Aussie Businesses Resilient in Challenging Times:

The August 2023 Profit Reporting Season

The Australian corporate reporting season is drawing to a close, with Aussie companies adapting to slowing consumer spending and higher costs, following the fastest Reserve Bank monetary policy tightening cycle in decades.

Results have been released at a time of macroeconomic turbulence with government bond yields rising sharply - tightening financial conditions and cost of capital – as central banks continue to fight high inflation.

In China, a crisis in the property and shadow banking sectors have weighed on commodity prices. This backdrop has pressured the Aussie sharemarket with the benchmark S&P/ASX 200 index down 1.4% so far in August.

So how have companies performed? Well, prior to the reporting season most analysts feared the worst – with rising rents, interest rates, the fixed rate mortgage cliff and energy costs all expected to weigh on consumer demand and therefore, company sales and profits.

Top Dividend Payers ($ million)

Companies	2023	2022
BHP Group (BHP)	$6,332.28	$12,926.96
Commonwealth Bank (CBA)	$4,022.81	$3,519.96
Fortescue (FMG)	$3,078.96	$3,725.55
Woodside Energy (WDS)	$2,373.44	$3,037.05
Wesfarmers (WES)	$1,168.01	$1,133.99
Telstra (TLS)	$982.13	$866.58
Transurban Group (TCL)	$970.37	$800.94
Rio Tinto (RIO*)	$968.47	$1,424.36
CSL (CSL)	$961.01	$848.15
Woolworths (CSL)	$706.85	$645.91
Santos (STO*)	$440.40	$354.98
Scentre Grp (SCG*)	$428.21	$389.28
Pilbara Min (PLS)	$420.50	
Coles (COL)	$401.52	$401.52
Whitehaven Coal (WHC)	$351.37	$334.64

Source: Iress, CommSec. As at August 29. *Interim

But retailers are reporting that shipping and distribution costs are easing, supporting profit margins. Overall, strong population growth and low unemployment are boosting consumer spending, reflecting the resilience of the Aussie economy. Dividends and profit results mostly met expectations, signalling that a "soft landing" for the Aussie economy is possible.

Looking at the details

As at August 30, 155 of the ASX 200 companies have reported either full-year results to June 2023 (131 companies) or half-year results (24 companies).

Focussing on just the full-year results, aggregate revenue rose 8.9% over the period, with expenses up by 13.9%. As a result, net statutory profit fell by 42.9%.

Earnings per share fell by 27.7%, dividends fell by 2.5% and cash balances were cut by 9.7% to $199.2 billion.

If BHP is excluded, aggregate profits fell by 37% over the year to June.

Aggregate dividends to be paid total $34.5 billion ($29.1bn for full-year reporters), down from $42.3bn in the previous year.

For full-year reporters:

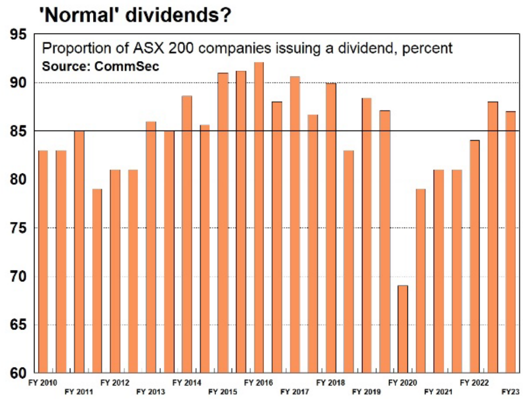
- Revenues rose for 76% of companies
- Expenses rose for 86% of companies
- Profits rose for 40% of companies and fell for 60% (long-term average, 58.5% profit increases)

Top 10 Revenue Generators ($ million)

Companies	2023	2022	%Change
Woolworths (WOW)	$64,571	$61,146	5.6
BHP Group (BHP)	$54,211	$66,496	-18.5
Commonwealth Bank (CBA)	$48,949	$29,756	64.5
Wesfarmers Limited (WES)	$43,550	$36,838	18.2
Coles (COL)	$40,754	$38,427	6.1
Telstra (TLS)	$23,245	$22,045	5.4
Qantas Airways (QAN)	$19,815	$9,108	117.6
Insurance Australia Group (IAG)	$19,565	$18,347	6.6
BlueScope Steel (BLS)	$18,367	$19,146	-4.1
Suncorp (SUN)	$18,354	$16,169	13.5

Source: Iress, CommSec. As at August 29

- 84% of companies issued a profit while 16% recorded a statutory loss (average 87.6%)
- 87% of companies paid a dividend (average 85.1%)
- 47% of companies lifted dividends while 26% cut dividends and 14% maintained dividends while 13% didn't pay a dividend
- 56% of companies lifted cash holdings while 44% cut cash
- Total cash holdings of all ASX 200 companies at June 30 were $228bn, down $26bn or 10% over the year.



Dividends/buy backs

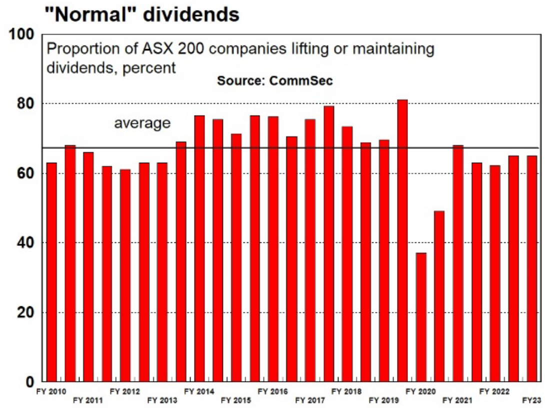
Given the rising interest rate environment, and the competition for funds across asset classes and between companies, a historically high proportion of companies issued a dividend or announced/extended share buyback.

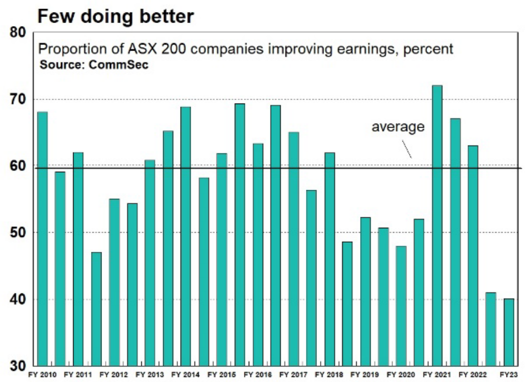
The large number of buybacks also suggests that companies are more optimistic about future Australian household spending, despite deep consumer pessimism and rapid rate hikes.

Qantas was one company that opted to extend a buyback rather than issue a dividend.

Clearly each company has to assess the approach that both suits its financial position and reflects the business outlook.

Of 71 companies experiencing a higher share price on the day of the earnings announcement, 42 companies either lifted or maintained dividends (59%; as at August 29). Clearly investors have been looking at the full package this earnings season – not just the earnings result but also the detail of the balance sheet, forward guidance and capital management.



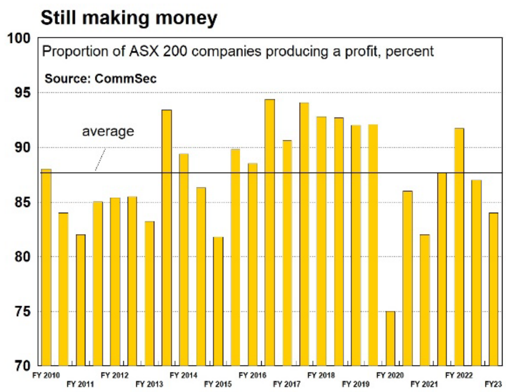


Meets/beats

FN Arena tracks the performance of the reporting season by looking at the proportion of companies that met or beat analyst forecasts.

FN Arena says that 31.5% of 295 companies tracked (ASX 200 and ASX 300) beat market forecasts; 116 companies (39.3%) had results in line with forecasts and 86 companies (29.2%) missed or fell short of analyst expectations.

That means a beat/miss ratio of 1.08. A year ago the figure was 1.2. Companies have ample opportunity to guide or revise forecasts in the "confessional" period at or near the close of books before reporting results. But a number of companies note the deterioration of market conditions through July and August, especially for consumer-focussed companies.



Observations on reporting season

Two words have dominated the company profit reporting season: **'challenging' and 'resilient'.** Certainly 'challenging' aptly describes the operating conditions faced by businesses over the year – especially the last six months.

And while 'challenging' may be appropriate, 'resilient' also well describes how companies and the broader economy have performed in the face of marked increases in interest rates, the rising cost of living, higher input costs and an uncertain global economy.

Metal recycler, Sims, reflected on its 'resilient' performance despite reporting a 70 per cent fall in profit and a 58 per cent cut in its final dividend. Sims also announced the purchase of a US scrap producer. And Seven West Media reflected on its "solid" financial results despite 'the challenging environment'.

Of ASX 200 companies reporting full year results, expenses have consistently outpaced revenues over 2022/23, leading to weaker profits. And, so far a higher proportion of companies have reported a loss for the past year – especially property trusts, as a consequence of **valuation write-downs** of key assets.

Interestingly, the performance of retailers, and consumer-focussed companies more generally, so far can be put under the column of 'resilient'. In fact, Carsales acclaimed its 'fantastic' set of results with profit quadrupling. Sneaker retailer Accent Group reported improving sales at the beginning of financial year 2024 trading, sending its share price up 17%.

Conglomerate Wesfarmers lifted its annual profit, sending its shares over 3% higher, after reporting solid growth in its hardware store chain Bunnings in a sign of stabilisation in the Aussie housing market.

Woolworths out-performed Coles. Coles is battling costs and left the final dividend unchanged. Woolworths outlined its strategy to deal with 'shrinkage' or theft, while lifting its final dividend. But challenges are ahead of both with changing consumer spending patterns.

Now this may prove the calm before the storm. Many retailers reported weaker conditions over the six months to June, nd particularly soft July results. An exception being online furniture retailer, Temple & Webster, noting a pick-up in sales over the second half of the financial year with momentum continuing into August.

Retailer resilience can be put down to the fact that the job market has remained firm. But in some cases it has been the **outperformance of sales at the upper end of the market** – note the performance of online retailer Cettire (outside the ASX 200), the Penfolds brand in Treasury Wine Estates and Carsales.com.au.

Companies can use the cloak of 'challenging' trading conditions and general uncertainty over the response to high interest rates, to defer providing any guidance. But there has been a surprising number of companies that have expressed confidence in the future.

Even JB Hi-Fi in categorising 'heightened uncertainty', plans to use all the tools in the kit bag in the period ahead to drive sales including data mining, targeted marketing, inventory control and cost reductions. Bapcor and Carsales remain upbeat. GUD said there has been no sign of motorists delaying vehicle repairs.

Medical imaging firm, Pro Medicus noted a solid outlook with trends driving the industry continuing. And wealth management firm Netwealth flagged a strong sales pipeline. But SEEK warned about the threat of higher unemployment ahead. And Computershare worries about more rate hikes ahead.

The holy grail of any business - **pricing power** – has also featured over the reporting season. Solid results from James Hardie and Boral had much to do about their ability to pass on higher costs to builders and customers. GUD also highlighted the support of solid margins in its report. And Transurban noted that it was able to raise about 70 per cent of its tolls in line with higher inflation rates.

Top 10 Profit Generators ($ million)

Companies	2023	2022	%Change
BHP Group (BHP)	$14,324	$33,055	-56.7
Commonwealth Bank (CBA)	$10,090	$10,771	-6.3
Fortescue (FMG)	$4,796	$6,197	-22.6
Whitehaven Coal (WHC)	$2,668	$1,952	36.7
Wesfarmers (WES)	$2,465	$2,352	4.8
Pilbara Min (PLS)	$2,391	$562	325.6
CSL Limited (CSL)	$2,244	$2,255	-0.5
Telstra Group (TLS)	$2,051	$1,814	13.1
Qantas Airways (QAN)	$1,744	-$860	302.8
Woolworths (WOW)	$1,629	$7,944	-79.5

Source: Iress, CommSec. As at August 29

Outlook

In terms of earnings multiples, analysts generally believe that the S&P/ASX 200 index is on track for 1.8% earnings growth over financial year 2023, on a per-share basis. For financial year 2024 (FY24), the consensus of forecasters imply an earnings per share (EPS) retreat of 5.4%, versus a contraction of 1.6% heading into results season. Most of the downgrades for FY24 have occurred for mining companies amid persistent cost inflation.

Developments around the under-pressure Chinese economy – our largest trading partner - could prove to have a huge influence over the Aussie economy and company earnings in the back end of this year.

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Companies lifting/maintaining dividends & share movement after result

Companies	Div %	Day 1%
Abacus Property (ABP)	1.6	10.2
Altium Limited (ALU)	11.5	25.9
APA Group (APA)	3.6	0.0
Bapcor Limited (BAP)	0.0	5.5
Breville Group (BRG)	3.3	9.0
BlueScope Steel Ltd (BSL)	0.0	3.5
Carsales.Com (CAR)	32.7	7.0
Commonwealth Bank (CBA)	14.3	2.6
Charter Hall (CHC)	6.0	3.6
Cochlear (COH)	20.7	5.7
CSL (CSL)	13.3	3.7
EVT Limited (EVT)	66.7	2.7
Gold Road (GOR)	20	0.6
GUD (GUD)	0.0	14.9
Homesco (HDN)	0.0	5.4
HMC Capital Limited (HMC)	0.0	3.8
Hub 24 (HUB)	48.0	11.3
Idp Education (IEL)	48.1	9.5
Ingenia (INA)	0.0	4.5
Inghams Group (ING)	1900.0	14.7
IPH Ltd (IPH)	9.4	10.8
Johns Lyng (JLG)	50	9.0
Magellan (MFG)	1.3	13.3
Mirvac (MGR)	3.9	5.3
Monadelphous (MND)	0.0	1.7
Medibank (MPL)	13.7	2.6
Nib Holdings (NHF)	36.4	4.5
National Storage (NSR)	1.9	2.3
Northern Star (NST)	34.8	5.2
Orora (ORA)	5.9	3.4
Origin (ORG)	21.2	1.8
Pro medicus (PME)	41.7	4.2
Qube (QUB)	31.8	5.4
Scentre (SCG)	10.7	3.8
Spark (SPK)	13.4	1.5
Super Retail (SUL)	2.3	2.8
Seven Group (SVW)	0	2.5
Treasury Wine Estate (TWE)	6.3	2.8
Vicinity (VCX)	9.6	2.4
Wesfarmers (WES)	3.0	3.2
Worley (WOR)	0.0	0.6
Woolworths (WOW)	9.4	3.5

Source: Iress, CommSec. As at August 29