

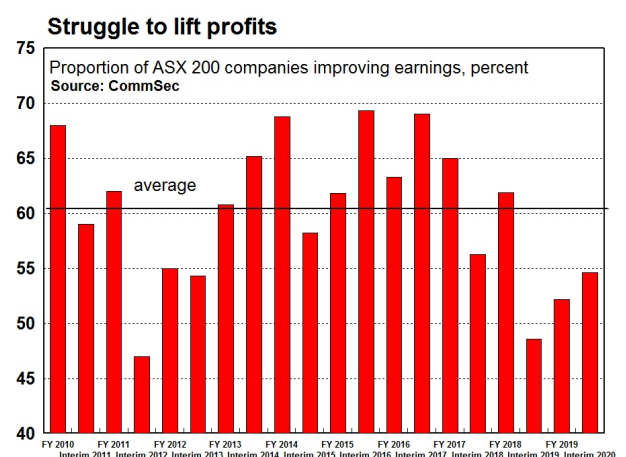
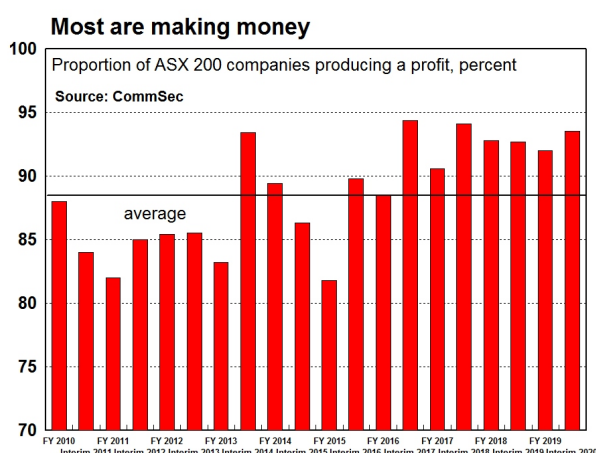
Record proportion of companies issue dividends

Corporate Profit Reporting Season (Early figures: 75% of companies reported)

- Each 'earnings season' or 'profit-reporting season' CommSec tracks all the earnings results of ASX 200 companies to obtain a comprehensive picture of the aggregate health of Corporate Australia.
- The earnings season has another week to go. But so far, 108 of the ASX200 index group have reported half-year (interim) results while 15 companies with a December 31 reporting date have issued full-year results.
- Companies are still reporting profits – 93.5 per cent of companies that have reported interim results did report a profit, near the highest in two years. But only 54.6 of companies were able to lift profits (long-term average 60.3 per cent). Aggregate statutory profits are up by 6.3 per cent. But if BHP and CBA are excluded, profits are actually lower by 3.1 per cent.
- Despite the challenging conditions, more companies are issuing dividends. A record 92.6 per cent of the companies reporting interim earnings have issued a dividend (average 86 per cent over the 20 reporting seasons covered).
- Aggregate dividends of companies reporting interim earnings lifted by 3.6 per cent.

The Profit Reporting Season

- Every six months CommSec tracks the earnings of Australia's largest listed companies. Some analysts track whether companies have met broker expectations. That tells you little about the financial performance of companies. And unfortunately for many companies only a few brokers 'cover' all the stocks.
- Other analysts just track the earnings of those companies they 'cover' – the companies that they have detailed information on. CommSec includes all ASX 200 companies in its macro (big picture) assessment of the reporting season.
- Overall the results show Corporate Australia has been holding up in challenging conditions. Overseas, the China-US trade war dominated in the second half of 2019 together with the on-going uncertainty of Brexit. The global economy slowed, causing a raft of central banks to cut interest rates to support growth.



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- Closer to home, the Reserve Bank cut interest rates three times. In response the Aussie dollar eased, boosting the fortunes of exporters, miners and globally-focussed companies.
- Aussie consumers continued to adjust to the new 'norm' of 2.0-2.5 per cent annual wage growth. Home prices started to lift, especially in NSW and Victoria.
- But despite the challenges, companies are still making money. In fact, 93.5 per cent of the companies that have reported annual results, reported a statutory profit (net profit after tax) – the highest in two years. But only 54.6 per cent of companies lifted profits compared with a year ago. Although that is still better than the 44.6 per cent result in the interim reporting season in February 2019.
- Aggregate statutory earnings have lifted by 6.3 per cent on a year ago, but once BHP and CBA are excluded, profits are down 3.1 per cent on the year.
- Some of the themes of the season:
 - The novel coronavirus outbreak (COVID-19) has dominated the earnings season. Investors have been keen to know the impact of the outbreak on Australia's listed companies.
 - Also companies affected by bushfires: Coles, Telstra; and Super Retail Group.
 - Analysts are divided on whether the earnings season has been good. But overall it can be described as OK. So far 60 per cent of companies that have reported results have seen a lift in their share prices on the day of earnings release with an average gain of 1.6 per cent.
 - Companies have achieved success in controlling expenses while noting modest increases in revenues. **Sydney Airport** was one company to indicate it was keeping a 'tight leash' on costs. **Monadelphous** again noted strong demand for labour, pushing up wages. **Boral** noted heavy cost cutting.
 - Housing construction and development companies have become more positive on the outlook.
 - Consumer-dependent companies continue to report mixed fortunes depending on success achieved in strategies to engage with customers.

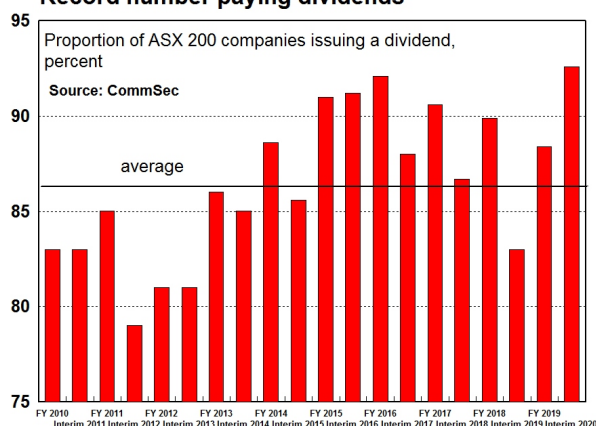
The statistics: Companies reporting interim (half-year) results

- CommSec has analysed the results from the ASX 200 companies that reported earnings for the year or half-year to December. Traditionally brokers or analysts focus on smaller subsets of results. And some merely focus on just whether companies have met or fallen short of "market expectations".
- In the ASX200 index group, 108 companies with a June 30 reporting date have so far issued half-year results while 15 companies with a December 31 reporting date issued annual results.
- Some of the key results for half-year (HY) reporting companies:
 - In aggregate, **revenues** have risen by 2.3 per cent on a year ago to \$245 billion; **expenses** have fallen by 0.4 per cent to \$197.1 billion; **profits** have lifted by 6.3 per cent to \$32.6 billion; **aggregate dividends** lifted by 3.6 per cent; and **cash** holdings have risen 0.7 per cent.
 - Excluding BHP and CBA, profits have fallen by 3.1 per cent. Certainly it is always possible to report 'underlying' results but this involves some subjectivity and the approach can differ across companies.
 - Profits of BHP, CBA and Fortescue accounted for 42 per cent of all half-year profits.

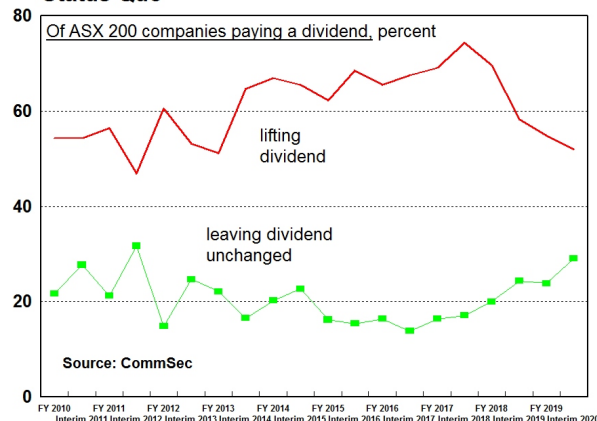
More detailed results for companies that have reported half-year results (HY reporting companies).

- **On revenues**, 72 per cent have reported increases and 29 per cent have reported declines.

Record number paying dividends



Status Quo



- **On expenses**, 74 per cent have reported increased expenses and 26 per cent have reported declines.
- **On profits**, 93.5 per cent have reported a profit (all but 7 of 108 companies).
- Only 55 per cent reported a **lift in profit** (long-term average 60.3 per cent).
- **Of those reporting a profit**, 58.4 per cent have lifted profits and 41.6 per cent have reported a decline.
- Of all HY reporting companies, a record 92.6 per cent have **issued a dividend**.
- **Of those reporting a dividend**, 51.4 per cent lifted the dividend, 18.8 per cent cut dividends and 28.7 per cent left dividends unchanged.
- **On cash holdings**, 56.5 per cent have lifted **cash holdings** over the year and 43.5 per cent cut cash levels.
- **Cash holdings of both full-year and half-year reporting companies** stood at \$91.6 billion as at December 31, (half-year companies, up 0.7 per cent on a year ago to \$73.3 billion).

COVID-19 impact: Some of companies making comments:

- **Star Entertainment** – Visitors near normal
- **Qantas** – could cut \$150 million from net profit
- **BHP** – demand for commodities could be hit if virus not contained by end of March.
- Possible delays – **Monadelphous; Lend Lease; Cochlear** (surgeries).
- No major impact as yet – **IDP Education; OZ Minerals**
- No major impact expected – **Accent, Ansell** (but positives, like surgical and safety gloves); **Beacon** (won't run out of stock); **Amcor** (watching brief); **Breville** (had already lifted inventories)
- **Vicinity Centres** – reduced guidance as fall in foot traffic since January

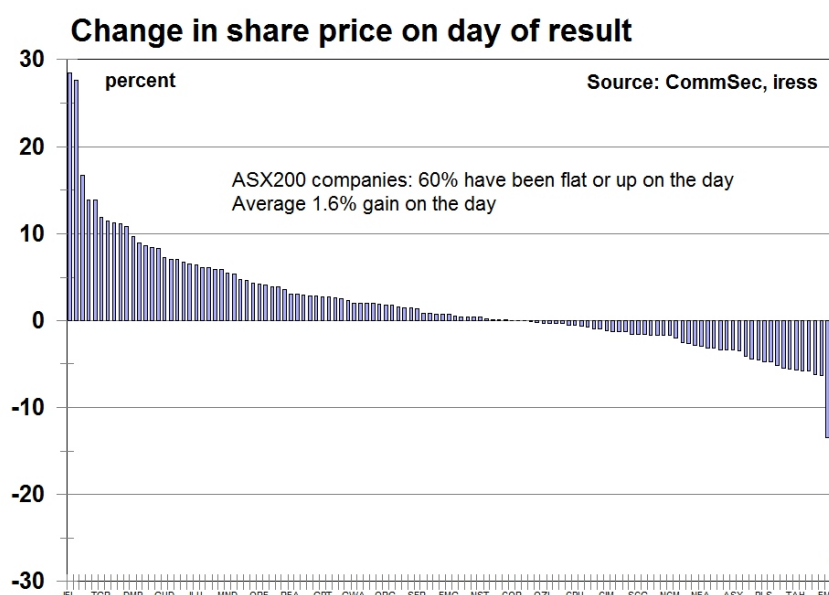
Misses & beats; Upgrades & downgrades

Results to beat/miss/report in-line with market expectations:

- **Miss:** Woodside; Suncorp; Transurban; GUD (earnings per share).
- **Beat:** AGL; Goodman; Perpetual; Coca Cola; City Chic; Austal; Unibail-Rodamco Westfield; CBA; CSL; JB Hi-Fi; GUD (revenues).
- **In line:** APA; Sydney Airports; Treasury Wine Estates; Mirvac; OZ Minerals; Coles; Amcor; Newcrest; Santos; Pro Medicus; Telstra.

Guidance from companies:

- **Downgrades:** APA (full-year result at lower end of guidance); Beach Energy (trims production guidance); Vicinity Centres (coronavirus – reduced foot traffic).
- **Upgrades:** Amcor (raises full year earnings per share guidance range); Telstra (re-affirmed upgraded guidance announced in September).



What are the implications for interest rates and investors?

- Despite the global and domestic challenges, Australian company balance sheets are in strong shape, justifying the record highs achieved by the sharemarket late last week.
- Fears about coronavirus abound, but 60 per cent of companies that have reported earnings results have seen their share prices lift on the day or earnings release. In fact a similar proportion had shares prices still higher after two days.
- The good news for Corporate Australia is that the Aussie dollar has hit 11-year lows against the greenback at the same time that commodity prices – notably iron ore, gold and cattle – are at elevated levels.
- The debate about business investment will continue. Listed companies remain keen to pay dividends, although a high proportion are maintaining rather than lifting dividends. Others are focused on share buybacks. The alternative is to plough more money back into the firm or scour for acquisitions. Some companies seem reluctant to tread the path of acquisitions due to past disappointments. **APA and Ansell** indicate that they were keeping an eye on possible acquisitions. (Seven West Media is actually looking to sell assets).
- A number of home builders and building material companies remain positive about future prospects. Annual population growth hovers near 1.5 per cent and rising home prices should boost investor demand. Prospects for commercial property remain favorable with a record amount of work to be done. In the engineering space, the value of transport infrastructure projects across the country as highlighted by Cimic and Bingo Industries.
- We are comfortable maintaining 'soft' targets for key Australian share indexes. There remain uncertainties about the economic impact of the coronavirus outbreak. At the same time, there is debate whether elevated valuations for share indexes represent 'new norms' in an environment of low interest rates and low inflation.
- CommSec expects the All Ordinaries to be in a range of 6,900-7,300 by mid-2020, with the range for the ASX 200 between 6,800-7,200 points.

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