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Opinion News



Mining fund caught in tax crossfire

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EVERY war produces collateral casualties -- and the same applies to the bunfight over the mining tax.

Just ask investors in the BlackRock-managed GMI, which has been trashed even though 80 per cent of its underlying mines are outside Australia.

GMI is trading at a 22 per cent discount to its last stated net tangible worth of \$1.39 a share, compared with the more usual gap of up to 10 per cent.

"The market sees us as an Australian-listed resource stock so there's a bit of confusion there," says chairman John Robinson.

GMI has an exposure to 50 global stocks across its \$300 million portfolio, including BHP Billiton and Rio Tinto. But the fund's selling point is that it gives Australian investors an exposure to foreign companies with local operations: names such as Vale (its biggest single exposure), Glencore, Xstrata and Anglo American.

Given the mining tax threat, GMI's more exotic offshore roll call warrants interest: South Africa's Impala Platinum, Russian gold producer Petropavlovski and Latin American gold play Minas Buenaventura are not exactly household names.

GMI investors access the wisdom of investment manager BlackRock's renowned London-based resources unit, led by Evy Hambro. Given the fund's 19 per cent annualised net tangible asset growth over the five years to December last year, we won't begrudge the sizeable management fee, and rate GMI a buy.

Kingsgate Consolidated (KCN) \$9.55

READ this and weep, local goldminers. Having obtained crucial Thai Board of Investment approval to expand its Chatree mine, Kingsgate will now enjoy an eight-year tax break on its new production and a further five years at half the usual 30 per cent rate.

Existing output remains taxed at 15 per cent until November 2014.

"It's great to have a government encouraging mining," says Kingsgate chief Gavin Thomas.

To be fair on Ken Henry, the Thais impose a steepish 8 per cent royalty.

There's nothing to stop work going ahead on the Chatree North processing plant, which will expand the mine's existing annual output of 130,000 ounces to 200,000-250,000 ounces.

Kingsgate needs \$US100m (\$118m) to fund the expansion, but given the company has \$US36m in cash and \$US30m in working capital, this shouldn't be too onerous.

The approval, while delayed, wasn't overly affected by Thailand's political woes. Criterion had Kingsgate as a speculative buy at \$8.60 on May 21 and maintains the call.

Challenger Wine Trust (CWT) 22.5c

THE country's second-biggest vineyard owner (behind Foster's) has added weight to the notion that wine is best imbibed, rather than relied on for wealth creation.

Challenger leases vineyards to the likes of the listed Australian Vintage and big NZ producer Delegat's Group. Lower prices put pressure on rental yields and the carrying value of the properties.

Having revalued 60 per cent of its portfolio, the trust yesterday said valuations would fall by 9 per cent. Cashflow is strong but the revaluations pressure debt covenants and unitholder distributions.

Management estimates a second-half distribution of 1c per unit, compared with 3.25c in the first half and 2.4c in the previous June half. "While the Australian wine sector appears to be signalling the start of a slow turnaround, we expect the vineyard sector will remain under pressure," fund manager Nick Gill says. The fund estimates 9000ha of Australia's 157,000ha of vineyards have been removed, and more needs to be pulled. Post revaluation, the trust has a "net independent value" of 51c per unit, double the unit price.

There's value there, but in our view the grape game is overly influenced by low-cost offshore producers and we'll avoid the stock.

Dyesol (DYE) \$1.04

RULES are made to be broken, so your columnist will breach his longstanding ban on reporting award winners. But only for the Millennium Prize, technology's equivalent of the Nobel Prize.

This year's accolade goes to German professor Michael Graetzel, father of Dyesol's solar technology that uses artificial photosynthesis to create energy. Local investors were unimpressed, but Dyesol is also German-listed and European investors are likely to give a more rousing reception. Speculative buy.

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