float/trade sale process with Coles also the favourite.

But the private equity world is cashed up and keen. There is also talk that Macquarie Bank's ambitions in the pubs arena (it made a failed consortium bid for ALH) have not dimmed.

As noted yesterday it is easy to see why many observers are tipping a consortium bid including private equity for trans-Tasman forest products group Carter Holt Harvey. The Credit Suisse First Boston-advised International Paper, which incidentally put through a big profit warning on Monday night out of the US, put its $NZ1.3 billion ($1.2 billion) half-share in Carter Holt on the market this week, but Carter Holt is a fairly disparate collection of businesses for one trade buyer. Weyerhaeuser is seen as the favoured trade buyer but may be more interested in the sawmilling assets rather than the packaging or pulp production businesses.

UBS has a sum-of-the-parts valuation for Carter Holt of $NZ2.60, well above yesterday's close of $NZ2.29.

Baycorp rides peaks and troughs

The theory that credit bureaus benefit in both the good times due to heavy credit inquiry volumes as well as the bad times as credit providers chase bad debts has proved an elusive one for investors.

The value of Baycorp Advantage's credit-bureau division called Business Information Services has long been weighed down by problems elsewhere in the Baycorp empire (mainly debt ledger purchasing).

Investors also became concerned after Baycorp's first-half result that inquiry volumes were cyclical because volumes fell 1 per cent in the first decline in the bureau's listed history.

This was put down to a 15 per cent fall-off in home-loan applications after a hectic previous corresponding period.

But according to Citigroup, overseas experience suggests bureaus should be able to generate consistent growth and US credit bureau Experian International, for instance, has generated compound average sales growth of 20 per cent over the past decade.

It might be a long bow, but the other factor going for Baycorp's bureau operations is the latest surge in credit card competition in Australia by way of low-rate cards including zero-rate transfers for six months. The likes of GE, HSBC, HBOS and Barclays have also signalled a desire to compete harder in the Australian market. Credit cards are the largest contributor to bureau inquiry volumes.

Citigroup also found that debt collection was not a compatible business for the overseas bureaus to run and it has long been thought that Baycorp would be more appealing as a takeover prospect if it sold out of the debt purchasing area.

This could be a bit of a trend since troubled rival Collection House has just flagged plans to spin-off its non-debt collection businesses, including its ratings agency and credit information businesses.

Austar sends a selling signal to its major shareholder

Austar's share price has gathered some momentum this month, heading up from 85 ? to almost $1 before easing again to 93 ?. This raises the question of when major shareholder CHAMP will again look to sell its holding, either by a trade sale or through the market.

With the federal government about to take control of the senate there will be renewed enthusiasm about cross-media takeover plays, although Austar can be taken over as the law stands.

Big investors are also attuned, for other reasons, to the pay TV space. Goldman Sachs JBWere analysts recently touted the idea that the partly Telstra-owned Foxtel can be profitable in the near-term.

Goldman Sachs has lowered its expectations of Foxtel's long-term penetration rate from 41 per cent to 36 per cent but says Foxtel should be able to generate free cash flow by 2007.

Austar has become cash-flow positive, with 488,000 subscribers against Foxtel's 1.13 million. Foxtel is expected to make a $56 million EBITDA loss this year.

A reason for the difference is Foxtel's higher programming costs compared with Austar's, but these are expected to ease in the next few years because of a better AFL deal and currency equation.

The broker believes Foxtel is worth about $1.8 billion, based on enterprise value, against about $1.5 billion for Austar.

Cadence raising has strong appeal

Investors' increasing preference for absolute-return funds over the benchmark-hugging variety should ensure Karl Siegling's investment company, **Cadence** Capital, is well received. **Cadence** is lodging a prospectus this week to raise up to $25 million ahead of an Australian Stock Exchange listing.

Investors will also get one free option with each share at an exercise price of $1 (the same as the issue price) and exercisable until September 30, 2006.

Siegling's experience spans the equities research division of Deutsche Morgan Grenfell (as it was then known) and Goldman Sachs's London equities division, and he is a former managing director of Challenger International's eFinancial Capital private equity fund.

For the past two-and-a-half years, Siegling has worked as a consultant to Geoff Wilson's Wilson Asset Management (WAM) while also running a unit trust for wealthy individuals. The WAM connection is set to continue: Wilson will join the **Cadence** board alongside Siegling and James Chirnside.

The offer, which opens next Monday, is not underwritten but ABN Amro is the sponsoring broker. **Cadence** expects to list on September 8.

Siegling will invest $1 million in the company while fellow directors are stumping up $1.25 million.

Cadence Asset Management will receive a base management fee of 1 per cent of the gross value of the fund per annum and a now-standard performance fee for outperformance against the All Ordinaries Accumulation index.

Cadence expects to have a portfolio of 20 to 80 shares and can short-sell and leverage the portfolio with borrowings.

Hancock's in for WA rail battle

As the clock ticks down for Gina Rinehart to finally determine the way forward for the Hope Downs iron ore project, rumours in the west suggest she may have a battle on her hands with the West Australian government over third party access for the proposed rail line.

Rinehart's Hancock Prospecting must submit a development proposal, inclusive of financing, to State Development Minister Alan Carpenter by tomorrow. Rinehart is keen to develop the rail and port infrastructure for the sole use of Hope Downs, a move unlikely to go down well with the government. The rumour mill is also suggesting Rinehart may have secured short-term finance to pay her Hope Downs partner Kumba Resources a first tranche payment of $138 million, due on Friday, for its stake in the project.

That would give her some breathing space to continue negotiations with Japan's Mitsubishi