MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

www.martinbros.com.au

Ph: 9612 1401

March Quarter 2005

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ASX Trading Days

The Australian Stock Exchange hours over the upcoming public holidays including the Easter period will be as follows:

- Monday 14th March – Labour Day market open, non-settlement day
- Easter Thursday – closes 2pm
- Good Friday – Closed
- Easter Monday – Closed
- Anzac Day (Monday) - Closed

As always, we will be contactable on our normal numbers throughout the entire holiday period.

Common Abbreviations and Terms

AGM	Annual General Meeting
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Tax Office
CPS	Cents Per Share
Dividend Yield	Last twelve months cents per share dividend of a company divided by its current share price.
EBIT	Earnings Before Interest and Tax
EBITA	Earnings before Interest, Tax and Amortisation
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EPS	Earnings Per Share – in cents. From which dividends are paid.
FF	Fully Franked
FY	Financial Year – of a company. Some companies work off different tax years to the ordinary July to June.
NPAT	Net Profit After Tax
NPBT	Net Profit Before Tax
PCP	Prior Corresponding Period
P/E	Price to Earnings ratio. Current share price of a company divided by its latest EPS. Expressed as times (x)
PF	Partly Franked
ROE	Return on Equity

Reporting Season Summary

The Australian Stockmarket has just wrapped up its 1H05 (First half 2005 tax year) reporting season which continued the strong results from the last reporting period – August 2004 (2H04).

However, despite a bumper profit reporting season, this time several companies have reported strong profit improvements, only to see their share prices fall after the results have been released to the market. This could be due to two reasons. One, the markets profit expectations for these companies has been greater than their reported profit, albeit in the majority of cases up on their previous year, and two, the outlook statements from some companies been more subdued than the market had hoped for, despite very strong profit results.

As such, the key takeout from the reporting season is how much have consensus estimates of profit outlook for companies run ahead of guidance by the companies themselves? In the main, profit and dividend growth were excellent on pcp (previous corresponding period), but that was not enough. Some big name sell-offs such as Multiplex Group, Boral, Promina and Leighton Holdings meant new guidance was not enough.

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

Company	NPAT vs Consensus	Comments
Adelaide Bank	In line	ADB outlook was bullish saying the bank is 'very confident of meeting its key objectives' in FY05 and higher dividend was a good confidence signal.
ANZ	Guidance Only	Increased cash EPS growth to 8% from 7%. Operational briefing rather than results.
Australian Gas Light	Above	Positive guidance for FY05 (5-7% growth) has been maintained. Interim dividend up from 29 cps to 31 cps. A special dividend of 30 cps was also announced.
Brambles	Above	Second strong result in a row with CHEP's performance particularly strong and margin expansion noted. Only weakness was Cleanaway where contribution was down.
Commonwealth Bank	Above	Strong lending growth & lower than expected margin pressure means CBA is now targeting FY05 cash EPS growth of 25-30%. Interim dividend increased from 79 cps to 85 cps.
Macquarie Bank	Guidance Only	Macquarie had a market update stating that with 'all the stars been aligned' MBL is forecasting its FY05 profit to be 'very substantially up on pcp'.
Macquarie Infrastructure Group	Inline	MIG upgraded its distribution guidance for FY06 to 21 cps, well above the consensus forecast of 15 cps.
Spotless Group	Below	Rising input costs dragged 1H05 result down, but FY05 guidance maintained with FY EBITA and NPAT expected to exceed FY04
Suncorp Metway	In line	Management is confident of delivering 'substantial' growth in FY05. Interim dividend increased from 30 cps to 42 cps.

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Tips and Traps of Structuring Your Home Loan or Investment Loan – Part 1

As you well know, an important part of the financial planning process is ensuring you have your 'Structure' right from a tax perspective. This refers to how you hold investments, structure your loans and use your cash flow to invest or repay loans.

One area that a lot of people don't have structured properly is mortgages – personal or investment, and the repayment of these based upon their financial goals and future ambitions for a property or investment.

The first important thing to remember is the difference between tax deductible (good) debt and non tax deductible (bad) debt. For example, an investment mortgage on a rental property is good debt and a home mortgage is bad debt. As such, if you have both types of debt then it makes sense to repay as much of the bad debt off as possible while repaying as little off the good debt as possible. This way, it ensures the mix between your good and bad debt is at the optimum at any point in time. From a practical perspective, this may be making interest only repayments on an investment mortgage while using the rest of your available cash flow to pay off the home mortgage as fast as possible.

Over the past decade, banks and other lending organisations have introduced several different types of loan products and 'extras' to standard principal and interest loans. One useful tool is an Offset Account. An offset account, as the name suggests, is where the money in the account 'offsets' the loan balance for interest calculation, but does not physically repay the loan. As an example, if there was a loan of say $200,000 at an interest rate of 7%, the interest cost would be $14,000 per annum. If, linked to this loan was an offset account (ordinary bank account linked to the loan) with $50,000, then interest would be calculated on the reduced amount of $150,000. The loan repayments would remain the same however, as the loan is still $200,000. So if the above example was a principal and interest loan the annual repayments may be say $18,000 ($14,000 interest and $4,000 principal). By using the offset account, the mix between interest and principal would change to $10,500 and $7,500 respectively, in the above example.

So why would you use an offset account rather than just paying the money straight off the loan? Well, in some cases you wouldn't, providing the loan product allows you to repay more than the minimum principal off per annum. Some reasons when it is **not** advantageous to repay the loan and hence **worthwhile** using an offset account may be:

- If you have a mortgage over a place you reside (bad debt) but could possibly ever consider moving out and keeping the property as a rental property (good debt), while purchasing another home to live in (bad debt)
- If you have a rental property and could possibly ever need money for a personal use such as a holiday, buying a car or buying a home to live in
- You have cash in a bank account or term deposit that you keep as a cash reserve.

The use of an offset account circumvents an important part of tax law that although the money reduces the amount of interest payable, effectively achieving the same thing as repaying the loan, for tax purposes the loan is not deemed to have been repaid. This is important because if the loan is, or becomes, tax deductible, then the good debt is maximised and the cash accumulated in the offset account can be used to fund other non tax deductible expenditure.

Some Facts on India

- The number system was developed in India
- Chess was invented in India
- India is the largest democracy in the world and the sixth largest country in the world
- India has the most post offices in the world

Here Comes Autumn!

Tip For The Quarter

"New research by Drake shows that 55 per cent of people took off only public holidays last year. But you need at least four weeks a year – with one 15 day period or longer – to drain the effects of excess adrenaline from your body and to regain your enthusiasm for your work and your life. If you don't get this, you'll find that you are tired, resentful and inefficient and that you suffer from physical problems including neck pain or backache and other chronic mind ailments. The problem is, taking a holiday is becoming almost as socially unacceptable as smoking! But don't be pressured by others. Commit to a period of rest for your mind and body every single year."

SOURCE – Sunday Life, The Age – Mark McKeon www.mckeon.com.au

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