ALTRUISM PROVES AS GOOD AS GOLD

JOHN DURIE

The downside for not lending a hand can be huge

NICHOLSON'S WEEK

THE floods proved a convenient starting point for chief executives to detail their billion-dollar profits this week.

It showed that corporate social responsibility is a potential source of competitive advantage, and not just words or a risk management tool.

When CBA's Ralph Norris, while delivering a $3.3 billion half-year profit, detailed the $75 million his bank had donated and the $1bn set aside for special loans to victims, a cynic might have wondered about his motives.

And a cynic might have reacted in similar vein when Telstra's David Thodey used the exploits of Clint Dickson en route to Palm Island to show how his staff are committed to delivering service.

In both cases the efforts were both generous and real, but the headlines for the bank and phone giant were about their profits.

The trouble for company chiefs is that the community expects them to deliver in these times, so the upside from being seen to be good corporate citizens is limited while the downside for not pitching in is huge.

It's a fine line for big companies to walk, but some remember that, back when CBA and Westpac were villains over out-of-cycle rate hikes, their brand advertising switched away from products to lifesaving helicopters.

All their aims to be environmental saints counted for zero after the GFC, when banks were cast as greedy exploiters.

Companies are ultimately judged on how they operate their core business.

That's the message NAB's Cameron Clyne is pushing with his "people's bank" image.

The aim is to be seen as winning by taking share from competitors, not at the expense of customers.

That's the battle banks are fighting now. This week's report from the Australian Centre for Corporate Social Responsibility was well timed, given its aim to help create benchmarks to inform and lift standards.

The best listed companies last year included BHP Billiton, Corporate Express, Rio, Sensis, Stockland and Westpac.

The best private companies included Pacific Hydro, PriceWaterhouse, Arup and CPA Australia.

Overall, the survey showed lack of support from the top was the major hurdle to taking corporate and social responsibility further.

Still, companies are now less likely to look at CSR as a risk mitigation tool and more likely to see it as value enhancing.

Better stakeholder engagement is the key, as with leaders talking about the importance they place on the issue.

This is exactly what Norris and Thodey were doing in their profit reports, and why a miner like BHP's Marius Kloppers always talks about safety before detailing the billions of dollars he has made milking the commodities boom.

Slick baton pass

IAN Smith's handover to Greg Robinson as chief executive of Newcrest is in sharp contrast to the somewhat tortuous process at Asciano earlier in the week.

Smith has done a superb job, increasing market value sixfold in his five years in the job.

In the process has laid a solid base from which Robinson can expand.

The question marks over Robinson relate only to his lack of hands-on mining experience at a company whose assets would benefit from such skills.

But it is a big mistake to bring Smith back to the company by way of a board seat after a short break away.

Given his welcome views on only running a company for four to five years, it is surprising Smith would have accepted such a position — particularly if the end game is to see him emerge as chairman when Don Mercer steps down.

This is due to happen at Toll, where Paul Little will take the reins when he emerges from his sabbatical after a new chief takes over next year. At Newcrest, Smith is set to pick up about $7m on retirement.

At Axa, Andy Penn's $17m termination payout will shortly be approved by shareholders because the Axa parent company can vote on the matter.

The French can't vote on the AMP bid but can on the Penn package.

Under new proposals, Axa would also be barred from voting on the termination pay.

RiskMetrics and Glass Lewis will recommend shareholders vote against the package.

Paradise postponed

THE first week of earnings has done nothing to buoy investor expectations with Macquarie analysts winding back earnings per share estimates to 19 per cent, from 20.2 per cent previously.

The two-speed economy was in play big time with resources, led by Rio, the star and consumer discretionary companies doing it tough.

The accompanying table details how estimates were wound back, particularly for industrial companies. Three months ago, industrials were tipped to grow earnings by 12 per cent, but today the forecast is 6.1 per cent growth.

Investors look at earnings releases to understand what has happened, as a guide to what can be expected in the future.

Rio came in virtually in line, with a sizeable buyback and dividend hike.

However, the stock fell 1.5 per cent to $87.34 a share yesterday.

The $7.13 a share in earnings compared to the $4.41 the market was looking for 12 months ago, which goes to show how expectations have changed.

Corporate earnings estimates

Sector	Feb 11 %	Feb 1 %	FY10 Actual %
Market	19	20	▲ 2.1
Industrials	6.1	8.4	▼ -4.2
Property	-3.6	-3.1	▼ -27.5
Banks	11	9	▲ 13.8
Resources	57	58.4	▲ 10

Source: Macquarie Equities

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Chief executive Tom Albanese has highlighted a string of negative near-term macroeconomic issues, which in part explains the negative market reaction.

The game is to tip the future, not the past.

According to Macquarie's Tanya Branwhite, industrial companies were expected to grow revenue by 8.6 per cent but so far this looks more like 5 per cent.

This has helped dampen profit growth expectations but it's early days yet in the profit season.

Telstra rode the expectation game superbly, outperforming the market yesterday, rising 1 per cent to $2.91 a share based on better than expected subscriber growth.

Forget the fact that margins are down from 44 to 37.2 per cent, net profit is down 36 per cent, cash conversion is poor and its Sensis division has run into a brick wall and is heading backwards fast.

David Thodey has the market convinced his 919,000 new subscribers spell future profit growth and just for good measure the Telstra team is telling everyone who listens the $11bn handout from the government is money for jam when you consider the old copper network is yesterday's hero.

Thodey has won over one longtime bear, Macquarie's Andrew Levy, who now has an outperform on the stock with an achievable price target of $3 a share.

Goldman's Christian Guerra, by contrast, remains unconvinced and maintains his hold on the stock. Nothing had been said that would spark a rally, Guerra noted.

Guerra has a DCF valuation of $3.65 on the stock and thinks it will return 16.2 per cent.

Levy has a $2.96 valuation and a 12 months' return of 13.9 per cent.

Merrill's Sameer Chopra has an underperform rating, a 12 months price target of $2.60 a share and a valuation of $2.45 a share.

The moral of the tale is to forget the rating and look at the maths. All three analysts, all with different ratings, basically expect the stock to do nothing in the near term. All three.

Telstra's yield of 9.5 per cent is obviously a big selling point.

But the big bear in the room is the Future Fund, which is still overweight the stock by some 765.2 million shares.

This is based on the last substantial shareholder notice signalling it had 841.2 million shares. Given that the stock should account for 2.8 per cent of the Future Fund's Australian equities holdings, a total of 76 million would be closer to market weight.

It would seem best to base an investment decision on fundamentals if, of course, you think Thodey can maintain the momentum.