

ASX 200 6657.90 -50.20 -0.74% The Australian share market's remarkable gains for the year have vanished in four days of tumultuous trading.	ALL ORDINARIES 6737.40 -53.30 -0.78%	BEST ASX 50 TREASURYWINE \$11.29 +28 2.54%	WORST ASX 50 AMP LTD \$1.77 -0.75 -4.07%	\$A US CENTS 65.54¢ -0.35 -0.53%	OIL BRENT \$US PER BARREL \$53.37 -1.65 -2.99%	IRON ORE \$US PER TONNE \$86.67 -0.06 -0.06%
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afterpay

BY THE NUMBERS

\$4.8b

Sales carried out on Afterpay's platform in the past six months, up from \$2.3 billion a year ago

7.3m

People who used the platform last year, up 134 per cent on the previous year

43,200

Merchants who sold goods and services with Afterpay last year, up 86 per cent

\$35.8m

The group's pre-tax loss for the past six months, up 66 per cent from a year ago

pay now, profit later

flected increases in employment, marketing and other operating expenses", it said.

"This investment supported the growth in total income achieved in the current period, is aligned to the group's previously announced midterm plan and is targeted to support future growth in existing and new markets."

Afterpay allows consumers to buy goods and take them home immediately, but pay in interest-free instalments.

It makes most income from

merchant fees and commissions. Mr Eisen said Afterpay was growing at a "considerably faster rate" in the US and Britain than it had in Australia and New Zealand.

It was confident about its strategy to invest for growth based on its experience in Australia, where early-stage customers were now using Afterpay on average 23 times a year, he said.

"Our success compounds as more customers transact more frequently, from a broader co-

hort of merchants across a larger global footprint," Mr Eisen said.

US consumers made up 49 per cent of all customers in the half. Afterpay did not declare an interim dividend.

The results come after Mr Eisen last week told a Senate hearing Afterpay was "not a line of credit" and urged parliament to not regulate financial technology start-ups as if they were large financial institutions.

THE AUSTRALIAN

Funtastic future in scooters

STRUGGLING toy wholesaler Funtastic is getting out of the toy distribution and apparel businesses.

The company, chaired by former Myer chief Bernie Brookes, has told investors it is exiting unprofitable products after launching a review of its portfolio.

"In recent years the toy distribution division has weighed heavily on overheads, resource and investment and will be

ELI GREENBLAT
RETAIL

progressively phased down," Funtastic said.

"The apparel division is not core to the company's heritage of product sectors related to families with kids and will be divested."

Funtastic said it would focus on products such as Razor scooters, Chill Factor "slushie makers" and Mochies phone-

watches. At its peak more than a decade ago, Funtastic was a mid-cap market darling, propelled by a portfolio of must-have toy brands.

Mr Brookes said Funtastic was now sharpening its focus on emerging and innovative categories and meeting families' changing needs.

Funtastic this month warned Christmas trading was worse than expected and it would report a first-half loss.

Contagion that will cut into economies

CAN you see how coronavirus can be contained? Let's think practically about this, especially in light of the revelation the incubation period may be longer than two weeks and is infectious before symptoms present.

Even if Australia has banned inbound flights from China, many other countries have not. The virus will spread to those countries.

And attempts by those countries to enforce lockdowns as strictly as China are bound to fail — just ask the relaxed Italians!

Consequently, infected Chinese passengers can travel to other countries where people they come into contact with are permitted to travel to Australia.

Additionally, the limited infections being declared by Vietnam, Cambodia and Indonesia are suspicious and we aren't banning travellers from those countries.

In the absence of a vaccine or warmer northern hemisphere temperatures slowing its spread, a Covid-19 pandemic is probable.

In countries outside China, including South Korea, Singapore, Japan and Italy, cases of infection are growing rapidly.

Meanwhile, China claims there are very few daily new cases outside the Hubei province, and in Indonesia there are no reported cases.

In other words, in the two countries with the some of the highest levels of corruption in the world, coronavirus is under control.

At the time of writing, Japan and Italy are posting sharp rises in infections.

The US Centres for Disease Control and Prevention raised its Japan travel alert to Level 2, warning of "sustained community transmission" and called for "precautions for high-risk travellers".

Italy has declared a national emergency, having become host to the largest



THE SHORT CUT

ROGER MONTGOMERY

outbreak outside Asia and authorities are unable to find the source. Elsewhere, the death toll in Iran is rising, and Turkey and Pakistan have closed their borders.

For investors this issue may become more significant than has recently been implied by rather complacent markets.

Initially, the market was treating the outbreak as similar to the SARS coronavirus, which lasted three to four months.

Markets were instead hopeful low interest rates would support asset prices and central banks would continue to provide sufficient liquidity and stimulus to come to their rescue.

EVEN after their recent sell-off, the still high double-digit price-to-earnings ratios of major US and Australian indices have clearly ignored the possibility of a dramatic slowdown in global economic activity.

The issue is that markets are underestimating how people will behave, and the effect that behaviour can have on business. Brisbane-based travel company Flight Centre has lowered its full-year profit forecast by 18 per cent, suggesting it expects people's travel plans will be severely curtailed.

And if a pandemic is declared, travel plans could take it another leg lower.

For investors, the obvious losers from a pandemic are businesses in travel and tourism as well as those in luxury retail that depend heavily Chinese spending.

Other stocks that suffer will be casinos that rely on Chinese high rollers and if the pandemic really gains

traction, any business that relies on masses of people meeting together will suffer — think shopping centres, fast-food chains, sports stadium owners, and festival and concert operators.

As the global economy slows, so too does demand for energy and construction. Oil stocks suffer as the oil price slows and iron stocks do likewise.

Nike, having temporarily closed half of its company-owned and partner stores, and Apple which has issued profit warnings, are examples of how globalisation results in few companies emerging unscathed.

For serious investors, there are second and third-order consequences from an outbreak turning into a pandemic.

Retailers with high inventory turnover such as fast-fashion jewellery chain Lovisa in Australia — the company releases dozens and dozens of new products every week — will suffer as its supply chain empties of products even if its customers keep shopping.

Despite all of the above, what we are tracking really closely are credit spreads for signs that the credit market is starting to seize up.

If investors start worrying about lending to companies and interest rate spreads start to widen, the increased cost of funding could really spread the effects of the virus to everyone, causing markets to stumble.

Economies rely on people spending. If people stop spending, highly indebted companies — of which there are a record number globally — cannot afford the hiccup to their cash flows.

Coronavirus may yet turn out to be a storm in a teacup but the current signs suggest its becoming much more serious.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT MONTGOMERY INVESTMENT MANAGEMENT

MARKET WRAP

THE Australian share market's remarkable gains for the year have vanished in four days.

The ASX 200 index yesterday closed 50.2 points, or 0.7 per cent, lower at 6657.9, while the broader All Ordinaries index fell 53.3 points, or 0.8 per cent, to 6737.4 points.

The ASX has fallen 504.6 points, or 7 per cent, in the past week, returning to the December 5 level and wiping

more than \$150 billion in value. "We're now closer to correction territory," Bell Direct market analyst Jessica Amir said.

The dollar continued to weaken and was buying US65.50c late yesterday, down from US65.88c on Wednesday

Woodside, Santos and Oil Search all fell between 2 and 2.9 per cent as Brent crude hit a two-and-a-half-year low of \$US52.74 a barrel. **Link Group**

was the worst-performing ASX 200 stock, dropping 13.5 per cent to \$5 after the record-keeping platform posted an 11 per cent drop in first-half operating profit, to \$81 million.

A2 Milk rose 5 per cent to \$15.75 after the dairy brand reported net profit rose 21.1 per cent to \$NZ184.9 million (\$177.6 million). **BHP** fell 1 per cent to \$35.19 and **Rio Tinto** 1.6 per cent to \$90.41.