

# Upside seen in Timbercorp's fall

To predict doom for all managed investment schemes would be like comparing sandalwood and olives, writes **Brendon Lau**.

The fallout from the decline of prominent managed investment scheme (MIS) manager Timbercorp will probably reverberate through the market for months to come, but some experts believe the company's misfortunes may not necessarily be bad for the sector as a whole.

Although the negative publicity from its decision to appoint voluntary administrators could hurt investor confidence in other listed MIS operators in the short term, it may give an opportunity for stronger players to pick up market share over the longer term.

The director of advisory firm Australian Agribusiness Group, Tim Lee, believes companies with a robust balance sheet are likely to emerge stronger when the economy turns and the MIS sector will be one of the first to rebound.

"There is something like a 70 per cent correlation between investment inflows into this sector and the returns on our stock exchange, and we are starting to see a turnaround — maybe — on the ASX," he said.

Timbercorp shares have fallen by around 98 per cent since the Australian Taxation Office's decision to ban tax deductibility on non-forestry MIS projects about two years ago. This decision came after the company had expanded aggressively into horticulture projects to a point where most of its revenues came from non-forestry schemes.

Although Timbercorp won an important test case against the ATO decision in December last year, Mr Lee said the company never got the chance to recover as the global financial crisis froze credit markets.

"The financial crisis was compounded by the banks as they tried to force these sorts of companies to sell assets at a time that wasn't conducive. If



Diversification from timber to other products has been costly for MIS companies.

Photo: ERIN JONASSON

Timbercorp's share price was \$1 or \$2, as it was in the not-too-distant past, there wouldn't be this issue at the moment," said Mr Lee.

Those appearing furthest from Timbercorp's woes include sandalwood MIS manager TFS Corporation and Gunns — companies with more diversified revenue streams or a stronger balance sheet.

But Foresight Securities' research director, Adam Michell, warns investors not to make any generalisations on the sector: "It's always on a project-by-project basis. For TFS Corporation, the returns investors should be getting on their first series of projects that is going to be harvested in 2012 should be quite reasonable given the rise of Indian sandalwood over the past decade.

"But nobody will know the repercussions [from Timbercorp] until the end of June when people put in their orders [for MIS investments]."

Mr Michell rates TFS a "buy". TFS is forecasting at least a 15 per cent cash

profit and a zero net debt position for the year ending June 30, 2009.

Gunns is also considered to be on firmer ground as it produces woodchips, on top of running its MIS business. Only about 14 per cent of Gunns' revenue comes from MIS.

The market seems less sure about Great Southern. "What you've got is a company with a market cap of around \$67 million and \$380 million

## Stronger players could pick up market share over the longer term.

of debt — of which \$105 million is due in October," said Mr Michell.

"I think the share price is factoring in a not inconsiderable chance that this company will go the same way as Timbercorp."

Fund managers expressed reservations towards the sector, and it's not only debt they are concerned about. "The real attraction for MIS

is the ability to reduce or defer tax. But in this climate with low capital gains and markets falling, it's probably less of an incentive before June 30 [the end of the financial year]," said Pengana Capital's portfolio manager, Steve Black.

"Also, some of these products are seen as a little exotic in terms of the investment structure and crop type. With risk aversion being higher now, investors are probably less inclined to buy exotic products."

Another fund manager, who didn't want to be named, echoed similar concerns. This fund stopped investing in MIS stocks two years ago when it became concerned that some operators were diversifying too quickly as the market became saturated with schemes.

"We couldn't understand why some of these operators would go from timber, to olives, to almonds and to other disparate areas. It was like they were expanding just to put new schemes in place [to collect additional fees]," the manager said.