



# MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

[www.martinbros.com.au](http://www.martinbros.com.au)

September Quarter 2004



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## Team Movements

Paul will be on leave from Wednesday 8<sup>th</sup> September returning to the office on Monday 27<sup>th</sup> September.

Margot and Jarrod\* will be available throughout Paul's absence to help with any queries and contact you if changes to your portfolio are required.

\*Jarrod's wife Amber is expecting their first child on October 23<sup>rd</sup> and all things been equal she should hang on until Paul comes back. If all else fails Margot will hold the fort as Jarrod moves between the hospital and office.

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## Stock Update - FOA

Foodland (FOA) is a leading wholesaler and retailer of groceries in Australia and NZ with 234 retail outlets. 81 of these are located in WA, Qld and northern NSW. The balance are located in NZ.

Foodland wholesale is WA's largest grocery wholesaler. They have begun exporting to Malaysia and Singapore due to demand from these regions.

ABN AMRO Morgans (AAM) rates FOA an 'Add' with a price target of \$19.80 – currently trading at around \$17.37.

FOA reported on their 4Q 2004 sales on 17<sup>th</sup> August which saw group earnings rise by 6.2%, ahead of AAM's forecast of 4.1%. The strength lied in strong NZ supermarket sales ahead of forecast.

Australian operations however were lower than AAM forecasts due to a heightened recognition of competitive fuel offers by Coles and Woolworths.

Following the recent finalising of the sale of NZ non core assets, FOA's gearing has fallen to circa 20%, well below their target range of 35-45%. AAM estimates FOA has A\$400-500m at its disposal for capital management or an acquisition should they pursue acquisitive growth.

FOA continues to trade on modest multiples and is supported by a forecast 5.15% fully franked dividend yield.

## Reporting Season Summary

The Australian Stockmarket has just wrapped up its month long reporting season which has been the strongest we have seen in years (which you would expect given the strong performance of the sharemarket since March 2003 – refer MBM March 2003).

Outlook comments from the FY04 reporting season confirm the domestic economy is strong. Inflationary pressure appears to be under control at the moment. Although, some companies are starting to see higher input prices coming through which has been fuelled by higher commodity and oil prices. Wage inflation has not emerged as a problem – yet – despite a tight labour market. If input costs continue to rise and wages pressure starts to increase due to strong employment demand and/or record company profits, rising interest rates are surely to follow – sooner rather than later.

Higher interest rates though will be the result of a strong economy and should be able to absorb the increase providing it is not too dramatic too quickly. The effect of rising interest rates is to slow the economy so that growth does not get to a dangerous level and risk a recession. Therefore, moving forward the focus should continue to be on companies can than deliver solid and consistent earnings growth to support rising dividend streams.

A summary of some of the companies results are detailed below:

Company	NPAT vs Consensus	Outlook Comments
Adelaide Bank	In line	Record loan approvals and higher margins in tight margin cycle. FY04 and FY05 guidance is 10% EPS growth.
ANZ	Reiterated 9% growth	On track for at least 9% EPS growth. Dividend CPS expected to increase.
Australian Gas Light	Above	Reasonably optimistic about FY05 with 5-7% EPS growth. Final dividend up 6.9%
BHP Billiton	Above	Positive outlook comments on China that higher commodity prices can be sustained.
Brambles	Above	Cost control and pricing benefits have finally started coming through. FY05 will see continued improvement in operations.
Commonwealth Bank	In line	Undertaking drive to gain market share in business banking via aggressive pricing. Final dividend increased by 22%.
Fosters Group	In line	FY04 dragged lower by wine division and this could affect FY05. FY06 is the turnaround year at this stage.
Perpetual Trustees	In line	Strong FY04 performance continues and flagged 10%+ growth in FY05 NPAT. Paid a Special Dividend of \$2.00 per share.
Suncorp Metway	In line	Management painted a robust outlook for FY05 based upon continued strong insurance margins and continued recovery in banking division. Final dividend up 33%.
Wesfarmers	In line	Hardware sales have slowed but a buoyant outlook for coal may offset this. Final dividend up 8.2%
Woolworths	Above	FY04 displayed no margin pressure with FY05 sales off to a strong start.

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## Changes to Retirement Benefits from Superannuation

As part of this years budget handed down on Wednesday 12<sup>th</sup> May, there were changes made to what type of income streams superannuation (including DIY super) funds are allowed to pay. Until recently, some of these changes were uncertain, but have now been clarified. Before anyone already drawing a pension (allocated or complying) from a superannuation fund begins to worry, these changes are NOT retrospective.

Firstly, allocated pensions are not affected and can be commenced as normal, with one small change – an actuarial certificate is no longer required (saves you money!).

Secondly, complying pensions (often used for RBL or Centrelink purposes) will no longer be 100% asset test exempt for social security when set up after 20<sup>th</sup> September 2004 (only until this date if the trust deed was dated before budget night and it allows for this type of pension).

Last, and most importantly, a new type of pension product is available through superannuation funds from 20<sup>th</sup> September 2004, known as a 'Growth Pensions'. Growth pensions have been introduced to supposedly fill the gap between allocated pensions and the 'old' complying pensions, now referred to as Fixed Income Fixed Term Complying Pensions (FIFTCP).

Key points of the Growth Pensions:

- Can be accessed through SMSF's or commercial providers
- Are for a fixed term of a 1. life expectancy or 2. the life expectancy of a same sex person five years younger
- Annual Income is determined each year by the account balance and pension factors
- Generally there is no access to capital
- 50% of the value of the pension will be exempt from the Centrelink assets test
- Will qualify for the Pension RBL limits if more than 50% of a persons super benefits are in Growth Pension

In summary, the new growth pensions are like an old complying pension but with annual income been determined in the same manner as if it were an allocated pension and only 50% of the pension value been exempt under the Centrelink assets test.

### Some Facts on China

- China is 9,571,300 square kilometres in size
- China's population is 1,177,584,537
- 123 - Number of people per square kilometre
- 21% of China is considered 'Urban' with 79% been considered 'Rural'
- China has six major dialects, in addition to a minimum of 41 other minority languages.

### Here Comes Spring!



### Health Tips For The Quarter

#### Tips For The Doggy Baggers

We've probably all at one time or another left a restaurant full, content and carrying a 'doggy bag' containing leftover food. Often it sits on the table while you drink coffee and pay the bill. It may only go into the fridge much later, and might be eaten several hours or days after the food was prepared. It probably wouldn't occur to us that this food, which was delicious in the restaurant, could make us sick.

But food in doggy bags can spend a lot of time in the temperature danger zone – between 5 degrees and 60 degrees Celsius – where bacteria that commonly cause food poisoning grow very well. Not only that, but it's also half eaten, so has been touched – and perhaps contaminated – by potentially dirty hands, mouths or utensils.

Some restaurants may choose not to provide doggy bags because of potential hygiene issues, but it's still a relatively common practice. In order to reduce the risk of food poisoning from doggy bags, the NSW Food Authority is advising consumers that:

- Food in doggy bags should be refrigerated asap
- Food that does not make it into the fridge within four hours and chilled to below 5 degrees should be thrown out
- Reheated food should be piping hot – above 75 degrees

Source – CHOICE September Issue 2004

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