
Crunch Time Looms For RHG

John McGuigan and John Kinghorn at last year's AGM

Next Thursday will be exactly one year since Greg Hoffman and I ran for the board of RHG. I wonder how different my year would have been had we been successful? One thing is for sure, not much is different at RHG.

The cash continues to roll in and will do so for a while yet. We haven't been given a profit forecast for this year yet but my numbers suggest the loan book alone will generate another \$60m, post tax, this financial year.

The board is the same old group of four. John Kinghorn, Greg Jones, David Coe and John McGuigan (these close associates crop up together all over the place, from the board of Krispy Kreme, now under administration, to the board of White Energy Corporation). They tell the rest of us nothing and leave us in the dark as to what is going to happen to the mountains of cash accumulating on RHG's balance sheet.

There were net tangible assets of approximately \$290m as at 30 June 2010. By 30 June next year it will be something like \$360m, thanks to the \$60m that will come from the loan book and another \$10m (post tax) of interest earned on the existing cash pile. This is a very substantial war chest for Kinghorn to spend on his 'superior investment opportunity'.

The one thing the board is telling shareholders is that if they haven't found a 'superior investment opportunity' by 2011, they will return the cash to shareholders. Who knows whether this means the beginning or the end of 2011 and, given they reneged on their 2007 promise to 'return all surplus cash to shareholders', there's no reason to believe they'll stand by their word this time. But by November next year, it's probably going to be crunch time, one way or the other.

By then there will be more than \$1.20 per share that could be distributed as fully franked dividends – in excess of \$1.70 pre-tax equivalent. If they waste our money on a stupid acquisition between now and then, I will cry. Seriously.

**I'll be at the AGM next week but I'm not expecting anything interesting. If you want to give me proxies, feel free to do so but, as we saw last year, it's unlikely to make a difference.*