JM Financial Group

Issue 55: November 2019

# Investment Newsletter

| **Performance** *(As at 30th November 2019)* | Month (%) | Rolling 3mths (%) | Rolling 1yr (%) | Rolling 3yrs (%) | Inception (%) |
|---|---|---|---|---|---|
| **JMFG Australian Equities Strategy** | **-0.24** | **+1.58** | **+22.96** | **+32.78** | **+74.50** |
| All Ords Accumulation Index | +3.07 | +4.88 | +25.89 | +42.92 | +63.06 |
| **Outperformance** | **-3.31** | **-3.30** | **-2.93** | **-10.14** | **+11.44** |

*Although the JMFG Australian Equities Strategy is generally representative of client portfolios, Individual performance may differ from the results above. These differences can arise due to various issues, some of which may relate to initial timing of investments and cash inflows and outflows. Performance is calculated on a TWRR basis; non-annualised and includes management fees paid (post 1 Jan 17) and taxes. Strategy Inception for Performance Data is July 1st, 2014.*

## ***Month in Review*** *– A review of the share market and overview of the portfolio for November*

The ASX All Ordinaries surged to a new record high in November peaking at 6996 points, beating its previous intraday high of 6883 set in September, which in turn broke the prior intraday record set in November 2007 of 6873 points. The All Ords Accumulation Index finished the month up by 3.07%, while the JMFG Australian Equities Strategy posted a slightly negative return of -0.24%, underperforming its benchmark by 3.31% for the month. The Strategy gave up its rolling 3-months lead this month, gaining only 1.58% versus the benchmark rise of 4.88% for the period, to ultimately fall short of the benchmark by 3.3%.

The market was quite unusual through November with most segments up strongly, with the exception of the Financials sector which fell by 2.05% and the Utilities sector which declined 0.6%. The Property Trust sector increased by 2.3%, which was weak in context of the rest of the market. The strongest sectors included I.T. +11.0%, Health Care +8.9%, and Consumer Staples +8.3%.

Trading during the month was very quiet. We added one new stock to the portfolio, Nine Entertainment Holdings, and topped up our positions in Pro Medicus and New Century Resources on price weakness. Nine Entertainment has transformed itself from an advertising-only company in free-to-air television, into an advertising and subscription business with longer-term growth prospects in the form of the program streaming businesses, Stan and 9Now. Its acquisition of Fairfax has significantly broadened the portfolio of assets and diversified it away from the traditional free-to-air product, which has experienced significant audience decline over the past 13+ years. The portfolio finished the month with a 6.7% weighting in cash.

The strongest performers for the portfolio during the month included:

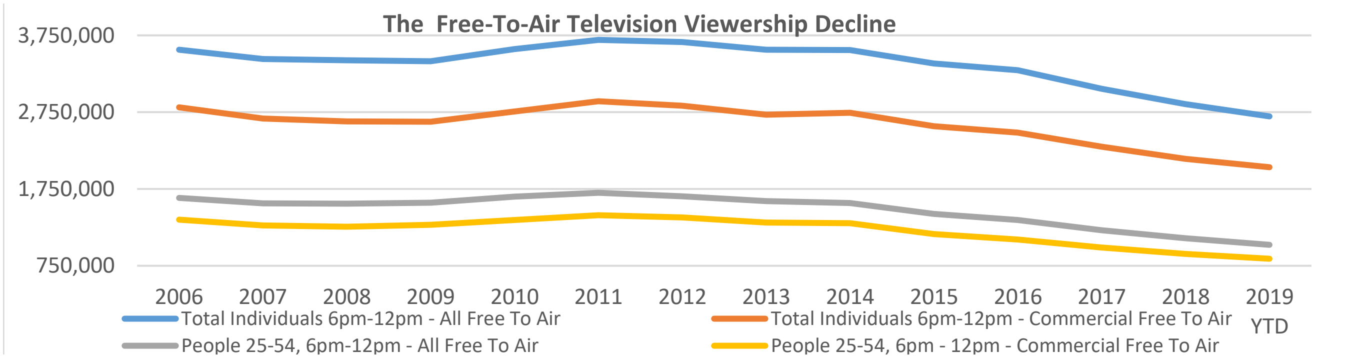
- Xero +18%, Medical Developments +17% and Cleanaway Waste Management +15%

The weaker performers for the portfolio during the month included:

- New Century Resources -24%, Opthea -22% and Ioneer -22%

## ***Chart of the Month – Television: The Decline of Viewership***

Digitisation has changed many things including free-to-air tv audiences. Despite digitisation resulting in an increase in the number of free-to-air channels available in Australia, the total tv audience across all free-to-air channels has been in sharp decline since 2006. The total audience viewing television between the prime time viewing period of 6pm-12pm has declined by 24% since 2006, and by 27% when the non-commercial network audience is excluded. Within the higher-rated target audience of people in the 25-54 age bracket, being those with higher income levels and spending capacity, the audience decline between 2006 and 2019 is 37% across all stations, and a similar amount for commercial stations. The audience fragmentation has seen much of the audience relocating to online and streaming services, including social media video content, viewed across computers, smartphones, tablets and, more recently, "Smart TVs" being TVs with embedded media player computer technology. Digital advertising in Australia was negligible in 2006, prior to the first Apple iPhone launch in January 2007. Digital advertising in Australia now represents over 60% of total advertising.



## Due Diligence – *A closer look at a stock of interest*

**Nine Entertainment Holdings (NEC)**

Traditional media; print, television, radio, and outdoor have experienced ongoing fragmentation for much of the past two decades. Audience decline in traditional free to air television and the loss of the rivers of gold (real estate, motor vehicle and employment advertising) in newspapers, have had a profound impact on sector revenues and profitability. Digital streaming and investment into new media businesses however are starting to bring new life to old media companies, such that the revenue growth potential from these new businesses is offsetting the revenue fragmentation experienced in old media.

Streaming is bringing new life to the traditional television model with the opportunity to deliver television product at a time that is convenient to the consumer, without the consumer having to pre-plan the recording of content. Not only does this drive a new revenue stream for free to air television product but it also delivers a more valuable viewership in that more is known about the viewer demographics, given streaming requires a login to an app, and sign-up to the app requires a level of personal demographic information.

Through its acquisition last year of Fairfax, Nine Entertainment has also gained access to Stan, a subscription-only, entertainment streaming business, which competes with Netflix. The advantage it has over Netflix is that it does not create content that competes against the traditional US production houses, meaning that those production houses are more likely to distribute through Stan than Netflix. Disney, however, recently launched its own independent streaming service, but this opportunity is unlikely to be available to the many other production houses given the strength of the Disney brand, and its very specific genre. In addition the large marketing and advertising costs create a barrier to entry – for example, Stan spends many tens of millions each year on promotions.

The vagaries of advertising markets will always cause earnings volatility for companies in the media space, but Nine Entertainment has developed or acquired several attractive growth components to its business and added a more stable subscription base to its revenue stream, making it a more attractive proposition through the cycle.

BROADCASTING

DIGITAL VIDEO

STAN

METRO MEDIA

DOMAIN

## 60 Years On – How TV Units Have Changed

We discovered a lot of interesting side-note facts about television sets while deep-dive researching Nine Entertainment and its peers. For instance, power use on average for a 22-inch cathode ray tube (CRT) TV is about 110 watts. For a comparable 22” CCFL-backlit LCD flat panel it’s about 40 watts and for a similar 22” LED-backlit LCD flat panel it’s about 30 watts. But who buys a 22” TV these days? A typical 50” FullHD LED-backlit LCD flatscreen TV uses about 100watts, and a 50” FullHD plasma screen TV uses about 300 watts. It is clear why LED-backlit LCD TVs, and the even more efficient and visually dynamic OLED and QLED backlit LCDs, have taken over and dominated in terms of units sold.

The affordability of the TV has changed dramatically too. Six decades ago, less than 5 per cent of Australian homes had taken up the “luxury” of TV, which cost around 8 times the average weekly wage at the time. Now, one week of today’s average weekly wage could afford a 65” 4K UltraHD LED Smart TV that can accept streaming from the internet as well as decode all digital over-the-air broadcast channels, with change left over for a reasonable home theatre soundbar and a wall-mounting kit!

Over just the past 2 decades so much has changed so rapidly, causing an extraordinary pace of obsolescence-driven churn of TV units. Picture quality has improved dramatically, as improvements in content production and broadcast resolution enabled increasingly more realistic picture reproduction. TVs moved to the wider 16:9 screen ratio, affordable home theater furniture flourished and dedicated rooms in new home floorplans became commonplace (much to the dismay of cinema operators who have had to improve significantly to stay relevant). Computer display technology improvements driven by professional video gaming demand has produced a flood of behind-the-glass progressive improvements. The constant finessing of form factor, i.e. thinning of the TV body, enabled larger TVs to be physically less intrusive than smaller CRTs ever were. All up, homes are now likely to have multiple TVs – so, in fact, the average home now consumes at least double the electrical power for TV consumption than it was consuming when we were admonished to dump the old fashion CRT box!