Switzer Super Report

Thursday 29 October 2015

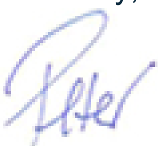
Takeover targets

Yesterday it was NAB, today it's Woolworths – both have disappointed the market. The retailer issued a profit warning this morning and is trading around $25, so is it a buy yet? Paul Rickard investigates.

Also in the *Switzer Super Report*, Tony Featherstone has updated the takeover targets list. Find out why Challenger and Nufarm have been added. Tony Negline takes us through a couple of case studies to show why SMSF trustees should be aware of the disqualified person rule. And in *Questions of the week*, we answer reader queries about Asciano and Origin Energy.

In *Buy, Sell, Hold – what the brokers say*, Oz Minerals has been upgraded while Dick Smith is in the not-so-good books after the company downgraded FY16 profit guidance.

Sincerely,



Peter Switzer

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Woolworths shocks - but why is anyone surprised?

by Paul Rickard

If there is one lesson from Woolworths profit warning this morning, and NAB's messy but disappointing result yesterday (click here for more), it's that turnaround stories take time. A lot of time.

Woolworths is the classic. It is paying the price for what many believe to be an incompetent leadership team and Board, and that famous "Woolworths arrogance" that suppliers and others so quickly recognize. It took its eyes off the ball as Coles (and now Aldi) ate its lunch.

However, the outgoing CEO, Grant O'Brien, is still in the job – the new CEO is yet to be appointed and is probably months away from actually taking over.

Big W is still a basket case, Masters continues to lose money, and the Woolies supermarket business has just launched price campaign number 4 or 5 with 'Price Drop' and 'Low Price, ALWAYS '.

Why should these work when the other 4 failed?

In case you missed the news, Woolworths announced that first half net profit after tax would be around $900m to $1,000m – down 28% to 35% on the first half of 2015.

This follows a decline in profit of around 5.5% in the previous half from $1,130m to $1,069m.

Woolworths profit by half year

	1st half	2nd half
FY 14	$1,321m	$1,130m
FY 15	$1,384m	$1,069m
FY 16	$900m - $1,000m	

And accompanying the profit announcement was yet another disappointing set of sales results. In the first quarter of 2016, comparable store sales for Australian food and liquor fell by 1.0%.

In contrast, Wesfarmers announced last week that Coles increased comparable store sales by 3.6% compared to the corresponding quarter in 2015. Rather than closing, the gap between Woolworths and Coles is widening.

Big W continued to lose share, with sales on a comparable store basis decreasing by 8.1%. Woolworths noted an improving trend as the quarter progressed, and let's hope they are right, but they have said this before.

To put this sales outcome in context, Target reported a comparable store sales increase of 3.2% for the quarter, while Kmart soared by 8.6%. BigW remains a basket case.

Is Woolworths a buy yet?

With Woolworths trading around $25.00, many investors are going to be tempted to buy at these levels. And it might prove to be good long term buying, however consider these facts:

- With the profit downgrade, it is almost certain that the first half dividend in FY16 will be cut;
- A new CEO will make changes – they always do – and this will cause some internal disruption. He or she has not even been appointed yet;
- The sales gap with Coles is not narrowing – if anything, it is widening. If the new price campaign starts to work, then reassess – but there is no evidence yet to say that it is hitting the mark with consumers; and
- Decisions regarding what to do with BigW and

Masters are still to be made.

My guess is that investor patience will be rewarded. Turnarounds of major corporations, like Woolworths or NAB, take a long, long time.

There is no hurry.

Important: *This content has been prepared without taking account of the objectives, financial situation or needs of any particular individual. It does not constitute formal advice. Consider the appropriateness of the information in regards to your circumstances.*

Takeover targets update: Challenger and Nufarm

by Tony Featherstone

There are two schools of thought on Challenger's takeover prospects.

The bulls argue Challenger is an attractive bolt-on acquisition for a larger financial services company, given its dominant position in the growing retail annuities market. The bears counter that Challenger's obvious suitors, the big-four Australian banks, are constrained by new requirements to hold more capital, and more likely to divest than acquire assets. There is logic in both views.

Challenger meets *Switzer Super Report's* key criteria for inclusion in its takeovers targets list: it is an attractive investment at the current price regardless of takeover, and has long-term strategic value in its industry.

Challenger must appeal to larger financial services companies, here or overseas, that are struggling to grow in a constrained credit environment. It reported 14 per cent growth in retail annuity sales in the September quarter (on the same period last year), despite an environment of low interest rates. The funds management business delivered $1.1 billion of fund inflows in the quarter. These strong tailwinds could provide a new source of earnings growth for larger financial services firms.

The Federal Government's response to the Financial System Inquiry, while unsurprising, supports the uptake of retirement investment products that deliver income. Challenger holds an estimated 70 per cent market share of the retail annuities market in Australia, has excellent brand recognition, and strong product distribution through financial advisers. It would be exceptionally hard and costly to replicate Challenger's position in this market.

Demand for annuities will surely rise as more retirees worry about sharemarket volatility and the need to access reasonable, reliable income streams that last as long as they do. A stronger culture of retail fixed-interest investing, something that has been hard to build in Australia over the years, could finally take hold as the population ages.

Challenger's dominant position and open shareholder register will appeal to a larger Australian wealth management firm or European or Asian financial services company that seeks bolt-on acquisitions, and understands the potential of retirement income investing in Australia and overseas.

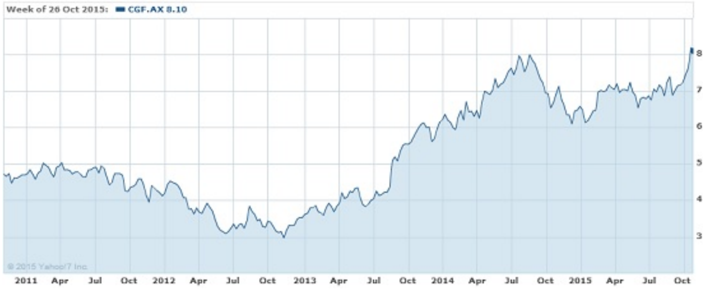
Longer term, Challenger's expertise and product suite could be leveraged into Asia. As the region's middle-class grows and its population ages, demand for retirement income products will rise and new investment markets in the region will form. Australia's wealth management industry has great potential to expand its presence in Asia and help drive stronger growth in service exports.

The market views Challenger favourably. Nine of 16 brokers have a strong buy or buy recommendation, five have a hold and two a sell, according to consensus analyst estimate forecasts. But a median share price target of $7.85 suggests Challenger is fully valued – an appropriate view for now.

Challenger has raced from $7 in September to $8.10. Further gains could make potential suitors nervous and perhaps encourage them to pounce sooner rather than later.

If Challenger can hold above $8 – its previous high in mid-2014 – it could be at the start of a new leg of share price growth.

Challenger



Source: Yahoo!7 Finance, 29 October 2015

Agribusiness attractions

After soaring gains in several agribusiness stocks this year, takeover enthusiasts could argue the time for corporate activity in the sector has passed. It could just be starting: look at how much foreign investment is pouring in Australia's dairy sector, to secure long-term supplies for fast-growing Asian markets. I have outlined a bullish long-term view on Australian agribusiness stocks for the *Switzer Super Report* this month.

Expected global population growth, the boom in Asian middle-class consumption, and chronic underinvestment in the global food and logistics chain, will have foreign companies scurrying for acquisitions.

Our listed agribusiness sector needs greater scale to attract significant institutional capital and help Australian producers raise capital to quicken their expansion and innovation.

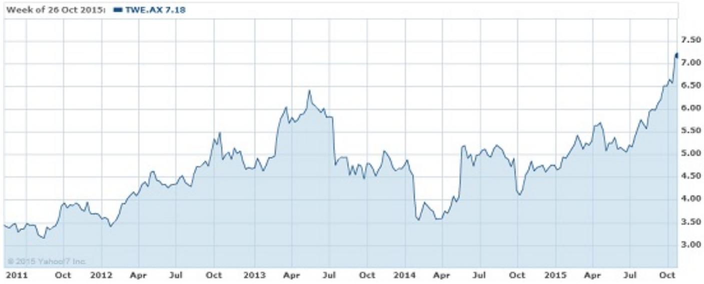
Australia's top agriculture-related companies will look undervalued in the context of one the world's most powerful investment megatrends: the need to feed more people and improve diets. A lower Australian dollar falls, as expected, will also spark greater foreign interest.

The wine producer, Treasury Wine Estates, has long been touted as a takeover target. Its board sensibly rejected a $3.4-billion bid from private equity in May 2014 – a deal that badly undervalued it – and a second offer soon after. It is now worth $5.2 billion.

Treasury's $745-million acquisition of Diageo's US and US wine business this month could deter takeover suitors; but in time it will make the company more appealing.

Treasury is not cheap, although there are growing signs of improvement in the viticulture industry and Asian demand for Australian wine.

Treasury Wine Estates



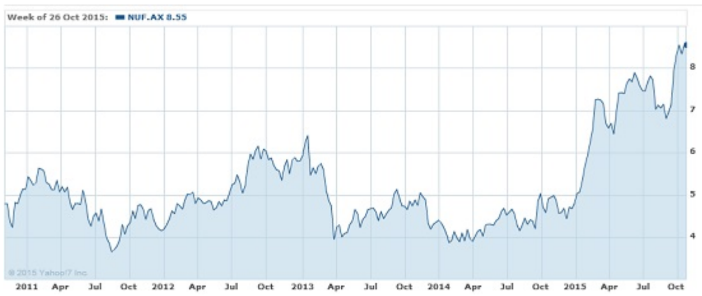
Source: Yahoo!7 Finance, 29 October 2015

Another agribusiness stock with takeover appeal is crop-protection provider, Nufarm, covered earlier this month for the Switzer Super Report. Nufarm rejected a takeover from China's Sinochem in 2009, valuing it at $2.6 billion.

Nufarm's current market capitalisation is $2.2 billion and it has plenty of momentum after operational restructures and management changes. Demand for pesticides has a solid outlook, given the urgency for crops in developing nations to become more productive, to feed more people.

Like Treasury, Nufarm is not cheap but has significant long-term strategic value for a large foreign player. Japan's Sumitomo Chemical Company, a 23 per cent shareholder, will have a big say in any ownership changes in Nufarm and could lead any corporate activity.

Nufarm



Source: Yahoo!7 Finance, 29 October 2015

Takeover targets update

There was plenty of action in the *Switzer Super Report* takeover targets this month. Santos and iSelect received approaches and there was market talk about others on the list. Santos rejected a $5.2 billion takeover bid from Scepter Partners on October 22 to acquire it for $6.88 a share. The under-pressure energy producer reportedly received a $1.5-billion offer this week for its stakes in Western Australia oil and gas fields.

The battle for Santos has a long way to run, so it stays on the takeover targets list. The takeover bid and this month's $1.1-billion merger of Beach Energy and Drillsearch Energy confirm my earlier thesis that the energy sector was undervalued and ripe for consolidation. My attention has turned to AWE, another energy play on the takeover targets list.

The well-run AWE rejected Sensex Energy's $750-million bid in December 2013, but must be on the radar again for bigger energy players looking to consolidate mid-tier producers.

I was pleased to see iSelect receive a recent takeover approach from a private equity firm, if not lose yet another CEO after Alex Stevens' surprise resignation. iSelect was added to the takeover targets list in May because the market was underestimating its recovery and its long-term strategic value as consumers increasingly purchase insurance online. A private equity firm or one the large UK policy-comparison sites could do a lot more with iSelect. They would have to pay up to get it.

Among other stocks, Reckon received overdue consideration as a takeover target in the mainstream media this month. Reckon confirmed it appointed Macquarie Capital to help it consider strategic options and presumably shore up its takeover defences.

Reckon was among the first stocks added to the Switzer takeover targets list last year. I can't see how the lucrative accounting software market can sustain four big players in MYOB, Xero, Reckon and Intuit. Although its larger rivals attract more attention, Reckon has plenty of strategic value thanks its customer base and recurring revenue streams.

In this month's portfolio changes, Challenger, Nufarm and Treasury Wine Estates are added. The disappointing Ensogo and Mincor Resources are dropped, to make way for the new additions and reduce the list's exposure to micro-cap stocks.

Here is the updated list:

Takeover targets	One-year total shareholder return* %
Gold Road Resources	72
Nufarm	71
Treasury Wine Estates	63
Reckon	33
iSelect	27
Challenger	22
NIB Holdings	18
Automotive Holdings Group	16
Aurizon Holdings	15
OzForexGroup	13
Australian Agricultural Company	8
Monash IVF Group	-1
Qube	-9
Ten Network Holdings	-13
South32	-27
OrotonGroup	-27
Myer Holdings	-42
Santos	-48
AWE	-60
Median return %	**14**
1-year total return S&P/ASX 200 index %	**2.5**

*Source: Morningstar (for one-year total shareholder return). Return assumes dividends are reinvested. *Return over one year to October 28, 2015. SP Dow Jones Indices for ASX 200 total return over one year.*

Tony Featherstone is a former managing editor of BRW and Shares magazines. This column does not imply stock recommendations or financial advice. Readers should do further research of their own or talk to their adviser before acting on themes in this article. All prices and analysis at October 28, 2015

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Don't fall foul of the disqualified person rule

by Tony Negline

This article discusses a very important topic but many don't seem to take it seriously.

Many SMSF administrators, auditors and lawyers have told me that they are constantly finding clients, who they have known for many years, suddenly falling foul of the disqualified person rule because the individuals involved simply ignored this problem until it became too late.

In the last several years there have been a number of Administrative Appeals Tribunal (AAT) cases where some disqualified trustees have tried to overturn Tax Office determinations.

This article will look at the disqualified person rule and two AAT cases.

Disqualified persons

Once you're deemed under the super laws to be a disqualified person, then you can no longer be a SMSF trustee or member. Once you're disqualified you either have to leave your fund and move your super money to an APRA regulated super fund, or convert the SMSF to a small APRA fund which means the appointment of an APRA approved trustee.

A disqualified person is someone who is an undischarged bankrupt and/or has committed a crime involving dishonesty at any stage in the past and anywhere around the world.

The statute of limitations that often wipes away prior convictions doesn't apply. This means that any minor crime you committed where a conviction was recorded against your name is caught.

What are dishonest crimes? The definition of these crimes has been amended recently to take into account computer based crimes. Crimes involving dishonesty include theft, embezzlement, fraud, attempted fraud, perjury, using false documents, falsification of documents, forgery, dishonestly manipulating machines (eg Automatic Teller Machines or ATMs), money laundering, potentially unlicensed financial advice, etc.

The ATO can ignore minor crimes that have a custodial sentence of less than two years or small fines. You have to apply for this concession just after a conviction is recorded however the ATO can extend this time period.

The ATO said in the Shaw case discussed below that "a more benign light might be shed on crimes if they occurred a long time ago and the person involved had an unblemished record in the intervening period."

Stuart Shaw and Commissioner of Taxation

This AAT case was handed down in May 2015.

It shows how a series of unfortunate events can go from bad to worse.
In this particular case, the ATO had refused to ignore some convictions and had then declined to change this initial decision after the trustee had objected. The SMSF trustee's next step was judicial review before the AAT.

The SMSF in question with husband and wife trustees was created in 2002. About 12 months later the husband was injured in a car accident caused by a negligent driver. In time this caused depression and his building business to close. For a while he worked as a photographer but in June 2008 began working as a contractor at a power station construction site.

He worked long hours for six and sometimes seven days per week. One problem he faced was long-term traffic delays caused by improvements to the road to and from the worksite. He said the long working hours, the difficult travelling conditions and the work environment were collectively highly stressful.

He had been fined and lost driver's license points for exceeding speed limits on a number of occasions. In order to retain his license he falsely declared for five speeding infringements that his wife and others had been driving his car.

At some stage he was being blackmailed, so he sought the advice of a serving and a former police officer who both suggested he should come clean with the authorities. This led to a trial involving this false swearing and other offences. He initially pleaded not guilty but then changed this plea. It was noted that he had more than 30 speeding offences but no other offences had ever been recorded against his name. He was given a custodial sentence which has been served.

During 2008, the ATO audited the super fund and found a range of super law breaches however these were all fixed by late 2009. These breaches had involved leasing fund property to its member's relatives, loaning money to the fund's members and breaching the in house assets test which restricts the value of fund assets that can be used by fund members or their relatives.
In the years following, he also failed to lodge some super fund statutory returns and personal tax returns on time.

For most of the 2013 financial year the Tax Office had told him he had to immediately resign and leave the SMSF which he ultimately did in July 2013.

The Tax Office argued before the AAT that, "an offence of dishonesty or corruption is one that is contrary to the fiduciary standards expected and required of a trustee of a superannuation fund and is a serious offence".

The Tribunal found that the "threshold required to have a disqualified status is a high one" and because of his past behavior, it said the trustee had failed to show he may contravene the super laws in the future.

Tony Mourched and Commissioner of Taxation

This AAT decision was handed down in 2014.

In March 2010, Tony Mourched was convicted of making a false statement to gain a financial advantage. Before the trial, on the advice of his lawyers, he entered into a plea bargain with the prosecution which would have seen him being treated leniently including no conviction recorded against his name. His conviction therefore came as a surprise.

When convicted, Mourched was a SMSF trustee. He didn't apply for leniency from the ATO until May 2012. Ordinarily he had until April 2010 to make this application. The Tax Office rejected his application because he hadn't applied within 14 days and it also rejected his request to allow an extension. He then applied for leniency from the AAT and argued that he was unaware of the super law disqualification rule and his conviction was a complete shock which led to "unimaginable stress". In addition he and his wife had had serious and on-going medical problems.

Whilst expressing sympathy for his predicament, the AAT rejected Mr Mourched's application.

What Should You Do About This Rule?

If you think you might be caught by this rule then please speak to your SMSF administrator as soon as possible. In addition speak to an experienced superannuation solicitor.

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Macquarie has upgraded Flexigroup (FXL) to Outperform from Neutral. Flexigroup will acquire Fisher & Paykel's NZ finance business for NZ$315m. F&P is a leading non-bank consumer financier in NZ, Macquarie notes, making it a complementary acquisition. The price looks a bit full but the broker acknowledges earnings accretion, reasonable synergies and strategic justification. With no organic growth in sight, it is an acquisition Flexigroup needed to make. On current valuation and earnings upside from the acquisition Macquarie upgrades to Outperform, but the broker still prefers Pepper Group (PEP) in the space.

JP Morgan has upgraded Incitec Pivot (IPL) to Overweight from Neutral. JP Morgan expects the coming year will transform the company, with the commissioning of the ammonia plant in the US marking the end of a period of elevated capital expenditure. Earnings from the project should generate a significant step up in cash flow, the broker maintains. JP Morgan upgrades to Overweight from Neutral.

Macquarie has upgraded Mount Gibson Iron to Outperform from Neutral. Mt Gibson's Sep Q report featured much lower than forecast costs at Koolan Island, allowing a Stage 3 mining campaign to go ahead at Acacia East. Shipments were impacted by bad weather at Geraldton but this will be picked up in the Dec Q, Macquarie notes. While Acacia East increases Macquarie's production forecast the impact on earnings is minimal. The focus for the broker is on the company's cash balance, which will be used to fund opportunities management is on the lookout for. As the stock is trading at a 35% discount to cash, Macquarie upgrades to Outperform.

JP Morgan has upgraded Oz Minerals (OZL) to Neutral from Underweight. September quarter production was strong and, after making favourable adjustments to the cost profile over the medium term, JP Morgan's valuation is up significantly. Based on the attractive outlook for the balance sheet and potential for increased shareholder returns the broker upgrades to Neutral from Underweight.

UBS has upgraded Oz Minerals (OZL) to Buy from Neutral. September quarter production delivered on consistency, UBS observes. The broker expects the company to achieve the upper end of guidance for 2015 of 126-131,000 tonnes copper, or even beat that. The broker returns the rating to Buy from Neutral after the recent pull-back in the share price, noting its balance sheet strength, cash flow and liquidity.

In the not-so-good books

Credit Suisse has downgraded Air New Zealand (AIZ) to Underperform from Neutral. Credit Suisse updates forecasts following the release of September quarter passenger data. The airline's trans Tasman performance has lagged that of the Pacific island network. Short haul yield was flat versus the previous corresponding quarter. With the stock trading at a premium to the broker's assessment of fundamental value the rating is downgraded to Underperform from Neutral.

Macquarie has downgraded Alacer Gold (AQG) to Underperform from Neutral. Alacer's Sep Q production was in line with Macquarie's forecast. The broker has nevertheless cut its Dec Q forecast given lower grades at Copler, and it will also be a quarter in which capex is ramped up. Delivery of the sulphide project offers risk and Macquarie believes Alacer is being over-valued against its gold junior peer group. Downgrade to Underperform.

Morgans has downgraded APN Outdoor (APO) to

Hold from Add. Morgans upgrades forecasts after feedback from industry players which indicates demand for both static and digital billboards is running near record levels. The broker upgrades 2015 and 2016 earnings estimates by 3.0% and 4.0% respectively and acknowledges there is potential for further upside in both yield and capacity utilisation. Yet, the rating is downgraded to Hold from Add after the recent strong share price performance.

UBS has downgraded Bluescope Steel (BSL) to Neutral from Buy. UBS is downgrading to Neutral from Buy as the stock has outperformed since it announced a review of its steel making operations and now factors in a potential turnaround in earnings from Port Kembla. Any further re-rating potential from an exit of raw steel production in Australia is unlikely in the near term, in the broker's view, despite the challenges.

Morgans has downgraded Capitol Health (CAJ) Hold from Add. The company has signalled that recent changes in referral patterns means FY16 revenue will be 4-6% below previous expectations. A further update will be provided at the AGM in November. Morgans is not sure how widespread the issue is or how long the softness will last and remains cautious ahead of the Medicare review, expected in December. In other news, the company has entered into a MoU to commercialise artificial intelligence protocols in radiology, which the broker believes has longer-term positive implications.

Deutsche Bank has downgraded Dick Smith (DSH) to Hold from Buy. Deutsche Bank struggles to understand how weakness in one month, October, can explain the company's sharp FY16 downgrade. Deeper issues must be prevailing. First quarter sales grew 1.3% in like-for-like but the company had to discount materially to get there and this weighed on margins. FY16 guidance is reduced by 14%. The broker suspects the format is struggling to deliver like-for-like growth from organic traffic without aggressive discounts and help from lower margin online sales. An inventory issue may also exist that requires deeper discounting to rectify.

Macquarie has downgraded Dick Smith (DSH) to Neutral from Outperform. Dick saw solid sales growth through the September quarter but suddenly in October, the wheels fell off, the AGM revealed. Management is blaming poor marketing decisions, Macquarie notes. Dick will quickly try to address the issues heading into Christmas but in the meantime has downgraded FY16 profit guidance by 15-20%. Macquarie has slashed earnings forecasts as a result and dropped its target to $1.00 from $2.10. A downgrade of such magnitude so close to Christmas is a worry, the broker suggests. Downgrade to Neutral. Dick's PE is undemanding, but the market will stay away until Dick can deliver some more promising results.

Macquarie has downgraded Evolution Mining (EVN) to Neutral from Outperform. Evolution had already pre-released better than expected Sep Q production numbers, so no surprises from the official release. The company will review production guidance in January, at which point Macquarie believes cost forecasts will be lowered. Exploration continues to impress but given the stock's 70% rally in two months on an unchanged A$ gold price, Macquarie is downgrading to Neutral.

Morgans has downgraded Evolution Mining (EVN) to Hold from Add. September quarter production was up 35%, largely because of the recently acquired Mungari and Cowal operations, Morgans observes. While the stock has performed well over the last year the broker suspects the share price is now looking stretched. Hence the rating is downgraded to Hold from Add. Morgans revises up FY16 production forecasts and suspects guidance may be revised for the second half.

Credit Suisse has downgraded G.U.D. Holdings (GUD) to Neutral from Outperform. Credit Suisse is of the view that the company's initiatives to date have been impressive and there are further gains to be made. The broker is also positive about the fact the business, post the BWI acquisition, will have over 65% exposure in earnings to the automotive after-market but growth in this division will really only start to ramp up in late FY16. Credit Suisse consider the risk/reward balanced at this point and downgrades to Neutral from Outperform.

Macquarie has downgraded Medusa Mining (MML) to Underperform from Neutral. Medusa's Sep Q production was in line with Macquarie's forecast and FY16 guidance was maintained. Cash remains steady. The problem for the broker is Medusa's strong share price run over the past couple of weeks despite an unmoved USD gold price. With the stock trading at a premium to valuation and peer group PE, Macquarie downgrades to Underperform.

Citi has downgraded Northern Star Resources (NST) to Sell from Neutral. It's a valuation call. The share price has appreciated by some 40% and Citi analysts think it's now too high for comfort. The September quarter saw lower production at a higher cost, but the analysts suggest this was as expected. The company is on track to meet the FY16 output guidance of 535-570koz, note the analysts. They also note Northern Star proposes increasing production to 700kozpa through FY18. Citi analysts stick to 570kozpa in FY16-19 for the time being.

Macquarie has downgraded Northern Star Resources (NST) to Underperform from Outperform. Northern Star's Sep Q production, revenues and costs were all in line with Macquarie's forecasts. The company is on track to meet guidance and exploration offers upside potential. But after a 60% share price rally in a couple of months, without any movement in the A$ gold price, Macquarie has downgraded to Underperform from Outperform.

Citi has downgraded Sandfire Resources (SFR) to Neutral from Buy. Citi analysts report DeGrussa's operational performance in the September quarter proved better than expected. The analysts believe the company is on track to meeting its own guidance for the year. Equally important, Citi analysts see potential for "significant" additional copper-gold discoveries in the Doolgunna area. They have pulled back the rating to Neutral from Buy, but this is purely valuation-based, the analysts explain.

Credit Suisse has downgraded Ten Network Holdings (TEN) to Neutral from Outperform. The FY15 loss was larger than Credit Suisse expected as TV costs fell less than expected. The company expects first quarter advertising revenue to be up 10% but the broker suspects the upside could be offset by a material step up in costs. Credit Suisse reduces its rating to Neutral from Outperform.

Views on Asciano and Origin Energy

by Questions of the Week

Question: I have shares in Asciano. I am confused about the proposal from a consortium led by Brookfield Infrastructure Partners Ltd. Reading through some of the inch thick scheme booklet has not helped much. I basically want to know if I should sell my shares, which I believe is the “cash consideration”, or, if I should take the “script consideration”.

The script consideration involves CDIs, which I am not at all familiar with. The valuation range is $8.42 -$9.40 per share at this point in time, but I believe this could change.

I bought 1,500 units at $1.89 in 2010, total price $2,842. I need to make a decision about this by the end of October as I will be away in November when the scheme will be finalised.

Answer (by Paul Rickard): Thanks for the question. I don’t think you should be too worried about going away in November – Asciano provided an updated timetable last week. This now says that the final election date (to decide whether to accept script or cash) won’t be until 6 January. Click here to see more.

As you are probably aware, the ACCC has raised a “red flag” about the deal – and there is some uncertainty as to whether it will go ahead in this form.

The ACCC is not expected to finalise its determination until December 17.

Finally – CDIs (or CHESS Depositary Instruments) are just like shares – just a mechanism to have them listed on the ASX.

Question: What is your view on Origin Energy going forward? I understand that they have a share offer at present, but the value of their shares has dropped considerably in recent times.

Answer (by Paul Rickard): Thanks for the question.

Given that Origin was forced by the market into a capital raising, and is now in debt repayment mode (meaning very limited capital expenditure), you could make a case that Origin is almost like a call option on the oil price.

I don’t like the look of the oil market and hence, Origin is not really on my shopping list at the moment.

However, if you can wear the pain, my guess is that these current levels will, over the next 5 years, prove to be good value.

As far as the brokers are concerned, according to FN Arena, they are marginally bullish with 3 buys, 2 neutrals and 1 sell. The consensus target price is $6.69.

Hope this helps.

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