WEEK 51

FNArena
FINANCIAL NEWS, ANALYSIS & DATA

STORIES TO READ FROM FNArena

Friday, 20 December 2019

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AUSTRALIA

Sigma Farewells API, Heralds New Contract

Sigma Healthcare has adjusted guidance to account for the renewed Chemist Warehouse contract, while Australian Pharmaceutical Industries finally takes its hat out of the merger ring.

-Downgrades FY20 guidance to reflect investment in new CW contract
-Brokers question whether full Project Pivot savings can be achieved
-Execution risk in strategy to diversify away from PBS

By Eva Brocklehurst

It's now official. After a rebuff from Sigma Healthcare ((SIG)) to its advances early in the year, suitor Australian Pharmaceutical Industries ((API)) has decided to step away, selling its stake in the company.

Meanwhile Sigma Healthcare has now adjusted its outlook to account for the renewed Chemist Warehouse contract, which was obtained last month. The company has downgraded FY20 operating earnings guidance to $46-47m, from the lower end of $55-60m previously, to reflect the investment that will be needed.

Australian Pharmaceutical Industries has sold its 12.96% stake in Sigma Healthcare for $0.60 a share, representing a -$3.5m loss, having acquired the stake in December 2018. This ends, for now, the long-running conjecture over a merger of the two.

Sigma finally rejected the merger talks in March, instead opting to focus on its cost reduction program. Brokers had considered the economic rationale for consolidation strong, as there is significant overcapacity and duplication.

Yet, Credit Suisse had ascertained last December that a deal would not be accretive for Australian Pharmaceutical until FY22 and subsequently expected it to sell, given Sigma's indifference, confirming **consolidation of the wholesale pharmaceutical distribution industry is unlikely**.

Chemist Warehouse

Sigma Healthcare will resume as Chemist Warehouse's first line FMCG (fast moving consumer goods) wholesaler from December and has had to reinvest some of the early benefits from its ongoing cost reduction program, Project Pivot.

The company has stated that the new contract is the only reason for the downgrade to guidance and the core business is performing “ahead of expectations”. Sigma **expects earnings growth to accelerate in FY21 as the new contract reaches its $700-800m annualised run rate.**

The new deal with Chemist Warehouse provides for an upturn in volumes and distribution centre utilisation. Still the products will not carry any CSO (community service obligations) reimbursement and require material working capital involvement.

This reflects a challenged wholesale market, Credit Suisse asserts, with increasing price pressure on PBS (pharmaceutical benefits scheme) medicines and no increase in the CSO funding.

Moreover, EBOS Healthcare holds a commanding 40% market share, creating greater competition among small operators. The broker also is sceptical about any material improvement further out for CSO wholesalers, given the current tight funding environment.

Sigma Healthcare remains confident about achieving the $100m in targeted cost reductions. Around 55% of the program has already been actioned and it aims to achieve 60% of these savings from the Chemist Warehouse transition, 30% from operating efficiencies and 10% from 'smart spend' programs.

UBS remains of the view that execution on the $40m in savings not tied to Chemist Warehouse will be more difficult post the reinvestment, and it will also be difficult to determine the actual quantum of savings achieved.

Credit Suisse recognises the reinvestment has a short-term impact that should be more than offset once the sales volume ramps up, but still questions whether the full $100m in savings from Project Pivot can be achieved and sustained. The broker lowers estimates for FY20 operating earnings to $46.3m.

Value?

Credit Suisse considers the return of the Chemist Warehouse contract positive and supportive of the company's growth strategy but the stock appears expensive.

There is also execution risk in the strategy to diversify away from PBS as the company will need to win new contracts and tenders in other areas to fill out the excess capacity in its distribution centre. The relatively small market position also limits future growth projects.

Citi is more confident and upgrades to Neutral on the back of the decline in the share price. The broker expects investors will look through FY20 and focus on FY21 guidance, which will be provided at the FY20 result on March 26, 2020.

FNArena's database has three Sell ratings and one Hold (Citi). The consensus target is 54c, suggesting -9.6% downside to the last share price.

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AUSTRALIA

Smartgroup Succumbs To Insurance Changes

Vehicle leasing and salary packaging business Smartgroup has succumbed to earnings pressure as its add-on insurance underwriter makes changes to product terms.

-Changes likely to have emanated from regulatory scrutiny of insurers
-Stronger growth path likely reliant on acquisitions outside of salary packaging
-Raises questions about whether earnings for novated leases have normalised

By Eva Brocklehurst

A confluence of negatives has beset Smartgroup Corp ((SIQ)) recently and several brokers, disappointed by the latest news, have downgraded the stock. New car sales data remains weak and a headwind, while long-serving CEO Deven Billimoria intends to retire at the end of February.

Major shareholder, Malaysia's Smart Packages, also exited the stock in October. Now, the company's insurance underwriter has made changes to the product terms, effective July 1, 2020.

Smartgroup expects a reduction to net profit of -$4m in 2020. The annualised impact is a -10% downgrade based on 2019 earnings. This means lower insurance product pricing will generate lower commissions for Smartgroup. There is also reduction to the revenue the company derives from providing services to the underwriter.

Brokers assess the regulatory scrutiny on add-on insurers means this earnings reduction will be permanent. Morgan Stanley points out the modest loss ratios on some insurance products that are sold as part of lease offerings probably caught the attention of regulators.

The response of the underwriter, therefore, was to broaden what is claimable whilst reducing premiums. Ord Minnett, surprised by the announcement, finds it **difficult to understand where the company can mitigate the impact** and downgrades to Hold.

Credit Suisse notes potential mitigation, if any, is yet to be discussed with the underwriter and does not expected it to be material. The broker downgrades to Neutral, having believe that the company had been at the 20% commission cap for add-on insurance for some time. This turns out not to be the case.

The broker is also surprised by the quantum of the hit to earnings, and the fact that there are service fees that appear to be outside of the commission structure. Credit Suisse had believed the stock was oversold following the departure announcement by the CEO and stood to benefit from efficiency gains, as well as small acquisitions and a cyclical recovery in new car sales in 2020.

Outlook

While still retaining much of this view, the update, following on from the yield pressure reported by McMillan Shakespeare ((MMS)) recently, raises questions for the broker regarding whether earnings for novated leases have normalised and whether there is more downside to come.

Morgans suspects a return to a stronger growth path will require the company to execute on acquisitions outside of the core salary packaging sector. There are risks from a fall in novated lease demand and heightened competitive pressure.

Macquarie is extremely disappointed with the changes and downgrades to Neutral, applying a -25% discount to the stock versus the PE multiples of peers for FY20. This reflects a lack of clarity and expectations for no earnings growth from 2019-21.

Further disclosure that provides clarity on product pricing and the company's exposure to commissions and service fees across the business, the broker acknowledges, could mean confidence in the outlook improves.

Morgan Stanley agrees the risks from insurance commissions are skewed to the downside and, given soft vehicle sales and pressure on insurance margins, finds **few near-term catalysts for the stock**.

There are five Hold ratings and one Buy (Citi, yet to update on the news) on FNArena's database. The consensus target is $9.00, suggesting 25.7% upside to the last share price. However, this target includes Citi's target at the top of the range at $11.83 with the lowest being Macquarie's $7.66.

See also, Smartgroup Cruising Comfortably on August 21, 2019.

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AUSTRALIA

Pushpay Holdings Expands Horizons

Brokers anticipate the acquisition of Church Community Builder by Pushpay Holdings will provide additional value and stabilise front book growth.

-Opportunity to consolidate processing volume on Pushpay platform
-Strong competition in the sector needs to be monitored closely
-Guidance reiterated for FY20

By Eva Brocklehurst

Donations system provider Pushpay Holdings ((PPH)) has acquired a church management business to round out its product offering. Brokers anticipate the deal should help reduce churn and stabilise the outlook for the company.

This expectation stems from the Pushpay's ability to offer a more comprehensive solution. Church Community Builder has been acquired for US$87.5m, to be funded through a combination of cash in hand and US$62.5m in senior secured debt.

UBS was not that surprised by the acquisition. Industry feedback suggests CCB is one of the best providers in the US and the two companies have similar target markets and cultures. The two platforms have interacted since 2014 and the combined group will have around 10,000 customers.

The strategic rationale is sound, Macquarie agrees, and Pushpay stock offers value. Moreover if growth in the front book can be stabilised, additional value should emerge.

On this point, **Ord Minnett is more circumspect, awaiting further evidence that growth is stabilising**, and that the acquisition can deliver an attractive return on the price paid. Hence, the broker maintains a Lighten rating and $2.70 target.

In the near term, Ord Minnett envisages an opportunity to consolidate the processing volume onto the Pushpay platform and improve the economics. Beyond that, there is also the chance to offer a combined solution to churches, but this is not without some challenges.

Macquarie also notes competition is strong in the sector and remains something to be monitored closely. Staged benefits within the Pushpay Holdings core business are expected and the broker considers the medium-term outlook has now been de-risked, upgrading to Outperform from Neutral and raising the target to NZ$4.61.

In the near term, Ord Minnett envisages an opportunity to consolidate processing volume onto the Pushpay platform and improve its economics. Beyond that, there is also the chance to offer a combined solution to churches, but this is not without some challenges.

No valuation metrics were disclosed but UBS estimates enterprise value/sales of around 5x, which appears high for a private acquisition. However, the **potential benefits centre on the expansion of customers & products, market share gains and savings on marketing & technology.**

Pending further analysis, UBS places its Buy rating and NZ$3.75 price target under review. The broker notes there was no change to FY20 guidance as the acquisition will take time to integrate. Excluding CCB, Pushpay Holdings has reiterated guidance for FY20, including revenue of US$121-124m, a gross margin over 63% and operating earnings (EBITDAF) of US$23-25m.

Church Community Builder founder Chris Fowler will join the board as an executive director and has also acquired a 2.4% interest in Pushpay Holdings. Macquarie suggests Mr Fowler is a likely candidate to take over from the current Pushpay CEO Bruce Gordon at some stage.

Church Community Builder has revenue of around US$10m, comprising 72% from subscriptions relating to its church management system product. Processing revenue is also collected via integrated providers.

AUSTRALIA

Poor US Crop Pegs QBE Profitability

QBE Insurance expects reduced profitability in 2019 as a result of frost damage impacting on the North American crop in the second half.

-Most brokers assume guidance is conservative and impact a one-off
-Is it too early to consider maiden 2020 guidance conservative?
-Valuation upside diminished with recent rally in the stock

By Eva Brocklehurst

The vagaries of the weather, frost this time, have affected US crop insurance in 2019 and, as a result, QBE Insurance ((QBE)) expects to report a weaker outcome for the year. Late-planted crops, delayed by a wet spring, were more exposed to early snow, frost and hail.

The company's combined operating ratio (COR) for 2019, which compares costs relative to premiums, is now expected at around 107-109%, ahead of the 90% allowance in prior guidance. The 2019 net investment return is still expected to be at the top end of guidance of 3-3.5%.

Morgans, while disappointed, believes the downgrade is at the minor end of the spectrum, as a difficult season had been well flagged. On face value, it would appear QBE would have delivered a 2019 result that was comfortably inside guidance when stripping out the particular impact from the North American crop.

Macquarie, too, stresses this is a one-off, and **a poor performance in 2019 will be somewhat countered by lower reinsurance costs in 2020**. The broker believes short-term risks have now been removed and assesses the underlying business is improving. However, inflation bears watching closely, related to casualty and specialty risks in the US and UK.

Ord Minnett reduces forecasts for earnings per share by -10% for 2019 as a result of the update. After adjusting for the impact of the crop segment on the 2019 estimates, this suggests only slight margin improvement into 2020. The broker suspects this view could be conservative, taking into account the strength of the premium cycle and the lack of claims inflation in the US or UK.

Morgan Stanley assesses the guidance implies downside risk to its 2020 net profit estimates of around -5% at the top of the range and -15% at the mid point and acknowledges this is disappointing because of strong pricing commentary.

The market appears surprised by the level of deterioration in the loss ratio in the second half but Credit Suisse has highlighted previously that QBE does not disclose reinsurance on crop and urges investors to pressure the company, so the risk can be better assessed from such an important line of business.

The broker also bemoans the fact that investors will again assume guidance is conservative, emphasising that, despite a late-term miss in 2019, maiden 2020 COR guidance of 93.5-95.5% is already being described as conservative and on track to be beaten.

Credit Suisse supports what management is doing and acknowledges the operating environment is continuing to work in the company's favour. The real issue is the constantly elevated consensus earnings forecasts that give the perception that the stock is cheaper than it really is.

However, with the downgrades for 2019 and 2020 done and dusted, and the stock underperforming the market by around -10% over the last nine months, Credit Suisse acknowledges some valuation appeal is developing. A Neutral rating is maintained as the broker would like additional detail on the deterioration in second half.

This does not perturb UBS which, while reducing 2019 estimates by -17%, maintains its outer year forecasts, Buy rating and outlook. The broker considers its view supported by the improving premium rate momentum and management commentary around US reserve adequacy.

US crop protection still remains attractive and the 2019 experience is expected to have no bearing on 2020. UBS believes QBE can deliver in the upper half of its returns guidance range for 2020.

Morgans agrees management is executing well and improving the overall business performance but, considering the rally in the share price recently, finds less upside at current levels, downgrading to Hold from Add.

Bell Potter, not one of the seven stockbrokers monitored daily on the FNArena database, asserts the market is right to look past the higher North American crop claims and focus on a better COR outcome in 2020. Still, the broker acknowledges the stellar run up in the share price and believes a Hold rating is justified, with a target of $13.60, based on valuation alone.

There are four Buy and three Hold ratings on the database. The consensus target is $13.07, signalling -0.5% downside to the last share price. Targets range from $12.37 (Morgans) to $14.00 (Morgan Stanley). The dividend yield on 2019 and 2020 forecasts is 5.0% and 6.2% respectively.

ESG FOCUS

ESG Focus: Climate Changing For Super Funds

FNArena's dedicated ESG Focus news section zooms in on matters Environmental, Social & Governance (ESG) that are increasingly guiding investors preferences and decisions globally. For more news updates, past and future:
https://www.fnarena.com/index.php/financial-news/daily-financial-news/category/esg-focus/

Climate Changing For Super Funds

Australian super funds undertaking ESG-based investment are outperforming the industry while ceding to a growing demand from Australian investors.

-Responsible investment growing
-RI funds outperform peers
-Strong demand from Australia investors

By Greg Peel

In 2016, 70% of Australia's largest superannuation funds said they were committed to responsible investment, and 44% reported on responsible investment activity. The latest report from the Responsible Investment Association Australasia notes those numbers have now risen to 81% and 72% respectively.

The RIAA's *Responsible Investment Super Study 2019* presents the results of an annual survey of Australia's 57 largest super funds, accounting for $1.75trn in assets under management.

"This year's report shows that Australia's largest superannuation funds - including industry, retail, corporate and public sector funds - are ramping up their engagement in responsible investing to drive superior financial performance, reduce risk, and deliver better outcomes for their members and beneficiaries," said Simon O'Connor, CEO of RIAA.

The report also shows that in the face of rising public concern and increasing financial materiality of climate change, the consideration of climate risk by super fund boards continues to grow, but there remains room for improvement.

It would be logical to assume that a decision to invest "responsibly" may result in a handicap on fund return potential compared to returns from funds which invest without discrimination. However, the opposite is true.

Australian super funds that "comprehensively" engage in responsible investment are outperforming their peers over one, three and five-year time frames, the report has found.

Thirteen Australian super funds are identified as leaders in articulating and demonstrating a comprehensive approach to responsible investment – Australian Ethical, AustralianSuper, CareSuper, Cbus, Christian Super, First State Super, Future Fund, Future Super, HESTA, Local Government Super, Unisuper, VicSuper and Vision Super – along with NZ Super Fund.

This year, RIAA compared the the default MySuper performance of super funds employing responsible investment strategies with the MySuper options of those super funds that are not. The performance data reveals the MySuper option of responsible investment super funds outperform the MySuper option of non-RI super funds over five, three and one-year time frames.

The comparative performance of the aforementioned thirteen leading RI funds shows about 100 basis points (one percentage point of return) of outperformance over the the rest of the pack.

"This reinforces how important the consideration of environmental, social and corporate governance [ESG] factors is to delivering the best possible outcomes for super fund members," says O'Connor.

Burning Issue

There is little doubt the country's current focus is firmly on the impacts of climate change, as stark reality catches up with longstanding warnings. The RIAA is encouraged to find a doubling of super fund boards "systematically" considering climate risk in investment decisions, however possibly three quarters of trustee boards are inadequately accounting for climate risk in the face of "increasing materiality, relevance and rising regulatory expectations".

Some other findings:

• 81% of super funds have some form of responsible investment commitment in place

• 61% of super funds have a least one "negative screen" across the whole fund, up from 34% in 2016

• The most popular fund-wide exclusions are tobacco and armaments, followed by fossil fuels

• More than half of super funds offer a total of 88 responsible investment options (compared to 24 funds offering 54 options in 2016). Retail funds offer the largest variety of RI options per fund

• Responsible investment employee numbers have doubled since 2018 and quadrupled since 2016

• The UN's *Sustainable Development Goals* are being integrated by a range of funds into their responsible investment strategies

Climate change is not the sole focus of responsible investing. Some super funds are choosing to co-file resolutions on a range of issues including the human rights of asylum seekers and the protection of workers from labour abuses, the RIAA notes, as well the membership of industry associations whose advocacy is inconsistent with the Paris Agreement.

Yet, while responsible investment reporting is improving, half the super funds involved in corporate engagement are not reporting on their activities publicly. Furthermore, many of the largest super funds are still not showing clients how their money is being invested on their behalf. Just 12% of super funds publish their full equities holdings.

Which is to the disadvantage of the non-publishing funds, when one considers the RIAA has found that 92% of Australians expect their super or other investments to be invested responsibly and ethically, and 78% would consider moving super or other investments to another provider if their current fund engaged in activities not consistent with their values.

"If the superannuation industry is to realise its potential for delivering long-term retirement outcomes, super funds need to be demonstrating how they are fuelling a productive, prosperous and healthy future for their members," said O'Connor. "This report shows us that this responsible investment is not just something Australians want, but is a critical part of delivering stronger member outcomes".

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WEEKLY REPORTS

Weekly Ratings, Targets, Forecast Changes - 13-12-19

By Rudi Filapek-Vandyck, Editor FNArena

Guide:

The FNArena database tabulates the views of seven major Australian and international stock brokers: Citi, Credit Suisse, Macquarie, Morgan Stanley, Morgans, Ord Minnett and UBS.

For the purpose of broker rating correlation, Outperform and Overweight ratings are grouped as Buy, Neutral is grouped with Hold and Underperform and Underweight are grouped as Sell to provide a Buy/Hold/Sell (B/H/S) ratio.

Ratings, consensus target price and forecast earnings tables are published at the bottom of this report.

Summary

Period: Monday December 9 to Friday December 13, 2019
Total Upgrades: 4
Total Downgrades: 7
Net Ratings Breakdown: Buy 37.88%; Hold 45.22%; Sell 16.90%

As corporate activity begins to wind down for 2019, the week ending Friday the Thirteenth of December brought four upgrades and seven downgrades from FNArena database brokers. Of the upgrades, two went to Buy and two to Hold, while three downgrades went to Sell and four to Hold.

Evolution Mining and Magellan Financial were both upgraded to Hold on valuation, while Iluka Resources, Rio Tinto and Sydney Airport were all downgraded to Hold on valuation.

Brokers are squaring up for the holidays.

Target price changes were relatively modest last week. Caltex ((CTX)) topped the list with a 5.0% increase on upgraded guidance and thereafter moves were un-noteworthy.

Downgraded guidance from Whitehaven Coal led to an -11.3% target cut, with Metcash ((MTS)) in second spot on -2.1%.

Yet Metcash managed to top the earnings increase table with 26.5% after delivering an earnings result that was not as bad as feared in the underlying business. OceanaGold ((OGC)) followed with 11.1%.

Whitehaven’s downgraded guidance resulted in a -27.9% forecast cut, while a run of broker resets of commodity price forecasts netted to an -18.3% cut for South32 ((S32)). Same story for Galaxy Resources ((GXY)), down -16.6%, while downgraded guidance hit Viva Energy ((VEA)) forecasts by -13.4%.

Upgrade

CHARTER HALL GROUP ((CHC)) Upgrade to Buy from Neutral by UBS .B/H/S: 3/1/0

UBS is increasingly convinced of Charter Hall's ability to continue raising and deploying third-party equity/debt. The broker upgrades earnings estimates by 7-8% to reflect growth in assets under management and co-investments.

UBS also believes concerns regarding peak performance fees in FY20 and Sydney/Melbourne office fundamentals are unjustified. The broker upgrades to Buy from Neutral and raises the target to $12.50 from $12.10.

EVOLUTION MINING LIMITED ((EVN)) Upgrade to Equal-weight from Underweight by Morgan Stanley .B/H/S: 2/4/1

Evolution Mining has fallen -28% from its August peak and is now near Morgan Stanley's valuation, prompting an upgrade to Equal-weight from Underweight. The broker sees costs and the relatively short lives of some of the company's mines as well priced versus the potential for operational and mine-life improvements.

Target falls to $3.80 from $4.00. Industry view: In-Line.

MAGELLAN FINANCIAL GROUP LIMITED ((MFG)) Upgrade to Hold from Sell by Ord Minnett .B/H/S: 0/3/4

All fund managers being reviewed by Ord Minnett generated solid absolute returns over the first half to the end of November. Flow momentum remains strong for Magellan Financial and the first half is on track to record the biggest retail inflow for a half year ever.

Ord Minnett upgrades to Hold from Sell and raises the target to $50.41 from $49.60.

NOVONIX LIMITED ((NVX)) Upgrade to Speculative Buy from Hold by Morgans .B/H/S: 1/0/0

Morgans upgrades to Speculative Buy from Hold. Target is raised to $0.90 from $0.65. The company has announced an initial deal for 500,000t of synthetic graphite with Samsung, which will take delivery of this order from October 2020 subject to required quality assurance processes and a supplier audit.

Morgans assesses cash management will be an issue, as first delivery will not take place until the first quarter of FY21 , but the deal makes it easier for the company to raise funds with debt rather than tapping the equity market.

Downgrade

BORAL LIMITED ((BLD)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 0/4/0

Ord Minnett is increasingly concerned about the outlook for the North American division, including the fact that recent financial irregularities have been uncovered in the windows business.

The return on funds employed in North America now appear to be shy of 5% in FY19, which raises the risk of impairments at some point, the broker assesses.

Meanwhile, Boral Australia is a better quality business but the cycle is working against it and a full balance sheet increases the risk for shareholders. Hence, Ord Minnett downgrades to Lighten from Hold and lowers the target to $4.25 from $4.80.

ILUKA RESOURCES LIMITED ((ILU)) Downgrade to Sell from Neutral by Citi and Downgrade to Equal-weight from Overweight by Morgan Stanley.B/H/S: 0/5/1

Citi downgrades Iluka to Sell from Neutral because of recent share price strength. Target is steady at $9. Citi estimates global growth will be modestly higher in 2020, which is bullish for commodities.

An improvement in market conditions for commodities is expected to attract investor flows. Most of the improvement is expected to come from emerging markets.

Nevertheless, the two largest economies, the US and China, still have the greatest potential to influence demand through policy decisions, in light of the US election holding promise for a breakthrough with China on trade.

Monetary and fiscal policies in both countries have potential for higher GDP, the broker notes as well.

After a 40% rally from its trough in August, Iluka Resources is now close to Morgan Stanley's valuation, hence a downgrade to Equal-weight from Overweight. A demerger of the MAC royalty would add upside but given the complexities the broker does not see this happening.

If the Sembuhan project is deemed commercial, this would provide for incremental upside. Target falls to $10.45 from $11.15 on a commodity price forecast review. Industry view: In-Line.

OIL SEARCH LIMITED ((OSH)) Downgrade to Hold from Add by Morgans .B/H/S: 2/4/1

Morgans downgrades to Hold from Add, concerned about the new risks associated with PNG growth. The broker recognises the new government may require a settling in period and may seek a higher share of value from P'nyang, which in turn could jeopardise the entire three-train development.

The broker is now less convinced about assumptions that an agreement on fiscal terms will be easily reached. Target is reduced to $7.82 from $8.68.

RIO TINTO LIMITED ((RIO)) Downgrade to Neutral from Buy by Citi .B/H/S: 2/4/1

Citi estimates global growth will be modestly higher in 2020, which is bullish for commodities. The broker is positive about hard coking coal in the first quarter of 2020, expecting the price to average US$170/t over the year.

The alumina market is expected to move to a modest deficit in 2020. The broker remains cautious on iron ore and expects sizeable oversupply over the next two years will bring down benchmark prices to US$60/t by 2022.

Rio Tinto's rating is downgraded to Neutral from Buy, to reflect the outperformance in the stock over the past 12 months, and the target is reduced to $100 from $105.

SYDNEY AIRPORT HOLDINGS LIMITED ((SYD)) Downgrade to Lighten from Hold by Ord Minnett .B/H/S: 2/2/1

Ord Minnett notes Sydney Airport has been a strong performer, with a 36% total return in 2019 to date. The company has benefited from a low interest-rate environment as well as a positive report from the Productivity Commission.

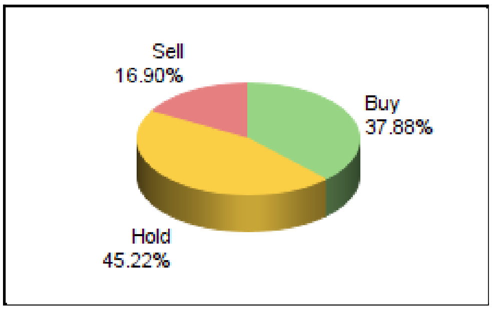
The broker expects slow passenger numbers in both international and domestic segments will put pressure on operating earnings and dividend growth, as the business builds up a buffer ahead of becoming a tax-paying entity in 2021. The target is raised to $8.20 from $7.80.

WHITEHAVEN COAL LIMITED ((WHC)) Downgrade to Neutral from Buy by Citi .B/H/S: 4/2/0

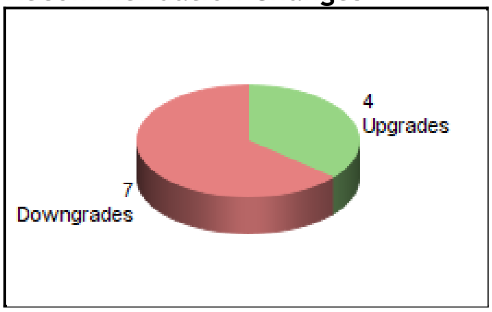
Citi estimates global growth will be modestly higher in 2020, which is bullish for commodities. The broker is positive about hard coking coal in the first quarter of 2020, expecting the price to average US$170/t over the year.

Yet the broker downgrades Whitehaven Coal to Neutral from Buy because of the cuts to near-term earnings and the risk of ongoing weather-related constraints at Maules Creek. Target is reduced to $2.90 from $3.70.

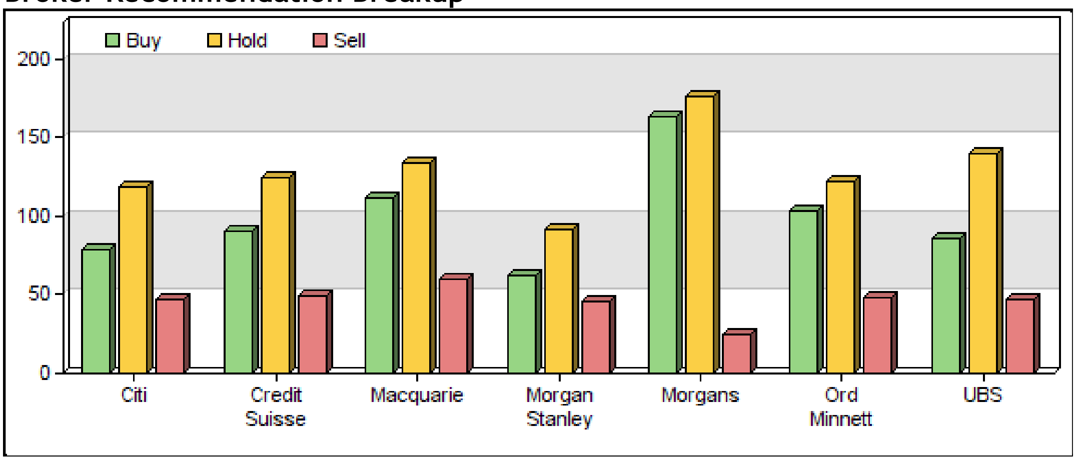
Total Recommendations



Recommendation Changes



Broker Recommendation Breakup



Broker Rating

Order	Company	New Rating	Old Rating	Broker
Upgrade				
1	CHARTER HALL GROUP	Buy	Neutral	UBS
2	EVOLUTION MINING LIMITED	Neutral	Sell	Morgan Stanley
3	MAGELLAN FINANCIAL GROUP LIMITED	Neutral	Sell	Ord Minnett

4	NOVONIX LIMITED	Buy	Neutral	Morgans
Downgrade				
5	BORAL LIMITED	Sell	Neutral	Ord Minnett
6	ILUKA RESOURCES LIMITED	Sell	Neutral	Citi
7	ILUKA RESOURCES LIMITED	Neutral	Buy	Morgan Stanley
8	OIL SEARCH LIMITED	Neutral	Buy	Morgans
9	RIO TINTO LIMITED	Neutral	Buy	Citi
10	SYDNEY AIRPORT HOLDINGS LIMITED	Sell	Neutral	Ord Minnett
11	WHITEHAVEN COAL LIMITED	Neutral	Buy	Citi

Recommendation

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	CHC	CHARTER HALL GROUP	75.0%	50.0%	25.0%	4
2	NST	NORTHERN STAR RESOURCES LTD	33.0%	17.0%	16.0%	6
3	MFG	MAGELLAN FINANCIAL GROUP LIMITED	-57.0%	-71.0%	14.0%	7
4	WSA	WESTERN AREAS NL	43.0%	29.0%	14.0%	7
5	MTS	METCASH LIMITED	-8.0%	-17.0%	9.0%	6

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Rating	Previous Rating	Change	Recs
1	ILU	ILUKA RESOURCES LIMITED	-17.0%	17.0%	-34.0%	6
2	OSH	OIL SEARCH LIMITED	14.0%	29.0%	-15.0%	7
3	RIO	RIO TINTO LIMITED	14.0%	29.0%	-15.0%	7
4	SCG	SCENTRE GROUP	-25.0%	-10.0%	-15.0%	6
5	WHC	WHITEHAVEN COAL LIMITED	50.0%	64.0%	-14.0%	7
6	CTX	CALTEX AUSTRALIA LIMITED	20.0%	33.0%	-13.0%	5
7	CQR	CHARTER HALL RETAIL REIT	-50.0%	-40.0%	-10.0%	6
8	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	8.0%	17.0%	-9.0%	6

Target Price

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	CTX	CALTEX AUSTRALIA LIMITED	34.750	33.108	4.96%	5
2	CHC	CHARTER HALL GROUP	12.840	12.645	1.54%	4
3	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	8.335	8.230	1.28%	6
4	MFG	MAGELLAN FINANCIAL GROUP LIMITED	49.373	49.257	0.24%	7

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New Target	Previous Target	Change	Recs
1	WHC	WHITEHAVEN COAL LIMITED	3.440	3.876	-11.25%	7
2	MTS	METCASH LIMITED	2.757	2.817	-2.13%	6
3	OSH	OIL SEARCH LIMITED	7.480	7.603	-1.62%	7
4	NST	NORTHERN STAR RESOURCES LTD	11.600	11.767	-1.42%	6
5	SCG	SCENTRE GROUP	3.868	3.922	-1.38%	6
6	ILU	ILUKA RESOURCES LIMITED	9.525	9.642	-1.21%	6
7	WSA	WESTERN AREAS NL	3.184	3.213	-0.90%	7
8	RIO	RIO TINTO LIMITED	96.449	96.663	-0.22%	7
9	CQR	CHARTER HALL RETAIL REIT	4.122	4.126	-0.10%	6

Earning Forecast

Positive Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	MTS	METCASH LIMITED	20.880	16.508	26.48%	6
2	OGC	OCEANAGOLD CORPORATION	8.590	7.729	11.14%	5
3	MIN	MINERAL RESOURCES LIMITED	194.667	181.000	7.55%	3

4	CHC	CHARTER HALL GROUP	60.650	58.400	3.85%	4
5	SYD	SYDNEY AIRPORT HOLDINGS LIMITED	17.240	16.800	2.62%	6
6	CLW	CHARTER HALL LONG WALE REIT	28.900	28.675	0.78%	4
7	AWC	ALUMINA LIMITED	17.714	17.663	0.29%	6
8	CQR	CHARTER HALL RETAIL REIT	31.400	31.320	0.26%	6
9	MPL	MEDIBANK PRIVATE LIMITED	14.500	14.471	0.20%	7
10	CRN	CORONADO GLOBAL RESOURCES	46.078	45.998	0.17%	3

Negative Change Covered by > 2 Brokers

Order	Symbol	Company	New EF	Previous EF	Change	Recs
1	WHC	WHITEHAVEN COAL LIMITED	14.833	20.570	-27.89%	7
2	S32	SOUTH32 LIMITED	14.208	17.394	-18.32%	7
3	GXY	GALAXY RESOURCES LIMITED	-18.931	-16.234	-16.61%	6
4	VEA	VIVA ENERGY GROUP LIMITED	7.737	8.932	-13.38%	6
5	NST	NORTHERN STAR RESOURCES LTD	58.320	62.853	-7.21%	6
6	WSA	WESTERN AREAS NL	34.377	36.877	-6.78%	7
7	SFR	SANDFIRE RESOURCES NL	68.668	73.144	-6.12%	7
8	NHC	NEW HOPE CORPORATION LIMITED	18.128	18.953	-4.35%	4
9	PRU	PERSEUS MINING LIMITED	3.107	3.240	-4.10%	3
10	MMS	MCMILLAN SHAKESPEARE LIMITED	106.660	111.080	-3.98%	5

Technical limitations

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WEEKLY REPORTS

Uranium Week: Squaring Up

As year-end approaches, sellers became more anxious last week not to be stuck with excess uranium before books-close.

By Greg Peel

The Christmas rush was on last week as sellers of uranium become more anxious not to be caught with excess uranium before books-close. Those missing out on recent spot market tenders were forced to reduce offers, leading industry consultant TradeTech's weekly spot price indicator to a -US40c fall to US$25.60/lb.

Solid volumes reflected the anxiety, with nine transactions totalling 950,000lbs U3O8 equivalent changing hands at consistently lower prices through the week.

It was all in the very short end nonetheless, hence not indicative of the wider demand/supply balance as year-end approaches, TradeTech points out. Buyers were mostly content to wait for 2020, while utilities continue to negotiate term delivery contracts for the years ahead.

One small transaction of 200,000lbs for delivery in 2020 was concluded in the term markets. TradeTech's term price indicators remain at US$29.50/lb (mid) and US$33.00/lb (long).

From London to Madrid

"The new Parliament, across parties, and the UK government has some crucial decisions to take to progress towards Net Zero and a decarbonized power supply," said the CEO of the UK Nuclear Industry Association on Friday. "This year the Committee on Climate Change said that, to reach the UK's Net Zero emissions target by 2050, we need all low carbon technology— both renewables, with variable output, and the firm power from nuclear—to play their part".

Which should not be a problem under a nuclear-friendly Johnson government.

Support for nuclear power could also be found at the UN climate change conference in Madrid last week.

The Director General of the International Atomic Energy Agency, having met with the UN Secretary General, noted that they both recognized that nuclear energy is part of the solution to the climate crisis and the IAEA plays a key role in supporting countries in its safe and secure use.

"We came here with a clear message from the IAEA: nuclear energy is part of the solution to the climate change crisis," said Raphael Mariano Grossi.

Tell that to the Australian government. If you can find them in the smoke.

This will be FNArena's last Uranium Week report for 2019. Uranium Week will return in January.

Best Wishes.

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WEEKLY REPORTS

The Short Report - 19 Dec 2019

See **Guide** further below (for readers with full access).

Summary:

Week ending December 12, 2019

Last week the ASX200 recovered half of the losses suffered in the two-day sell-off in early December that was sparked by negative trade news. All was forgiven this week, with a “deal” being agreed upon.

As was the case the week before, there was little movement in short positions last week with just a couple of exceptions. Almost all of the red and green below represents minor bracket creep.

The two exceptions are Kirkland Lake Gold ((KLA)), which has risen to 22.6% shorted from 20.8% and Resolute Mining ((RSG)), which has risen to 9.0% from 7.8%. See below.

Otherwise, we might note that having dropped down in shorts the week before on its announced capital raising, Bank of Queensland ((BOQ)) is back on the climb again, and has been joined at the bottom of the table by peer Bendigo & Adelaide Bank ((BEN)).

Metals X ((MLX)) dropped off the 5% plus shorted table last week. Yesterday the stock plunged -28% after a downgrade to tin production guidance.

With regard the ASX top 20 short position table below, as of tomorrow Newcrest Mining ((NCM)) will replace South32 ((S32)).

This is the last Short Report for 2019. The Short Report will return in January.

Weekly short positions as a percentage of market cap:

10%+

KLA	22.6
GXY	17.3
SYR	15.8
ORE	13.8
SDA	13.8
ING	12.8
GWA	12.3
JBH	11.8
NXT	11.8
NEA	11.3
BGA	11.1
CGC	10.7
MIN	10.7
DMP	10.4
WEB	10.2
BKL	10.1
MTS	10.0

No changes

9.0-9.9

RSG

In: RSG Out: HUB

8.0-8.9%

HUB, IVC, A2M, SUL, NUF

In: HUB Out: NCZ, PPT

7.0-7.9%

PPT, PLS, NCZ, CGF, HVN, BIN, CUV, MYR, OML, IFL

In: PPT, NCZ, CUV Out: RSG, OML, IFL

6.0-6.9%

IFL, BWX, NEC, CTD, RWC, OML, SGM, BOQ, DCN

In: IFL, OML, NEC, BOQ Out: CUV, DCN

5.0-5.9%

DCN, PNI, COE, WOR, CLH, MYX, GNC, CMW, BEN, CLQ, SLR, RFF, AMP, MND, GMA

In: DCN, BEN Out: BOQ, NEC, MLX, LNG, MSB

Movers & Shakers

Australia's gold mining stocks have in general been on a slide since August when the gold price breached US$1500/oz and then began falling back, as newsflow on the trade deal improved. Mining analysts had considered most miners to have become overvalued, but now if anything, they're falling back to be undervalued.

There are only three gold miners on the ASX shorted by 5% or more. One is **Kirkland Lake Gold**, so we'll dismiss the pesky triple-lister and say that realistically there's only two.

One is **Silver Lake Resources** ((SLR)), which has been hanging around for a while at the 5% shorted mark. The other is **Resolute Mining**, which last week saw a jump in shorts to 9.0% from 7.8%.

Resolute posted a weak September quarter production report back in October, due to an unscheduled stoppage at its Syama mine. Since then the newsflow out of the company has been steady and largely positive, but not of sufficient significance for either of the two FNArena database brokers covering the stock to update their views. Otherwise, Resolute's share price has tracked in relative correlation to the gold price, as have the share prices of most gold miners.

So why Resolute has been singled out as the miner to go short is unclear. It may be that the position is part of a long-short pairs trade, but that information is not available.

The other possibility is that given exploration success at its African assets, the company may need to source funding. Or maybe the fact Resolute has assets in Africa is itself considered an elevated sovereign risk.

Shorters don't tell tales.

Merry Christmas.

ASX20 Short Positions (%)

Code	Last Week	Week Before	Code	Last Week	Week Before
AMC	1.2	0.9	RIO	4.2	4.2
ANZ	0.6	0.6	S32	1.2	1.4
BHP	3.2	3.2	SCG	0.4	0.4
BXB	0.2	0.2	SUN	0.3	0.3
CBA	0.7	0.7	TCL	0.6	0.4

CSL	0.1	0.1	TLS	0.2	0.2
GMG	0.4	0.3	WBC	0.7	0.6
IAG	0.5	0.6	WES	0.6	0.5
MQG	0.3	0.3	WOW	0.6	0.7
NAB	0.5	1.0	WPL	0.7	0.7

To see the full Short Report, please go to this link

Guide:

The Short Report draws upon data provided by the Australian Securities & Investment Commission (ASIC) to highlight significant weekly moves in short positions registered on stocks listed on the Australian Securities Exchange (ASX). Short positions in exchange-traded funds (ETF) and non-ordinary shares are not included. Short positions below 5% are not included in the table below but may be noted in the accompanying text if deemed significant.

Please take note of the Important Information provided at the end of this report. Percentage amounts in this report refer to percentage of ordinary shares on issue.

Stock codes highlighted in green have seen their short positions reduce in the week by an amount sufficient to move them into a lower percentage bracket. Stocks highlighted in red have seen their short positions increase in the week by an amount sufficient to move them into a higher percentage bracket. Moves in excess of one percentage point or more are discussed in the Movers & Shakers report below.

IMPORTANT INFORMATION ABOUT THIS REPORT

The above information is sourced from daily reports published by the Australian Investment & Securities Commission (ASIC) and is provided by FNArena unqualified as a service to subscribers. FNArena would like to make it very clear that immediate assumptions cannot be drawn from the numbers alone.

It is wrong to assume that short percentages published by ASIC simply imply negative market positions held by fund managers or others looking to profit from a fall in respective share prices. While all or part of certain short percentages may indeed imply such, there are also a myriad of other reasons why a short position might be held which does not render that position “naked” given offsetting positions held elsewhere. Whatever balance of percentages truly is a “short” position would suggest there are negative views on a stock held by some in the market and also would suggest that were the news flow on that stock to turn suddenly positive, “short covering” may spark a short, sharp rally in that share price. However short positions held as an offset against another position may prove merely benign.

Often large short positions can be attributable to a listed hybrid security on the same stock where traders look to “strip out” the option value of the hybrid with offsetting listed option and stock positions. Short positions may form part of a short stock portfolio offsetting a long share price index (SPI) futures portfolio – a popular trade which seeks to exploit windows of opportunity when the SPI price trades at an overextended discount to fair value. Short positions may be held as a hedge by a broking house providing dividend reinvestment plan (DRP) underwriting services or other similar services. Short positions will occasionally need to be adopted by market makers in listed equity exchange traded fund products (EFT). All of the above are just some of the reasons why a short position may be held in a stock but can be considered benign in share price direction terms due to offsets.

Market makers in stock and stock index options will also hedge their portfolios using short positions where necessary. These delta hedges often form the other side of a client's long stock-long put option protection trade, or perhaps long stock-short call option (“buy-write”) position. In a clear example of how published short percentages can be misleading, an options market maker may hold a short position below the implied delta hedge level and that actually implies a “long” position in that stock.

Another popular trading strategy is that of “pairs trading” in which one stock is held short against a long position in another stock. Such positions look to exploit perceived imbalances in the valuations of two stocks and imply a “net neutral” market position.

Aside from all the above reasons as to why it would be a potential misconception to draw simply conclusions on short percentages, there are even wider issues to consider. ASIC itself will admit that short position data is not an exact science given the onus on market participants to declare to their broker when positions truly are “short”. Without any suggestion of deceit, there are always participants who are ignorant of the regulations. Discrepancies can also arise when short positions are held by a large investment banking operation offering multiple stock market services as well as proprietary trading activities. Such activity can introduce the *possibility of either non-counting or double-counting when custodians are involved and beneficial ownership issues become unclear.*

Finally, a simple fact is that the Australian Securities Exchange also keeps its own register of short positions. The figures provided by ASIC and by the ASX at any point do not necessarily correlate.

FNArena has offered this qualified explanation of the vagaries of short stock positions as a warning to subscribers not to jump to any conclusions or to make investment decisions based solely on these unqualified numbers. FNArena strongly suggests investors seek advice from their stock broker or financial adviser before acting upon any of the information provided herein.

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WEEKLY REPORTS

The Wrap: MYEFO, UK, Indices And Media

Weekly Broker Wrap: MYEFO; UK election; index changes; and media.?

-MYEFO suggests monetary policy will do the heavy lifting in 2020
-Several “winners” emerging with more Brexit certainty
-Declines in media revenue continue into the Dec quarter

By Eva Brocklehurst

MYEFO

The Australian government has forecast slightly smaller cash surpluses for FY20 of $5.0bn, -$2.1bn lower than the April budget estimate in its Mid Year Economic and Fiscal Outlook. The surplus is expected to increase slightly to $6.1bn in FY21.

The changes stem from lower estimated GST and tax receipts and increases in government payments because of the drought, as well as a response to the Aged Care Royal Commission, a new electricity grid reliability fund and Pacific Islands infrastructure finance.

JP Morgan points out the numbers only serve to pin down previous announcements and there was no new measures of significance. Further out, the broker notes an additional drag from weaker tax collections.

The most significant headwinds for the medium term are assumptions that the terms of trade will contract

-8.75% in 2020/21, along with the sharp lowering of 2020/21 wage growth forecasts to 2.5% from 3.25%.

Estimates for real GDP were lowered to 2.25% for FY20 and unchanged at 2.75% for FY21. Nominal GDP forecasts are unchanged for FY20 at 3.25% and lowered to 2.25% for FY21.

Net debt as a percentage of GDP is expected to peak in FY20 at 19.5%. Citi believes the risks are to the upside for company & individual tax receipts and suspects the weak nominal GDP forecasts are likely to be beaten.

The broker also expects iron ore and coal prices will outperform government estimates. However, the estimates suggest a fairly neutral fiscal stance and therefore Citi does not believe this will ease the burden of economic management on the Reserve Bank of Australia.

UBS also believes reduced capacity for fiscal stimulus supports expectations for a further easing of monetary policy. The broker continues to expect the RBA will cut the cash rate by -25 basis points in February and again by -25 basis points in mid 2020, although this remains conditional on further easing by global central banks. [And is a view pre-dating yesterday's jobs report.]

UK Election

JP Morgan notes around 33% of **QBE Insurance** ((QBE)) gross written premium is from European operations, managed in the UK. The broker assesses the company as one of the "winners" in the wake of the UK general election, where the government was returned with a sharply increased majority that put Brexit firmly on the timetable.

Link Administration ((LNK)) has also indicated that Brexit-related uncertainty was behind some of the problems in the UK operations, and this division comprises 37% of JPMorgan's operating earnings (EBITDA) forecast for 2019.

Another "winner" is likely to be **Computershare** ((CPU)), with around 20% of its group revenue emanating from the UK. In the list, too, is **Pendal Group** ((PDL)) as a meaningful proportion of its operating profit comes from JO Hambro and, hence, from the UK.

On the losers' side JP Morgan cannot find any Australian-related stocks, but warns there have been some very strong share price reactions that could reflect undue levels of optimism about the direct impact of the outcome of this election on financial performances.

Index Changes

There were three changes to the S&P/ASX 20 and 200 indices in the latest quarterly re-balancing. **AP Eagers** ((APE)) is now back in the S&P/ASX 200 index along with **Ingenia Group** ((INA)).

The broker was not expecting many changes within the top end of the indices but notes **Newcrest Mining** ((NCM)) has replaced **South32** ((S32)) within the S&P/ASX 20. Those stocks with claims for promotion up the ladder include **a2 Milk** ((A2M)) and **Tabcorp** ((TAH)) in the case of the S&P/ASX 50, while **AMP** ((AMP)) and **Caltex Australia** ((CTX)) are most at risk.

Steadfast Group ((SDF)) has been propelled up the rankings to join **Saracen Mineral Holdings** ((SAR)) as the two leading candidates for promotion to the S&P/ASX 100.

Morgan Stanley also notes the review of foreign-domiciled securities has generated a significant portion of the passive value that has been traded. A large part of this is the lower revised share for **Amcor** ((AMC)) and **Unibail Rodamco Westfield** ((URW)). **Janus Henderson** ((JHG)) continues to experience a slide in the number of its shares held in Australia.

Media

The Standard Media Index has provided the latest advertising data. Free-to-air metro TV revenue for the big three - **Nine Entertainment** ((NEC)), **Seven West Media** ((SWM)) and Ten Network - collectively fell -8.8% in October. Revenues are down -6.7% in the financial year to date.

Regional declines of -9.1% in the case of October and -3.9% year-to date, were also noted. Of the top five advertising expenditure categories, automotive advertising fell -17.5% and retail fell -18.8%. Gambling rose 16.5%, insurance 11.6% and food, produce & dairy 9.2%.

The data confirms Nine Entertainment's expectations that metro TV market growth would be at least as weak in the December quarter as it was in the September quarter. Given first half operating earnings are expected to decline by -10%, UBS assesses the company's guidance for FY20 implies second half growth of 20%.

For this to occur, it will require a reversal in the declines in **Domain Holdings** ((DHG)) earnings and a listings recovery. Also, the broker posits Nine Entertainment's metro TV market share needs to grow more than 41% in the second half.

UBS also points out advertising market weakness was experienced across the board, not just in TV. Total bookings were down -14.3%, with metro radio down -22.6%, regional radio down -16.9% newspapers down -20.4% and digital down -17.6%. Outdoor advertising bookings were up just 0.3%.

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SMSFUNDAMENTALS

SMSFundamentals: ETFs Attract The Young And The Restless

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ETFs Attract The Young And The Restless

Recent data show an increasing interest in exchange-traded fund investment from millennials, while defensive ETFs have risen in popularity, along with international offerings.

-ETF market continues to grow
-ETF investors getting younger
-Defensive ETFs draw investors
-International ETFs offer diversification

By Greg Peel

The Australian exchange-traded fund industry has continued its rapid rise this year, as noted by the BetaShares/Investment Trends ETF Report for 2019. Adoption is at record highs among investors, SMSFs and financial advisers.

According to the Report, ETF investor numbers reached 455,000, up 18% from 2018. Projections suggest that number will reach 521,000 over the next twelve months.

Financial advisers are increasingly recommending ETF investment to clients, with 58% now providing advice on ETFs, up from 53% in 2018 and 27% in 2010. In the wake of the banking Royal Commission, around a quarter of all financial advisers are now self-licenced and thus independent of the mainstream fund managers.

Interestingly, 14% of new inflows from self-licenced adviser clients found their way into ETFs this year compared to only 7% from their aligned peers. That 14% figure is expected to rise to 19% over the next three years.

Advisers now find themselves under unprecedented regulatory scrutiny, and one way to ease some of that responsibility is to recommend instruments managed by a third party (ETF sponsor). ETFs can also alleviate the need for an adviser to spend a lot of effort in constructing client portfolios.

Okay Boomer

ETF investors continue to get younger, the data confirm. Five years ago the average age of an ETF investor was 56, reflecting that cohort looking ahead to retirement in the not too distant future. That average has now fallen to 42. Of all new entrants into the EFT market in the last two years, 43% are in the millennial age bracket, compared to 12% five years ago.

For the confused, "millennials" are Gen Y, born between 1981 and 1996 and typically the children of Baby Boomers. Those born in the actual new millennium are Gen Z.

The rise of the young investor means the proportion of self-managed super funds investing in ETFs has remained flat at 30% in 2019 from 31% in 2018, despite the number of SMSFs investing in ETFs rising 6% in 2019.

Presumably the youngsters are investing for growth rather than capital preservation at this early stage, but across the full spectrum of ETF investors, 2019 saw a decided shift towards a more defensive stance. While around half of those invested in ETFs made no significant changes to their portfolios in 2019, 40% made changes to increase defensive positioning.

To end-October, 2019 had seen $2.8bn of inflows into the Fixed Income & Cash categories of ETFs, making it the most popular category to that point. Since 2012, the annual growth rate for Fixed Income ETFs has been 79.2%.

"We have seen significant growth in our cash and fixed income offerings," said EFT sponsor BetaShares, "with investors seeking out income-oriented exposures with defensive and diversification benefits, which have been particularly relevant in the current low interest rate environment".

Get it India

On the subject of diversification, ETF investors are also looking outside of Australia for investment alternatives, with a focus on fast-growing Asian economies. What stands out this year, notes independent ETF manager ETF Securities Australia, is the increased number of ETFs launched that provide exposure to international markets.

In June, ETF Securities partnered with a major Indian fund manager to launch the first Indian equity ETF on the ASX, the ETFS Reliance Nifty 50 ETF ((NDIA)). In August, a second Indian equity ETF was launched, joining three Chinese equity ETFs and one each for Taiwan and South Korea.

The Indian Nifty 50 index, representing around 65% of the market cap of listed Indian companies, has increased eleven-fold since its launch in 1995 and has become one of the world's most traded indices. The World Bank forecasts 7.5% GDP growth for India in both FY20 and FY21.

Yet while flows into fixed income and international ETFs were outstripping those into Australian ETFs earlier in

2019, domestic equity ETFs have made a bit of a comeback in later months. ETF sponsor VanEck puts this down to an easing of trade war fears.

To end-November, flows into Australian equity ETFs totalled $3.70bn, VanEck reports, compared to $3.55bn for international equity ETFs. Flows into fixed income ETFs (both domestic and international) totalled $3.33bn, but that's a new record.

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