FINANCIAL REVIEW

HD **Ling tries to keeps kettle-maker at home**

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Jonathan Ling has spent a good chunk of his life working for iconic Australasian brands and is worried about the demise of the manufacturing industry on both sides of the Tasman. The chief executive of GUD Holdings is in the throes of trying to save another household name, Sunbeam. Sales of the appliance brand have been ravaged by competition from house brands or cheaper European imports flooding the local market.

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A string of iconic brands, such as the Esky cooler, fruit **company** Golden Circle and Victa lawnmowers have all been **sold** to foreign interests over the past five years. Ling does not want to see Sunbeam, a business clearly in need of some repair work, go the same way.

GUD tried and failed to **buy** another well-known brand, Breville **Group**, in 2009, but that idea was knocked back by the Australian Competition and Consumer Commission. Given the flood of new competitors in the market, there may be a case to look at the idea again. Ling certainly needs the scale but he would have to get Sunbeam's house in order first.

While Sunbeam products have not been manufactured in Australia for the past 10 years, Ling is determined to ensure they stay in Australian hands. Former Barbeques Galore boss Karen Hope is charged with turning the operations around.

She has a challenge ahead. Sunbeam's revenues fell 8 per cent to $61 million in the half year to December 31, while pre-tax earnings plunged 86 per cent to $800,00. This is partly due to rivals such as Nespresso stealing customers, and a move by supermarkets to sell products like coffee machines.

GUD's other troublesome business is Dexion, which sells **commercial** and industrial storage such as shelving.

Dexion and Sunbeam generated 55 per cent of GUD's sales in the period but contributed only 6 per cent in underlying earnings before interest and tax.

In his first results presentation since becoming CEO last year, Ling said the results were unacceptable. He needs to get the businesses to a point where their profit contributions are aligned with sales performance.

The manufacturer's saving grace was a strong automotive products business which sells items such as automotive filters and replacement parts. As long as the Australian car pool keeps increasing, so do earnings, which means it is not affected by the closure of manufacturers like Holden. GUD's first-half net profit fell 41 per cent. There is not expected to be a substantial improvement in conditions until 2015 or beyond.

GUD is relatively small but its first-half earnings, released on Tuesday, are important. It is considered to be a bellwether for the wider economy. It is also the first **company** to report first-half results. Earnings season is depressingly close with most listed companies reporting results in February.

Ling, who was the chief executive of Fletcher Building and has worked for a number of manufacturers including Nylex, believes the key to survival is innovation. This is something that has been lacking at the **company** for years.

The idea is to develop new products that consumers want to **buy** and generate ideas. Combined with sharp pricing and a lower cost model, revenues and margins should start to improve.

Ling is mates with Pact **Group** chairman Raphael "Ruffy" Geminder and jokes he would like to steal some of his techniques. GUD executives met with the innovation team at Pact just before Christmas to look at the way that **company** generates new ideas. Pact is a plastic manufacturing **company** which floated in December.

Australia's high cost base has been long been the thorn in the side of local manufacturers. While there has been some relief from the falling Australian dollar, there are still issues around labour costs, productivity and lack of gas supplies. Former GUD boss Ian Campbell realised the advantages of Asia's low cost base before many Australian manufacturers and set up operations in **China** and Malaysia.

It is closing its Sydney manufacturing plant and moving that capacity to Malaysia, where it already has a factory, in September.

If GUD's results are any guide, the upcoming earnings season will be an improvement on last year but it is not all plain sailing.

Citi's Tony Brennan says with market valuation full, performance will be contingent on earnings growth.

Resource sector earnings are expected to recover and increase substantially thanks to cost savings and production growth rather than what is going on with commodity prices. Investors should also not bank on a repeat of last year's big gains for super funds which are not sustainable. In figures out on Tuesday, super funds recorded their second-best year since Paul Keating introduced compulsory super in 1992.

Australian chief executives are also gloomy about the country's long-term growth prospects, at least compared to their global counterparts. A PwC survey to be released on Wednesday will show 34 per cent of Australian bosses are confident of growth in the next three years compared to 46 per cent of CEOs globally.

This is out of whack with Australia's forecast GDP growth compared to the rest of the world. The survey shows they are deeply worried about the country's creaking infrastructure, an issue the Coalition government has failed to give comfort on so far.

The NSW government's decision to tear up three coal exploration licences tainted by corruption is an extraordinary move, but so were the circumstances that led to the need for the special legislation in the first place.

Premier Barry O'Farrell has moved swiftly to try to close a messy chapter in the state's history, with special legislation that scraps three mining licences potentially worth hundreds of millions of dollars.

Those licences, held by mining companies NuCoal and Cascade Coal were tainted by corrupt deals linked to former state resources minister Ian Macdonald. Cascade was also linked to ALP power broker Eddie Obeid. The mining companies argue that despite the corruption allegations, no fault was found with the awarding of the licences.

O'Farrell had to move fast but there are fears the decision was made without considering the **commercial** and legal implications from the move. Listed NuCoal and Cascade Coal are, of course, threatening legal action and say the move raises sovereign-risk issues as well as potentially hurting taxpayers with compensation lawsuits.

Cascade Coal director John Mcguigan, who was found corrupt by the Independent Commission Against Corruption, likens the situation to Lenin's Russia or Mao's **China**, where private **property** was confiscated in the name of the state.

O'Farrell no doubt has a fight on his hands with some cashed-up and angry businessmen but he had no choice politically but to take decisive action.

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The resignation of his energy minister Chris Hartcher over possible political slush-fund allegations and another case involving Australian Water Holdings mean the Liberals do not have the luxury of holding back on cleaning up the deals that went on under the previous government.

O'Farrell took tougher steps than ICAC recommended by refusing to pay compensation to the some of the shareholders who say they were not aware of the corrupt deals. Offshore investors are threatening to use the US/Australia free-trade agreement to try to get their money back.

This is a tough call for the government. It does raise sovereign risk issues but so does not stamping out any whiff of corruption in the local mining industry. There is no political mileage for O'Farrell to compensate overseas investors either. His opponents would liken it to offering overseas aid.

The situation is rare but not unprecedented. In 1976, former prime minister Malcolm Fraser reversed an agreement for international mining companies to extract mineral sands on Fraser **Island**. He refused to pay compensation to the mining companies affected.

The NSW government already has the gas industry offside over last year's decision to tighten regulations around coal-seam gas developments in the state.

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Michael Smith

Tony Boyd is on leave

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