



WILSONS

AGM Season Points to an Earnings Upgrade Cycle

Our weekly view on Australian equities.

5 November 2020

Season Proving no Threat to the Improving Earnings Trend

As we approach the halfway mark of the Australian AGM season, at this stage, the season is proving no threat to the improving earnings trend that first began to emerge in September.

Updates on corporate profitability and trading conditions have led to small positive revisions to market earnings estimates, and positive earnings revisions are outnumbering downgrades 12:1.

To date, 20% of Wilsons Australian Equity Focus List companies have held AGMs, with Super Retail (SUL) being the highlight with earnings upgraded +13%. Other Focus List companies Aurizon Holdings (AZJ), BHP Group (BHP), CSL (CSL), Commonwealth Bank of Australia (CBA), and Reliance Worldwide Corporation (RWC) have seen earnings estimates left unchanged.

Australian economic data continues to surprise positively and the case for a stronger earnings recovery or 'earnings per share (EPS) upgrade cycle' into 2021 is starting to build. This is similar to what we have seen in both the US and emerging markets over the past 2-3 months.

Read our [Asset Allocation Strategy](#) to learn more about what this means for Australian Equities.

Exhibit 1: 12mth forward Australian earnings forecasts continue to be upgraded during AGM season

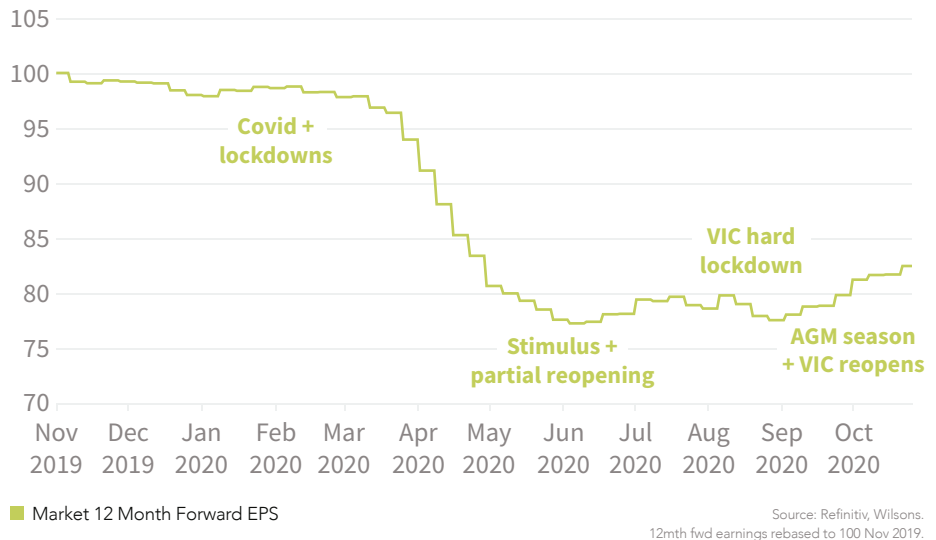
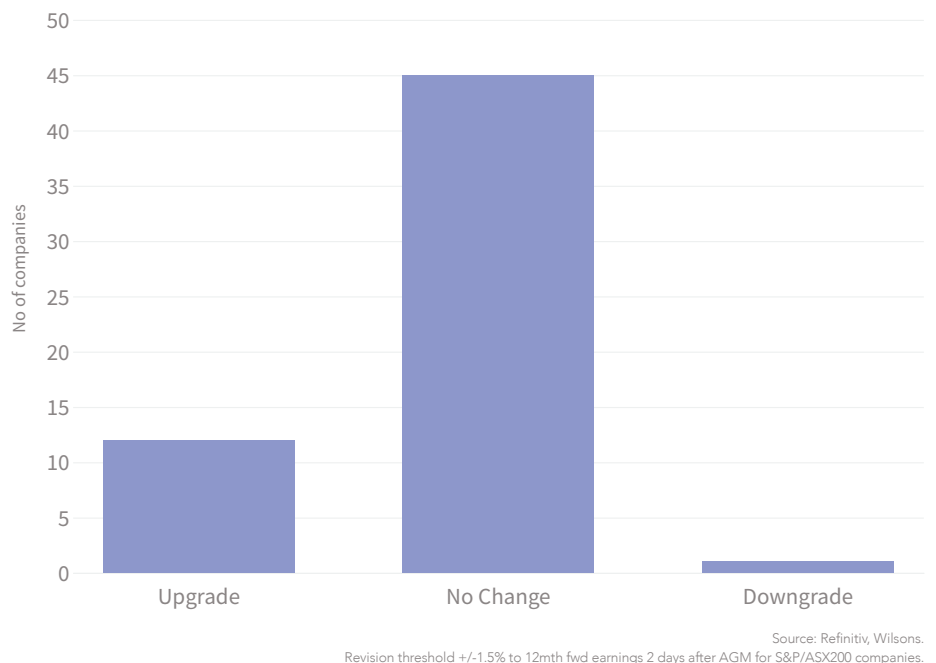


Exhibit 2: Earnings revisions after AGM



Positive Earnings Revision Trend Continues

Positive earnings revisions have outnumbered negative revisions 12:1 through the AGM season. Industrials have dominated – Super Retail (SUL), Boral (BLD), Crown (CWN), Healius (HLS) and JB Hi-Fi (JBH) have seen the strongest positive revisions – the average earnings revision amongst the top 5 is 10%.

Only Link Group (LNK) has seen estimates negatively revised downward (threshold >1.5% change). Highly economically sensitive companies like Worley (WOR), Qantas (QAN) and Transurban Group (TCL) all had negative revisions of less than 1.5%.

Share Price Response

Share price response to AGM updates has been more mixed than the earnings trends.

While most companies saw no performance differential relative to the market, companies underperforming on share price outnumbered outperformers by almost 2:1. Industrial companies featured heavily, with Corporate Travel (CTD), IDP Education (IEL), JB Hi-Fi (JBH) and EML Payments (EML) all underperforming the market on the day of AGM.

Exhibit 3: Companies with positive earnings revisions after AGM

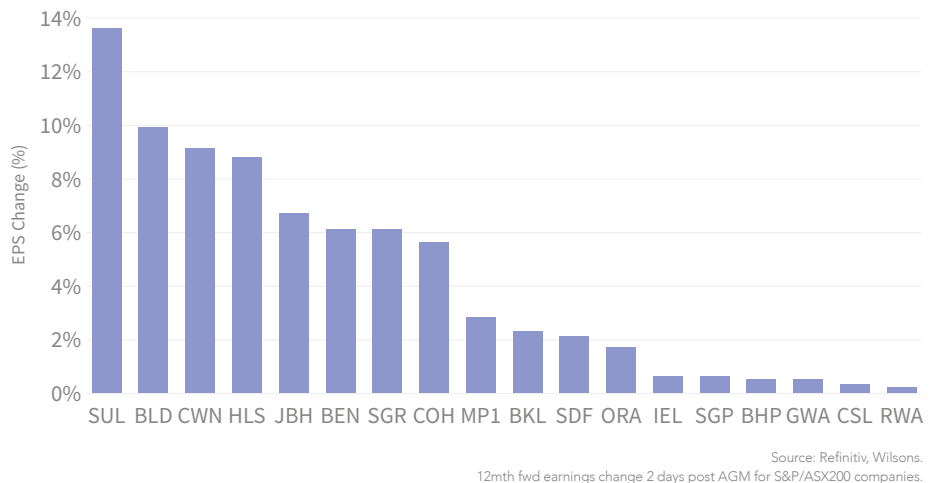


Exhibit 4: Companies with negative earnings revisions after AGM

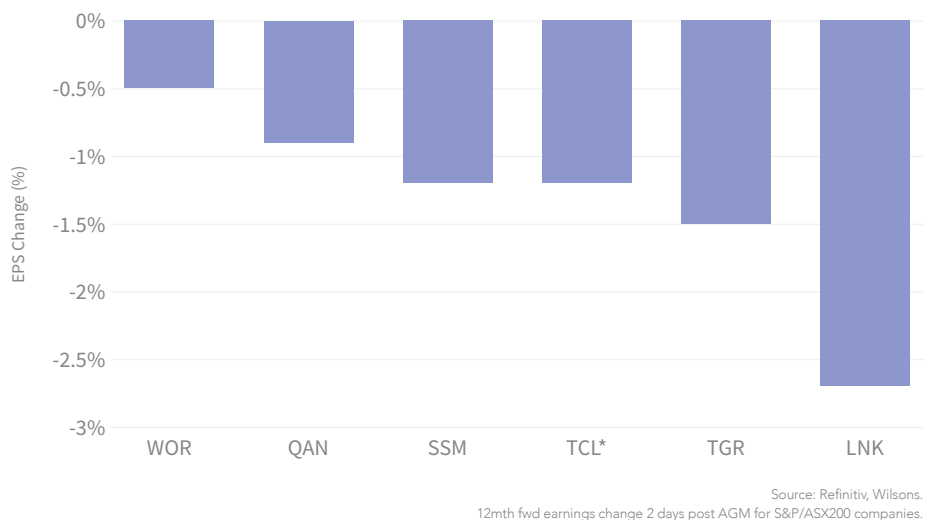
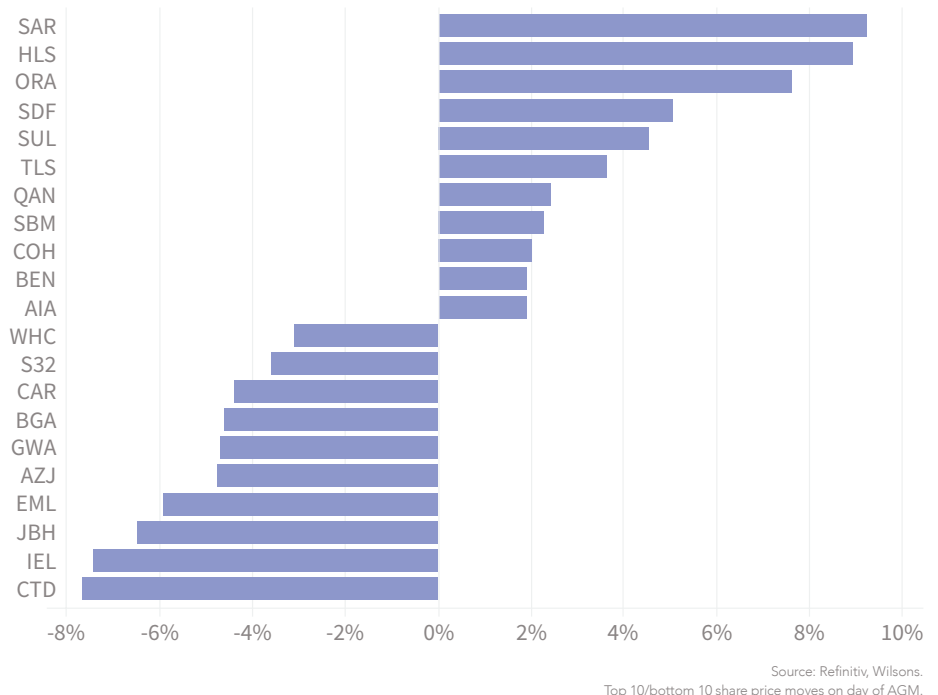


Exhibit 5: Share price performance on the day of AGM



AGM Comments from Focus List Companies

Super Retail Group (SUL)

"While the economic outlook remains uncertain, given the attractive lifestyle categories in which we operate, the Group is well placed to benefit from consumer trends relating to personal health and fitness, DIY and at home projects and demand for domestic travel and outdoor leisure activity."

Anthony Heraghty, CEO

BHP Group (BHP)

"In the near-term, we expect the global economy will take some time to stabilise and recover from COVID-19....However, the strength and consistency of the economic recovery underway in China does provide a measure of confidence and optimism."

Mike Henry, CEO

CSL (CSL)

"In terms of guidance for FY21, we expect revenue growth in the range of 6 to 10% over fiscal 20. Net profit after tax is expected to be approximately \$2.170 to \$2.265 billion at constant currency, implying a growth of 3 to 8%, which is a slight tightening of the range advised at the company's results announcement in August – the low end was zero, which we've raised to 3%."

Paul Perreault, CEO

Aurizon Holdings (AZJ)

"Despite short-term fluctuations caused by COVID-19, the fundamental demand drivers of coal demand remain – both for thermal and metallurgical coal."

Tim Poole, Chairman

Commonwealth Bank of Australia (CBA)

"Total deferrals are down almost 40% from \$67 billion in June to \$42 billion in September."

Matt Comyn, CEO

Transurban Group (TCL)

"It is important to remember that CityLink (Melbourne) is one of 20 roads we operate around the world, and our experience in other cities suggests that when restrictions ease, traffic starts to recover quickly, particularly those more sensitive to passenger vehicles."

Scott Charlton, CEO

Reliance Worldwide Corporation (RWC)

"The 2021 financial year has started positively, and the first quarter was particularly pleasing from a sales perspective. Group net sales for the quarter ended September 2020 were up 14% on a reported basis and up 17% on a constant currency basis compared with the prior corresponding period."

Heath Sharp, CEO

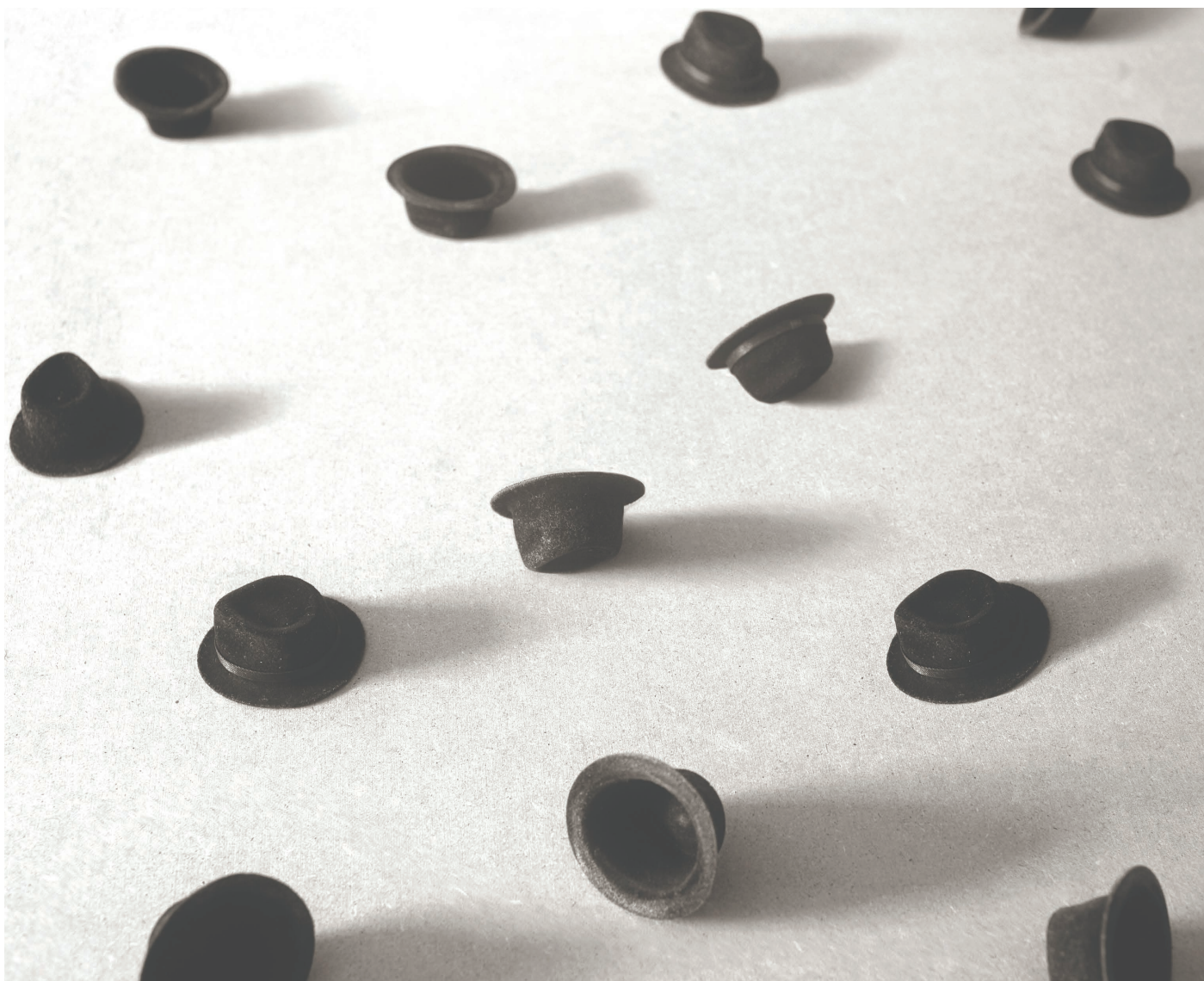
Looking to 2021

An Australian earnings upgrade cycle appears to be emerging which could continue to play out into 2021. With output and earnings well below pre-COVID-19 levels, the starting point is there. In many cases, earnings expectations were set at the peak of the COVID-19 crisis in the April-June period.

There is the prospect that the market is underestimating the impact of Australian policy initiatives. Fiscal stimulus measures to-date are some of the largest in the Organisation for Economic Co-operation and Development (OECD), and State Budgets in coming weeks are likely to contain additional measures.

New monetary policy initiatives announced on Tuesday by the RBA are likely to be supportive of activity levels. A lower currency (if effective) will help both activity and translation impacts on ~30% of market earnings that are sourced offshore.

We have recently lifted the Focus List's exposure to cyclical companies and neutralised our banks weighting last month. Around 55% of the Focus List is exposed to cyclical companies which should benefit from any earnings upgrade cycle. Around 50% are domestic cyclical companies like ANZ, CBA, RWC, SUL, and SVW.



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Recommendation structure and other definitions

Definitions at www.wilsonsadvisory.com.au/disclosures.

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