Magnis accounts reveal debt danger

DAVID ROSS

The last minute filing of Magnis Energy Technologies' half year accounts has revealed a pile of debts and warnings over the financial future of the company, as questions linger over the fate of the company's battery gigafactory.

The accounts, covering the six months to December, reveal Magnis's increasingly dire financial situation, with $528,644 in cash in the bank and facing upwards of $16m in debts and trade payables.

The tenuous financial position led Magnis auditors Hall Chadwick to warn the company's future is in doubt, noting its status as a going concern was in jeopardy.

Hall Chadwick director Anh Nguyen said "that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our conclusion is not modified concerning this matter".

Mr Nguyen noted that although the company recorded a $14.4m paper profit over the six month period, this was the result of a derecognition of Magnis's exposure to iM3NY and its $US100m ($147m) debt pile.

Magnis, a former ASX small cap darling, has seen its value plunge from almost $700m market cap to just $50m amid turmoil around its major investments and an exodus of directors.

The filing from Magnis following the departure of director Claire Bibby, a life coach and lawyer.

It came on the same day the ASX revealed weeks of mounting frustration with Magnis over its corporate conduct and market disclosures.

The ASX had taken Magnis to task over its failures to reveal critical financial details, including its $4.6m lifeline from a club of wealthy investors, and it demanded the company detail the terms of its loan.

However, Magnis's latest filing reveals a previously undisclosed loan.

The accounts reveal Magnis tapped lenders for $2m in September last year before refinancing the debts to a $4.6m facility in November, secured against all its assets. This $4.6m loan, originally set to fall due on March 1 before being extended to March 31, sees Magnis face a mounting interest bill of 5 per cent a month and is likely to leave the company facing a $920,000 cash call in the coming days.

Money is still flowing out the door, despite Magnis's earlier assurance that payments to chair Frank Poullas and directors Peter Tsegas, Fabrizio Pirelli, and Hoshi Daruwalla had been suspended.

The accounts reveal Magnis paid $324,822 in directors fees in the six months to December, up on the $312,345 reported in the same period a year prior.

Magnis also paid $178,980 in consulting fees and IT services to a company associated with Mr Poullas, Strong Solutions, which also employs his brother Emmanuel Poullas.

Magnis's accounting treatment of its subsidiary iM3NY has not gone without criticism, with the ASX compliance team warning it would not tolerate the move to deconsolidate the gigafactory and taking aim at the company's repeated disclosure failures.

Magnis is now seeking to recast itself as a graphite miner, with its Tanzanian mine Nachu now pitched as the future of the 16-year-old listed company.

Despite Magnis's attempts to suggest it has extracted itself from iM3NY, the company has left the door open to regaining its interest in the gigafactory.

Magnis notes in its accounts that it is working with PwC to refinance its $US100m loan, but cautioned that despite meetings with potential investors "there can be no assurance that the refinancing efforts will be successful".

Magnis is also still exposed to the fortunes of the battery factory, with the company noting in its accounts it had provided a $4.82m trade payable guarantee on debts incurred by a subsidiary in the six months to December.

Charge CCCV, Magnis's venture partner in iM3NY, is also attempting to carry on with the factory despite the total breakdown in the relationship between the two.

'Nvidia no bubble – and better than private equity'

PAULINA DURAN

Nvidia's shares are not in a bubble. And Bradley Amoils – a growth-obsessed investor whose fund returned 47 per cent in the past year – says that calculated bets in Nvidia and other high-growth megacap stocks are smarter than investing in private equity.

New York-based Amoils is the lead portfolio manager of Axiom Investors' global equity strategy and first invested in what has become the world's hottest stock in December 2022.

The growing excitement surrounding artificial intelligence has made Nvidia's chips highly sought-after, propelling it to become the third most valuable US company and sparking concerns about a potential bubble.

But Amoils says the AI chip maker, which accounts for about 6 per cent of the portfolio he oversees, has seen earnings grow much faster than its valuation.

"Nvidia's earnings have moved up fivefold in terms of the expectation of the absolute level of earnings in the last year. However, the stock has only moved up about fourfold," he tells The Australian during an annual roadshow around the country.

Axiom manages over $US20bn for investors and partners with Sydney-based Pengana Capital.

Amoils says Axiom is actually sensitive to valuations and doesn't like paying "glamorous valuations for glamorous growth", in the words of the value-driven co-founder of distressed debt fund Oaktree Capital, Howard Marks.

Instead, the fund looks for opportunities that rank high on its proprietary scorecard, which uses over a million data points from about 6000 companies to provide real-time scores to potential investments.

In the case of Nvidia, its investment team noted that of the 12 million servers that were sold in 2023, only about 1.8 per cent had Nvidia's parallel processors which power generative AI.

The forecast for 2024 is for a doubling of that proportion to 3.5 per cent, and potentially 5.3 per cent by 2026.

"So a very small fraction of the servers are being enabled for AI ... (but) this is really only the beginning," he says.

That is because generative AI is currently being used primarily in chatbots but the technology is expected to evolve into "action" agents, requiring even greater adoption of powerful graphics processing units (GPUs) from Nvidia.

Amoils says that in the current bifurcated environment, growth opportunities in public markets are scarce but very attractive.

To illustrate, he highlights the fact that S&P 500 companies grew profits by 7 per cent in the fourth quarter of 2023 compared to the same period a year earlier, raking in $US35bn more profit. But Nvidia alone accounted for $US10bn of that growth, or about a third of the jump.

The top six earners – which also include Amazon, Google's parent Alphabet, Facebook's Meta, Apple and Microsoft – accounted for 130 per cent, or 1.3 times the growth of the entire market. Conversely, sales in the bottom 15 companies – usually cyclical names sensitive to higher interest rates – went backwards by $US35bn.

Only about 15 per cent of companies in the US market index have sales growth expectations significantly above mid-to-high single digits.

"Because of this ice and fire environment, the top growers are disproportionately entrenching their position. They are able to grow, enhance their technologies and ... outpace competitors," he says.

In Axiom's framework for categorising four "D" trends – demographics, debt, deglobalisation and disruption – the first two are dubbed "ice", representing the effect that trends such as an ageing population, declining birth rates and high debt levels can have on economic activity.

The other two are in the "fire" category, including trends like changing trade patterns, near-shoring or offshoring of supply chains and rapidly advancing disruptive technologies that are catalysts for new growth opportunities.

"Growth is very scarce," Amoils says. "But we're really at a good time for both public equities and active growth equities.

"The universe is really ripe for folks that are able to cherry-pick a couple dozen stocks and really benefit from some fundamental truths that are here to stay in terms of capital markets and the global economy."

Amoils also argues that, due to the opacity of the $5 trillion private equity industry, combined with rising interest rates, high leverage and concerns about valuations, investors should reconsider their "overallocations" to PE in this environment.

"Many investors are disproportionately over-invested in alternatives and private equity ... and over the last year or so many of the concerns that were front and centre for public assets after the financial crisis are now becoming questions for many of the private markets," he says.

"That is, the obscurity of pricing, the opportunity for unexpected surprises and the over-allocation to the asset class as opposed to public debt and equity that are much more transparent and much more liquid."

His comments come as concerns mount over potentially inflated valuations of private equity and other private assets, coupled with a growing debate on whether expensive PE allocations truly outperform public equities, outside those made by superannuation funds that can use their size to bring costs and fees down.

Axiom's global equity fund invests in almost 50 companies and has outperformed its MSCI index over most time periods except the three-year horizon, when it underperformed its benchmark by 1.8 percentage points.

About 43 per cent of the fund was allocated to the top 10 positions as of December 31. Besides Nvidia, that included blockbuster drug makers Eli Lilly and Novo Nordisk, Amazon, Microsoft, ServiceNow, Alphabet, Visa, Taiwan Semiconductor Manufacturing Company and Adobe. Late last year, the company sold out of car maker Tesla, previously one of its top 10 holdings, due to a more challenging earnings outlook and governance concerns.

The decision came when Axiom's real-time data scoring system showed that weaker pricing trends, a slowdown in the EV market and delays in new products such as full-self driving cars meant Tesla's operational "dynamism" was slowing.

Factors around management responsibility and governance were also part of the decision, Amoils says.

"The governance, the questions around the founder as to whether (Elon Musk) is acting in the most responsible way and best interests of outside investors, do influence our score, and is a really key real-time risk control parameter that makes sure we're being prudent in how we allocate capital," he says.

Tesla's fourth-quarter earnings disappointed investors in January, driving most of this year's 27 per cent plunge in its shares, after gaining 102 per cent in 2023. Musk also is fighting a shareholder lawsuit over a $US55bn remuneration package they say is excessive.

"We clearly like these companies that have very long-tailed conceptual opportunities with very large market share. "However, the short term and medium term information flow has to validate the thesis" Amoils says.

NCA NEWSWIRE/NICKI CONNOLLY

Axiom Investors portfolio manager Bradley Amoils says Nvidia's profit is growing faster than its valuation

Pressure on RBA's new team to perform

JAMES GLYNN

This week's board meeting at the Reserve Bank marks the start of a new era for the central bank. It will be the first fully staffed gathering since September last year, when former governor Philip Lowe ended his seven-year run at the helm of the RBA.

A big hole on the bank's board was filled in recent weeks with Andrew Hauser's arrival from the Bank of England to take up the position of deputy governor at the RBA.

The RBA also has a new chief economist, Sarah Hunter, who joined the central bank from the Department of Treasury at the start of the year, and already has one policy meeting under her belt.

The bank's return to full staffing will come as a great relief to governor Michele Bullock, who has had to shoulder many additional responsibilities over recent months, not least of which was starting to implement the recommendations of the government's recent review.

The policy meeting, which starts Monday and ends Tuesday with Bullock fronting a press conference, marks a new phase for a central bank that is still trying to repair its reputation after interest rates rose at an unexpected pace, while also attempting to deliver a soft landing for the economy.

What's clear is that the new team driving policy decisions at the RBA is vastly different from what went before.

With the economy growing at its slowest pace in 30 years and inflation putting up dogged resistance, it might be worrying that the RBA's top ranks seem to be somewhat lacking in experience, and won't grasp the peculiarities of the Australian economy.

When Lowe departed last year amid a backlash over rapidly rising interest rates, he took with him more than four decades of top-flight central banking experience. Love him or hate him, it's indisputable that Lowe is a respected central banker with an international reputation for leadership and policy implementation. The RBA was dealt a similar blow when Guy Debelle, another highly respected economist with vast experience, left the post of deputy governor in early 2022.

Then in mid-2023, chief economist Luci Ellis walked away from the central bank, depriving it of decades of policy-making experience that helped shape the country's response to various upheavals.

By comparison, the new policy team looks a little underprepared in terms of hours spent grinding away in economic research departments tinkering with forecasting models.

On paper, that should matter. But in reality, it probably won't.

Bullock, who comes chiefly from the side of the RBA that keeps an eye on the stability of the financial system, has so far proved to be a gifted communicator of the central bank's policy stance.

Her calm demeanour before politicians and the media has made her popular with financial markets, while she's also reaching the suburbs where soaring mortgage interest rates are fanning misery. Bullock is also popular within the RBA, where she has fostered a more inclusive internal debate about the economy, which is something that was lacking in recent years. Meanwhile, it is expected that Hauser's skill set will bolster the bank's oversight of financial markets and readiness to meet global shocks head on.

Hauser's career in central banking began amid a British currency crisis in the early 1990s. He was present through the collapse of Lehman Brothers, and helped devise an economic response to the pandemic. Hauser is a battle-hardened central banker, who most notably has the confidence of his predecessor Debelle, who has, according to reports, been introducing the newcomer to Australian Rules Football.

Meanwhile, Hunter spent only a year in Canberra at the Department of Treasury before arriving in the hot seat of economic forecasting at the RBA. But prior to that she carved out a profile as a private sector economist, and has academic credits from both Oxford and Cambridge universities.

The new team is charged with getting the economy to a point where fears about inflation can be put aside, clearing a path to interest-rate cuts. And quickly.

The pressure is on.

Support for negative gearing change

BEN WILMOT

Most Australians are open to winding back tax handouts for property investors, with less than a quarter supporting the status quo, according to a new poll commissioned by Everybody's Home.

The poll by the organisation, which is backed by a coalition of housing, homelessness and welfare organisations, comes amid a growing rental and housing crisis, which has prompted a push for changes to policy settings.

Rental affordability in Australia is now at its worst level in at least 17 years, according to research house PropTrack, as there has been a surge in rents after the pandemic, with supply failures being blamed for the problems.

The RedBridge poll of more than 1500 Australian voters found 58 per cent supported limiting or abolishing negative gearing and the capital gains tax discount.

Voters who don't own an investment property are more open to reform, with 62 per cent support of changes. But there is also some resistance, with one in five voters unsure about a policy switch and 22 per cent against altering policies.

The poll found nearly half of voters – 47 per cent – were in housing stress and spending at least 30 per cent of their income on housing. About 32 per cent were spending 40 per cent or more. Younger voters in the 18-34 year old bracket were hit the hardest, with half of that cohort spending 40 per cent or more of their income on housing, compared with just 9 per cent of those aged 65 and older.

Everybody's Home spokeswoman Maiy Azize said housing stress was rife and many voters could see that investor tax handouts were unfair and made the housing crisis worse. "Most voters support the federal government limiting or abolishing tax handouts for investors. Less than a quarter want to stick to the status quo. The appetite for change is here, and it's happening in the absence of leadership from the major parties who are afraid to champion tax reform," Ms Azize said.

Stocks likely to drop as investors await bank's rate call

ELI GREENBLAT

The attention of markets will turn to the Reserve Bank of Australia meeting to be held on Tuesday, as investors adjust to the new regime at the central bank.

The RBA dumped regular meetings on the first Tuesday of every month to only eight meetings a year when assessing monetary policy.

It comes as Wall Street closed lower on Friday night, likely pushing the Australian market into the red when trading begins on Monday with investors unlikely to enjoy an interest rate cut just yet.

The RBA may use sticky US inflation as another reason for it to remain cautious for now at its upcoming meeting, according to AMP chief economist Shane Oliver.

"In Australia, the RBA is likely to leave interest rates on hold at 4.35 per cent and retain a mild tightening bias by repeating that "a further increase in interest rates cannot be ruled out"," Mr Oliver said.

"Since the last meeting monthly inflation came in weaker than expected but is yet to see updates from key services prices, wages growth came in slightly stronger than expected, GDP growth has slowed in line with RBA forecasts although consumer spending is weaker, and unemployment rose more than expected although this may be partly due to changing seasonal patterns.

"Given the generally slowing but somewhat mixed readings the RBA is likely to sit on its hands still waiting for more confidence" over the RBA's rhetoric that inflation is moving sustainably towards the target range.

Mr Oliver said he continues to see the RBA gaining that confidence by June and being able to implement the first cut then but conceded there was a high risk it could be delayed until August.

GSFM investment strategist Stephen Miller said the circumstances facing the RBA as it prepares for its board meeting this week are a little more challenging.

Michele Bullock

"Inflation is declining but is still some way north of the target even as economic activity languishes. For a RBA charged with a dual mandate on containing inflation and minimising unemployment, balancing those risks is a tricky undertaking.

"Indeed, it makes the previous governor's 'narrow path' resemble a tightrope."

Meanwhile on Wednesday in the US, the Federal Reserve is expected to leave interest rates on hold and continue to signal three rate cuts this year.

The Bank of England on Thursday is expected to leave its key policy rate on hold at 5.25 per cent and signal that it remains cautious.