JM Financial Group

Issue 7: November 2015

Investment Newsletter

Market Performance (As at 30th Nov 2015)	November 2015 (%)	Calendar YTD (%)	1 Year Rolling (%)
S&P ASX All Ords Accum. Index	-0.69	-0.16	1.90

Month in Review - *A review of events that influenced the share market in November.*

November was a tale of two halves for equity markets with the All Ords being dragged down early in the month on the back of a broad based sell off in commodities, then rallying as a range of US economic data releases pointed to moderate growth in GDP for the world's largest economy. The All Ordinaries Accum. Index finished the month down 0.69%

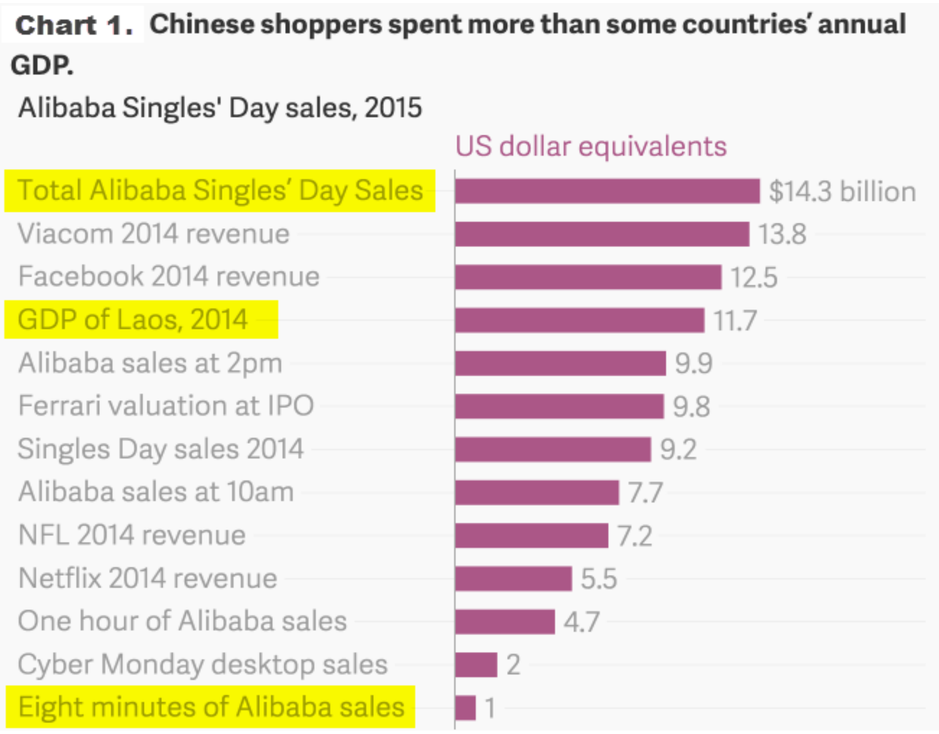
It was not all good news globally though with Japan slumping back into a recession, indicating that its "Abenomics" $25 billion quantitative easing programme has largely been a failure. It now joins a long list of macroeconomic levers that have failed to rejuvenate Japan's stagnating economy.

As mentioned previously, commodities were heavily sold off during the month as iron ore and copper fell to 10 year and 6 year lows respectively. Understandably, this negativity flowed through to our large resource companies with Sims, BHP, Arrium and Santos, all falling heavily. The sell-off was further compounded when the tragic events at BHP's Brazilian iron ore mine led to a significant loss of life and potential environmental issues for years to come.

There was plenty of news at a stock level with financial results from CBA, capital raisings from Transurban, Santos and IPH, and Qube announcing a takeover bid for Asciano, trumping Canadian infrastructure rival, Brookfield, in the process. In the consumer sector, Dick Smith sent a scare through the market with a $60m write-down of inventory only one month after issuing a substantial profit warning, and Slater and Gordon's woes continued when the UK Government proposed changes to personal injury claims from motor vehicle accidents.

With most capital raisings being well supported and the IPO market remaining buoyant we are hopeful that the recent bounce in the market will translate into another "Santa Claus Rally", a term coined to explain the fact that, somewhat strangely, December is 4 times more likely to record a positive market performance than an average calendar month.

Chart of the Month – *The evolving Chinese economy*



Although there has been plenty of discussion about China's slowing economy, it's important to understand the transition away from an infrastructure economy to a domestic consumption based economy.

Nowhere is this more evident than in Chinese e-commerce company, Alibaba's, recent 'Singles' Day' sales. Initially started as a day to celebrate being single and independent, the day has developed into a country wide shopping holiday much like the US's Black Friday.

This year's celebration saw a record $20bn (AUD) of sales across the day with Alibaba processing a staggering 710 million transactions. Given this number is greater than some countries' annual GDP it's a timely reminder of how strong China's economy actually is.

Due Diligence – *A closer look at a company of interest.*

St Barbara (SBM) – Leonora Site Visit

As flagged in previous newsletters our attraction to St Barbara was not a trade on an improving gold price but rather a view on the ability of the company to turnaround its operational performance and pay down its debt through increased cash flow.

Although our thesis has been proven correct so far we continue to do due diligence on both the company and its operating mines as we seek to understand what levels of production each of the assets may be capable of. As part of this due diligence the JMFG team recently visited the company's flagship Gwalia mine gold mine at Leonora in WA.

The Gwalia mine is an underground mine purchased by St Barbara from Sons of Gwalia in 2005, which re-commenced production in 2008. The mine achieved 250k oz. of production in FY15 and is SBM's largest producing mine.

The site visit commenced with a 4WD drive trip 1500m below the surface to the heart of the mine in order to view current mining operations. Although this is incredibly deep (said to be the deepest gold mine in the world using trucks to carry crushed ore to surface) the mine still remains prospective at these levels and offers further potential extensions to the mine life. As 8 trucks transport ore to surface 24/7 the company continues to explore the deposit at depths with early drilling results potentially adding 4 more years of mine life. The ability to continually find more gold at depth has been one of the keys to SBM's success. Interestingly the obstacles are not so much finding gold but rather how to get it out safely and efficiently, considering ventilation and transport issues.

The site visit concluded with a tour of the crushing plant and mill which easily handles the current volumes of ore being brought to surface. Gold bars are then produced from solution before being driven to Kalgoorlie in an armoured vehicle and ultimately being flown to the Perth Mint.

Orange is the new black

Sector Watch – *Nutrition*

As our chart on page one shows whilst China's demand for hard commodities is slowing, the transformation to a consumption based economy is clearly benefitting some businesses, in particular, baby formula and vitamin producers.

One needs only read the daily papers or turn on the television to see the publicity surrounding Bellamy's, Australia's leading infant formula producer. Chinese demand for the product has been extraordinary with reports of customers buying entire shelves of product to ship through "grey" channels into China at exorbitant prices, (up to 10x the retail price of a tin in Australia). Many readers may recall the tainted milk scandal of 2008 which led to the collapse of China's largest dairy company and emphasised the importance of sourcing high quality, regulated product.

The announcement of the end to the one-child policy in China at the beginning of the month understandably added further fuel to the thematic with Bellamy's gaining over 40% in November alone.

Blackmores is experiencing something similar to Bellamy's with Asia's insatiable demand for reputable vitamins leading to strong revenue growth. Blackmore's share price took a further leg up recently when it was announced that Hong Kong based 'Biostime' was buying competitor, 'Swisse Vitamins', for $1.7bn, in an overwhelming endorsement of the sector.

Although we have sadly missed these two stocks (up 434% and 550% respectively this year!) there is some element of caution to be had at these higher levels with China recently announcing draft legislation on imported foods in order to curb the potentially dangerous, unregulated grey market trading.

We continue to keep our eye out for positive long term trends such as the ones mentioned above.

Bellamy's formula moving off the shelves faster than the latest issue of the JMFG newsletter