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HD **Blue sky ahead for the shareholders as wild ride begins**

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IN Sam Walsh's words, Rio Tinto has finished the first book and has many more exciting adventures to come, with "considerable capacity to further enhance" shareholder returns from the second half of this year.

Finance chief Chris Lynch was unwilling to put a figure on the payout, but the $US3.8 **billion** in dividends is light on when you consider earnings per share jumped 156 per cent and dividends by just 15 per cent. Walsh put all the focus on costs, with capital expenditure down 18 per cent to $9bn and falling to $US8bn next year. There will be few to no mergers and acquisitions, but with debt down to a manageable $16.1bn there will be more cash available for shareholders.

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The Rio story — the odd $3.9bn Riversdale snafu aside — is an impressive one, with $700 **million** in costs cut and $900m in volume increases offsetting the $1.4bn in price cuts for the major commodities, with Rio's **iron ore** margins at an impressive 66 per cent.

Walsh was maximum bullish on **China**, impressed with the way its leadership has handled the economy, and with **China ore** just 20 per cent of the local market — down from 50 per cent — there is plenty of room for his confidence.

It's been quite a ride for Rio, but Walsh has it firing under the right controls and, just maybe, shareholders will get to see some of that blue sky in the second half.

Changes must be right NO matter how many times Ian Harper tells the world he is more interested in extending competition rules to health and education than studying the institutional framework of the regulator, debate seems to focus on section 46, the abuse of market power provision.

It is a classic big versus small business battleground and Small Business Minister Bruce Billson has indicated he wants changes.

As noted yesterday, Australian Competition & Consumer Commission boss Rod Sims has taken aim at Mr Big Business (Wesfarmers boss Richard Goyder) for his interpretation of the proposed changes, and it seems everyone has a view, with the National Seniors Association coming down against Sims and citing former chairman Graeme Samuels in opposing any changes.

As with any regulation, the starting point is to establish why a change is needed. To be frank, the ACCC has not exactly helped its case by not explaining how it hopes to use its new powers.

Clifford Chance's Dave Poddar asks: "What conduct is the ACCC trying to stop?" He has a point, because, while section 46 has been difficult to use, the ACCC, as Clayton Utz's Michael Corrigan argues, "has never complained it has difficulty in proving purpose to satisfy the section".

Inevitably, big supermarkets are the bogeymen, even though they can point to lower retail prices to show competition has been good for consumers.

The issue is how much the retailers have cut prices with the help of supplier rebates, with the supermarkets standing over suppliers and exercising their power.

A day after Goyder made forthright comments against section 46 changes, his team performed a political stunt to get former Victorian premier Jeff Kennett to act as the Coles paid independent arbiter in supplier disputes.

Creating the right public perception is important for retailers. The very day Coles unveiled its in-store plans, the government finally pressed the button on the 10-month-old grocery industry code of conduct. If section 46 is to be the poster child for the battle, it is important that any changes be the right ones.

The ACCC wants to remove the words “taking advantage” from the section and replace it with its effects test and substantially lessening competition.

Corrigan stressed the need for some sort of filter to let big companies compete. Poddar notes the Apple iPad hurt competitors, but was clearly beneficial. He suggests “the adoption of a test which requires both purpose and effect to contravene the prohibition”.

Digital bets fly TABCORP’S David Attenborough is one boss not worried about digitisation overtaking his business. The digital side of his betting products is not only providing another distribution outlet, it is also the only one growing fast — up 15.6 per cent in the past year to $1.9bn against falls in both NSW and Victorian retail outlets.

Mobile devices increasingly are punters’ platform of choice. They account for 54 per cent of digital sales, up from 35 per cent Tabcorp’s numbers came down in line with expectations, which resulted in an outperformance on the day, the stock price up 3 per cent at $3.55 a share.

Attenborough has the business firing up, with return on capital tipped to increase to 14 per cent from 12.9 per cent.

With the dividend-payout ratio to increase from 81 per cent to 90 per cent, there was reason to be happy.

This half, the numbers were boosted by World Cup punts. But Attenborough says this money was going to be thrown at something and thus could not be classed as a one-off event.

In the end, net profit rose 7.4 per cent to $149.4m on a 4.8 per cent increase in earnings before interest, tax, depreciation and amortisation and a 1.8 per cent increase in revenues.

Gurry on copyright On August 21, Melbourne’s Francis Gurry will present a paper for the Intellectual Property Society and Commercial Bar Association. Gurry, who now heads the World Intellectual Property Association, will — appropriately enough — talk about the international agenda for copyright.

Envestra disbelief VALUE is in the eye of the beholder and APA’s Mick McCormack is still in wonder at the multiple being paid for Envestra by CKI.

The **Hong Kong** giant is paying 1.5 times the regulated asset base for the business, which looks like setting a new record.

State treasurers are alive to the fact that cheap cash is flooding the world, which allows the likes of CKI to pay $2.4bn for the Envestra business. Its effective $1.35 bid compares with the $1.17 McCormack had on the table.

APA will continue earning about $19m a year managing the Envestra pipelines as part of its long-term management agreement with the **company**, despite selling out yesterday.

But McCormack would also prefer to own and operate than just collect the management fee. However, he will happily keep an eye on the assets for CKI.

APA will make an after-tax profit of $430m for selling its **stake** in Envestra and this will be used to fund organic capex in the business including his Kalgoorlie goldfields pipeline.

There is not a hint of sour grapes in the bemusement — more than one observer has wondered just how infrastructure assets can be paid, given some of the multiples being paid for the assets.

One way is to boost prices, which is why John Mullen at Asciano is not impressed at the monopoly prices being paid for privatised ports across the country. That spells more rent for him.

 

McCormack earns about 8 per cent on his pipeline assets on average, but he figures that, at best, CKI will be earning 6 per cent, which may not leave much wiggle room if the cost of funds increases.For the moment, this was a business decision he had to make — sell out, pocket the dollars on offer and look for the next deal.


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