CBA compo at $3m

Cost of dodgy financial advice rises

MICHAEL RODDAN
BANKING

THE Commonwealth Bank has revealed it has so far offered nearly $3 million to people affected by its financial planning scandal.

Australia's biggest bank has also announced it has paid more than $2 million to victims of bad or inappropriate advice.

The total compensation offered by the Open Advice Review program stood at $2.89 million at the end of last year, according to a report released by the bank yesterday.

It is a sharp increase on the $950,000 that had been offered by the end of August, according to the report by Promontory Financial.

The consulting group was appointed by the bank to oversee the review program.

The increase in compensation is largely in line with the rise in the number of cases where the Commonwealth Bank was found to have given poor or incorrectly implemented advice or wrongly charged fees.

At the end of December, 171 cases had resulted in compensation, up from 53 at the end of August.

Of these customers, 122 had received poor or wrongly implemented advice, while the remaining 49 customers had been charged incorrect fees.

The number of case reviews completed stood at 1937 at the end of December, up from just 686 at the end of August.

Another 6000 cases are still in the program, while about 1300 customers have exited the redress scheme before having an assessment outcome, the report reveals.

Promontory is run by Jeff Carmichael, the former head of the banking watchdog, Australian Prudential Regulation Authority.

The CBA was forced to create the program after a Senate inquiry into the Australian Securities and Investments Commission's extremely slow performance in investigating the scandal.

The scandal originated with CBA whistleblower Jeff Morris alerting ASIC in 2008 to high-pressure sales practices designed more to produce commission than enrich clients.

The "serious misconduct", as the Senate inquiry called it, began in 2006 and lasted until about 2010, two years after Mr Morris's complaint.

THE AUSTRALIAN

REA SEALS TAKEOVER

PROPERTY

ONLINE real estate company REA Group has cleared the final hurdle in its $750 million takeover of southeast Asia-focused rival iProperty.

The Federal Court yesterday approved a scheme of arrangement under which a subsidiary of REA Group will acquire all the shares in iProperty.

iProperty shareholders voted in favour of the takeover on January 28.

The arrangement is expected to be implemented on February 16, when iProperty shareholders will be paid $4 per security.

iProperty Group operates a range of property portals in Hong Kong, Malaysia, Thailand and Indonesia.

Shares in REA Group closed 24c lower at $52.01 yesterday.

Alphabet bites Apple

MARKETS

TECHNOLOGY titan Apple has been dethroned by Alphabet as the world's most valuable business after the parent company of search engine giant Google reported a surge in earnings.

Alphabet chalked up $US4.9 billion ($6.9 billion) in net income for the three months to December, easily topping analysts' expectations.

Investors on the New York Stock Exchange sent the company's shares up more than 5 per cent to $US806.50 on the news, elevating Alphabet above Apple in market value.

According to calculations from S&P Indices, Alphabet was worth $US555 billion versus $US533 billion for Apple, although the Steve Jobs-founded company had a chance to rebound in overnight trading.

Apple shares have been sliding amid concerns about a slowdown in iPhone sales.

Meanwhile, Alphabet's stock has surged 45 per cent since the end of 2014 when it was still trading under Google's name.

DOMINO'S DELIVERS ON GERMAN DEAL

DOMINO'S Pizza Enterprises has wrapped up its $120 million deal to buy into Germany's biggest pizza delivery company.

The Australian fast food group announced yesterday it completed its purchase of a majority stake in Joey's Pizza, which has 212 outlets, for €79 million ($120 million).

Domino's has formed a joint venture with the UK-based Domino's Pizza Group, which holds the master franchise agreements for the chain in Britain, Ireland, Germany and Switzerland.

The Australian company — which owns the master-franchise rights to the Domino's brand in Australia, New Zealand, Japan, France and the Netherlands — will own two-thirds of the joint venture. Domino's has said the deal was expected to help boost annual earnings by nearly a third.

The company last week completed the €35 million ($71 million) acquisition of 89 Pizza Sprint stores in France.

Navitas lifts profit

EDUCATION

EDUCATION provider Navitas has reaffirmed its full-year earnings guidance and announced a share buyback after lifting first-half profit by 44 per cent.

Navitas, which runs education programs in Australia, the US and Britain, said net profit for the six months to December 31 rose to $45.5 million, from $31.5 million a year prior.

Underlying earnings rose at a better-than-expected 16 per cent to $82.8 million.

Navitas chief Rod Jones said the second half result would be affected by the loss of a big contract with Macquarie University, but still maintained full year earnings before interest, tax, depreciation and amortisation in line with 2015-16's $163.1 million.

At the close yesterday, Navitas shares were up 18c, or 3.9 per cent at $4.78.

Investors wise to keep eye on Chinese currency moves

THE SHORT CUT
with ANDREW MACKEN

INVESTING used to seem a lot easier.

One could simply select a handful of high quality local businesses that had attractive future prospects and appeared undervalued.

Today, in a far more interconnected or "globalised" world, investors need to consider the consequences of many more factors on their portfolios.

There has been a lot of talk about the Chinese economy for many years now.

A decade ago, it was all about its roaring growth and the positive effect that was having on supporting nations, like Australia.

Then, in recent years, the rhetoric focused on a Chinese economy that, while continuing to grow, was growing at a slowing rate.

And today, there is talk about the Chinese currency and a potential devaluation.

Now a Chinese currency devaluation likely seems way too narrow an issue for investors in other parts of the world to be thinking about.

But many in the world, including your author, view it as the single biggest risk for investors to consider.

You see, China's currency is not like that of Australia or Europe or the United States.

It is not free-floating.

China's currency is largely fixed and controlled by the People's Bank of China.

And there are genuine question marks on the extent to which this level of control can persist.

You may have heard something about China's "treasure trove" of foreign currency reserves which amount to about $US3.3 trillion.

Well, this should not be thought of as a big pot of money that can be called upon when it rains (as has been commonly misperceived).

It should be viewed as the "firepower" that remains for the People's Bank of China to control its currency.

It simply works like this: if many Chinese businesses and citizens want to move their money out of the country into, say, US dollars, then they effectively take their money to the People's Bank of China and ask for US dollars.

The US dollars they are given comes out of that treasure trove of foreign currency reserves — and the exchange rate does not move.

(If they were told to go and buy the US dollars from someone else, then the Chinese exchange rate would depreciate.)

As you can see, this model to fix the Chinese exchange rate works until either the People's Bank of China runs out of foreign currency reserves, or Chinese businesses and citizens cease moving their money out of the country. In recent months, China's reserves have been falling about $US100 billion a month as capital has been leaving the country.

At this rate, the reserves would be depleted in less than three years.

Why on earth does a devalued Chinese currency matter?

For lots of reasons. Anything that China imports will all of a sudden become more expensive.

China's middle class will effectively become poorer.

And God help any Chinese company that has been funding themselves with (what appeared at the time to be cheap) US dollar-denominated debt.

Imagine you earned an Australian dollar salary to repay your mortgage that was denominated in US dollars.

Your loan would have appreciated by about 30 per cent over the past 15 months!

On August 11 last year, the People's Bank of China allowed its currency to depreciate by 3 per cent.

While this does not seem like much, it was enough to send the Australian stock market down by 9 per cent over the subsequent two weeks.

What will happen if China's currency depreciates materially further?

No one knows for sure but it's something that all investors should be monitoring.

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