Radical idea to rethink car ownership

Market minds

Chat Slater

Can I interest you in a free car? Sounds too good to be true, you say. But you already get your new iPhone for "free", is it that hard to rethink the concept of car ownership?

This was just one idea that was presented last week at the Global Environmental, Social and Governance (ESG) Congress that I attended in Berlin. Presenters and panelists discussed investment opportunities and some of the winners and losers of the global shift that is taking place to incorporate ESG and sustainable investing into markets. Those investors who believe this is just a fad, I'd suggest, are at major risk of missing some fundamental shifts taking place around them.

If we return to the free car idea for a moment, consider this: the average car is not used 90 per cent of the time. It is driven from home to work and sits in the car park. We also know that battery storage is the biggest problem currently facing the grid in dealing with the intermittent supply of renewable energy. Lastly, we know that electric cars have relatively large batteries.

Why not bring this together: in return for a free car, you agree with an energy provider to allow the batteries to be drained to supply peaking power into the grid during the day as needed when the car is idle (leaving a minimum to get home).

You charge your car overnight using wind power or off-peak power, drive it to work and plug into the grid. Now, of course, your car isn't free in the same way your phone isn't free – you've sold the battery energy for the next five years to reduce the upfront cost.

Sound farfetched? Think again – it's

Private car ownership and petrol-powered road vehicles may soon be obsolete concepts. PHOTO: MELANIE RUSSELL

already a pilot project in Britain with Nissan. Given the presentation was in Germany, a country renowned for its auto makers, the winners who get this shift right versus the losers who miss out could be quite profound for that economy.

Another presentation on winners and losers produced a simple chart comparing the estimated losses from the so-called carbon bubble. The physics of burning hydrocarbons is relatively straightforward in calculating emissions, even if the range of outcomes is large. The proven coal, oil and gas reserves of world's hydrocarbon companies would emit 762 gigatonnes (Gt) of CO_2 if burnt. For the world to remain within the 2 degrees target, only 225Gt can be burnt. So the outcomes become: we either stay within 2 degrees and these assets are worthless and need to be written off, or, we burn the assets and the companies are worthless since a functioning global equity market in 5 degrees of warming and 800 million displaced people is somewhat improbable.

To give some idea of the scale of write-offs, it was estimated at double that of the US housing bubble of 2008.

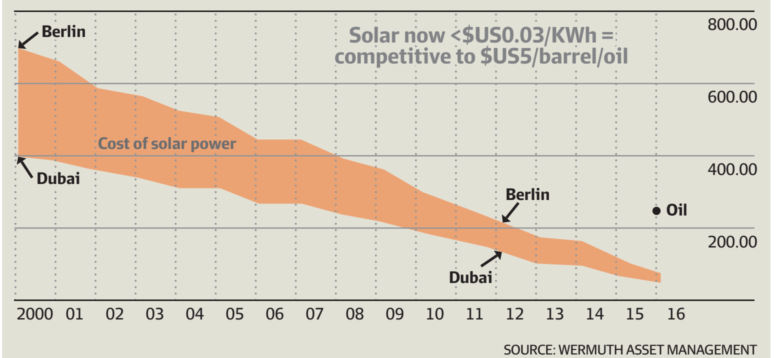
What investors then need to consider is where does their carbon investment sit within this bubble? Given that aircraft still need to use hydrocarbons, there will remain a need for oil. Saudi Aramco, which is due to float soon, is actually a winner out of this shift. Their reserves are high pressure, low extraction cost.

Fracking and US oil are losers. Looking locally, Oil Search was nominated as a potential loser.

Lastly, for the sceptics out there – and the funds management industry has a preponderance of those – one panellist appealed to self-interest, because as the saying goes, "always back self-interest in a race, at least you know it's trying".

The shining

Cost of power generation ($US/MWh)



SOURCE: WERMUTH ASSET MANAGEMENT

Saudi Aramco is actually a winner, fracking and US oil are losers.

For Millennials who have inherited money, 80 per cent of them sacked their parent's financial adviser because they felt their beliefs did not align. And what are those beliefs? Over 75 per cent of millennials globally nominated doing social good ahead of returns in importance (for Boomers it is the inverse).

An ultra-high-net worth adviser we spoke with, who oversaw more than $2 billion of family assets, summed it up as: "Based on the feedback from clients' children, I am here at the conference because if we don't start to offer investments that align with them, I don't have a business."

This is consistent with the 79 per cent of institutions at the conference nominating client demand as the reason for their interest. It's not coming from product pushing, they are being dragged in.

This will require the funds management and financial planning industries to move from a sole focus on the highest-return investment to a suite of products that offer a range of socially conscious options through to impact investing such as microfinance in India, where there is an explicit social good in the objective.

And that's not a bad thing for an industry that's held in such low regard that there's a royal commission linked to it. That's how capitalism works: self-interest leads to better outcomes for everyone.

Chad Slater is the joint chief investment officer of Morphic Asset Management.

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Spenceley's ventures in small cap plays

perspective of someone running a business. "I've been through the journey that all these guys go through, and they're all focusing on 'do I raise this amount of money?', 'do I not?', 'what do I do?' I've seen it now from both sides, I know the emotion you're going through worrying about diluting yourself right now, today, by raising the money now, versus waiting for the good news to come out and then raising the money later on."

Spenceley's advice is simple. Just raise the money.

"Get it off the table. Because even if you put good news out people are still going to think as soon as the share price goes up a little, 'oh they're going to raise money, they just put the good news out, they're trying to ramp the share price'. That's what all these cynical fund managers think."

With the benefit of hindsight and his new perspective, "I get to see how I got some things wrong at Vocus, to be honest, on the fund manager side, and equally now I can see how I can give some of these CEOs some feedback."

What he did not previously appreciate is how fearful the market is of businesses raising capital. That can go both ways; to any CEO who thinks they can resist a capital raising, they almost certainly can't.

"They end up raising money too late and at that point, what they don't realise is, all the fund managers know that they're raising money so they've all sold their positions or stopped buying and they end up raising at lower prices."

James Spenceley runs MHOR Asset Management. PHOTO: RYAN STUART

His simplest advice is to produce punchy and illustrative investor presentations that will get noticed in the avalanche of results briefings.

MHOR owns around 35 companies in its portfolio, is long only, and has returned 22.8 per cent in the year ending November, 2.3 percentage points ahead of benchmark.

As for Vocus, "I couldn't tell you now whether it's a buy or a sell. Momentum stuff is blowing up, even non-momentum stuff is blowing up," so MHOR has sought to avoid hot stocks and concentrated on mining services.

Alliance Aviation is a stock MHOR identified early, and has trimmed slightly since, that has performed strongly. "Great company, still own it, still massively love the management team."

You might know the business backwards but it's the fund managers that set the price.
James Spenceley

Spenceley was just in Nepal for a 24-hour visit to the Tiger Palace casino built by another holding, Silver Heritage, on the Nepalese side of the border with India. "They're basically trying to create a Macau for India. Now Indians love to gamble, gambling is illegal in India, and the only place you can gamble is in Goa, which is away from all the population and it's on riverboats, which you have to get to on tinnies so it's pretty terrible."

In terms of quality, he reckons the Tiger resort is qualia standard, and scrolls through his phone showing the quality of interior carpentry and materials.

Wagering business TopBetta is one that MHOR has backed heavily. Spenceley thinks it could be a $300 million company.

"They'll be turning over $1 billion next year, it's insane," he says. "These guys are going to disintermediate Tab and Tatts pretty quickly. That whole tote thing is owned by Tab and Tatts and these guys have been building around it. They're doing better odds to the punter, more margin to the corporate bookmaker, and these guys make 2 to 6 per cent."

Because it is publicly available information, "I got a software programmer in and we're scraping their pool sizes on a daily basis. I can tell you, today, what they're going to do on the next quarterly update."

Gary Rollo, who co-founded MHOR and is its chief investment officer, built a momentum tracking tool that they use to look at the rate of earnings revisions and price. If the price has expanded and consensus is flat, the stock is getting crowded.

"It's as important to know what other fund managers think, as it is to know the business. You might know the business backwards but it's the fund managers that set the price."

Spenceley's interview with *The Australian Financial Review* comes a day after Amazon's launch in Australia. He disagrees it was a fizzer, because it was expanding its range frequently through day one of trading. He owns no retail stocks, having exited Adairs.

Doing diligence on Asaleo Care, he spent $200 on Airtasker getting someone to drive around Sydney photographing the prominence of Sorbent toilet paper on Coles shelves.

"The big theory was Coles were shutting them out in a big dispute. I created an Airtasker task for someone to go to 20 or 30 Coles' and then take photos. That's probably less scientific but again, it's sort of thinking outside the box. Is there a problem? Let's go and do a meaningful statistical analysis of this."

Spenceley's other passion is his NBL team, the Illawarra Hawks, who were grand finalists in 2016-17. He finds he can be emotionless about stocks, even ones that lose money, but "you lose one game, it hurts".

And, he will hear about it.

"A fan believes that they have a right to say and dictate and be part of the decision making process of you running your business. A customer doesn't do that. They just buy your product or not and that's a much easier problem to deal with."

As the major tennant of the WIN Entertainment Centre, he has strong views on the NSW stadiums rebuild at a cost exceeding $2 billion. "I've gone to Stuart Ayres, the minister, for some assistance. Maybe we could just reduce our fee for the hire of the stadium in Wollongong, how good would that be? And I could reinvest that in the team, the local community, do more community marketing, which means I get more people along to games.

"All of that good stuff right, really logical, we're talking maybe $200,000 a year. Couldn't get that. Yet they're going to spend $2 billion rebuilding stadiums that clearly are pretty functional. I'm really frustrated by that."