EARNINGS SEASON AUGUST 2024

Part One

STRATEGY

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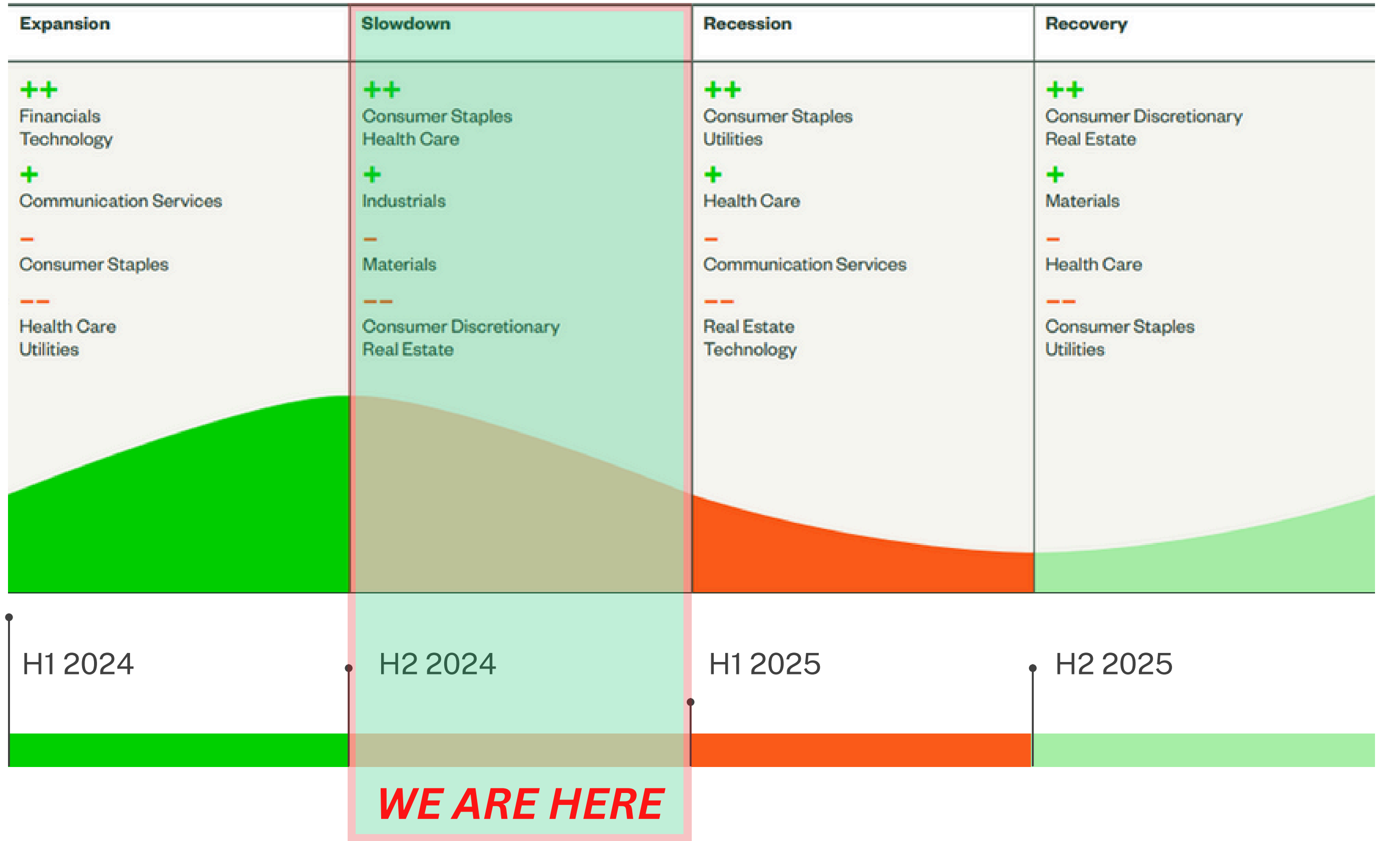
MACROECONOMIC & SECTOR OUTLOOK

Earnings season often provides an opportunity to ensure your portfolio is positioned well for the upcoming phase of the economic cycle

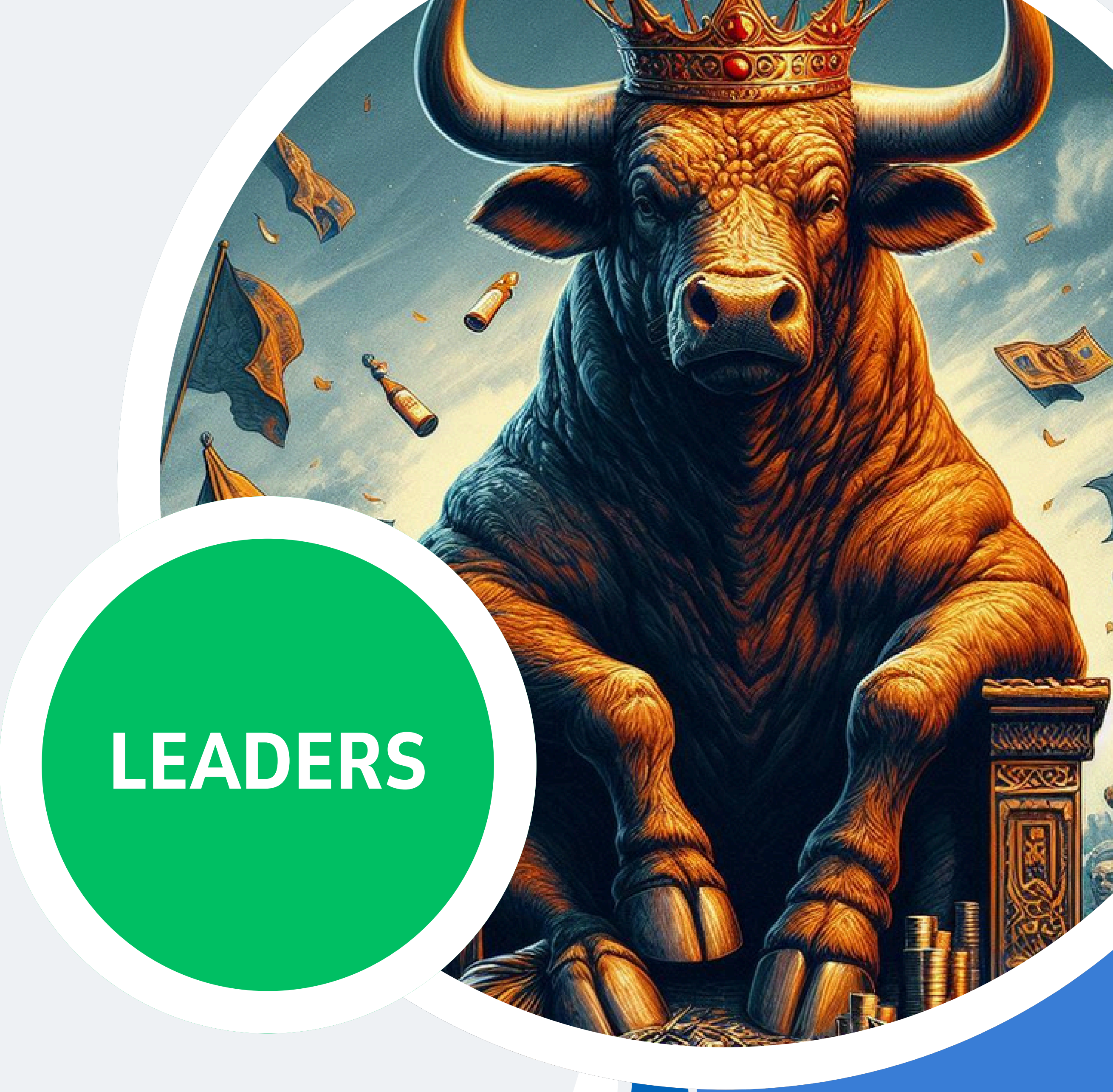
Are you ready for the next phase?



LAST WEEKS WINNERS

Rio Tinto (RIO) +2.1%

- recorded $5.8 billion in profit after tax for the half year.
- Underlying earnings of $12.1 billion
- net cash was $7.1 billion
- interim ordinary dividend of US177¢



LAST WEEKS LOSERS

Microsoft (MSFT) -6.0%

Microsoft's Azure cloud service posted a slowdown in qtr growth, disappointing investors anxious to see a payoff from huge investments in A.I.

- Revenue increased 15 per cent to $US64.7 billion ($99 billion)
- Adjusted profit was $US2.95 a share vs expectations of $US2.94

LAGGARDS

THE WEEK AHEAD

		Mon-5th	Tue-6th	Wed-7th	Thu-8th	Fri-9th
EARNINGS	AU		agl CETTIRE		AMP Coronado Transurban mirvac arcadium lithium	QBE REA Group nickscali FURNITURE TEMPLE & WEBSTER GROUP
EARNINGS	USA	Berkshire Hathaway Inc.	AMGEN airbnb CAT Uber	Disney+ shopify	Lilly	
ECONOMIC	ALL	Bank Holliday ISM Services	RBA Policy Meeting			

PREVIEW

expecting gross written premium growth for QBE Insurance of 5.0%, slightly above the mid-single-digit guidance for FY24

Despite short-term positive factors for the company, QBE Insurance is trading at an 11.8% premium to its weighted international peers, significantly above the three-year average premium of around 2.3%. More clarity on the consequences of its exit from some 'non-core' American markets would also be welcome.

Stocks that have > 20% net EPS upgrades since last reporting season, statistically tend to positively surprise...and REA is one of those stocks

previews online classifieds for the 2H24 and believes the sector is well positioned to continue to underwrite growth via yields and price rises. Proptrack data reveal listing volumes have remained stronger than the forecast 17% annual growth as Melbourne and Sydney continue to exceed other cities.

Accordingly, volume growth forecasts for REA Group have been recently lifted by 1.5% to 8%

Following two years of investment across Australian and US operations, both the production and cost profiles have reached a turning point.

June Quarter run-of-mine beat consensus by 16%. Production was in line, sales missed by -6% and costs tracked lower. FY24 guidance was reaffirmed in the quarterly for coal production, unit cost and capex. Mammoth approvals on track.

With a constructive met coal outlook and Coronado's improved productivity, cost position, and product quality, any positive re

CONSUMER DISCRETIONARY

Could this be the last chance to bank profits?

Consumer disposable income has been reduced by higher interest rates and inflation, but Australians have kept spending, burning through savings built up over COVID and have now turned to credit cards.

This can only go on for so long as credit limits are reached and the looming economic slowdown adds the killer blow to household budgets.

During economic slowdowns, people tend to avoid purchasing large household items due to financial uncertainty and budget constraints.

High-ticket items like appliances, furniture, and electronics are often seen as non-essential, making them easy to postpone until economic conditions improve.

VEIWER'S PICK

NICK SCALI (NCK)

Nick Scali has been a quality, founder led business for many years and a wealth winner for long-term shareholders, the recent expansion into the UK and current premium valuation could present risk to the downside in the short term

A tough macroeconomic backdrop for consumers weighs on like-for-like sales growth

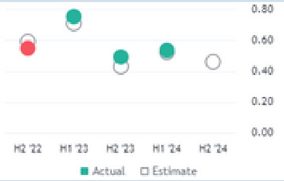
Rising transport costs is a significant challenge to maintain margins.

Recent quarterly showed home furniture spend improved into the end of June 2024 with promotional activity, despite macro headwinds. This could lead to overly optimistic expectations for FY results

Outlook and update regarding the recent Fabb furniture acquisition will be key

VERDICT:
Risk/Reward unappealing at these levels
Consistent outperformer of analysts expectations, may test highs

Currency: AUD	H1 '22	H2 '22	H1 '23	H2 '23	H1 '24	H2 '24
Reported	0.41	0.54	0.75	0.49	0.53	–
Estimate	0.36	0.59	0.71	0.43	0.52	0.46
Surprise	+14.68%	-7.80%	+5.50%	+13.26%	+2.12%	–

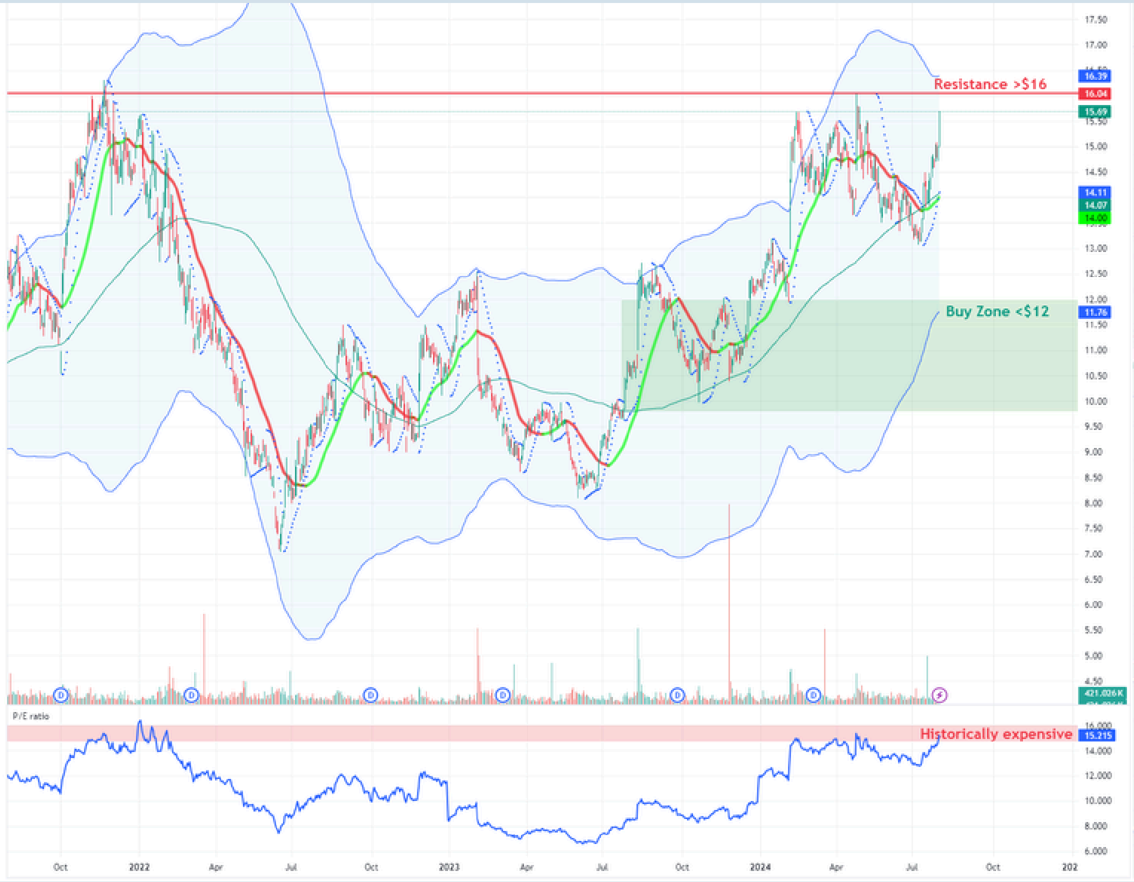


Trade Plan

Holders: While NCK is a quality long-term holding, the macroeconomic headwinds are likely to cap any significant rally. NCK does have a habit of bettering analysts expectations which could provide a favourable exit

Sell half pre-earnings and consider exiting above $16

New Money: "Wait and see" stance this earnings season. Buy zone <$12



RISK ALERT

AMP (AMP)

The market remains optimistic that AMP has turned a corner, with its businesses appearing to have largely stabilized.

Analysts anticipate reasonable profit growth, even if much of it is driven by cost efficiencies, with more significant business unit contributions expected by FY25.

While investor concerns about the bank persist, Citi believes these positive factors could eventually lead to a higher share price for AMP. However, the broker suggests that a significant improvement in AMP's platform flows would be an even more influential factor.

Currently, AMP holds around $415 million in surplus capital, in addition to the funds allocated for its ongoing buyback.
Most brokers expect AMP to soon reinstate an ongoing dividend policy.

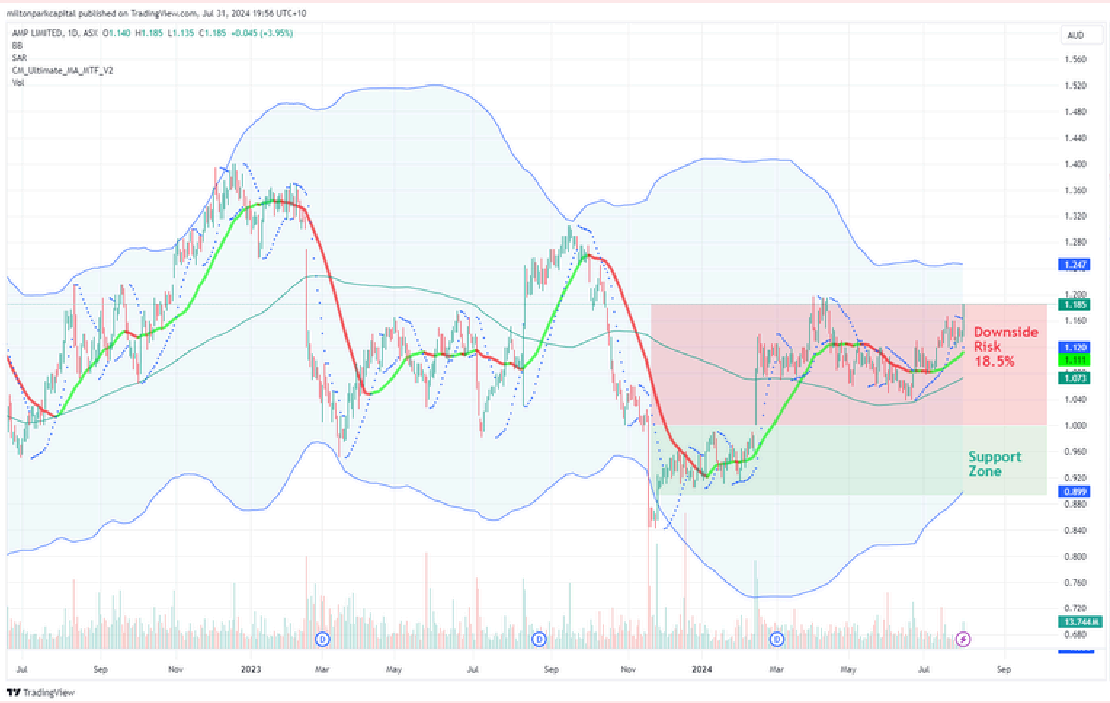
The broader outperformance from the Australian insurance and diversified financials has dragged AMP higher over the past three months and any miss on dividends and profit growth vs analysts expectations could see a sharp drop

VERDICT:
High Risk/Low Reward at these levels

Risk Management Plan

Holders: Being an AMP shareholder has been a painful experience since it listed in 1998 with the share price entrenched in a 25 year downtrend. The company also tends to have high volatility on the day of earnings releases, averaging 10% moves. Generally these moves have been mean reverting, back to the middle of the 6-month range. The price currently sits near the top of that range

SELL BEFORE EARNINGS ON 8th



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