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HD **PNG's O'Neill strikes conciliatory tone**

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Australian investors with exposure to Papua New Guinea will be heartened by the latest speech by the country's Prime Minister Peter O'Neill at the annual PNG-Australia Business Forum in Cairns.

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O'Neill dispensed with the resource nationalism rhetoric that marked his speeches late last year and earlier this year and is now more conciliatory in his tone.

He is still talking about a modern tax regime for resources in PNG but it would appear the government's **purchase** of a $1 **billion equity stake** in **Oil** Search may have dampened the quest to build broader stakes in resource projects through a government holding **company**.

That change in tone will be welcomed by those who were nervous about PNG introducing a clone of Singapore's Temasek and using that vehicle to achieve discounted entry into major projects.

On Monday, O'Neill made it clear that lower commodity prices have put pressure on him to fast-track new projects and remove impediments to development. He needs to provide employment for the 14,000 people who will be looking for work as Exxon Mobil's PNG LNG project moves to the production phase. **Oil** Search is a junior partner in the Exxon project.

The other keynote speaker at the forum in Cairns was Foreign Minister Julie Bishop who has repeatedly said that the two countries are natural partners. She has shown a strong commitment to making the PNG relationship a priority for Australia. The importance of the economic relationship can be seen from the fact Australia has invested $18 **billion** in PNG compared with $30 **billion** in **China**. Bishop would have been happy to see O'Neill use his speech to **buy** into the federal government's asylum seeker policy even though O'Neill is content not to have to take any more asylum seekers.

The business forum, which alternates each year between Australia and PNG, provided an opportunity for members of the Business Council of Australia to gain insights into PNG's unique form of landowner capitalism.

John Gethin-Jones, an executive from one of PNG's most successful landowner conglomerates, Anitua, was able to provide a better explanation of the entrepreneurial capabilities of companies controlled by tribal groups.

Anitua is a prime example of the marriage of tribal collective structures with hard-nosed business strategies. Other examples of this unusual business model include Star Mountain, IPI and Trans Wonderland.

All these companies are owned by local landowners and all are servicing the country's resources sector.

Gethin-Jones, a former head of global equities at QIC in Brisbane, has been managing director of Anitua's largest subsidiary, NCS Holdings for several years.

NCS began life as a body hiring company on Lihir Island. Its growth began when it was awarded the catering contract for the Lihir Gold Mine in 1997. Lihir is now owned and managed by Newcrest Mining.

It was transformed under the stewardship of Colin Vale, who is now the executive director of the Anitua group of companies, which are involved in mining, construction, drilling, security services, retail and logistics.

The success of the PNG landowner companies has been recognised by the World Bank which keeps a close eye on the way in which multi-nationals engage with locals in "extractive-dependent" economies.

Laura Bailey, who is the World Bank's country manager for PNG, says there is an important dynamic in landowner companies that is not found in other developing countries. She says an increasing number of landowner companies largely financed by the benefits streams from oil and gas or mining projects are moving beyond being the typical passive mentality found in other countries.

This involves elites, who own the vehicles receiving cash, sharing some benefits but without having a strategic commercial focus. She describes it as a consume and invest mentality that usually involves buying some real estate.

Australia could well learn from the PNG tribal approach to business because it is inclusive of the cultural customs and collective approach to decision making.

Bailey says tribal-owned companies like Anitua combine the social collective function, which involves representing the community in interacting and negotiating with resource companies and government, with a truly commercial function that involves using international best practice commercial strategy, business planning, and financial management and corporate governance practices.

Vale says a good example of the tribal ownership intersecting with the interests of the resources sector is in the management of disputes on Lihir. He says that when he first took over as executive director of Anitua there were landowner disputes every two weeks and now they are quite rare.

Bailey says Anitua channels the culture and voice of Lihirian communities and plans strategically to create and seize opportunities for diversified business investments that employ and enrich their people.

Gethin-Jones told the forum in Cairns about Anitua's campaign against violence against women in PNG. This is a capacity-building program that benefits both the community and the company.

The contrasting fortunes of Australia's housing and agricultural sectors were on display on Monday when DuluxGroup and Elders released half-year results at opposite ends of the performance spectrum.

DuluxGroup lifted its half-year profit by 33.6 per cent to $56 million thanks to its ability to expand profit margins by lifting prices in its core paint sales business in Australia.

The company's earnings before interest and tax rose 27.5 per cent to $90.8 million, aided by a 16.5 per cent increase in sales to $805.4 million. That's an EBIT to sales ratio of 11.2 per cent. However, the profitability in the local paints business is much higher with an EBIT to sales ratio of 18.2 per cent.

Over at Elders, the debt-laden rural services company, shareholders were told that margins had improved in most businesses but legacy problems led to a $10 million loss.

Elders said swung to $12.4 million in underlying earnings before interest and tax from the year-earlier loss of $16 million. Sales were flat at $650 million.

That gives an EBIT to sales ratio of 1.9 per cent. Elders said its margins improved in retail, agency services and live export services. But the company is weighed down by $260 million in net debt.

The two most telling comparisons between the two companies are in relation to operating cash flow and net debt to EBITDA. Elders is under a strict repayment plan in relation to its $60 million in bank debt. Its half-year accounts are qualified as the repayment is conditional on a range of factors. The latest Elders results show there is life in the company. Provided it can restructure its balance sheet it may be able to survive and offer investors a high risk bet on Australian agriculture.DuluxGroup is a relatively low-risk bet on the Australian housing and construction markets. However, it looks to be priced for perfection with a forward price-earnings multiple of 20. That could change as analysts upgrade future earnings.

The best time to buyTelstra was soon after David Thodey took over as chief executive five years ago. The stock had a grossed up yield of 13 per cent including dividend imputation and there was a strong prospect of capital growth. Also, at that time there was no shortage of shares on offer because the

Future Fund was selling out. The stock has since risen 64 per cent and the market cap has expanded from $39.6 **billion** to $65.5 **billion**

Today it remains a yield play with a grossed up yield of about 7.8 per cent. Astute fund managers have been selling the stock at current levels. They have warned that it will be a sell around $5.50 a share because of the compressed yield and no meaningful capital growth. But the prospect of official interest rates remaining at record low levels until next year means there is still life in Telstra shares. Thodey may mark his five years in the top job with the distribution of about $7 **billion** in excess cash. That would give be icing on the Telstra cake.

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