

Consumers off the fence

Sue Mitchell

As the Reserve Bank contemplates raising interest rates for the first time in three months, it should have a quick word with wholesaler HGL.

With interests in 10 niche businesses ranging from craft supplies, model cars and beauty products to lighting and large-format photocopiers, the company — once described as the Berkshire Hathaway of Australia — has a rare insight into the strength of demand among consumers and small to medium-sized enterprises.

“Consumer sentiment had been patchy and unreliable but over the past six weeks we have noted demand to be a little more reliable and a little stronger,” says chief executive elect Mike Mahoney, who is due to take over from long serving chief Kevin Eley in February.

“A lot of consumers were sitting on the fence and there were some days they got off that fence and headed into the shops and others where they were sitting there all day,” he said.

“The last thing we want is for anything that’s going to disrupt things.”

The Reserve Bank board is due to meet on October 5 and there is widespread speculation the bank will raise the cash rate from

4.5 per cent to 4.75 per cent, the highest level since November 2008, when it was 5.25 per cent.

“Far be it for me to give the Reserve Bank any advice ... but from where I sit, I’m very pleased interest rates are not higher than they are,” Mr Mahoney said.

“My fear would be that buyers would return to the fence if rates rose again, whether it was business to business or customers to retailers.”

After two tough years in 2008 and 2009, when the company took

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Mike Mahoney, CEO-elect

a hit on its share investments and its equity stake in funds manager MMC Contrarian, HGL is looking forward to a stronger year this year.

The group was formerly known as Hancock & Gore, the saw and milling business it acquired in 1904 (it changed its name to HGL Ltd in 2002).

It reported an 86 per cent increase in underlying net profit to \$4.1 million in the six months ended March on 3 per cent sales growth.

It also raised \$3.7 million from the sale of its remaining share portfolio, boosting profit after tax to \$7.8 million compared with \$3.7 million in 2009.

The “nesting” instinct triggered by the financial crisis had boosted sales of fabrics and haberdashery supplies sold by HGL’s subsidiary J. Leutenegger.

Demand was also strong for the high-end lighting sold by JSB Lighting, point-of-sale marketing materials and copiers and printers.

Mr Mahoney said HGL was focused on supplying branded products into niche markets and was looking for new brands to distribute and bolt-on acquisitions.

The company is debt-free and has capacity to fund a \$35 million purchase, but would be prepared to raise new capital to fund a larger deal.

Mr Mahoney says deal flow has improved over the past six months and more vendors were considering selling their businesses as earnings and market conditions improved.

“Multiples are very theoretical until you get to the tough end of the conversation and we haven’t got to the tough end of the conversation,” he said.

“It’s not the funding of the opportunity that’s the problem, it’s finding the right one.”