

## Australian Investment Opportunities

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On 7 September, Australia elected a new Government from the more conservative Coalition parties. This will impact some important areas of investment opportunities in Australia that any potential investor should understand. However, the overall investment attractiveness of some sectors in Australia remains compelling for international investors.

### Safe Investing in Australia

Australia is the only developed country that has not gone into a recession since the start of the global financial crisis. It has a mature financial sector with strong regulatory oversight that provides reassurance for investors that funds are managed in accordance with strict governance standards.

With abundant natural resources, progressive economic policies and a 'can do' attitude, Australia is a great place to look for smart investments delivering good returns.

Because of the strong governance framework that ensures transparency and honesty by investment managers, the easiest way to invest into Australian assets is through a regulated managed investment fund. As an international investor, there are five specific aspects that you should look for when deciding which fund to invest into:

- 1. Rigorous Investment Analysis** - the investment team must have a structured and detailed investment assessment process with specific guidelines on which assets it will and, more importantly, will not invest in. This must also include a way of transparently ranking potential investments to prioritise investments. You should ask any fund for their processes and criteria and examples of how it is used before agreeing to invest.
- 2. Invest for the Long Term** - the strength of Australia is its stability and long term steady growth. When investing into assets in Australia, the focus should be on low risk assets that will provide a safe haven for investment dollars. There are of course high risk investments available in Australia, mainly in the resources and mining sector, but the best long term prospects are in more stable sectors.
- 3. Investment Appropriate to Asset Risk Profile** - the investment fund should consider a variety of investment types in accordance with its overall strategy. The most successful funds over the longer term have a portfolio of assets with a range of scales, sectors and risk profiles. The type of investment made into each asset needs to differ dependent on these factors. A good fund will have a strategy to achieve this portfolio diversity in a structured manner.
- 4. Invest as Business Owners** - many investment managers make do with sitting at their desks and reading monthly reports from their investee companies. This is a strategy that will never deliver the greatest value and has significant inherent risks. To be able to manage investments effectively, the investment manager must treat each investment as if it were their own business. They must visit operational sites and build strong relationships with operational managers. For major business decisions, the investment manager must be involved and provide guidance to ensure the best outcome for the business and its investors. Before investing, you should ask the investment manager how they manage

their investments, how closely they are involved in major business decisions and to provide examples of how this works in practice.

- 5. Open Communications** - Finally, it is essential that the fund managers are willing to have regular and open communications with all of the fund's investors. They should be happy to discuss at any time details of specific investments. Before investing, ask them for references of existing investors who may be able to provide you comfort on this aspect of the fund.

A recent change to the investment environment in Australia has been the introduction of a new visa class that enables Significant Investors to quickly access Permanent Residency. The Significant Investor Visa (Subclass 888) was introduced in November 2012 and allows easy access to Permanent Residency for anyone investing more than A\$5m in approved investments and holding the investment for at least 4 years. Applicants need only spend 160 days in Australia over the four years and there is no age limit or need to pass a language test.

When looking at investment options, it is therefore also worth considering whether the fund is compliant with the rules of this visa to provide an option for residency if wanted. One thing to be careful of is some organisations profiteering from the visa application process. If you are looking to secure a visa, ensure that you research the options and where possible get any fees included in longer term relationships to ensure that you are being treated well.

## Election Impacts

The election of a new Australian Government always brings changes, just as is the case with a change in the leadership in China. The changes are usually fairly steady to avoid any unnecessary economic shocks but it is important to understand the subtle changes in direction before selecting where to invest. Combined with this, it is also essential to understand the overall macro-economic trends underway within a target country to ensure that investments are placed at the right point in the growth cycle of a sector.

Some key policy and economic trends in Australia are as follows:

- **Pro-investment Government** - The Coalition Government was elected on the basis of being pro-investment and on looking to reduce the size of Government and increase the size of the private sector. This means that it will gradually introduce policies that will favour investors and investment funds making 2014 a good time to consider Australia as an investment destination.
- **Infrastructure Spend** - Following the election victory, the new Government has promised to increase infrastructure spending to help stimulate economy and counter the impacts of the slowdown in the mining sector.
- **Agribusiness Issues** - One area of investment that the Coalition Government does not favour so much is Foreign Direct Investment into agribusinesses. One of the Coalition partners is the party that represents farmers and they are worried about being bought out by foreign companies. The best way to invest in this thriving sector is therefore through a focussed investment fund based in Australia that will be considered to be a local investor.
- **Mining Slowdown** - Australia has survived the global financial crisis almost entirely because of the strength of its resources sector and the ongoing strong demand for coal and iron ore primarily from China. However, the level of investment into new mines is rapidly reducing and the options for profitable mining investments are now

less obvious. There are still some good projects being developed but the opportunities for international investors are now limited and far more speculative.

- **Currency Correction** - The recent exchange rate change for the Australian dollar from nearly US\$1.10 back to US\$0.93 has had a significant impact on businesses in Australia. Exporting businesses that have been struggling with the high dollar are now more profitable and the importing businesses are now finding life harder. The forecasts are for the exchange rate to remain in the mid-90s so it is important to understand how this will impact any investment going forward and how that will differ from past profitability.
- **Strong Housing Market** - The housing market in parts of Australia has been strong over the last year recovering from its flat returns over the previous few years. Much of this has been driven by increasing interest from international investors and is being maintained by the ongoing low official interest rate of 2.5%.
- **Cleantech Becoming Mainstream** - Another important trend that is being driven by industry and households and is supported by Government is the growing acceptance of cleantech products and services as mainstream solutions. The primary driver of this is one of reducing costs, reducing wastes and being more efficient. Investment opportunities in cleantech include project and technology investments ranging from solar and wind farms through to light manufacturing and water treatment plants. All of these areas are growing rapidly and becoming standard solutions that are adopted widely.

## Target Investment Sectors

The sectors of Infrastructure, Property, Agribusiness and Cleantech each have strong growth profiles in Australia and contain some excellent investment opportunities.

- **Infrastructure** - Infrastructure for the resources sector has provided significant opportunities for new construction of large scale assets such as rail and ports over the last few years. Some of these projects continue despite the downturn in the mining sector. The new Government is also pushing new infrastructure investment into roads and broadband networks that is driving much of the non-mining economic activity. In addition, there are many opportunities for investment into water, waste, recycling and renewable energy assets, all of which are largely driven by Government policies aimed at reducing environmental impacts through the use of private sector investment. A recent example of an infrastructure investments have included FRV's \$50 million financing of its 20MW Royalla Solar Farm.
- **Property** - The Property sector in Australia offers niche investment opportunities and can provide solid returns if the investments are chosen carefully. There are opportunities that range from stable long term tenancies from Government tenants through to higher return opportunities for selected development projects. In its recent Investment Guide, RP Data forecast that property values are set to double over the next ten years in 263 suburbs around the country and the rental income will also double in almost 800 suburbs.
- **Agribusiness** - Agribusiness investments in Australia are also an attractive proposition with the potential to increase production of high quality food produce to help feed the growing demands of the Asian market. The issues with foreign ownership present some hurdles but the fundamentals of the investment still remain strong. Recent examples of transactions in this sector include Australian Pastoral Fund securing \$180 million from Michigan Municipal Employees' Retirement System

to purchase large-scale cattle and sheep farms in the northern and eastern Australia and the US-based institution TIAA-CREF announcing its intention to buy 60 per cent of the PrimeAg Australia land and water portfolio for \$125 million.

- **Cleantech** - Finally the opportunity to invest into technology businesses, and in particular cleantech businesses, also has very good prospects. Where this type of investment can be particularly beneficial for international investors is when the investor is also able to provide access to new markets for the technology provider. For instance, many Australian cleantech companies recognise the potential of the Chinese market but many struggle to find a suitable local partner. At the same time, they are often seeking investment to help expand operations. A solution can be for a Chinese investor to provide the expansion capital and then also use the investor's connection to help with market entry. There are many cleantech companies in Australia that would benefit from this type of relationship and would be able to provide strong investment returns for their partners. Some of these companies are profiled below.

### **Cleantech Investment Opportunities**

Each year, the [Australian Cleantech Competition](#) finds the country's best cleantech companies and helps them to find partners and investors to help their growth. The competition is funded by Government and has a focus on assisting the best companies to form global relationships. The Top 30 companies are each given extensive mentoring and the judges look at every aspect of the companies before deciding on the Finalists and the Australian Winner. The advantage for investors is that the companies have had this extensive due diligence completed on them by industry experts. Prospective investors are therefore able to bypass much of the preliminary due diligence if they have an interest in these companies.

This year investors are flying in to Sydney from China and Korea for the Awards ceremony and to meet with these leading companies. These groups see the companies as not only good potential investment targets but also companies that might benefit from expanding their market into the investors' home countries. Tsing Capital from Shanghai, China's largest cleantech venture capital firm, will be attending and meeting the companies.

The eight Finalists for 2013 are:

- **[BluGlass Limited \(ASX:BLG\)](#)** - BluGlass is a semiconductor company bringing to market a breakthrough in the LED lighting and solar industries called Remote Plasma Chemical Vapour Deposition (RPCVD). RPCVD is a revolutionary approach to the manufacture of group III nitrides which are essential components of millions of electronic and power devices.
- **[Elevare Energy](#)** - An Australian power electronics company using its technology to make energy storage with batteries commercially viable reducing emissions and rising power prices. Solutions include community energy storage and the dSTATCOM that solves Power Factor Correction for commercial sites.
- **[Global Future Solutions](#)** - Global Future Solutions is an Australian biotechnology company producing environmentally safer products for the oil & gas, poultry, life sciences and sanitation industries. Its patented products address the potential contamination in these industries and have worldwide application. In particular, GFS MEGR 102 is an environmentally friendly fracking fluid designed to replace the toxic biocides currently used in the unconventional shale oil gas industry worldwide. This is one of the key issues opposing the unconventional gas industry. It is not only safe but more effective than currently used toxic fluids.

- **Microheat Technologies** - MicroHeat Technologies has developed an advanced patent protected fluid heating technology that delivers energy optimisation & water consumption reduction. The Technology uses a 'direct energy transfer' method of heating for applications such as instantaneous hot water systems with a small footprint that can be installed at the point of use.
- **Organic Response** - Organic Response is a revolutionary lighting control system using Distributed Intelligence to deliver maximum energy savings with optimal occupancy comfort. Uniquely, the technology requires no additional design, hardware, wiring or commissioning to install. The system allows other building management systems to access and exploit its real time, location specific occupancy information to make more intelligent decisions and improve their own energy efficiency.
- **RayGen Resources** - RayGen is creating the lowest cost power generation technology in the world - and it's renewable. RayGen's solar technology combines the most efficient solar cells (>44%) with mirrors, the lowest cost and the most efficient collector. Unlike all other PV systems, RayGen separates collector and generator to optimize each independently. This provides a breakthrough in cost reduction.
- **Specialty Coatings** - EnerSheet™ is a large format resin-impregnated fibreglass composite roof sheeting product with embedded thin film solar photovoltaic (PV) material. EnerSheet™ is easy to install and is Australia's only building-integrated PV (BiPV) roofing material.
- **Z-Filter** - Z-Filter, separates solids from liquids, by trapping them inside a single, zippered, filter element a 'Sock'. The Z-Filter continuously filters separates, rolls, compacts and compresses the solids inside the sock expelling the liquids to provide a dry cake. Z-Filter's 'Filtration Innovation' is the most efficient means available to separate solids from liquids.

These finalists will compete for the title Australia's best clean technology at a live judging showcase in Sydney on 2 October.

The Australian Winner and other competitors in the Top 30 will attend a trade mission to Hong Kong, Nanjing, Shanghai and Singapore in November to meet with potential partners, customers and investors and develop their export markets. They will be exhibiting at the China International Environmental Protection Industry Expo in Nanjing on 6-8 November and holding investor meetings in both Hong Kong and Shanghai that week.

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