

Investment



CLEAN TECH NOT ALL A WRECK

Green technology has had a tough time over the past few years but some shares in this sector are worth studying. **Report: Tony Featherstone**

● Clean technology stocks have suffered an almighty belting in the past few years. The Australian CleanTech Index hit an all-time low in early July, when the carbon price was introduced. Ironies aside, speculators might find more opportunities in a listed clean technology sector that has been heavily oversold.

They will need conviction. The index, a measure of 72 clean technology stocks, has badly underperformed. Over three years it has shed 55 per cent, compared to a 4 per cent drop in the S&P/ASX 200 index. The top 20 clean technology stocks have fared even worse.

Over the past six months the index has tumbled 20 per cent. So much for the carbon price creating more interest in companies developing and commercialising clean energy technologies. Like other speculative, pre-revenue companies, smaller clean technology stocks were among the first dumped during market corrections.

The good news is the Australian CleanTech Index jumped 6.1 per cent in August and trumped a 1.1 per cent gain in the S&P/ASX 200 index and a 3 per cent gain in the Small Ordinaries index.

But a one-month gain is no trend. More sharemarket volatility could easily see the sector hit new lows. However, the contrarian in me always searches for out-of-favour sectors and stocks that have been dumped more because of market sentiment than fundamental reasons. Several clean technology companies are making excellent progress – not that their share price shows it.

The Australian CleanTech Index outperformed the market in 2006 and

Winds of change:
The CleanTech Index jumped 6.1 per cent in August but the gain is still no trend

2007 and was level-pegging in mid-2009. As the S&P/ASX 200 index went broadly sideways for three years, the Australian CleanTech Index tumbled to unthinkable levels – from a high of 160 points in July 2007 to 31.2 points five years later.

After this carnage, resolution of a few factors could finally work in the sector's favour. The fierce political debate and regulatory uncertainty in the lead-up to the carbon price's introduction clearly hurt sentiment towards clean technology stocks. And the sharemarket sell-off in May stomped on speculative micro-caps.

Mining investment may have also, indirectly, hurt the listed clean technology sector. Why would speculators chase clean technology companies that need years to develop or commercialise technologies, when they could make quick profits chasing the next Africa-focused goldminers?

There were also company-specific problems. Share price losses by Sims Metal Management, Transpacific Industries and Silex Systems hit the Australian CleanTech Index, which is weighted by market capitalisation and heavily influenced by the performance of a handful of stocks.

With the carbon price introduced, the sharemarket stabilising and speculative resource stocks out of favour, the clean technology sector should start to attract more investor attention, given the magnitude of share price falls.

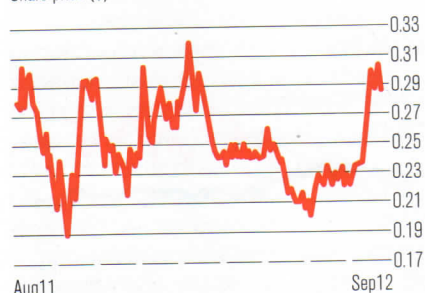
Not every clean technology stock performed poorly. EnviroMission, Sterling Biofuels International, Clean TeQ, Pro-Pac Packaging and Traffic Technologies gained more than 50 per cent in 2011-12, Australian CleanTech reports, albeit from tiny bases and often after heavy earlier falls.

Of course, most ASX-listed clean technology companies are highly speculative. Even the larger ones have more risk compared to other sector leaders. They are not for inexperienced investors or those with low risk tolerance or short investment time frames.

Risks aside, some of the more established stocks have arguably fallen

INFIGEN PERFORMANCE

Share price (\$)



Source: ASX

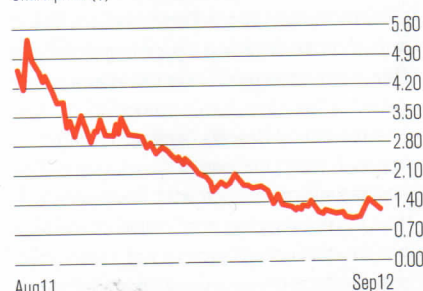
too far. Solar dye maker Dyesol is a good example. Its photovoltaic technology improves energy efficiency for metal, glass and polymeric-based products in the business, transport and other sectors.

Dyesol has made good progress this year raising capital, testing its technology, expanding overseas and winning innovation awards. Yet its share price has slumped from a high of 44¢ to 12¢. The conversion of convertible notes into equity weighed on the share price, and a lack of headline news, often the case for technology developers, frustrated impatient investors.

After three horrendous years, Infigen Energy started to lift in August and seems to be putting more of the problems of its previous owner, the failed Babcock & Brown, behind it. Infigen has

DYESOL PERFORMANCE

Share price (\$)



Source: ASX

interests in 24 wind farms in Australia and the United States.

Infigen's net operating cash flow increased 25 per cent to \$62.1 million in the 2011-12 full-year result, thanks to better capital management and lower financing costs after significant debt repayment. It made a \$55 million net loss and has \$1.07 billion of group debt. Those metrics are normally a big turn-off, but Infigen's rising cash flow is worth watching for speculators.

If Infigen can lift production and revenue, it should have more surplus cash flow to pay down debt, reduce financing costs and invest in other opportunities. Infigen is a high-stakes stock but it is all relative in the clean technology sector, and a 28¢ share price is already factoring in plenty of risk. **BRW**

DANGER SIGNS

The quality of bank earnings and asset valuations is being put under scrutiny.

Report: David James

● The banking sector represents about one-fifth of the sharemarket so the fate of the banks is critical to the direction of Australian shares. A report by Credit Suisse maintains that since 2010 major banks have adopted increasingly aggressive accounting tactics, which benefited cash earnings by 10 per cent in the second half of 2010-11 and 8 per cent in first half of 2011-2012.

"We see Commonwealth Bank of Australia (CBA) as having been relatively less aggressive in its accounting treatment among the major banks," the report says. "The Australian and New Zealand Banking Group (ANZ) is

marginally the most aggressive (with the) largest quantum usage of significant item restructuring charges, the most aggressive capitalisation of expenses, but only modest dilution of loan loss provision coverage."

Credit Suisse says the quality of bank earnings is "fraying at the edges" because of IT expenses, restructuring charges and softening collective provision coverage ratios. It has an "outperform" rating on Westpac Banking Corp, a "neutral" recommendation on ANZ and National Australia Bank and an "underperform" rating on CBA.

Meanwhile, a report by Macquarie Equities notes danger signs in property values, both commercial and retail.

"Arguably, as credit growth continues to soften, further pressure will be placed on asset values," the Macquarie report says. It goes on to say that "book value for assets may be materially different to current values". **BRW**

● MARKETS

BAILEY

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No payout for 50+ shades of grey

● The actuaries of Australia have seen the future. Now, the Institute of Actuaries of Australia isn't Apple, so the snapshot of 2050 it's just released doesn't speculate on particle transporters or iBrains. Rather, the ideal view of 40 years hence features lots of 100-year old baby boomers, happily living off their own savings.

This is a quantum leap from the situation today, where 50 per cent of Australians aged over 65 are on a full aged pension and 85 per cent of retirees get at least a part pension.

The actuaries know that for the sake of Australia's economy and sense of fairness toward our grandchildren, retirees will have to start paying more of their own way. The healthcare and pension costs for growing ranks of the grey-haired will cause budget spending to exceed revenue by 2.75 per cent of gross domestic product in 2049-50, the Treasury's *Intergenerational Report 2010* forecasts.

You can append "at least" to that last sentence, says the institute's public policy actuary, Barry Rafe, who points out that governments almost always underestimate the longevity of their populations. The bean counters are probably too scared to read this year's paper by biogerontologist Aubrey de Grey, called *A Thousand Years Young*, where he identifies the medical and biochemical advances that eventually could eliminate all the wear and tear our bodies and minds suffer as we age.

The actuaries have several responses to the looming "longevity tsunami".

Among them are linking the pension eligibility age for men and women to their corresponding life expectancy and not allowing them to get at their superannuation until three years beforehand. People should be encouraged to work longer – perhaps offering a lump sum bonus to those who don't take up the age pension as soon as they qualify.

On the investment front, the actuaries say retirees should be "so compelled" to take most of their superannuation as an income stream, legislating that MySuper funds default to an annuity-style product with limits withdrawals and guarantees an income for life.

It's a nice idea – annuities today are taxed more than other pension retirement products, so they're unpopular and too expensive – but the government will need to issue 30-year bonds to underpin the market.

It needs to start thinking at least that far ahead.

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