CEO unscathed in ALS testing scandal

NICK EVANS

The coal-testing scandal at laboratory company ALS has cost managing director Raj Naran only a portion of his annual bonus, despite an internal investigation finding about half the certificates it provided for export coal samples over the past decade were manually changed without an identifiable reason.

ALS released its annual results on Wednesday, declaring a 6.1c final dividend on a $127.8m net profit, down 16 per cent from the previous year.

The company took a $50m impairment on its South American health and medical research testing business, citing the impact of the coronavirus, and another $40m hit to its industrial division, which has been hurt by its reliance on the oil and gas sector.

But ALS said its underlying business held up well in the face of the global coronavirus crisis, with strong growth in its life sciences — where underlying earnings before interest and tax grew by 15.7 per cent to $143.9m in the year — and its industrials arm before the close of its financial year in March.

But the testing scandal, which has damaged the reputation of both ALS and the coal sector, cost Mr Najan a portion of his annual short-term incentive (STI) package.

"Strategic and health, safety and environment KPIs set by the board accounted for 30 per cent of the CEO's STI assessment. The board concluded that the CEO had largely achieved these KPIs; however, it chose to exercise its discretion to reduce the award to reflect the disappointing outcomes of the Australian Coal Superintending investigation," the company told shareholders on Wednesday.

'There was no material change in performance'

ALS SPOKESMAN

"This resulted in an award of 22 per cent of the CEO's 'at target STI' opportunity in relation to strategic and HSE outcomes," the company's annual shareholder report said.

Mr Naran was still paid 39.9 per cent of his total possible maximum short-term incentive package of $607,150 — down from just over $1m the previous financial year. He received total compensation worth $2.65m in the financial year, up from $2.56m the previous period.

The company said in April its investigation into allegations its staff had manually altered coal testing samples had revealed up to half of the assay results had been altered with no clear reason, going back to 2007.

"As of 31 March 2020, there was no material change in performance of the business deriving from this matter," the company said.

It is understood that two substantial Korean utilities have since said they will not accept ALS as the testing centre for coal shipments from the Australian market.

ALS said its underlying net profit rose 4.3 per cent to $188.8m for the year, with revenue up 9.8 per cent to $1.84bn.

The company said total revenue in April was down 9 per cent compared to the same time in 2019. "It is too early to predict with any certainty how the demand for services across our industries and geographies will be impacted over the coming months," ALS said.

"The group's diversified portfolio of testing businesses across a range of markets and geographies has proved resilient during the operational and economic challenges created by the COVID-19 pandemic, with many deemed as 'essential businesses' that continue to operate."

But ALS also drew down new bank loans worth $US125m ($187m) on May 22 to give it additional liquidity through the economic downturn across its global operations.

"The new facilities also include temporary relief to the group's leverage covenant for the remainder of FY2021," the company said.

ALS shares rose 14c to $7.19.

Spark dumps power grid deal

PERRY WILLIAMS

Spark Infrastructure has decided against buying an extra 20 per cent stake in NSW electricity operator TransGrid over frustration that the market had undervalued its existing holding in the business.

The investment fund was understood to have had Macquarie Capital on standby for a potential $2bn deal to increase its 15 per cent stake in TransGrid.

The Kuwait Investment Authority's Wren House holds 20 per cent of TransGrid but is selling out of the network business, with existing shareholders holding the first option to strike a deal under pre-emption rights.

However, Spark said that after a long evaluation process it had opted against the deal partly due to frustrations over valuations of TransGrid.

"One reason for elaborating on this process is the disconnect we have seen in the market's sum of the parts valuation being applied to Spark Infrastructure's 15 per cent ownership in TransGrid," Spark chairman Doug McTaggart said.

"In short, it does not appear that the market is differentiating in its valuation methodologies between the multiples being applied generally to distribution networks and that for TransGrid.

"Put at its most simple, the high-growth TransGrid asset which has a compelling pipeline of both regulated and unregulated growth projects is attracting the same valuation multiple as our more mature distribution networks which have more mature growth profiles.

"We believe this inherently misses the sizeable value of growth opportunities in TransGrid's once-in-a-generation integrated system plan-related regulated asset base growth and its unregulated contracted connection opportunities," Mr McTaggart said.

A consortium including Spark paid $10.3bn in 2015 to buy TransGrid as part of a major privatisation drive by the NSW government, with major infrastructure including Ausgrid and a half stake in WestConnex also sold as part of an asset recycling scheme.

The consortium's blockbuster bid was ahead of market expectations for a $8bn-$9bn deal and represented a multiple of 1.6 times the regulated asset base of the company, above the 1.4-1.5 times that analysts and investors say a company can afford to pay for electricity network assets and still make money.

Extracting returns from the asset was seen as difficult because of a five-year job guarantee imposed by the government ahead of the sale and a promise made to the state government that network charges would be lower in 2019 than they were in 2014.

Wren House was expected to offload its stake to Canadian pension giant OMERS but the COVID-19 pandemic has thrown the timing of the deal into doubt, with the Canadian investor also an owner of London City Airport, which has been hit hard by the coronavirus shutdown.

Spark hopes its TransGrid stake receives a boost if a deal does ultimately proceed.

"Unlisted infrastructure investors appear to recognise this more transparently than the listed market, and if this transaction is completed, we would expect a rerating of Spark Infrastructure's investment in TransGrid," Mr McTaggart said.

Spark owns stakes in $17bn of network assets across three states.

Spark shares fell 1.3 per cent to $1.94 on Wednesday.

Tasman bubble may expand, but slowly

ELI GREENBLAT

Sherry

The chief executive of the third-biggest airport in Australasia says opening a trans-Tasman travel bubble would allow Australia and New Zealand to use their success in tackling COVID-19 to springboard into an economic recovery.

But despite the strong desire of neighbouring Pacific nations to be part of the bubble plan, a successful initial implementation would be needed before expanding it to other countries, business leaders heard on Wednesday.

Speaking at the trans-Tasman Business Circle, Auckland Airport CEO Adrian Littlewood said the two countries could actually benefit from the slow emergence of global travel, becoming more attractive in the eyes of international tourists who viewed them as safe due to their success in suppressing the virus and their quality public health systems.

His views came as the Australia New Zealand Leadership Forum worked on a set of plans and protocols to create the much-talked about "trans-Tasman bubble" to be put to the Australian and New Zealand governments as soon as next month.

Mr Littlewood spoke as part of a trans-Tasman panel he shared with company director Ann Sherry, who is also co-chair of the Australia New Zealand Leadership Forum.

Ms Sherry downplayed the likelihood of any bubble being extended to Pacific nations or key Asian countries such as Singapore and Taiwan anytime soon, with all stakeholders focused on making the Australia-New Zealand bubble work first.

Mr Littlewood said it was time to turn attention to an economic recovery plan, with Australia and New Zealand likely to see their tourism potential boosted.

"The starting point is we are very fortunate that our two countries, in slightly different methods, have achieved the same outcome in terms of virus management," he said.

"The chance here is now to shift from that virus management to crushing the economic curve, which is the consequence of managing the virus. How do our sectors of aviation, tourism play (their) part to fill that gap created by the lockdown?"

A planning process examining ways in which travel could safely re-open is advancing. Over the past two weeks, a team of from both sides of the Tasman has been working to develop recommendations for the reopening of borders between the two countries.

The expert group is considering every aspect of the passenger journey, including the point a person considers a trans-Tasman trip, pre-flight health requirements and eligibility, protection on board an aircraft, movement through airports and contact tracing requirements once people reach their destination.

"There is an opportunity for our two countries to come out of this with an improved global reputation," Mr Littlewood said.

"If we are able to get on top of this issue and demonstrate a safe travel zone, border protection and a process that is reliable, and has public confidence, then others will see us as a safe destination."

With travel throughout much of the rest of the world restricted, Mr Littlewood said he could "see a scenario where we each come through this filling some of that gap that has been created".

Ms Sherry said the committees working at the Australia New Zealand Leadership Forum were aware that Pacific nations would love to be included in the bubble, but the process could not be rushed.

"They are pushing hard at us, to say to include us," she said.

"But we really want to be disciplined to get it working first, rather than try open up quickly, move too fast and fall over. We prefer to trial it in one market with the confidence of both governments before we open it out further."

Complex deals cloud Virgin debt: Deloitte

Court documents have revealed Virgin Australia's involvement in a number of ongoing litigation proceedings

AFP

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associated with negotiating new deals would make the airline less attractive to a buyer.

Federal Court judge John Middleton issued the orders requested by Deloitte, noting there was no obligation for contractors to enter into any applicable agreements. But he acknowledged such agreements provided an "efficient and cost effective way (for) administrators to retain and continue to utilise goods and services provided to the Virgin companies without having to make multiple applications to the court".

For the same reason, aircraft protocols were being negotiated with leasing companies to allow the continued use and maintenance of aircraft until a new owner was in a position to decide how the airline's fleet should look.

Although there were some 117 leased aircraft and engines in the Virgin fleet, only 27 were currently generating revenue, the submission said. Presentations to bidders by chief executive Paul Scurrah had highlighted the savings in going to a "single aircraft type" fleet of Boeing 737s.

The court documents also revealed Virgin Australia's involvement in a number of ongoing litigation proceedings, including a defamation action against the airline in the Brisbane District Court.

The matter was brought by police prosecutor Jamie Baker against Virgin Australia, which banned him from flying with the airline over his alleged harassment of a pilot who married his ex-wife.

More than 40 other matters were under way, including 12 industrial litigation matters, 21 claims in the Administrative Appeals Tribunal and 14 personal injury claims — all of which were insured.

In another example of the size of the job at hand, Deloitte told the court it had received close to 5000 emails from creditors since being appointed administrators.

The next significant date in the administration was Friday, when Deloitte was expected to reduce the shortlist of four bidders to two. The two would then be expected to lodge binding offers by June 12, in the hope a buyer could be confirmed by the end of the month.

Those in the running included private equity firms Bain and BGH Capital, Phoenix-based airline investor Indigo Partners and US hedge fund Cyrus Capital.

Bain has indicated it wants to draw on the Virgin Blue low-cost model. Cyrus is believed to be pitching the continuation of a "premium airline" service while Indigo Partners specialises in ultra-low-cost carriers.

JobKeeper hopefuls

Aristocrat	$16.2bn	AP Eagers	$1.4bn
Cochlear	$12.6bn	Virgin Australia	$726.3m
Tabcorp	$6.6bn	Accent Group	$677.7m
Crown Resorts	$6.3bn	Village Roadshow	$394.3m
Qantas	$5.3bn	Myer	$258.7m
Star Entertainment	$2.5bn	Ardent Leisure	$177.5m
Premier Investments	$2.4bn	MotoCycle Holdings	$54.3m
Flight Centre	$2.2bn	Smiles Inclusive	$5.06m

Source: ASX

Bring back students: Scape

BEN WILMOT

Australia's largest student accommodation group wants a "controlled" program to allow foreign students into the country to help stimulate an economic recovery in the education sector.

Australia's borders have been closed since March because of the bid to keep out COVID-19, with only Australian citizens, residents and immediate family members able to travel to Australia.

The restrictions have hit universities and student accommodation providers, who are increasingly pressing for a system to allow the return of international students. Scape Australia, which owns and operates more than 14,000 student rooms nationally, said a so-called portal would provide a controlled arrival program for international students and could be managed and funded by the education sector.

In practice, a portal would allow in students even if borders remained shut to tourists, on the proviso that they were strictly quarantined and tested to prevent the spread of coronavirus.

Scape executive chairman Craig Carracher said a portal ensuring quarantine and isolation for international students who spent over $20bn a year was a "vital, safe, controlled first step to economic recovery". Mr Carracher also urged the university sector to welcome students who were enrolled to start in 2020, not just students previously enrolled in courses.

He expects moves such as split shifts for night owl students in sandstone university facilities. "Almost nocturnal in character, our students are as often studying together at 2am as they are at 10am and the potential to engage students that have successfully secured enrolments in 2020 should be our priority," he said.

Scape in January put in place strict safety rules to address concerns about Chinese students arriving in Australia and introduced 14-day isolation and medical support.

Scape, via its Atira portfolio, recently leased one of its buildings in Brisbane to the Queensland government to support vulnerable people who needed accommodation.

It is also working with the Victorian government and has been approved by the South Australian government to provide isolation and quarantine services.

"Opening a safe and quarantined portal for international students will enrich our cities, underwrite our higher education sector and stimulate our economy while ensuring our largest service export embraces the competitive advantage now available to Australia," Mr Carracher said.

Freelancer 'thrives in times of crisis', says CEO

MAX MADDISON

Freelancing and crowdsourcing marketplace Freelancer.com is set to "thrive" amid a global recession, as the COVID-19 crisis gives the company a "free kick", says chief executive Matt Barrie.

Speaking at the company's annual shareholder meeting, Mr Barrie said despite shaky first-quarter results, the Sydney based firm had seen "strong growth" since a low point on March 15, and he expected the company to revel in the downturn.

"You have businesses trying to cut back on costs ... You have a lot of people looking for work, and certainly that's the case globally right now," Mr Barrie said

"The third thing is, and that's fairly important in Western countries, you have a lot of people with spare time on their hands."

Mr Barrie said the company was already experiencing all-time highs across a raft of key metrics — including new users and awarded projects — and was well positioned to excel for the remainder of the year.

"I've always said you don't want to be a unicorn, you want to be a cockroach, and this business thrives in this sort of environment," Mr Barrie said.

Highlighting the global financial crisis of 2008 as a "transformative event" for the crowdsourcing industry, Mr Barrie said Freelancer "thrives in times of crisis", and the impact of COVID-19 was already "eclipsing" the GFC.

More employees are seeking to work from home

He pointed to the already evident shift globally to an online work experiment, which he said would leave the company well-placed, as more employees sought to work from home and businesses became more comfortable hiring people virtually.

Freelancer, which connects over 44,489,328 employers and freelancers globally from more than 247 countries, regions and territories, also oversees several subsidiaries including payment intermediary company Escrow and logistics firm Freightlancer.

In the firm's outlook statement, Mr Barrie said he expected both Freelancer and Escrow to achieve "major milestones" across the remainder of 2020, and despite posting a net loss after tax in the 2019 financial year, said the group had been profitable in April.

Freelancer shares closed up 1.92 per cent on Wednesday at 53c each — their highest price since January 21.

Invest for growth: Pratt slams buybacks, backs depreciation allowance

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trillion-dollar superannuation sector in Australia could also be used to help boost manufacturing in Australia.

"Australia's superannuation is $3 trillion today, which is twice the size of the Australian economy," he said. It was predicted to grow to as much as $7 trillion by 2032, he said.

Mr Pratt said Australian food had a strong "brand" among Asia's growing middle classes: safe and clean.

At the same time he said the federal government should "embrace free trade agreements" to help boost food exports to Asia "and not the old world of regressive tariffs and fortress Australia".

"We should focus on what we do well, like food manufacturing, and not on things we will never be competitive on.

"Open trading has been a core part of our prosperity over the centuries.

"With the Australian dollar so low, there has never been a better time to trade."

He said Pratt Industries and Visy invested $500m in new machinery every year, which also meant jobs for Australians, including waste paper recycling infrastructure, 100 per cent recycled paper mills and clean energy plants to power those mills.

He had made a pledge to invest $2bn in manufacturing jobs in Australia over the next decade.

With the dollar so low, there has never been a better time to trade'

ANTHONY PRATT
BILLIONAIRE

Former Dow Chemicals chairman and chief executive Andrew Liveris told the same seminar that Australia needed to take a 21st century approach to manufacturing rather than an outdated 20th century approach.

Mr Liveris said concerted policy changes by US presidents Barack Obama and Donald Trump had helped to boost the role of manufacturing in the US from 11 per cent of GDP to its current level of around 20 per cent. Australia needed to look at potential areas of manufacturing in areas where it has a competitive advantage.

He said this could include investing in lithium batteries, rare earths, upgraded paper products and value-added chemicals.

"We need to take a 21st century attitude towards manufacturing, putting together the intersection of science, the modern economy and digital and human skills," he said.

He said advanced manufacturing would lead to "higher paying jobs for all of our workers and not just an elite group".

Mr Liveris is an adviser to the federal government's COVID-19 Commission led by former Fortescue Metals CEO Nev Power.

He said his committee was working on a series of recommendations to be given to the federal government later this year on ways to boost the advanced manufacturing sector in Australia.