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HD India beats China on growth

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Australia is perfectly positioned to ride on the back of strong economic growth by India and China which are competing to be the superpowers of the region.

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The speeches to the federal Parliament this week by Indian prime minister Narendra Modi and Chinese president Xi Jinping provided a reminder that we can finally claim to be part of Asia.

Trade and cultural links should be deepened thanks to the deals signed during this week's visit to Australia by the two leaders.

Australian business does not need to choose between India or China but it ought to be aware that India is the rising force of Asia, not China.

As Ian Goldin from the Oxford Martin School noted in a report on globalisation published in October, India has much better demographics.

He says as China's economy transitions towards slower growth, India's is expected to drive forward.

"Current projections from the OECD suggest that India will average 6.7 per cent growth from 2011 to 2030 and 4 per cent from 2030 to 2060," he says.

Goldin says the demographics of India are more favourable than those of China as China's labour force has already peaked.

"Conversely, India still has a young population and will grow at least through 2045 when the country is projected to be home to just under one billion workers.

"This will reflect an inversion of labour force size; India will have 25 per cent more workers than China by 2060 while China has 24 per cent more today.

Goldin says its growth is poised to remain elevated for the foreseeable future, even as China's economy slows. "But India's political challenges could derail its economic prospects. For example, the most recently elected lower house in India's Parliament has been the least productive, most gridlocked of any cohort since independence.

Goldin says China's political challenges are very different but equally daunting and without historical precedent. "A highly centralised and authoritarian government system is relinquishing its grip on a widening range of economic activities and seeking to satisfy the demands of a population of over 1.3 billion people that is doubling its incomes every decade or less.

"Rapidly rising living standards, ever-rising education and access to social and other media means that knowledge and expectations are growing too, as are calls for participation and transparency."

However, he says "China is fortunate to have a leadership with higher degrees of skill, experience and expertise than perhaps any other country on earth. They will be challenged to the utmost in ensuring that China's transition remains on track.

AGL's new chief executive Andrew Vesey could be the catalyst for the complete rerating of one of the worst-performing energy companies in Australia.

AGL Energy has under-performed the S&P ASX200 over one year, two years, three years, five years and 10 years. Its worst period of performance has been the past two years when it under performed the market by 25 per cent, according to Bloomberg data.

The challenge facing Vesey is not that different to the one facing every company in Australia. It is all about technological change. The fastest growing part of the Australian energy market is in the distributed energy space. That is another way of saying that Australians are embracing the installation of rooftop solar photovoltaic in response to higher electricity prices and to take advantage of about $6 billion in government subsidies.

Businesses and households are reducing their reliance on the grid. That technological change is exacerbating the decline in energy demand. The big three energy companies, AGL, Origin and EnergyAustralia regard the solar PV households as "free riders" benefiting from Australia's "average cost" energy throughout pricing.

They view the solar households as hollowing out electricity demand during the day. AGL calculates the solar free riders are avoiding 32 per cent of network charges.

As network charges rise, more Australians are forced to think about going partially off grid.

Vesey has 10 years' experience in the United States at AES Corporation, which has a diverse range of distribution assets in 20 countries as well as thermal and renewable generation.

He will want to win the trust and support of AGL's customers but at the same time he will have to part of an industry wide effort to do something about the solar PV free riders.

That must involve some sort of charge for solar PV households as well as government lobbying to remove the average cost pricing.

At the same time as he tries to deal with the structural problems in the system, Vesey will be trying to encourage more households to take up solar PV.

AGL's head of strategy Marc England told the Smart Utilities conference in Melbourne on Tuesday, the company expected three million households to be partially or fully off the grid by 2030.

He said AGL wanted to "establish a distributed energy presence in one million homes and businesses by 2020.

AGL chairman Jerry Maycock says Vesey has the personal skills to engage with all stakeholders and get the best outcome for the company.

That includes trying to convince the federal Coalition government and the opposition to reach a compromise on the renewable energy target.

Investment bankers working in the infrastructure space are looking down the barrel of at least $50 billion in asset sales over the next couple of years. While that is a potentially huge fee pool for the bankers it creates a number of challenges for the vendors and the buyers.

The biggest cohort of vendors are state governments in NSW, Victoria, Queensland and Western Australia.

They are queuing up to sell ports, electricity assets and other assets.

Assets on the block include the poles and wires in NSW and in Queensland, electricity generation assets in Queensland, AirportLink in Sydney and ports in Melbourne, Darwin, Townsville, Gladstone, Utah Point and Kwinana.

The government sales are bound up with election timetables. Victoria is first cab off the rank at the end of this month. NSW will be in the first or second quarter of next year, Queensland in the second or third quarter and WA in 2017.

The election cycles could determine asset **sale** prices because if they hit the market at the end of the queue they may come up against indigestion on behalf of buyers.

The potential buyers include sovereign wealth funds, pension funds, infrastructure operators and specialist infrastructure investors.

The $50 **billion** asset **sale** figure, half of which is the poles and wires in NSW and Queensland, includes about half debt and half **equity**.

Another group of vendors are linked to the Gladstone LNG projects in Queensland. Three consortiums – QCLNG, APLNG and GLNG – will have an incentive to sell pipeline assets with take or pay contracts.

The $50 **billion** does not include assets that have a low probability of hitting the market involuntarily. These include Auckland Airport,Sydney Airport, SP Ausnet and DUET.

Of course the government asset **sale** of the moment is $5.5 **billion** Medibank Private deal. It started a three-0day bookbuild on Tuesday using a model that some have said is designed to squeeze as much money as possible from local fund managers.

There are two big differences between the bookbuild for Medibank and those that have occurred for other privatisations in Australia.

Firstly, institutional bidders participating in the bookbuild will be given preferential allocations in respect of the amount of any bid lodged within the first 24 hours of the bookbuild: that demonstrates price leadership, to the extent it is above the final price and is not subsequently reduced in price and volume.There are likely to be stag profits for Medibank shareholders on the first day's trading next Tuesday.

But the extent of those profits will likely to be limited by the government's efforts to ensure there is not a repeat of the Royal Mail privatisation experience in London.

The Royal Mail shares rose 38 per cent on the first day, showing a failure to price the stock fairly for taxpayers.

The Medibank joint leader managers and the government's advisers need to ensure there is an orderly after-market, stable share register and some profit for the punters.

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