



# MARTIN BROS MONITOR

(For Clients and Friends of the Martin Bros)

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

## September Quarter 2006

Paul & Jarrod Martin are Authorised Representatives (259367 & 259249) of ABN AMRO Morgans Ltd



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### New Addition to MB's

Our newest addition to the Martin Bros Team is William Jackson Martin, born August 9<sup>th</sup> at 7:11pm to Amber & Jarrod.

William was 8 pound 2 ounces and 53 cms long. All are doing well and thanks to everyone for your best wishes.



### Stock Review RiverCity Motorway

RiverCity Motorway Ltd (RCY) recently won the right to design, build, finance and operate the North-South Bypass Tunnel (NSBT) in Brisbane.

This road project is a 6km toll road, 4.8km of which is tunnels. It will have 100% electronic tolling just like Citylink in Melbourne. RiverCity has a 45 year concession period to operate this road.

The construction phase is forecast to take just over four years. All construction is outsourced to world leading road project managers with penalty clauses for late completion. The interest rate on borrowed money to help fund the project is fixed until after the construction of the toll road is finished.

RiverCity was floated on an instalment basis with \$0.50 payable initially and the second and final instalment of \$0.50 due in August 2007. The distribution of 6 cents per security is set for the first five years. The current share price is \$0.41. This equates to an initial yield of 14.63% in the first year and then 6.60% per annum in a fully paid basis. This yield is 100% tax deferred.

The Internal Rate of Return (IRR) which is the expected total annual return over the 45 year life of the project is approx. 13.4%. AAM has a \$0.60 valuation.

### Even Cheaper Petrol On The Way?

With petrol prices the bane of all but the mega rich, we expect that just about all of you have noticed / heard that the oil price has fallen from about US\$75 per barrel at the start of August to just over US\$60 barrel.

In the September 2005 MBM, this section was titled "Black Gold, Supply & Demand or Speculators?" and was about the oil price rise, which, at the time was just under US\$70 barrel. In this article, we stated some possible reasons why we thought the oil price will fall over the coming twelve months. These were

- A slowing in world economic growth
- A decrease in demand caused by a warm northern hemisphere summer
- A decrease in demand caused by consumers due to substantially higher petrol prices
- Speculators selling, taking profits, on concerns of the above

The last point we believe has certainly occurred in the past six weeks. Reportedly, some hedge funds in the United States have suffered big losses on the oil price fall and the 'herd' mentality is starting to take hold and 'hot' money (speculators) is coming out of the market (selling).

There is also some concern over slowing economic growth, particularly in the US. Any slowing in economic activity will have a direct impact on the demand for oil as this commodity is used, either directly or indirectly, at some stage in the production process of just about all products.

A flow on effect of a falling oil price brought about by a decrease in demand will possibly be a falling in other commodity prices across the board. Commodities such as zinc, aluminium, copper etc. have all had huge spikes in their prices, like oil, over the past two to three years. These dramatic price rises have also been brought about by the same two main factors that has caused the oil price to rise. One, increased demand from global economic growth, and two, speculators.

So, if oil prices continue to fall due to decreased demand for oil as a result of slowing economic growth, then there will start to be less demand for other commodities. Like oil, once this starts, the speculators (predominantly hedge funds) will begin to fall over themselves trying to get out of their positions before the next guy.

As reported in last September's MBM, we are also again approaching the technically weak period for oil. That is, the oil price has fallen substantially over the October to December period every year since 2001.

We still believe there is a compelling case for the oil price to fall back even further over the next six to twelve months. So, fingers crossed, petrol prices will be even cheaper over the holiday period (of course not on Christmas Eve!) Last year, Chip Goodyear, CEO of BHP Billiton Ltd, when pushed, predicted the \$US oil price would fall back to the \$40-\$50 range within the next twelve months. His comments no longer look so far from the mark.



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## Salary Sacrificed Explained

For many people, salary sacrifice sounds impressive, perhaps a little daunting. However, many people who could be using salary sacrifice to their advantage, may not be, due to a lack of understanding.

Salary sacrifice is using part of your gross, or pre tax salary, to pay for things such as a car, laptop computer or extra superannuation contributions. As the payment comes out of your gross salary, you do not pay tax on these amounts at your marginal tax rate. There is a catch though. If the payment is not otherwise (tax) deductible (100%) to you (except superannuation contributions), then there will be Fringe Benefits Tax (FBT) payable. FBT is levied at the top marginal tax rate and is based upon the taxable value of the benefit provided. Therefore it is only worthwhile salary sacrificing certain things. An explanation of the most commonly salary sacrificed items is below:

### Motor Vehicle

If a motor vehicle is needed for work purposes in the ordinary course of a job, it is most likely that the company will provide the employee with a car as part of his/her salary package. For the rest of us though, there may be an advantage in looking at salary sacrificing part of your pay to fund the purchase of a car even if you do not use it for work purposes. As mentioned earlier in this article, if the expense would not be (tax) deductible to the employee, then the private use portion will attract FBT.

However, when salary sacrificing a motor vehicle the employee can use what is known as the 'statutory fraction' method for determining the FBT payable. Even though a motor vehicle may have 100% private use, under the statutory fraction method, there is an implied business usage in the formula. Whether salary sacrificing is worthwhile to fund a motor vehicle purchase will depend upon the employee's marginal tax rate and the number of kilometres likely to be travelled each year (the factor used to determine what statutory fraction is to be used). Therefore, each case needs to be looked at individually, but don't rule it out. The ideal situation is someone on the top marginal tax rate, who will travel in excess of 25,000 kms each year, all for private use. If you think this strategy might be worth considering, speak with your accountant or ask your payroll department at work for direction.

### Laptop Computer

Salary sacrificing to purchase a laptop computer is one of the most tax effective packaging things an employee can do. Although the purchase of a laptop computer is not tax deductible to an employee (they can claim a tax deduction on depreciation for the extent of business use), if you salary sacrifice the purchase, there is no FBT payable and therefore you can effectively buy it as if it were 100% tax deductible to you. In addition to this, you can then claim a depreciation tax deduction for it in your tax return for the percentage of time that it is used for business purposes. What's better is that you can do it again next financial year – why? The kids might need one for school.

### Salary Sacrifice to Superannuation

Every employee in Australia has 9% of their salary compulsory contributed to superannuation on their behalf by their employer. This does not prevent employees contributing more to their superannuation through salary sacrificing. By doing this, they are adding to their retirement benefits and paying 15% contributions tax on the money on the way into super. If they earn more than \$25,000 per annum then they will be saving tax too!

### Would you prefer **NOT** to get MBM?

Hardly, but perhaps you would rather receive an email link each quarter so that you can access the MBM online rather than receive a paper copy in the mail. If so, call or email Rochelle on 9947 4137 or [rgordon@abnamromorgans.com.au](mailto:rgordon@abnamromorgans.com.au).

### Odd Spot

The 2008 Beijing Olympics will begin at 8pm on 8 August, in keeping with one of the nation's lucky numbers.

Eight is considered auspicious in China because its pronunciation in Cantonese sounds the same as the word for 'to make money'.

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