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Politics/Economy/Social

Friday, 17 July, 2009

Rio Tinto incident highlights 'gulf' between Chinese government and foreign companies

Relations between Australia and China are strained as a result of the recent detention of Rio Tinto employees in Shanghai on suspicion of espionage. Australia has hit back at Chinese media reports that Rio Tinto staff paid bribes to Chinese steel executives, saying that common business practices are considered to be spying in China. The situation remains shrouded in secrecy and there is a significant gulf between the Chinese government and foreign companies.

On 15 July, Australian Prime Minister Kevin Rudd said that the world was watching to see how China will handle the Rio Tinto case and asked the Chinese government to approach the issue carefully.

The Australian Government asked the Chinese authorities to provide more information after the Rio Tinto employees were taken into custody. A growing number of people believe that Mr Rudd should negotiate directly with Chinese President Hu Jintao. The Liberal Party, the largest opposition party, said that the Australian detainee must be saved as soon as possible.

Australians were already concerned about attempts by Chinese state-owned companies to purchase Australian resource companies before this incident occurred. Many Australians believe that the Rio Tinto employees were detained as retribution for a failed business deal between Rio Tinto and Chinalco in June.

On 16 July, a spokesman for the Chinese Ministry of Foreign Affairs said that China still welcomed foreign companies but the actions of the Rio Tinto employees had damaged Chinese interests. The spokesman went on to say that although some in Australia were creating a fuss about the situation, Australia should not interfere in the independent judicial authority of China.

The Rio Tinto case serves as a warning to Japanese companies as well because information gathering for negotiations could be misconstrued as espionage in China. Many Japanese companies are eager to do business with China but the different political systems and different business practices still pose a challenge.

(Abridged translation from *the Nihon Keizai Shimbun*, 17 July 2009)

Tuesday, 14 July, 2009

OPINION: Lack Of Options Dictated Aso's Election Timing

After 10 months of searching for an opportune time, Prime Minister Taro Aso has finally decided to hold the lower house election on Aug. 30, a date so close to the Sept. 10 end of lawmakers' terms that it was essentially forced upon him.

The ability to dissolve the lower house -- the prime minister's most powerful political tool -- has lost its luster amid the cabinet's slumping approval rating and the approach of the September deadline. Aso has had to compromise on the timing of the election, what should have been his spotlight decision.

The prime minister had envisioned dissolving the lower house this week and holding the election on Aug. 8 or 9. But after his Liberal Democratic Party lost the Shizuoka gubernatorial race on July 5 and suffered a devastating defeat in Sunday's Tokyo Metropolitan Assembly election, Aso's field of options narrowed. He also has to contend with an LDP fearful of an election, efforts to oust him as party leader and now a no-confidence motion submitted by the opposition.

In the end, the ruling camp agreed to dissolve the parliament as early as July 21, with campaigning to kick off officially on Aug. 18. This nearly one-month gap would be the longest under the Constitution, which requires that an election be held within 40 days of the lower house's dissolution.

One cabinet member says that Aso's pride over his response to the economic crisis has made him choosy about the timing of the election. The prime minister backed away from a decision to dissolve the lower house last year, pledging to put policy before politics. Though it sparked resentment that still smoulders, the move protected the ruling block's two-thirds majority, which allowed it to enact major economic stimulus measures.

In fact, the biggest reason for the delay is that the Aso government has shown almost no leadership in areas besides the crisis, underscoring its missteps in policy management. Aso looked constantly for an advantageous time to call for a vote, but none came. Meanwhile, an anti-Aso movement within the LDP erupted after the cabinet's approval rating dropped.

The Aso government has entered a dead-end street. Its fate, and that of the LDP, will be determined by how it uses the time it has left.

--Translated from an article by senior Nikkei staff writer Eiji Sakamoto

(The Nikkei July 14 morning edition)

Thursday, 9 July, 2009

Unemployment To Hit Record 5.66% In April-June '10

Japan's jobless rate will rise to an all-time high of 5.66% in the second quarter of next year, according to the average forecast of private-sector economists polled by a Cabinet Office-affiliated body.

The Economic Planning Association reported the results of its July survey Thursday. Forecasts for unemployment in the April-June quarter of 2010 had averaged 5.48% in the June survey. But the jobless rate's jump to 5.2% in May prompted many downgrades this time. Economists predicted on average that unemployment will hover around 5.5% through the first quarter of 2011.

Real gross domestic product was estimated to have grown at an annualised rate of 1.98% in the April-June quarter of this year. The figure represents an upgrade from the average projection of 1.63% in the previous survey.

The consumer price index was reckoned to have fallen 0.99% in the April-June quarter, with a 2.07% drop seen for the three months through September. Declines were forecast to continue through the first quarter of 2011, suggesting a prolonged deflationary trend.

The survey was conducted from June 25 to July 2 and received responses from 36 economists.

(Summarised from the Nikkei July 10 morning edition)

Industry/Market – Japan

Friday, 17 July, 2009

Investment Banking Operations Recovering At Big Brokers

Large brokerages experienced sharp earnings improvements in their investment banking operations for the April-June quarter as corporations issued new shares and bonds, The Nikkei learned Thursday.

In Japan, overall commission revenue for investment banks jumped 90% on the year to 874 million dollars, or about 81.2 billion yen, according to research firm Dealogic. The worldwide figure declined 12% during the same period.

In particular, domestic commission revenue is believed to have surged two- to fourfold at brokerages that helped several firms raise funds, including Nomura Holdings Inc., Daiwa Securities SMBC Co., Mizuho Securities Co. and Goldman Sachs Japan Co. Nomura and Daiwa Securities SMBC apparently have secured profits in their domestic investment banking operations.

The high-commission business of underwriting stock issuances fared well. Daiwa Securities SMBC and Goldman Sachs were the co-lead managers in the issuance of new shares by Sumitomo Mitsui Financial Group Inc. which was the biggest such deal in the first half of the year. And Nomura was the sole lead manager for stock issuances by Toshiba Corp. and Nomura Real Estate Holdings Inc.

The amount that Japanese companies raised by issuing new shares during the April-June quarter was 5.8 times the year-ago figure.

The underwriting of corporate bonds was also robust, with the amount issued hitting an all-time high in June. Strong commissions from this field offset weak revenue from activities related to mergers and acquisitions.

Japanese corporations are still seeking to raise large sums in July and afterward. But because the market is unstable, as can be seen in the torpid Nikkei Stock Average, it remains unclear if brokerages will continue to enjoy brisk underwriting operations.

(Summarised from the Nikkei July 17 morning edition)

Thursday, 16 July, 2009

Kirin, Suntory Face Profitability Hurdle For Global Success

The entity to be created through the planned merger of (Lion Nathan parent) Kirin Holdings Co. and Suntory Holdings Ltd. would easily dominate the domestic market, but profitability problems could hamper its success on the global stage.

If the merged company is to successfully take on foreign rivals on their home turf, it needs to address this issue, analysts say.

To determine the strength of the envisaged firm, the corporate value of non-listed Suntory first needs to be evaluated. In the year ended last December, the firm had sales of 1,512.9 billion yen, making it No. 2 in the Japanese food industry. Its return on equity stood at 8%, the same as Kirin, and its capital-to-assets ratio topped 34%, demonstrating good earnings power and financial health.

If it was listed, Suntory's market capitalisation would be worth about 700 billion yen to 1 trillion yen, based on such data as EV (Enterprise Value)/EBITDA (earnings before interest, taxes, depreciation and amortization) and price-earnings ratio (PER).

Kirin's market cap is about 1.36 trillion yen. That of the new firm, including projected synergy, would be roughly 2.5 trillion yen -- by far the biggest in the food industry and on a par with major manufacturers Nissan Motor Co. and Nippon Steel Corp.

However, it still pales in comparison with the market caps of global heavyweights like PepsiCo Inc. of the U.S., about 8 trillion yen, and Anheuser-Busch InBev of Belgium, about 5.5 trillion yen.

The Kirin-Suntory group rivals these companies in sales, at a total of 3.82 trillion yen, but its lower profitability is the reason for the smaller market cap. The new company's operating profit margin is projected at 6%, and its ROE is 8%, compared with an ROE of 42% at PepsiCo and 28% at Coca-Cola Co.

The core operations of Coca-Cola and PepsiCo are to supply undiluted solutions to their sales firms, called "bottlers." This helps curb product development and sales costs. Their huge market shares are the main reason for their high profits.

"Excessive competition in the domestic market is dragging down the profit margin of the Kirin-Suntory group," said an analyst at JPMorgan Securities Japan Co. In the Japanese market, which accounts for 80% of their sales, some 600 beverage firms are vying against each other, locked in vicious price battles and forced to constantly come up with new products.

The very reason Kirin and Suntory are integrating is to boost profitability by slashing development and sales costs through the sharing of production facilities and distribution. Unless they improve earnings at home, their overseas operations cannot be solid.

Asian group firms of Suntory and Kirin include Cerebos Pacific Ltd., a major Singaporean health-food maker, National Foods Ltd. of Australia and San Miguel Brewery Inc. of the Philippines. All are major players in their respective countries, especially San Miguel Brewery, which enjoys a 90% domestic market share and an ROE of 50%.

(Summarised from the Nikkei July 16 morning edition)

Industry/Market – Australia

Friday, 17 July, 2009

Sekisui House To Foray Into Australia As Housing Developer

With Japan's housing market likely to continue dwindling in the coming years, top homebuilder Sekisui House Ltd. has decided to make inroads in Australia, where it plans to spend some 200 billion yen to develop around 6,600 condominiums, homes and properties over the next 10 years, The Nikkei learned Thursday.

This is the company's first full-scale investment in overseas real estate.

Sekisui House will focus on the east coast cities of Sydney and Brisbane, building 4,000 condos and homes and selling subdivision lots for 2,600 residences. Roughly 4,100 units will be sold in Sydney. At an average of 200 sq. meters, condos will sell for 30-50 million yen. They will be brought to market beginning in September.

Homes will be constructed using Sekisui House's wooden housing series platform, with building materials to be bought locally. The firm plans to operate a building materials plant in the suburbs of Sydney as soon as the end of next year. Output is likely to be enough for 200-300 units.

The marketing of developed land will initially be outsourced to a major local sales agent. But an area subsidiary established this past spring may begin direct sales in the future.

For starters, Sekisui House will establish a 15 billion yen operating fund, which will be used to run the business. It has no immediate plans to take out loans or issue bonds.

With Australia's economy faring better than those of the U.S. and Europe in the aftermath of the financial crisis, its real estate market is relatively stable. Given that the nation's population is also growing, thanks partly to immigration policies, Sekisui House anticipates stable business expansion.

The Osaka-based company had considered breaking into the Chinese and Dubai real estate markets, but deemed them risky because of frequent revisions to laws and turbulent prices. These markets were ultimately passed over.

(The Nikkei July 17 morning edition)

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