



Playing safe

THE RESILIENCE OF BORING INFRASTRUCTURE

Nobody is yet jumping off buildings, but there are plenty of investors who have been hurting for much of the past year as share markets did their best flying anvil impressions.

The *Metro* Portfolio has been hit along with just about everyone else (the only escapees being those who sold up and put their assets in cash).

Fortunately, it has managed to minimise the pain by having a couple of "cornerstone" shareholdings consisting of large, semi-monopolies with resilient businesses. Currently these are Auckland International Airport and Contact Energy. However, with the outlook for the global economy and share markets continuing to be uncertain, it is prudent to expand the portfolio's exposure to another resilient sector – infrastructure.

boring parts of a country and its economy – roads, waterworks, dams, power stations and the like. Unglamorous they may be but they provide an essential platform for economic activity and therefore have a high priority when it comes to replacement and refurbishment. Also, because the costs of building a dam or a new motorway are so large, the funds tend to come from governments and local authorities.

Such entities are less market sensitive than companies (mainly because there is no profit motive) and the projects tend to take years to implement. As a result, companies which work on these projects have very reliable sources of income even when an economy slows. Often, in fact, governments increase their spending on infrastructure during economic downturns to try to soften the blow to businesses and consumers. And governments tend to be good payers thanks to their tax-and-spend models.



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One company on the New Zealand Stock Exchange that is a beneficiary of infrastructure spending locally and overseas is Opus International Consultants. Opus had its origins in the Ministry of Works and Development (a former New Zealand Government entity), established in 1885.

Subsequently privatised, it was acquired in 1996 by Opus of Malaysia. Thanks to a period of international expansion, it is now the largest professional infrastructure consultancy in New Zealand and has 71 offices and 11 laboratories in this country, Australia, Canada and the UK.

It listed in 2007 and its first result was above forecasts. Revenue of \$296 million exceeded the prospectus forecast by nearly six per cent and net profit of \$14.2m was nearly five per cent better.

For the six months to June 30, 2008, the company reported a \$9.1 million profit, up 38 per cent on the previous corresponding period. But the company has indicated that its second half won't be quite so flash thanks to adverse conditions in the UK. The good news is that OIC should make its prospectus forecast of a \$15.8 million net profit.

To try to "future proof" the *Metro* portfolio against further bad news, we are adding Opus and removing Guinness Peat Group, whose fortunes tend to be more closely aligned with the markets. •

** David McEwen is managing director of Investment Research Group Ltd.*

A disclosure statement is available at no charge from 0800 IRG NOW (474-669) or from www.irmg.co.nz