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HD **NAB ready to raise white flag in UK**

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It has taken about 10 years of pain but it looks as though National Australia Bank is finally biting the bullet on its disastrous foray into the United Kingdom.

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The release on Thursday of the NAB's full year results will include a formal statement about the future ownership plans for the UK business, Clydesdale and Yorkshire banks.

The two banks have been earmarked for **sale** for some time but new chief executive Andrew Thorburn will be the first leader of the bank to finally draw a line in the sand.

Thorburn has been moving at a rapid pace to deal with all of the issues that have plagued NAB and its previous three chief executives.

It is too much to say Thorburn is working through the list of key issues drawn up by CLSA banking analyst Brian Johnson. But there is an uncanny resemblance to his list of priorities and those laid out by Johnson.

Johnson's key issues and the progress are:

First, preserve the domestic banking franchise where NAB's core business banking franchise is under attack from aggressive price-led competitors. Thorburn changed the head of business banking which was a sign that the business banking arm needed to be revitalised.

Second, continue to rundown the UK **commercial** real **estate** book to release regulatory capital. The book has been run down from £6.2 billion at April 2012 to £3.3 billion at March 2014. In July, the bank announced the **sale** of £625 million of the worst quality UK **commercial property** loans to private equity.

Third, extract value from the pressured Clydesdale and Yorkshire banks. Johnson said this did not necessarily mean selling the business at a depressed price but leveraging an improving UK economy.

The Yorkshire Post said on Wednesday Thorburn was "expected to outline plans to exit the UK" on Thursday.

Johnson's fourth issue was "fix up the shareholder value destructive MLC Life Insurance business". This is still in the works and a cut down version may involve selling out of the life business.

Fifth on the list is deliver the NextGen "core" IT replatforming. In early October, NAB said it would write off capitalised software including \$106 million for NextGen.

The sixth issue was "stop the ill-disciplined price cutting to deal with market-share issues". That has happened.

The seventh was stop the ill-disciplined mergers and acquisition culture where NAB over-paid and under-executed. Johnson says the NAB float of Great Western Bank in the United States removes a potential region where NAB could have bought more assets.

The Great Western **sale** could be a role model for the **sale** of the UK banks. A float is a clean and painless way to realise value and it can offer the opportunity to participate in the upside while releasing capital.

The eighth issue was "continue to refresh the management team". Thorburn has already made significant changes to the NAB management team and the word out of NAB is that everyone is energised, focused and on notice to deliver.

The ninth issue was to "clean-up the business portfolio to focus on Australia and NZ and specifically exit Great Western Bank ", That is done and dusted.

The final issue is to "clean up the balance sheet by "kitchen-sinking" writing off inappropriate carrying values for wealth management or goodwill, deferred acquisition costs in the life insurance business and capitalised software.

Johnson says while Thorburn has started this process he has not gone far enough.

Shareholders in engineering services **firm** UGL will on Thursday give their approval for a \$500 million capital return. That could well be the catalyst for some corporate action in a sector that has aroused strong interest in recent weeks.

That \$500 million will be distributed as a tax free payment of about \$3 a share as soon as the **sale** of the DTZ **property** services business is finalised.

Talk to Simon Mawhinney at fund manager Allan Gray and you will hear a compelling case for investing in UGL. His argument in favour of buying the stock revolves around the earnings capacity of the core business.

The way to think about it is that if you **buy** UGL today at \$6.60 a share you are getting a **company** capitalised at \$1 billion.

But half of that value is in the cash which is about to be distributed. The engineering services business has earnings before interest and tax of about \$100 million a year.

That is an attractive earning power on a business costing about \$500 million. Considering the **company** earned EBIT of about \$200 million in its heyday, and you have the potential to do well out of the rump leftover following the capital return.

But the positive take on UGL does not end there. This is Chanticleer's view and not Mawhinney's, but it is unequivocally good news that Richard Lupen is being replaced as chief executive by former Tenix CEO Ross Taylor and chairman Trevor Rowe is being replaced by existing non-executive director Kate Spargo .

The elevation of Taylor and Spargo will bring a renewed focus on shareholder returns. This is occurring at the same time as private equity and foreign engineering companies are showing tremendous interest in engineering services.

That all adds up to a potential problem for those who have **sold** the stock short to the tune of 9 per cent of the issued capital. They could be squeezed.

Are Australian companies deluding themselves about their ability to be innovative and disruptive?

That is one conclusion to be drawn from the results of the latest Boston Consulting **Group** survey which underpins BCG's annual list of the 50 most innovative companies.

No Australian companies make the list. Naturally, the top 10 is dominated by technology companies: Apple , Google , Samsung , Microsoft, IBM , Amazon, Tesla, Toyota Facebook and Sony . The survey included 40 companies from Australia and 40 from New Zealand.

The strange thing about the results from the Australian and New Zealand companies was that they rated themselves much higher as innovators compared to their global peers.

Tom von Oertzen, a leader on BCG Digital Ventures Asia, said those survey findings are counter intuitive given Australia is a bit of a backwater compared with leading countries in innovation such as the US and **China**.

He says companies in this region may think they are innovative because they operate in oligopolistic markets that are not fully exposed to the most radical and disruptive innovators.

Nevertheless, von Oertzen says there are many examples of companies which have realised the future is in big data and mobility. He says a good example is the Woolworths liquor business, Dan Murphy 's.

Whenever a prominent businessman decides to write a biography it puts a cat among the pigeons.

Chanticleer noticed the power of the pen and its ability to ruffle feathers earlier this year when news leaked that John B. Fairfax was working on his biography.

A well known businessman who had crossed paths with JB made it known that if a certain incident involving both men appeared in the book there will be a defamation action. JB later said he was approaching the task by writing everything down. It was too early to say what would go in and what would be left out.

Another budding author, who is believed to be causing waves in banking and resources circles, is the legendary Don Argus.

The former chief executive of National Australia Bank and former chairman of BHP Billiton is writing his biography as a series of case studies.

Some who have been in the Argus orbit are said to be worried about how they might be portrayed in what is sure to be a widely read tome.

Space is tight but it is worth recording the 2014 winners of the Prime Minister's prizes for science: Laureate Professor Sam Berkovic and Professor Ingrid Scheffer – Prime Minister's Prize for Science for revealing the genetics of epilepsy; Professor Ryan Lister – Frank Fenner Prize for Life Scientist of the Year for mapping how our genes are turned on and off; Dr Matthew Hill – Malcolm McIntosh Prize for Physical Scientist of the Year for reinventing filters for industry; Geoff McNamara – Prime Minister's Prize for Excellence in Science Teaching in secondary schools; Brian Schiller – Prime Minister's Prize for Excellence in Science Teaching in primary schools.

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