$48m message to invest elsewhere

TAX ATTACK: Discouraging visitors from investing here is sending the wrong messages.

PAT GERACE
OPINION

WHILE the battle lines are firmly drawn on the bank tax, there's another $48 million tax in the Budget that hasn't had as much attention.

It's a $48 million tax on foreign residents and investors who want to invest in our state.

So, you might ask "what's the problem with that? The other states do". That's true, but they don't have one of the lowest population growth rates in the country or weakest demand for housing.

The reason from the Government for this tax is it's a measure to keep housing affordable. The only problem is that the affordability crisis due to a lack of supply interstate hasn't happened here. The stats speak for themselves.

According to the Foreign Investment Review Board, there were more than 17,000 proposed foreign investments in Victoria but in SA there were just under 900.

We shouldn't forget that the property sector here in SA employs about 65,000 people and while we haemorrhage jobs from other sectors such as manufacturing, it's the housing and construction market that keeps us going.

And remember, some of the biggest home builders in our state are SA-owned and operated companies.

It's just obvious that this new tax sends all the wrong messages for investment and is completely at odds with the Government's other jobs announcements.

We hear the Government telling us all the time we are one of the most affordable places to live and "come to SA" but now it is imposing a duty apparently to slow down housing price growth.

On any rub, it's hard to see how the solution to a problem we don't have here isn't simply more than just a new way to increase government revenue.

If we are truly open for business we need to be more serious about it. Being duty-free could have been a point of difference used to our advantage.

Growth is what we need to focus on and anything that stops it should be avoided.

What a great incentive for potential overseas students whose parents are thinking about buying a property for them to live in.

The best advertisement for high net worth individuals considering investing in our state would be through them visiting and seeing firsthand what we have on offer.

The same goes for an advanced manufacturing employee and their family working on the new subs.

This tax could be the difference in some of the smartest people in the world choosing to live here.

We must do all we can to make it easy for them to invest in SA and just maybe they might then develop a more permanent link to our state and be a part of our long-term future. What would be wrong with that, one of them might even become the Treasurer.

Recent events have shown it's easy to pick on those who don't have a voice and particularly those who don't get a vote.

This tax will just mean more people will choose to invest somewhere else and there will be fewer jobs for locals. It just sends all the wrong messages.

PAT GERACE IS CHIEF EXECUTIVE OF THE URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (SA)

Building hi-tech skills

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"We should aspire to be a technology leader, to grow our defence exports," he said, adding the F35 will be internationally competitive but a long-term export vision is called for.

"We can export some of the tier-2 equipment that goes with the frigate. Tier 2 is not the frigate itself but some of the materials that go in it will provide the same opportunities."

There is, too, a practical appreciation of where defence and security sit in the bigger picture. "It's the ADF (Australian Defence Forces) who do the hard job," Mr Phillips said but he cites an emotional bond that draws employees to being creative in the name of helping look after the security of their country.

The longevity of the Defence programs calls for diplomacy, he says.

"It's really important we have bipartisan support," he said, adding Federal Defence Minister Christopher Pyne has been a "fantastic advocate".

And don't forget the bigger picture. "There will be a wider economic uplift, driven by visionary defence capability," he said.

"The next four or five years is going to see demand for project management, supply chains, things that come first. It's high value, we need to build demand."

Construction sector continues to build

ACTIVITY in the Australian construction sector expanded in June for a fifth consecutive month, staying on track despite a dip in apartment building.

The Australian Industry's Performance of Construction Index slid 0.7 points to 56, holding well above the 50-point mark that signifies expansion.

Ai Group head of policy Peter Burn said the sector's immediate outlook was positive, with new orders growing across the board even as apartment construction came down from a strong May.

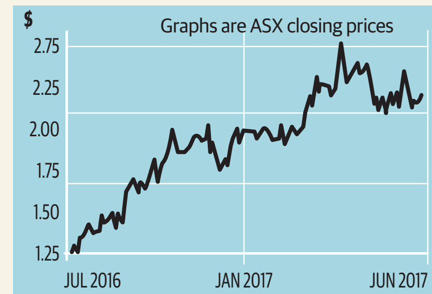
"In good news for the overall stability of the economy, the orderly easing back from the historically high peaks in apartment building is now being complemented by the long-awaited lift in commercial construction," Dr Burn said.

Housing Industry Association chief economist Tim Reardon said the homebuilding cycle was now entering a new phase in which apartment building would contract noticeably while the easing in detached home construction would be "far more measured".

SATURDAY STOCK TIPS

David Dall, Senior Investment Adviser, Shaw and Partners

NATIONAL VETERINARY CARE (NVL) - BUY

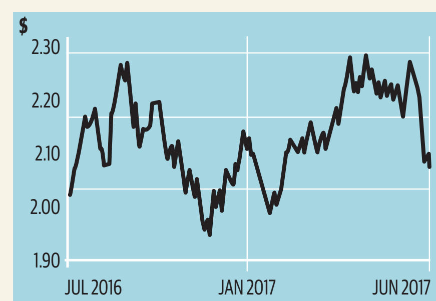


■ **Healthcare equipment and services**
Market cap: $127 million. **Target price:** $2.90. **Year high:** $2.78, 07/04/2017. **Year low:** $1.34, 08/07/2016.

Shaw and Partners was lead manager for NVL's recent capital raising in which it raised $14.6 million at $2.25 a share in an oversubscribed placement.

The funds will be used for four acquisitions, to retire debt and provide capacity for future acquisitions. Each acquisition is still meaningful to value accretion and given the highly fragmented market it operates in, with only one other company of significance acquiring, we see the opportunity for NVL to continue acquiring at accretive multiples sustaining long-term growth. NVL also announced the divestment of a low-margin specialty practice. Shaw and Partners' forecasts for FY18 (EPS +4.5 per cent) and beyond are revised up, our target price increases to $2.90 (from $2.80) and our buy rating is reaffirmed.

MIRVAC GROUP (MGR) - BUY



■ **Real estate**
Market cap: $7.71 billion. **Target price:** $2.31. **Year high:** $2.35, 02/05/2017. **Year low:** $1.95, 21/11/2016.

Much focus has been on MGR's residential development business, however many forget it is a very capable commercial developer as well.

We estimate $125 million of potential trading profits from the 50 per cent sale of the two Collins St developments could flow through to earnings over FY18-FY20. The potential sell down of these two assets has been previously flagged by management. This sale could mitigate any concerns over any potential slow-down in residential sales volumes (or pricing/margin declines) over the same period. Until there is a formal announcement confirming the sale of these assets, we continue to assume MGR will hold 100 per cent ownership of the assets through to completion, providing a predictable income stream from rent.

Shaw and Partners retains a price target of $2.31.

MEDLAB CLINICAL (MDC) - BUY

■ **Pharmaceuticals, biotechnology**
Market cap: $82.47 million. **Target price:** $1.10. **Year high:** $0.945, 28/03/2017. **Year low:** $0.335, 18/08/2016.

Since listing in July 2015, MDC has made substantial progress towards its short and longer-term objectives. Recently MDC announced ethics approval to trial two cannabinoids which could potentially be commercially available by prescription in 2018, via the TGA special access scheme. The trials are fully funded (MDC is expected to be cashflow positive in 2018) and with positive data it will be in a strong position to partner (this is in addition to its partnering opportunities in generics). This announcement is a major step for MDC. Shaw and Partners' forecasts, and MDC's target price of $1.10 and buy rating, remain unchanged.

■ Any tips given here about companies, their prospects and valuations are general advice only.For specific advice, please see a financial adviser