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HD **Mullen has Asciano back on track**

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Asciano has turned a corner after a tough couple of years dominated by some aggressive restructuring and deep cuts under chief executive John Mullen. The focus for the ports and rail group is now the partial **sale** of its Patrick **operations**.

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Talks with potential partners, including **China** Merchants, have been progressing at snail's pace but are apparently making progress. Mullen also says he is open to the idea of selling the whole thing if an offer at the right price came along. That has not happened yet.

Put the potential Patrick deal aside and Asciano is still in good shape. Any doubts about Mullen's ability to turn the ship around and meet long-term financial targets have now been largely put to rest although external economic conditions are still not ideal.

Asciano shares rose 3 per cent on Thursday after beating analysts' forecasts with a 5 per cent increase in underlying earnings. The **company** now expects earnings growth to improve. Mullen is tipping about 10 per cent a year for the next two years and a healthy final dividend should keep investors happy for now.

This is largely being achieved through work to cut costs, improve productivity and restructure **operations** rather than the external environment, which is showing signs of improvement but remains tough. When he started in the job, Mullen set a five-year target of compound annual growth rate of 15 per cent in earnings before interest and tax.

Asciano told investors in February it planned to double cost savings to $300 **million** by fiscal 2018. It has merged Pacific National Rail, which moves grains, cars and consumer goods, and Pacific National **Coal** into one business, which has reduced costs. Asciano was also starved of capital expenditure for many years, which Mullen has now largely addressed. Sustaining capex is expected to return to the $300 **million** to $400 **million** range by 2015-16.Palmer's shenanigans

Mullen says the only way is up now. There are slightly more positive signs externally and underlying growth in its container terminals business, which has been flat, was up 3 per cent. The slowdown in the **mining** sector has hit its intermodal rail business hard in the past few years.

Fewer **mining** projects means fewer people in Perth wanting products such as construction materials or new fridges and washing machines, which are transported on the east-west rail corridor.

Mullen believes there are now signs that has bottomed. The **company**'s free cash flow position was positive in the second half. Mullen expects that to accelerate, which will allow the **company** to cut debt, increase dividends and make acquisitions.

The big focus remains on Patrick, and talks with **China** Merchants that have dragged on for a long time. Although Mullen says he'd be open to selling the entire business for the right deal, don't read too much into that. The current talks remain focused on a strategic tie-up, or partial **sale**.

He is more worried than ever about the flood of port privatisations hitting the market, particularly now that Port of Melbourne is on the market. He is also unhappy with current political shenanigans in Canberra, saying it undermines consumer confidence and Australia's reputation overseas.

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