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BUYER BEWARE

‘Set and forget’ and regret

INVESTORS who adopt a “set and forget” strategy could easily find they lose track of the company they originally bought shares in.

The rate of delisting among Australian companies is so high that few companies exist in the same guise after 10 years. It might be a name change, a takeover or a corporate failure that takes them off the Australian Stock Exchange, but in all likelihood you won’t be able to look up their share price using the same code without noticing some significant change.

According to a report released this week by the University of Melbourne’s Centre for Corporate Law and Securities Regulation, the extent of delisting is equivalent to the entire ASX board being turned over each decade.

“It is an extraordinary rate. You could wake up one day and your investments are gone. They could be gone for some very good reason, but not necessarily,” says the director of the centre, Ian Ramsay.

“We are no longer in an era of distinguished name for a lifetime,” Professor Ramsay says.

Ramsay and his team looked at 30 years of data — from 1975 to 2004 — during which 5952 companies delisted.

The purpose of the study was to determine whether there was any significant evidence of companies delisting in response to corporate law reforms or for cost reasons — as was the case in the US.

The centre concluded there was little evidence of this. The main reasons for delisting are: name changes (40 per cent of all delistings); being acquired (19 per cent); capitalisation changes (19 per cent); and failure to pay listing fees (8 per cent — typically due to financial difficulty).

The majority of delistings — mostly through name change and capitalisation — occur among the banks and financial services companies, the miscellaneous industrials sector and resource companies.

Taking out delistings attributed to capitalisation and name changes, 44 per cent of all companies which delisted did so within their first four years of trading and another 28 per cent delisted within the next five years. That is 72 per cent of all companies within nine years.

While a name change can look pretty innocent, it can also be for significant reasons which can dramatically change the future of the company. It can also reflect a complete corporate failure. Tony McLean, a former CEO of the Australian Shareholders Association, also has a strong interest in delisted companies but for different reasons.

He set up what is known as the “corporate graveyard” website www.delisted.com.au to keep shareholders informed once a company has failed.

He is not so much interested in why — although he has his own theories based on observation over the years — as to what is happening with the administration or liquidation of a company.

“If you have $20,000 invested in a company, you will want to know what is going on with the company: is there any chance of its being resurrected or is a class action being planned?” says McLean.

“If there is no hope of revival, then shareholders should know if an administrator or liquidator is going to issue a declaration which will enable them to claim a tax loss.”

McLean says the centre’s research — while inconclusive as to whether corporate law reform in Australia is driving companies away more than was found — demonstrated the necessity to keep watch on what companies are up to.

Western Metals is one example where within a few years the company’s shares were suspended, the company went into administration, it was reinstated and recapitalised.

But without getting into the background you would not know it had a traumatic corporate failure.

Duketon Goldfields changed its name to Genetic Technologies to reflect a shift in its business from mining to biotechnology.

“You have got to keep a close eye on the share price, on announcements and in particular on management and their ability to adapt,” McLean says.

His own research into delisting due to corporate failure suggests three reasons beyond the superficial delisting reasons given: inadequate management; undercapitalisation; and inability to adapt to change.

Ramsay says the high rate of delistings also highlights the pressures companies may be under to survive, including merger and acquisition, competition and private equity.

It is another reason why people should be paying much greater attention to what companies are doing.

Regardless of where people get their company information it is clear that buying shares and putting them in the bottom drawer — metaphorically — is no longer a sound strategy.

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