CSL's still a darling, if you've the daring

Bulls and Bears

Carrie LaFrenz

Blood plasma and vaccine company CSL has long been a market darling.

But with a new chief executive coming to the helm and a fresh push from its larger US rival Baxter International, the company has a set of new challenges looming.

Present chief executive Brian McNamee has steered the company for the past 23 years as it grew from a government-backed organisation to a $31 billion listed entity.

Few shareholders would quibble with the 21 per cent earnings per share growth CSL has posted in each of the past five years and analysts expect the company's earnings drive will continue to be supported by its ongoing share buyback through 2014.

Incoming CEO Paul Perreault, who will take the reigns from July, has not outlined any major changes to strategy, and given he ran the company's largest unit, CSL Behring, a smooth handover is expected.

One big opportunity is in the development of CSL's recombinant portfolio for haemophilia patients, a $US8.5 billion market. If successful, CSL could double in size.

CSL's shares have increased by nearly 64 per cent over the past 12 months. The company's stock is now hovering near all-time highs of $62.75, hit last week. Meanwhile, the re-emergence this month of a pending lawsuit in the US over alleged price fixing is not expected to dent the company's momentum.

CSL reported a first-half underlying profit of $US627 million – up nearly 25 per cent on the prior corresponding half. It upgraded full-year guidance to 20 per cent profit growth and some analysts say that might be conservative. Macquarie Equities analyst Craig Collie remained bullish on the outlook for CSL, noting market conditions for albumin and immunoglobulin had picked up and would likely remain favourable.

"CSL is also growing specialty products very strongly. So the result is product growth which is very balanced right now – something which is really important for margins.

"CSL is also undertaking some good initiatives for collection centres efficiency and the company's operating leverage will continue. Hence we believe margins will continue to expand, not quite at the same rate as this year, but still well above expectations. I think we will continue to see earnings upgrades for CSL".

CSL, which is the No. 2 player in the market behind US-listed Baxter International, has fewer blood plasma collection centres than its rivals but manages to collect more. Philo Capital Advisers is a CSL shareholder and also remains upbeat about the company's prospects.

"You have a lot more confidence in where earnings are going over the next few years as compared to steel companies or discretionary retailers, but you pay a premium for that," said head of equities Hugh Dive.

While CSL trades at a large premium to international rivals, it is likely to face more competition from 2014 as the No. 1 player Baxter rebuilds output.

Citigroup analyst Alex Smith argues CSL is too expensive, trading on a 12-month forward P/E of about 22 times for EPS growth of 28 per cent this financial year, and 11 per cent in 2014, and 9 per cent in 2015.

"We expect growth to moderate over the next 12 months as Baxter's supply constraints ease and new products/entrants increase competition in the SCIG & Hemophilia A markets. We don't believe this is adequately factored into the share price so we retain a sell rating," he said. Dr Smith said a positive result from Baxter's Alzheimer's trial is the key risk to his rating. Baxter will release its results from its study of IVIG/Alzheimers in July. While it's not CSL's study, it will have an impact given positive implications for long term IVIG demand from a good result.

Riding high

CSL share price, daily ($)

CSL key profit metrics

	2012	2013e	2014e	2015e
Reported profit ($USm)	1023.9	1245.7	1320.0	1378.3
Core net profit ($USm)	1023.9	1245.7	1320.0	1378.3
Core EPS (US¢)	196.8	251.1	278.2	303.3
Core EPS growth (%)	16.1	27.6	10.8	9.0
PE ratio (x)	31.3	24.6	22.2	20.3
DPS (US¢)	86.5	114.4	127.1	138.9
Dividend yield (%)	1.4	1.9	2.1	2.3
Franking rate (%)	4.4	1.9	0	0
P/operating cashflow (x)	26.6	19.9	20.6	19.2

SOURCE: BLOOMBERG, CITIGROUP

Zeta plans to become resources cash box

IPO watch

Jake Mitchell

Zeta Resources is hoping to merge with **Kumarina Resources** before listing on the Australian Stock Exchange as a resources-focused investment company.

Kumarina is a Perth-based explorer with two prospective copper and gold projects in Western Australia.

The plan is for Kumarina shareholders to be issued with shares and options in Zeta and, upon implementation of a scheme of arrangement, the latter will be listed on the ASX.

Kumarina shareholders will meet on May 16 to vote on the scheme.

Zeta is conducting an initial public offering for 25 million shares at $1 each, which represents about 30 per cent of the company.

Investors who take part in the raising are buying into a company that will hold Kumarina's shares and assets, cash from the float and the minority interests of Utilico Investments, held in an entity called Utilico Minority Investments.

London Stock Exchange-listed **Utilico** Investments wholly owns Zeta, and its stake will be diluted subsequent to the offer.

Utilico Minority Investments has stakes in a number of small Australian-listed resources companies including **Resolute Mining** and **New Zealand Oil and Gas**.

On April 3, all the stakes had a market value of $38.3 million.

One of the primary assets owned by Utilico Minority Investments is the $9.3 million stake in Resolute, which has a market capitalisation of more than $680 million, making it one of the largest gold producers on the ASX.

Resolute operates three goldmines in Africa and Australia, and has produced more than 6 million ounces of gold over the past 20 years.

Resolute chief executive **Peter Sullivan** is the proposed chairman and non-executive director of Zeta. Mr Sullivan has been chief executive of Resolute since 2001 and has 20 years' experience in the development of mining projects. He declined to comment on Zeta.

Zeta's investment manager ICM will be responsible for managing all the stakes on a day-to-day basis. The other proposed directors are engineering surveyor **Martin Botha** and financial analyst Ms **Xi Xi**.

The current directors of Zeta are accountants Alasdair Younie and Charles Jillings, and they will make way for the Sullivan-led board if the scheme for the merger with Kumarina is implemented. If $12.5 million is raised, Utilico Investments will hold just over 58 per cent of Zeta, and that falls to just under 50 per cent if the offer is fully subscribed and $25 million is raised.

Utilico Investments will hold 71.5 per cent of Zeta if no funds are raised. **Azure Capital** is the lead manager on the offer and will take a 5 per cent cut of the raised funds.

The offer is not underwritten.

As with all micro-cap explorers, Kumarina and Zeta remain speculative and subject to volatility in commodity prices.

Raised funds will be used for exploration and development of the Illgarari and Murrin Murrin projects, currently controlled by Kumarina.

But the vast majority of the funds will be used for new investments with a preference for mid- to long-term investments. As with all micro-cap explorers, Kumarina and Zeta remain speculative and subject to volatility in commodity prices.

The risks were well illustrated by the recent collapse in the price of gold, and subsequent collapse in the share price of many gold producers.

The spot price fell 15 per cent from about $US1600 an ounce at the start of April to a two-year low of $US1347 an ounce on April 15.

Utilico Investments wholly owns Zeta at present, but its stake will be diluted after the offer. PHOTO: ASINEH HOUSPIAN

US GDP hurts gold after gains

Commodities

Debarati Roy

Gold futures fell in the United States on Friday, trimming the biggest weekly gain in 15 months as the economy expanded by less than forecast, driving commodities lower and crimping demand for the precious metal.

Over the week, gold jumped 4.2 per cent, the most since late January 2012, as demand for coins, bars and jewellery surged. The Standard & Poor's GSCI Index of 24 raw materials slumped as much as 1.1 per cent, led by industrial metals.

"Inflation is one thing you do not have to worry about if the world's largest economy is struggling and instead the concern should be deflation," Michael Gayed, the chief investment strategist at Pension Partners, said. "And when you have a rally like the one we saw in gold, there is bound to be some profit taking."

Gold futures for June delivery declined 0.6 per cent to settle at $US1453.60 an ounce on the Comex in New York. On April 15, futures plummeted 9.3 per cent, the most in 33 years. On the following day, the price touched $US1321.50, the lowest in 26 months. Since then, the metal has climbed 10 per cent. In China, gold buyers were hoarding the metal and demand was "strong" in Dubai, Bernard Sin, the head of currency and metal trading at bullion refiner MKS in Geneva said.

Silver futures for July delivery fell 1.6 per cent to $US23.788 an ounce on the Comex.

The metal has tumbled 21 per cent this year, the worst performer on the S&P GSCI Index.

Trading in gold was 50 per cent higher than the average in the past 100 days for this time of day. For silver it was almost triple, Bloomberg data showed.

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