

REPORTING SEASON KEY TAKE OUTS



KEY THEMES

- Underlying strength in companies leveraged to the domestic economy
- Retail, building and construction sectors delivered strong results
- Banks were challenged:
 - Increased regulatory capital requirements
 - EPS growth forecast wound back
 - Increase of competitor pressures
- Sales growth was subdued
- Many companies had to deliver on cost-out opportunities to deliver on their earnings expectations
- Dividends:
 - BHP and Rio abandoned their progressive dividend policies in order to maintain the strengths of their balance sheets moving forward
 - IAG and QBE – unexpectedly increased their dividend payout ratio



STANDOUT RESULTS

- JB Hi-Fi
- Bluescope Steel
- Nick Scali
- Boral
- Harvey Norman



WHAT SURPRISED?

- Strength of the east coast economy, in particular New South Wales and South East Queensland reflected in the numbers in Star Entertainment Group, Boral and Stockland
- Signs of stabilization in IAG and Suncorp, despite negativity around the insurance cycle in Australia
- Large miners – ability to take cost down and preserve their balance sheet in what's likely to be a very volatile and weak environment for commodities



OPPORTUNITIES

- Woolworths
 - High quality business that generates a lot of cash
 - A new board, a new CEO – they are a market leader in its space in a very attractive industry structure
- Suncorp
 - A strategy in place to shift the performance of their general insurance business via a new CEO
 - Steady earner and generating very good returns for shareholders
 - Delivers a healthy dividend yield, but also has excess capital that it may be able to return in the form of special dividends to its shareholders



WHAT TO BE CAUTIOUS ABOUT

- Healthcare
 - Seems a little expensive relative to its historical multiples
- Infrastructure
 - Although delivering solid dependable distribution yields, the markets not focusing on their balance sheets and how highly geared they are



WHERE SHOULD INVESTORS LOOK TO FIND VALUE?

- At Perpetual we identify companies that have defensive earnings characteristics – not heavily reliant on the economic cycle to generate earnings growth, have strong balance sheets and can pay dividends through the cycle

Perpetual