

Analyst
Rob Crookston, Equity Strategist

Authorisation
Chris Savage, Analyst

FY24 REPORTING SEASON PREVIEW

LOW HURDLE TO JUMP

Key Takeaways

- FY24 earnings - A low bar to clear**
 Earnings are projected to decline slightly, setting a low hurdle for the market to surpass.
- Divergence for FY24 earnings**
 The FY24 earnings season is expected to see mixed results across sectors, with growth primarily concentrated in travel, insurance, healthcare, and pockets of quality.
- FY25 earnings - A tougher test**
 FY25 could be a more challenging hurdle, with ~6% expected earnings growth for the ASX 200.
- FY25 growth broad-based**
 Most sectors are expected to grow earnings in FY25. A macro backdrop of elevated interest rates and a slowing economy are unlikely to coincide with broad-based sector earnings growth. These results may be a catalyst for FY25 downgrades.
- Upgrade risks?**
 Earnings upgrades may occur for companies demonstrating effective cost-cutting, resilience in consumer sectors, or benefiting from waning input cost pressures.
- Downgrade risks?**
 Earnings downgrades may affect companies experiencing cyclical weakness, struggling with higher interest costs, or still facing persistently high operating costs.

FY24 earnings have faced headwinds from a combination of factors: higher interest rates dampening consumer spending, intensified competition eroding bank margins, rising labour costs, and lower commodity prices compared to FY23.

However, the ASX 200 has a low hurdle to jump for FY24. The August reporting season is anticipated to confirm a subdued earnings environment, with index-weighted consensus earnings projected to decrease by 3.5% year-over-year. The median earnings growth expected for ASX 200 companies in FY24 is 1%, also indicating a muted picture for FY24. FY24 earnings should be a hurdle the market can jump.

FY25 hurdle higher

FY25 is a more challenging hurdle. The market expects ASX 200 earnings to return to growth in FY25 (+5.4%). The median earnings growth expected for ASX 200 companies in FY25 is 12%. Shifting from a market-weighted to a median approach reveals a notably different and more substantial uplift in the ASX 200's earnings outlook, indicating robust growth expectations among mid/small caps in FY25.

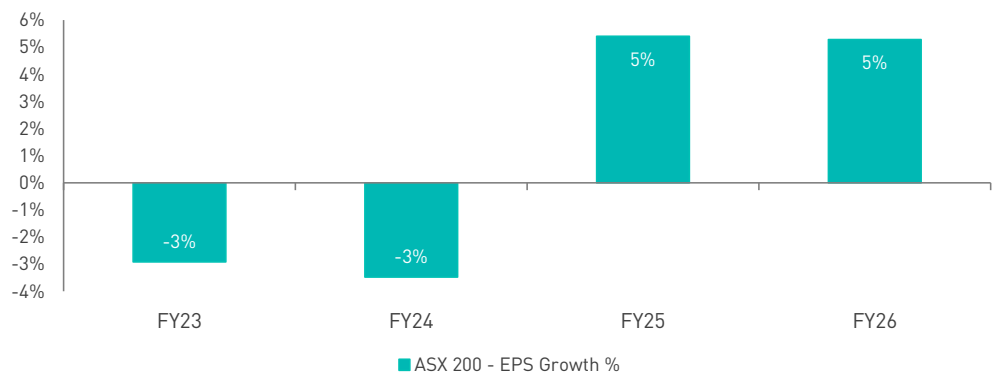
Historically, the market is too optimistic about the year ahead, with the market typically downgrading rather than upgrading. FY25 trading updates and outlook statements will be key. Analysts may downgrade their FY25 earnings forecasts should the upcoming reporting season expose the extent to which elevated interest rates and economic slowdown are impacting corporate earnings.

Weak earnings may refocus market attention to the near term

Despite flat earnings estimates (on aggregate) over the last 6 months, the market has continued its rally that started in November last year. Therefore, the market's P/E has continued to re-rate into these results. An elevated P/E indicates elevated market expectations. We expect the market to remain sensitive to misses as expectations remain elevated.

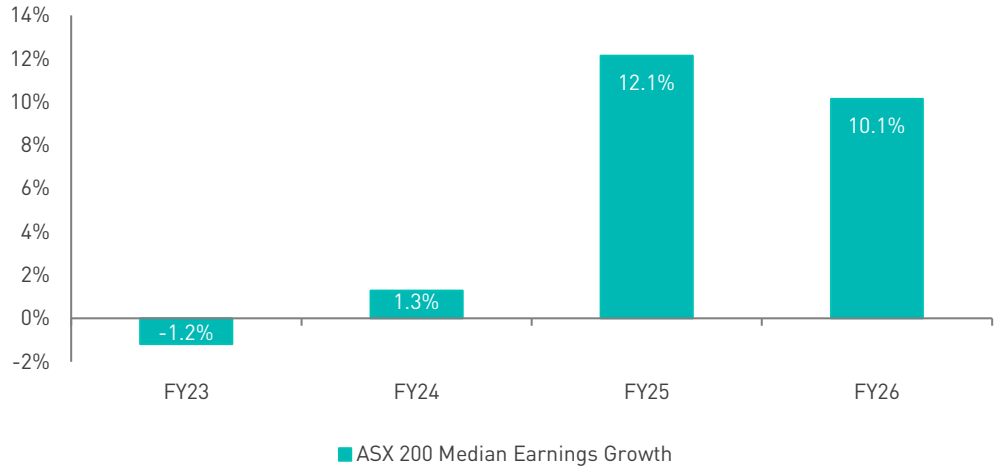
In our view, the market is looking to FY26 and beyond. With RBA rate cuts expected in early FY26, the current market PE suggests the market is looking for earnings upgrades in the next 12-18 months (not FY24). However, FY24 earnings and FY25 outlook statements must remain reasonably well-behaved; a disappointing earnings season may refocus the market's attention and stall the market rally or lead to a correction.

Figure 1 FY24 EPS growth provides a low hurdle for reporting season. The market is looking for an uptick in FY25 earnings, which may be more challenging.



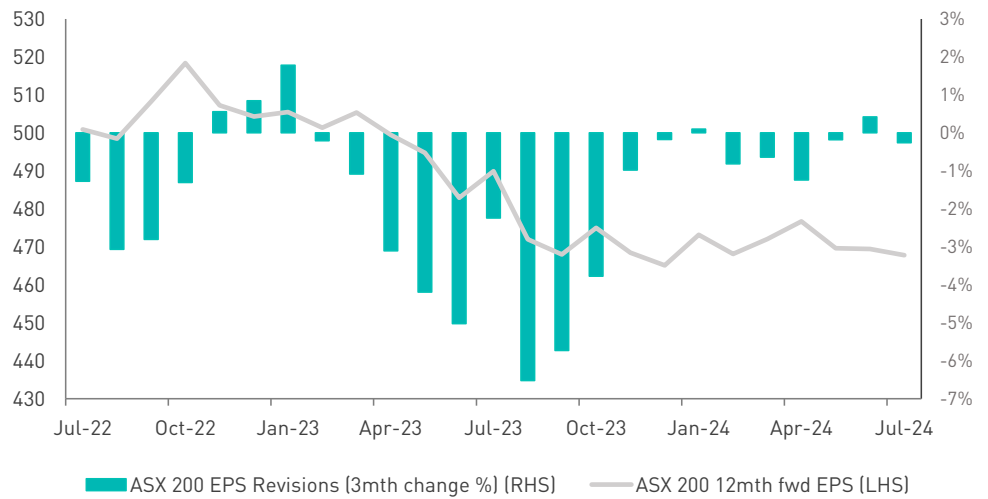
Source: Refinitiv

Figure 2 Median earnings growth for the ASX 200 paints a slightly better picture for FY24, but a significantly better picture for FY25/26, indicating that mid/small caps will be a strong driver of growth in FY25.



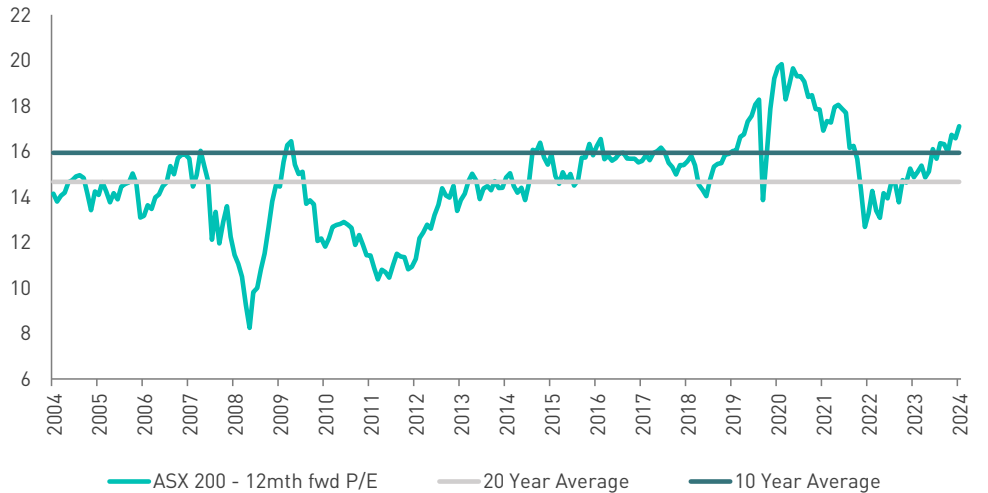
Source: Refinitiv, Bell Potter

Figure 3 ASX 200 earnings have been under pressure from rate hikes and a slowing economy for the past 18 months.



Source: Refinitiv

Figure 4 The ASX 200 P/E has re-rated with the prospect of a turn in the earnings cycle. In our view, the market expects upgrades in the next 12-18 months. This reporting season (especially trading updates and outlook statements) might be a curveball to that view.



Source: Refinitiv

Divergence for FY24 earnings

The FY24 earnings season is expected to see mixed results across sectors, with growth primarily concentrated in travel, insurance, healthcare, and pockets of quality. The travel sector is anticipated to continue its rebound from the pandemic. Insurers are expected to benefit from lower perils costs and increased premiums, supporting higher margins. Healthcare companies like CSL (CSL), Cochlear (COH), ResMed (RMD), and Pro Medicus (PME) are forecast to show acyclical earnings growth. At the same time, companies like REA (REA) and Carsales (CAR) will likely leverage their pricing power to maintain healthy margins.

On the other hand, sectors sensitive to economic cycles, such as resources and retail, are expected to face headwinds. Lower commodity prices are anticipated to weigh on energy, lithium, and rare earth producers. Higher interest rates and cost-of-living pressures are expected to dampen consumer spending, impacting retailers (JBH) and Dominos (DMP). Labour costs are an issue for companies with significant wage expenses. Healthcare providers (SHL, RHC) and supermarkets (WOW, COL) have faced challenges due to increased labour and rental costs.

As the FY24 earnings season unfolds, it is likely to underscore the importance of resilience and pricing power as key themes for success in the current economic climate, particularly in the face of a divergence in sector performance.

FY25 growth is broad-based

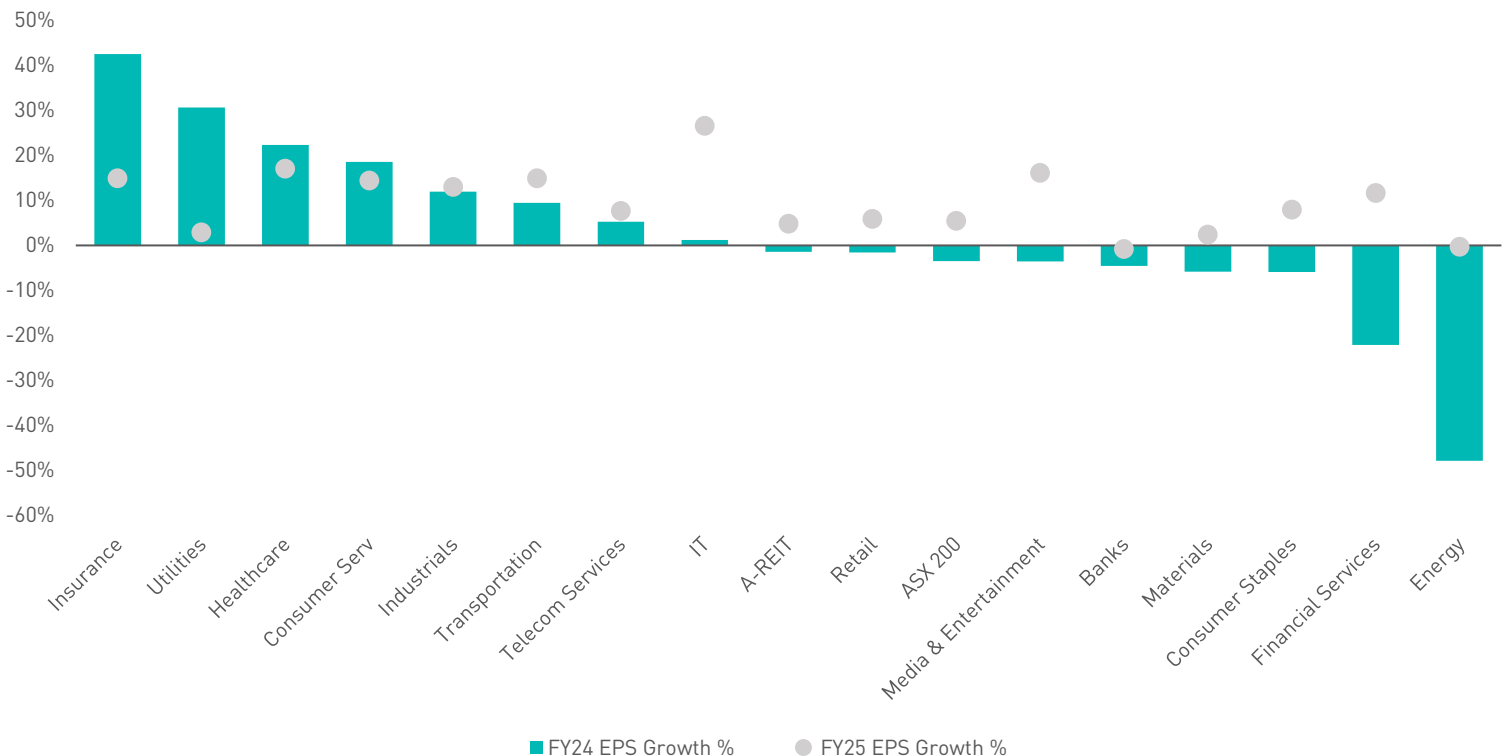
Trading updates and outlook statements will be decisive in the upgrade/downgrade risk in FY25 consensus estimates.

In FY25, the S&P/ASX 200 is expected to see moderate (~6%) growth, driven primarily by strong performance in sectors like IT, Healthcare, and Consumer Services. IT is projected to lead the market with substantial growth. Conversely, Banks and Energy are expected to experience declines, while Materials are projected to have minimal growth.

According to consensus, only a few sectors are projected to experience earnings declines in FY25. A macro backdrop of elevated interest rates and a slowing economy are unlikely to coincide with broad-based sector earnings growth. This reporting season may be a catalyst for FY25 downgrades.

Into this reporting season (and FY25), we favour sectors poised for resilient growth (healthcare, tech) and global cyclicals positioned to benefit from potential US rate cuts (JHX, MQG). We view domestic cyclicals (banks, retail) as expensive and vulnerable to earnings downgrades given the domestic inflation/rate outlook (higher for longer).

Figure 5 FY24 earnings growth varied widely across sectors, but the outlook for FY25 is predominantly optimistic, with most sectors anticipating growth



Source: Refinitiv

Note: DPS growth is used for the Transportation, Utilities and A-REIT sectors

Upgrade risks?

While macroeconomic headwinds and inflationary pressures persist, the upcoming reporting season may reveal several areas of earnings upgrades:

Cost cutting	<p>Companies demonstrating cost management through strategic initiatives, productivity enhancements, and operational efficiencies may lead to earnings upgrades. This was a key theme of the last reporting season.</p> <p>Stock implications: Last reporting season, the key winners of cost management were sectors coming under pressure at the topline, such as retail names, namely JB Hi-Fi (JBH). However, we think companies have limited room to keep upgrading via cost cuts without impacting the topline post-FY24.</p>
Resilience consumer sectors	<p>While consumer behaviour is evolving in response to cost-of-living pressures, some areas may exhibit resilience and outperform expectations. Trading down has been a key theme in the last reporting season, and we'd expect 2H24 to be no different.</p> <p>Stock implications: Wesfarmers (WES) and Coles (COL) should be key trade-down winners. WES has rallied strongly into this reporting season, indicating that the market expects a good result. COL has recovered since last year's reporting season but may surprise with how much market share it is taking from Woolworths (WOW).</p>
Waning input cost pressures	<p>Although inflation remains a concern, some companies may benefit from easing cost pressures due to factors like lower raw material prices. This cost disinflation could boost margins, leading to earnings upgrades.</p> <p>Stock implications: Companies that have been impacted by input cost inflation include ResMed (RMD), Wesfarmers (WES), Amcor (AMC), James Hardie (JHX) and Brambles (BXB).</p>

Downgrade risks?

Several factors could contribute to earnings downgrades in the upcoming reporting season:

Cyclical weakness	<p>Sectors, sensitive to the economic cycle, may continue to face headwinds from lower consumer spending and subdued advertising markets. Softening consumer demand and shifting spending patterns could continue challenging retailers, particularly those focused on discretionary items. Evidence of resilient consumer spending in the February reporting season led to earnings upgrades. However, this may have set the bar too high for the upcoming reporting season, increasing the likelihood of downgrades, in our view.</p> <p>Stock implications: While not uniform, mid/small cap consumer discretionary stocks should be the most at risk of cyclical weakness. Higher levels of discounting for retailers will lower gross margins and swing NPAT due to operating leverage. There is a risk that consensus has not quantified the downward swing accurately. Trading updates will be key. We will be watching to see what sectors/stocks show evidence of significant deterioration in consumer spending in the 5/6/7 weeks of FY25.</p>
Higher interest rates	<p>Companies with high debt levels may experience higher-than-expected increases in interest expenses, impacting their bottom line and leading to earnings downgrades. The potential impact of higher interest rate on these companies is significant. Higher interest rates can also make it more expensive for companies to finance new projects or investments, potentially hindering growth prospects.</p> <p>Stock implications: Companies with high debt balances are at risk. Last reporting season, Sonic Healthcare (SHL), TPG Telecom (TPG), Orora (ORA), Tabcorp (TAH), and Lendlease (LLC) were downgraded due to higher-than-expected interest costs.</p>
Sticky Operating Costs	<p>While cost pressures are easing, wages/rent and other overheads remain elevated, potentially squeezing profit margins and contributing to earnings downgrades. Rising labour and rental costs may put pressure on supermarkets, retailers and healthcare providers' profitability.</p> <p>Stock implications: Stocks with high rent and labour costs could surprise to the downside. Labour-intensive sectors like banks, consumer, mining and healthcare are sensitive to fluctuations in labour costs.</p>

ASX 20 Reporting Calendar

Below is a table of the ASX 20 (that report in August). We provide our views on where growth is expected and upgrade/downgrade risks. CBA, GMG, and WES will be closely watched this earnings season, given their significant contribution to the recent market rally.

Company Name	Result	Report Date	Currency	EPS (Cons.)	EPS Growth (vs pcp)	DPS (Cons.)	DPS Growth (vs pcp)	BP Comment
Rio Tinto (RIO)	1H24	31/07/2024	US\$	3.55	0.5%	1.79	1.0%	Mostly pre-released in the quarterly. Earnings have held up with iron ore prices.
Transurban (TCL)	FY24	8/08/2024	A\$	N/A	N/A	0.62	7.4%	The dividend has been pre-released. Investors are looking for updates on traffic volumes across the toll road network and cost management.
QBE (QBE)	1H24	9/08/2024	US\$	0.58	112.5%	0.24	163.2%	Strong earnings growth from premiums and slower peril cost growth create positive jaws for insurance margins. The outlook for 2H24 will be key. Last update underwhelmed the market as premium growth slowed.
James Hardie (JHX)	1Q25	12/08/2024	US\$	0.38	-2.5%	0	0.0%	FY25 guidance important. 1Q25 volumes may be weak, so cost management might be necessary. The market will be watching margins, as the last result saw increased marketing costs. Unlikely management upgrade guidance at this result (more likely a 3Q25 timing). The market should look through weakness, with US rate cuts (+ volumes) imminent.
CSL (CSL)	FY24	13/08/2024	US\$	6.03	33.2%	2.64	11.9%	Guidance and evidence of margin recovery post-pandemic will be key. Investors will be looking for updates on plasma collection costs and progress on the RIKA rollout. Upside risk for earnings from a quicker-than-expected margin recovery.
CBA (CBA)	FY24	14/08/2024	A\$	5.85	-2.1%	4.56	1.4%	Earnings remain relatively flat as credit growth offsets lower net interest margins (NIMs). Expenses are expected to grow faster than core income. Bad debts and capital management may provide small upside surprises. We could see further capital management. Commentary on the net interest margin (NIM) outlook and competitive pressures will be crucial. We do not expect significant upgrades/downgrades for FY24.
Goodman Group (GMG)	FY24	15/08/2024	A\$	1.07	13.9%	0.30	0.2%	GMG is likely to upgrade (typical of GMG at FY result). Updates on the data centre segment, and any new developments in the pipeline will be closely watched. Given the recent rally, the market has high expectations for GMG.
Telstra (TLS)	FY24	15/08/2024	A\$	0.17	4.1%	0.18	5.7%	Earnings are improving due to higher mobile prices, while TLS is taking market share. Focus on the cost-out initiative. Given guidance reaffirmed in May, there is low earnings risk.
Santos (STO)	1H24	21/08/2024	US\$	0.2	-11.7%	0.1	47.7%	Mostly pre-released in the quarterly. Earnings and dividend down pcp on lower oil and LNG prices.
BHP (BHP)	FY24	27/08/2024	US\$	2.73	3.3%	1.44	-15.4%	Mostly pre-released in the quarterly. Earnings held up with iron ore prices.
Coles (COL)	FY24	27/08/2024	A\$	0.81	-1.8%	0.67	1.7%	Earnings are slightly down due to the higher cost of doing business (CODB). Margin recovery is expected via lower theft and the Winton automated distribution centre. There is upside risk to earnings from consumers trading down, and taking market share.
Woodside Energy (WDS)	1H24	27/08/2024	US\$	0.58	-41.1%	0.47	-41.6%	Mostly pre-released in the quarterly. Earnings and dividend down pcp on lower oil and LNG prices. Cost reduction initiatives and capital management will be key.
Fortescue (FMG)	FY24	28/08/2024	US\$	2.00	28.3%	1.43	21.3%	Mostly pre-released in the quarterly. Earnings growth from strong iron ore prices. Has more leverage to higher prices than BHP or RIO.
Woolworths (WOW)	FY24	28/08/2024	A\$	1.40	-0.4%	1.128	8.5%	Cost of doing business a is headwind for supermarkets. Strategies to improve margins and regain market share will be in focus. Aldi and Coles may be taking more market share than consensus expects.
Wesfarmers (WES)	FY24	29/08/2024	A\$	2.26	4.0%	1.974	3.4%	WES has benefited from consumers trading down, Kmart in particular. WES has implemented productivity initiatives and cost-saving measures to offset rising costs of doing business, supporting margins. WES share price has performed strongly over the last 12 months; the market might be expecting a beat.

Source: Refinitiv, Visible Alpha, Bell Potter

Note: Data current as of 29th July 2024

Bell Potter Analyst Surprise Predictions

We have utilised the expertise of our analysts to pinpoint stocks poised to deliver earnings surprises this reporting season. These companies, particularly within the industrials sector, could see upgrades or downgrades to their FY24 forecasts, potentially triggering share price movements.

Figure 6 Bell Potter Analyst Surprise Picks Table

Company Name	Analyst	Report Date*	Preferred Measure	Bell Potter Estimates	Consensus Estimates (Visible Alpha)	Difference	Analyst Comment
Above Consensus							
Mader Group (MAD)	Joseph House	20/08/2024	FY24 Underlying NPAT (A\$m)	\$53m	\$52m	2%	Historically, the company has delivered strong outperformance vs guidance. We believe consensus' FY24 outperformance expectation is conservative relative to the quantum of prior year guidance beats.
WiseTech Global (WTC)	Chris Savage	21/08/2024	FY24 EBITDA (A\$m)	\$497	\$491	1.3%	2H metrics suggest or imply an FY24 result above guidance range of \$455-490m.
McMillan Shakespeare (MMS)	Hayden Nicholson	27/08/2024	FY24 Underlying NPATA (A\$m)	\$105.8	\$102.6	3.1%	Estimated ~17% volume growth for novated; 2H earnings tilt with supply easing and record new car sales (1H24 Group Underlying NPATA \$53.1m); Positive jaws for GRS; Stable and elevated used car prices versus pre-covid levels.
Inghams (ING)	Jonathan Snape	23/08/2024	FY24 EBITDA (ex leases)	\$248.4	\$243.0	2.2%	Consensus looks stale. Upside risk to FY25 outlook from the rapid collapse in feed input costs (based on recent moves in wheat and soybean).
Lovisa Holdings (LOV)	Chami Ratnapala	27/08/2024	FY24 Underlying NPAT (A\$m)	\$86.4	\$82.6	4.6%	Expect a more resilient recovery in 2H24 comparable store sales (from Mar onwards) than consensus.
Below Consensus							
Centuria Capital Group (CNI)	Andy MacFarlane	16/08/2024	FY24 EPS	11.8c	11.9c	-0.8%	Consensus close to top end of guidance range but 2H24 has continued at a slow pace for real estate FMs. Risk to consensus FY25 EPS.
Johns Lyng Group (JLG)	Sam Brandwood	27/08/2024	BAU EBITDA (excl. CC and CAT) (A\$m)	\$123.0	\$125.4	-1.9%	We are cautious on JLG heading into FY24e as domestic work backlogs approach conclusion and US execution risk remains.
Avita Medical (AVH)	John Hester	09/08/2024	2Q24 Revenues (A\$m)	\$13.7	\$14.8	-7.4%	Remaining bearish on revenue outlook and doubt company can turn poor performance around in 1 quarter.

Source: Visible Alpha, Bell Potter

* Report date could change/best estimates from Refinitiv. Current as at 29th July 2024.

Disclaimer

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited.

This document contains links to published research. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In the United States, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosures

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Bell Potter Securities Limited

ABN 25 006 390 772 AFSL No. 243 480

1300 0 BELLS(23557)

bellpotter.com.au

info@bellpotter.com.au