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HD **CBA's recovery rests on its response**

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THE shape of Ian Narev's financial planning response was yesterday awaiting final negotiations with ASIC over the breadth of the planned compensation arrangements.

The CBA chief may rightly regard the events covered by last week's Senate report as seven years old, but his response will set the tone for the bank's recovery from the snafu.

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His reign has looked on the outside like a walk in the park, reporting more than $8 **billion** in annual earnings in a seeming canter, but he runs a **business** that should be seen to be sensitive to customers and the golden rule says — never waste a crisis.

This is his moment.

Narev is not Robinson Crusoe on the issue of history, but there are lot of people looking to his statement to protect their backsides this week, including Finance Minister Mathias Cormann and Greg Medcraft at ASIC. Cormann has lowered the bar for bank planners on the belief they had their act together. Medcraft is not so sure, but would rather focus his efforts on catching today's crooks than spending time on shysters who operated seven years ago.

Grandstanding is high on the agenda — as with yesterday's intervention in the Solly Lew-David Jones saga.

So far, some 1128 CBA clients Continued on Page 26 Continued from Page 19 have accepted the $5000 in compensation, costing the bank $52 **million**, and the Australian Securities & Investments Commission talks are aimed at working through how much wider that net should be and how big the compensation bill will be. ASIC wants the details to lay down the terms of the financial planning division's licence conditions.

Two of the executives involved seven years ago, Brian Bissaker (Virgin Money) and Tim Gunning (Ord Minnett), have left and only Graham Petersen, now running the **business** bank, remains — with Annabel Spring now running Wealth with considerable skill.

Details of Narev's response are being tightly held by the bank, which would only say it will come this week. It will hopefully be definitive and put a sorry saga to rest.

Goodman deal FACE-SAVING was the name of the game as Wilmar and First Pacific agreed to pay $47.5m less than originally planned for their $1.9 **billion acquisition** of Goodman Fielder.

The original deal was struck at 70c a share plus a 1c-a-share dividend. The new deal was struck at 67.5c plus a 1c-a-share dividend, or a grand 2.5c a share, or 3 per cent, lower bid for the 1.955 **billion** shares on issue.

The bidders already spoke for 20 per cent of the **company**, the last 10 per cent costing 70c a share, so the nickel and dime play was for the other 80 per cent it didn't own.

Goodman has $549m in debt and is in need of a massive recapitalisation, with some $350m in capital expenditure planned in the next couple of years. The plan now is for the scheme booklet to be sent to shareholders in September with a meeting planned for November, and with that Goodman's inglorious nine-year reign as a public **company** will be over.

Before you listen to tales of gloom emerging from the due diligence room, remember when Wilmar lawyer La-Mae Teo rang Goodman's Stephen Gregg on Friday night to tell him the bid price must be lower and the final difference was 2.5c a share, or $47.5m, on a $1.9bn deal.

It's not a big gap. The price paid is also full at some nine times forecast earnings before interest tax, depreciation and amortisation.

The Singapore-listed part-ADM-owned Wilmar, run by Kuok Khoon Hong, has an enterprise value around $US30bn ($31.7bn) and **Hong Kong**-listed First Pacific is valued at $US12bn.

So what kept everyone up all Tuesday night seems to have been arguing the fine details on the governance arrangements between the two sides, with everyone stationed in their own offices scattered throughout the world.

In Australia, John Knox from Credit Suisse and Tony Damian from Freehills were working with Goodman chairman Gregg and chief Chris Delaney, who had returned early from his son's wedding in the US for the occasion.

Wilmar had UBS's newly promoted Kelvin Barry and Gilbert &Tobin's Peter Cook in its corner, while BAML's David Killingback and Grant Chamberlain advised First Pacific.

This year Delaney, who had pressed all the right buttons, was hit by a combination of a $20m increase in **dairy** costs due to the **milk** price rise and a series of shutdowns in his underinvested bakeries.

When you are trying to handle the supermarket behemoths and commodity prices that combination proves terminal.

The question now is what Wilmar and First Pacific do next with what is essentially a collection of different businesses ranging from chooks in Fiji to Meadow Lea spreads and Helga's **bread** in Australia.

Back in Singapore, Wilmar has worked overtime trying to satisfy all concerns over its status as the world's biggest palm **oil** producer.

In Australia, it is also fighting sugar farmers over its move to bypass them to market its sugar directly offshore. The plan is to take the Goodman assets to Asia and if that works it will be a boon to all concerned.

Class action BRIAN Jones, the nominated aggrieved shareholder in the IMF's class action case against Treasury **Wine** Estates is actually some 3 per cent — or $120 — ahead on the $4.76 a share he paid last year given Treasury shares closed at $4.88 yesterday.

This doesn't kill the class action but it certainly complicates the case when the argument turns to opportunity costs lost and theoretical debates about where the stock might have been had it not been for KKR knocking on the door this year at $4.70 a share.

Suffice it to say this action is not top of Treasury **Wine** chief Michael Clarke's to-do list.

Target writedown WESFARMERS stock price closed up 2.8 per cent at $42.66 a share, which tells you how much notice was taken of the bookkeeping ledger entry, which saw the value of Target written down from about $2.7bn to about $2bn.

The **company** used the profit on the **sale** of the insurance **business** to book the writedown for Target and the $94m on the liquor disaster.

Target's earnings have fallen from $381m in 2010, when Launa Inman was running the shop, to $88m at best this year. This is now history and the focus is now on how Stuart Machin turns around the **business**.

When Wesfarmers acquired Coles in 2007 it had to allocate goodwill based on the operating earnings at the time and Target took the higher bookkeeping value although Kmart is the earnings star.

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The rules say you can't write up goodwill unless you already have cut them, but no one does, the point being simply to illustrate that if you thought Kmart's gain would offset Target's loss you're mistaken. Maybe at the operating level that is the problem.

Bunnings is largely a home- grown story with minimal goodwill, so it is on the books at about $3bn compared with Coles at $16bn and last half Bunnings' return on capital at 27.6 per cent was nearly three times Coles's 10 per cent return.

Putting the bookkeeping to one side, the bottom line is the $1.5bn in spare cash ready for a buyback is still sitting in CFO Terry Bowen's pocket unless an **acquisition** is found in the near term.

The forecast Target earnings of between $82m and $88m are actually above some estimates.

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