McLachlan's textbook start not without pain; Closing bell

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Body

We can't help feeling just a bit sorry for Gillon McLachlan, the new chief executive of Tabcorp, who fronted his first results announcement yesterday after just 18 days in the role. That would be a big ask for any leader, but the former AFL boss was tasked with selling an extraordinarily difficult message.

First, there was the $1.4 billion write-down of the value of Tabcorp's core wagering business. Then there was the abandonment of the group's TAB25 strategic plan to boost digital revenue, slash costs and double return on invested capital. Third, he had to warn that costs are actually likely to increase next year due to inflationary pressures. And finally, McLachlan had to (quite reasonably) tell investors that it's too early to have his own strategic vision in place.

There's an element of what's called kitchen-sinking about all this; that's when a new CEO comes in, junks their predecessor's strategy, attempts to rebase expectations and creates room to engineer a turnaround; it's better to get all the bad news out of the way at once - that is, throw in everything, including the kitchen sink - than dripfeed misery on long-suffering shareholders.

History says it's a common strategy, and a reasonable one - but it's not without pain. While McLachlan insists Tabcorp's assets are strong (particularly its mobile app) and there is still plenty of opportunity to unlock value in a competitive wagering market, the 15 per cent fall in Tabcorp's share price yesterday was no surprise.

Now the market awaits McLachlan's rescue plan. As he said, this is a company still in turnaround mode - and will be for a while.

Sell-side surprise

Barrenjoey's Glyn Lawcock had a simple follow-up question for ***Fortescue***: what's your overall sense of the iron ore market? ***Fortescue*** co-CEO Dino Otranto said it was mid-transformation, however "we are very encouraged by the diversification and robustness of the Chinese market". He said the demand for green products in particular was "much, much higher than expected".

Chart of the day

Retiring Woolworths chief executive Brad Banducci pulled a page from the Commonwealth Bank playbook to show how tough various parts of the Australian community are doing it. The message? It's surging housing costs, not higher food spending, that is weighing most on household budgets. Indeed, the graph shows spending on food has fallen sharply recently, below long-term averages, as rent and mortgages have soared.

What caught our eye

Fortescue: The miner is trying to do two things at once: significantly transform its business and pay hefty dividends. Can it pull it off? It's walking a fine line. The good news is that it starts with a pristine balance sheet and only $US500 million ($735 million) in net debt (equivalent to one-tenth FY24 free cash flow), which makes funding this year's $US4 billion-odd capital expenditure and its future-facing projects easier. ***Fortescue*** also plans to tap third-party investors for stakes in its hydrogen plants, should they progress as planned. Meanwhile, it is paying 70 per cent of profits as dividends. That is a lot. For comparison, Commonwealth Bank of Australia, which has a much lighter growth ambition, returned 79 per cent of profits in FY24, while rival BHP returned 54 per cent and Rio Tinto 50 per cent. (Rio's was for the six months to June 30 only.)

Woolworths Group: One of the fascinating aspects of Coles' and Woolworths' profit results was the sharp increase in e-commerce sales, with revenue in the WooliesX division rising 19.8 per cent, and EBIT surging a staggering 94 per cent to contribute three-quarters of the earnings growth in the flagship food division. No wonder Brad Banducci suggested the changing digital landscape was the big thing his successor Amanda Bardwell needed to watch.

APA Group: Gas pipelines owner APA Group's numbers are heading in the right direction; distributions were up 2 per cent in FY24, and it expects the same again this year. The two big things on results day, though, are the threat of tighter regulation in its legacy gas pipelines patch and renewables expansion, particularly in the Pilbara. On regulation, it's about six months since the Australian Energy Regulator kicked off its review, which at its worst could put gas transmission on a similar regulatory footing to electricity. APA boss Adam Watson says there is still no need to change - and cites the review's public submissions, none of which raise significant concerns with the current framework. The fact there is a review alone has created uncertainty, which stifles investment, and means gas infrastructure to deal with a generational change in supply (from the south-east to up north) isn't being built. That leaves part of the country at serious risk of running out of gas in the next few years. It's serious. In terms of the Pilbara, APA has a $3 billion pipeline of wind farms, battery storage and other renewable energy infrastructure it wants to build, and service the likes of BHP Group as they decarbonise. How that pipeline progresses is what we're watching.

Flight Centre: We loved the "Turner index" - Flight Centre's airfare affordability index, named after managing director and co-founder Graham Turner. It tells us it costs $1509 to fly from Sydney to London, the equivalent of four days' pay based on the average Australian's wage. Pre-COVID, Flight Centre tells us it only cost three-days' work/pay ($1039), while it was almost a week's wages 10 years ago, 1 weeks' wages 20 years ago, five to seven weeks' wages 50 years ago, and 1 times the average annual wage when Qantas first flew to London in 1947. The numbers may be a bit fuzzy - the fare from 50 years ago is based on Turner's personal recollection, for example - but they show how much more affordable airfares are than they used to be, even if they are not quite at pre-COVID levels.

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