THE 2020 PROFIT REPORTING SEASON ROLLERCOASTER

SEPTEMBER 2020

COVID-19 has had a historic impact on Australia's economy. The imposition of restrictions by Federal and State governments, coupled with depressed market conditions, has had significant financial ramifications for many of Australia's largest listed companies.

As published by us in March 2020, the outbreak of COVID-19 in Australia precipitated an initial rush of earnings guidance withdrawals and suspensions, with 9% of ASX200 companies withdrawing their earnings guidance by late March 2020.

Companies also responded by taking action to fortify their financial position, including through equity raisings, debt restructures and asset impairments. However, particular industries were well placed to thrive in the market conditions created by the pandemic or were insulated from its effects.

In order to better understand the financial impact of COVID-19 on large ASX listed entities, we have reviewed the financial results announced by ASX200[1] entities during July and August 2020 and have analysed how particular sectors have fared.

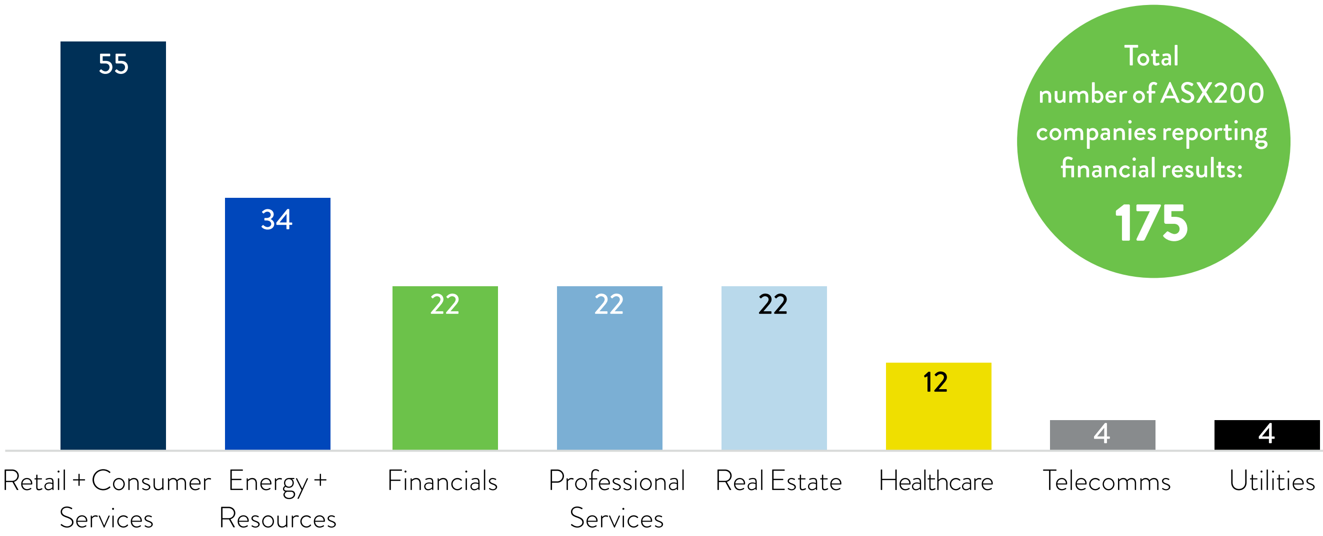
Our review has uncovered a number of interesting themes. We trust you will find these insights useful.

1 By market capitalisation as at 6 August 2020

OVERVIEW OF ANALYSIS

We have analysed the announcements of 175 ASX200 companies that reported full or half year financial results during July and August 2020. These companies operate in the following sectors:

Number of ASX200 companies reporting financial results



For each of these companies, we have considered the following:

IMPACT OF COVID-19 ON OPERATIONS: FROM BAD TO WORSE

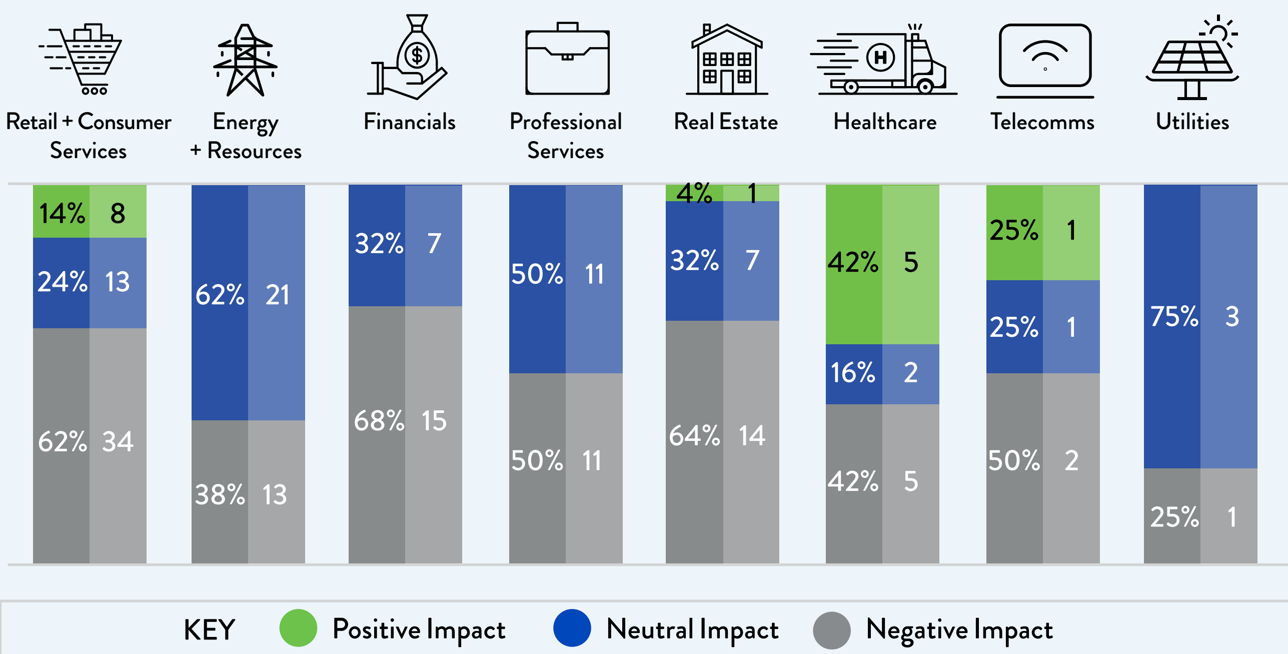
COVID-19 has largely had a detrimental effect on the operations of companies in the ASX200, with 54% of the 175 companies analysed reporting a negative impact. Indeed, 11% of the companies analysed announced impairments prior to announcing their profit results. Many of these companies responded by taking action to fortify their financial position: 27% of the companies analysed engaged in an equity raising while 21% restructured their debt.

However, particular industries were well placed to thrive in the market conditions created by the pandemic or were insulated from its effects, with 9% of companies analysed reporting a positive impact and 37% reporting a neutral impact.

Impact	Late March	Profit Reporting Season
POSITIVE	0 Companies	15 Companies
NEUTRAL	3 Companies	65 Companies
NEGATIVE	12 Companies	95 Companies

As has been widely reported in the media, COVID-19 has had the greatest impact on companies operating in retail + consumer services, financials and real estate. In contrast, some healthcare companies directly benefited from the pandemic, while sub-sectors within professional services (eg technology companies) and energy + resources (eg mining companies) were generally insulated from the economic fallout.

Impact on sector (percentage vs number)

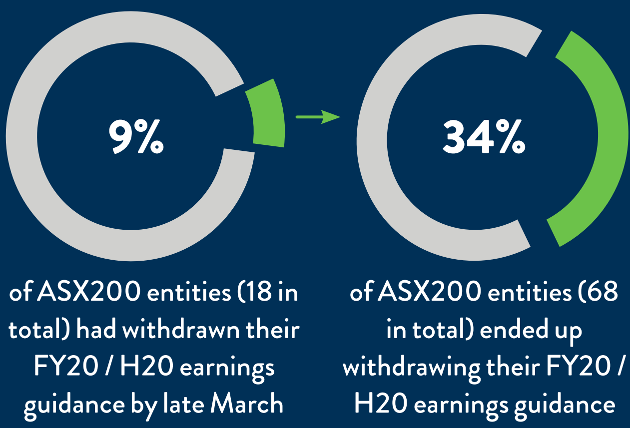


EARNINGS GUIDANCE

3.1 Guidance withdrawals continued to grow

The number of guidance withdrawals grew over time as the financial impact of the pandemic became more apparent, with 34% of ASX200 companies eventually withdrawing guidance for FY20 (up from 9% of ASX200 companies in late March). By the end of the reporting season, only 17% of ASX200 companies had opted to reaffirm or not withdraw their guidance. The remaining 49% of ASX200 companies had determined pre-COVID to provide no earnings guidance, including mining companies who provided only production guidance but not earnings guidance.

Guidance withdrawals



3.2 Companies that maintained guidance reported profit in line with, or higher, than guidance

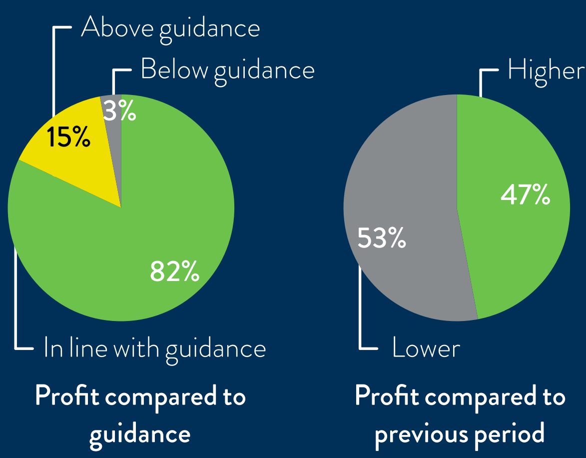
ASX200 entities that opted not to withdraw their guidance reported primarily resilient results. Of the companies which maintained their guidance:

82% reported profits in line with guidance

15% reported profits above guidance

47% announced profits higher than the prior corresponding period

Guidance not withdrawn



3.3 Willingness to provide FY21 guidance mixed

Overall, only 17% of companies analysed provided FY21 guidance with their full year results.

Generally, the companies who did not withdraw their FY20 guidance were more willing to provide guidance for FY21. 68% of the companies who maintained their FY20 guidance provided FY21 guidance (including Amcor, National Storage, Goodman Group, Telstra, APA Group and AGL Energy).

Interestingly, only three of the companies analysed who had reported a positive impact from COVID-19 were prepared to provide guidance for FY21 (namely Ansell, Goodman Group and Vocus Group).

Unsurprisingly, of the 68 ASX200 companies that withdrew guidance for FY20, only three were prepared to provide earnings guidance for FY21 (being Credit Corp Group, Charter Hall Group and Steadfast Group). However, all three of these companies highlighted the continued market uncertainty and stated that their FY21 guidance was subject to the COVID-19 situation and the economy.

PROFITS AND DIVIDENDS

4.1 Majority of companies analysed reported lower profits

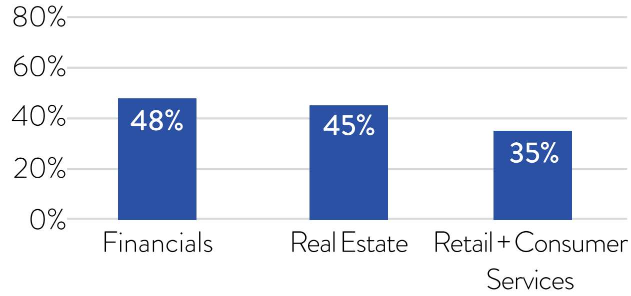
Overall, 63% of the ASX200 entities analysed reported lower profits compared to the prior corresponding period, with the remainder reporting higher profits.

4.2 Dividends paid, but at a lower rate

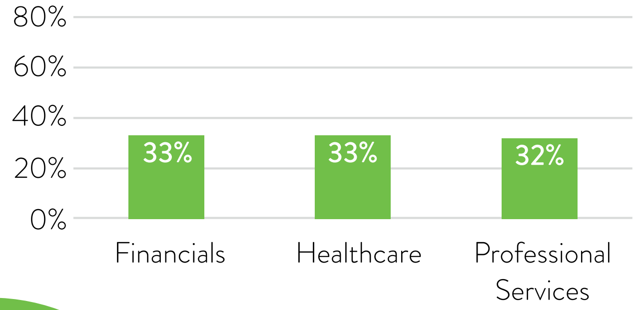
70% of the ASX200 companies analysed announced that a dividend would be paid. It is notable that 32% of the companies analysed lowered their dividend compared to the prior year while only 25% paid a higher dividend. 24% of the companies analysed paid a dividend in the prior corresponding period but determined not to pay a dividend for FY20. COVID-19 was cited as the main reason for lowering or cancelling dividends.

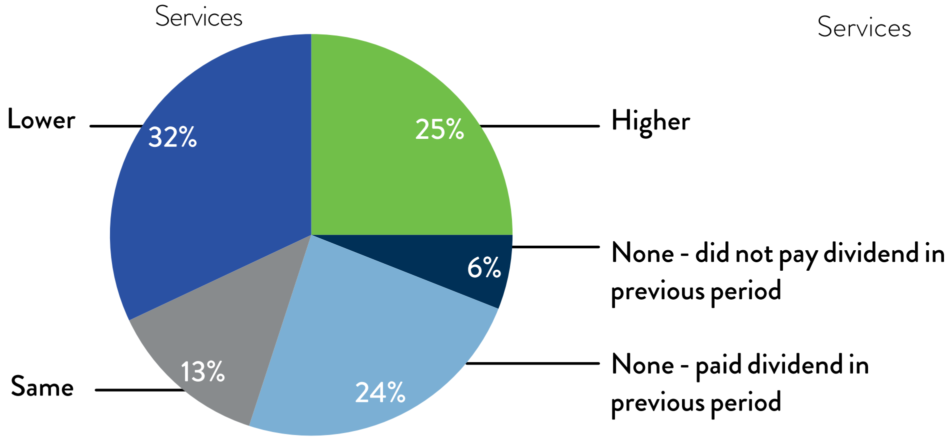
The sectors whose dividends have been most negatively impacted by the pandemic include financials (banks and insurance companies), real estate and retail. On the positive side, around one-third of companies in each of financials (predominantly asset management companies), healthcare and professional services all announced higher dividends.

Lower dividend - percentage of sector

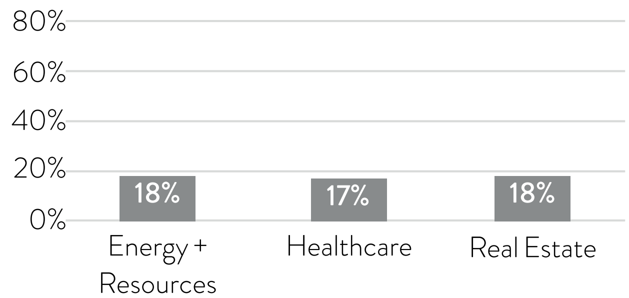


Higher dividend - percentage of sector

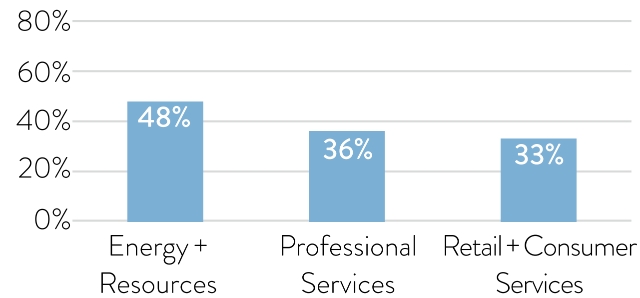




Same dividend - percentage of sector



No dividend - percentage of sector



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SECTORAL DEEP DIVE

The financial ramifications of the pandemic differed substantially depending on the sector within which the company operated. In this section, we conduct a deeper dive into some of the industries most impacted by the pandemic, both positively and negatively.

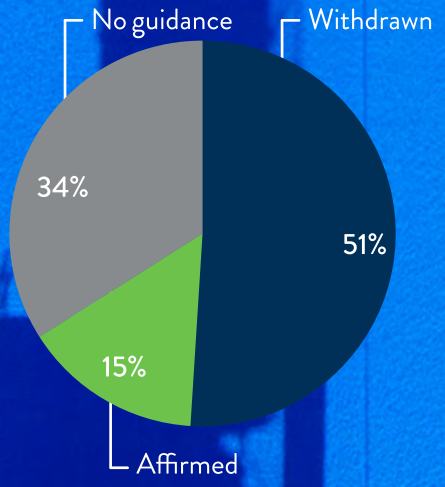
5.1 Retail + consumer services hit hard

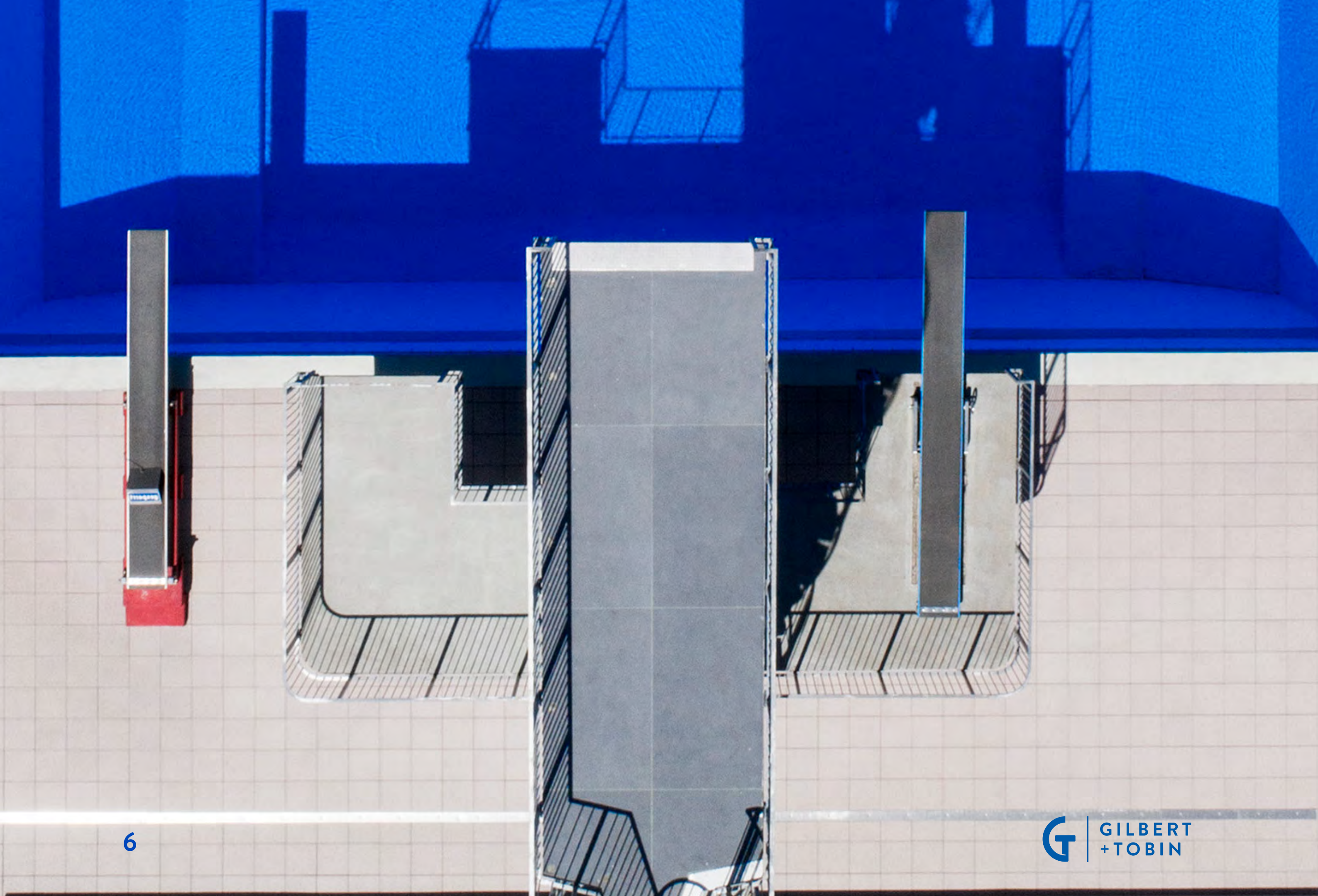
With 62% of companies analysed in the retail + consumer services sector reporting that COVID-19 had a negative impact on their business, profit results were never going to be pretty.

67% of the 55 companies analysed in this sector reported lower profits compared to the prior corresponding period.

All eight retail + consumer services companies that did not withdraw guidance reported profit in line with the guidance issued. Two companies (JB Hi-Fi and Nick Scali) withdrew and subsequently reinstated their earnings guidance, and both ultimately reported profits higher than their reinstated guidance.

Guidance in the retail + consumer services sector





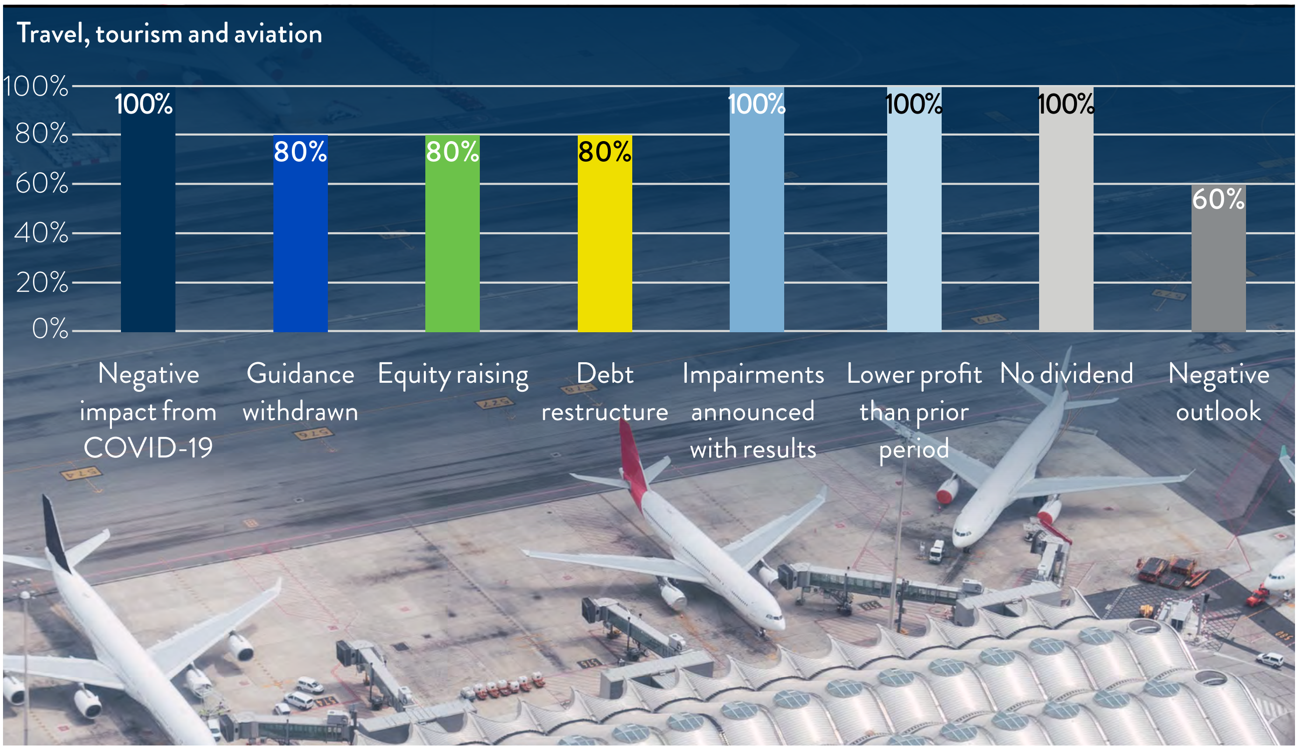
GILBERT +TOBIN

Travel, tourism and aviation – unparalleled financial challenges

Travel, tourism and aviation (which forms parts of the retail + consumer services sector) has confronted unparalleled financial challenges due to COVID-19.

The five ASX200 companies from this industry (Qantas, Flight Centre, Webjet, Corporate Travel Management and Sydney Airport) reported lower profits and each of the four companies which had given earnings guidance opted to withdraw it (Sydney Airport did not provide guidance). In addition, each company engaged in an equity raising or restructured their debt, with three companies electing to do both.

The dire situation of this sector is also exemplified by the fact that none of the companies analysed paid a dividend.

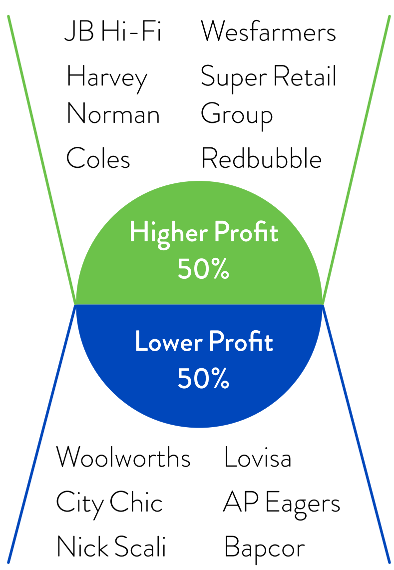


Retail – mixed profit results

Meanwhile, mixed profit results were reported by 12 ASX200 companies involved in retailing, including food & staples retailing. 50% of the companies analysed reported higher profits than the prior corresponding period due to the positive impact of COVID-19 on their business (especially in relation to online shopping). Notably, JB Hi-Fi and Nick Scali reported profit above guidance. The key drivers for positive performance included elevated demand for consumer technology, materials and equipment as consumers spent more time at home and the ability of these companies to successfully pivot their operations to an online platform.

On the other hand, the primary drivers for underperformance included poor trading due to forced store closures and failure to engage with digital customers through online channels. In addition, some retail companies experienced an increase in costs caused by an adherence to government COVID-19 regulations and restrictions which required modifications to their operations and supply chains, as well as costs associated with responding to increased online demand.

Retail - profit performance



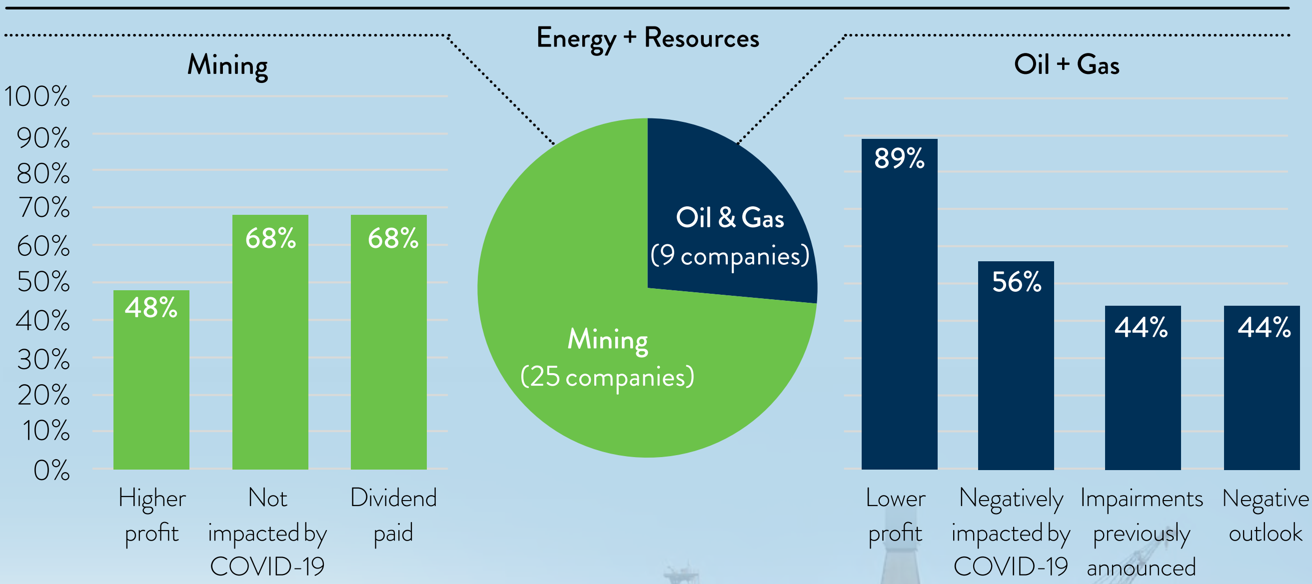
5.2 Energy + resources – mining companies relatively unimpacted while oil and gas companies materially negatively impacted

Mining companies were relatively unimpacted by COVID-19, with 68% of companies analysed in that sector reporting that COVID-19 had no direct impact on their operations. Consequently, profits were generally resilient, with 48% of mining companies analysed reporting a higher profit than the prior corresponding period. The strong performance was mirrored by an announcement from 68% of mining companies analysed that a dividend would be paid.

Profit increases by mining companies were largely due to commodity price fluctuations. For example, the price of gold had increased by more than 30% and the price of iron ore had risen by more than 40% since the beginning of 2020. Companies that benefited from these price movements include Fortescue Metals, Northern Star Resources, OZ Minerals and Newcrest Mining.

Oil and gas companies, in comparison, were materially negatively impacted. The relatively high proportion of oil and gas companies announcing impairments prior to posting their profit results was indicative of the downturn faced by the sector. 89% of oil and gas companies analysed reported a lower profit than the prior corresponding period, including Woodside Petroleum, Santos and Oil Search.

Notably, only 56% of oil and gas companies reported a negative impact from COVID-19, indicating that there were factors outside of the COVID-19 pandemic that were responsible for the decline in profits including a shifting of demand to renewable energy.



5.3 Professional services – technology companies thriving

A number of technology companies (which fall within the professional services sector) have thrived throughout the pandemic.

58% of the technology companies analysed reported that they were not impacted by COVID-19. Technology companies that reported a higher profit (or lower loss) over the prior reporting period included Afterpay, Appen, Altium, EML Payments and Bravura Solutions.

Despite the resilience of the technology sector, 36% of technology companies still withdrew guidance. Of the four technology companies which retained their guidance, three reported profit in line with guidance and one reported profit higher than guidance (Bravura Solutions).

5.4 Healthcare – mixed results

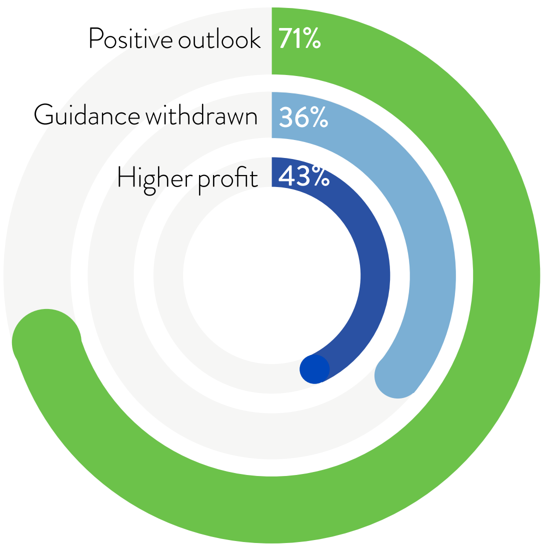
The impact of COVID-19 on companies in the healthcare sector was mixed.

A number of medical research and equipment companies reported a direct positive impact from COVID-19 on their business, with CSL, ResMed, Ansell, Polynovo, Sonic Healthcare and Mesoblast all announcing increased profits. These resilient results were founded on heightened demand for medical equipment and gear in response to COVID-19 protocols and greater funding for COVID-related research.

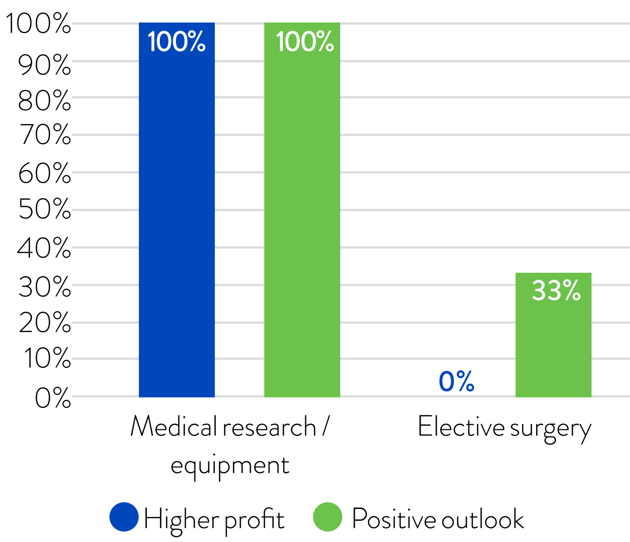
In contrast, companies with operations highly reliant on elective surgery (Ramsay Health Care and Healius) or whose products are primarily used in elective surgery (Cochlear) experienced a downturn.

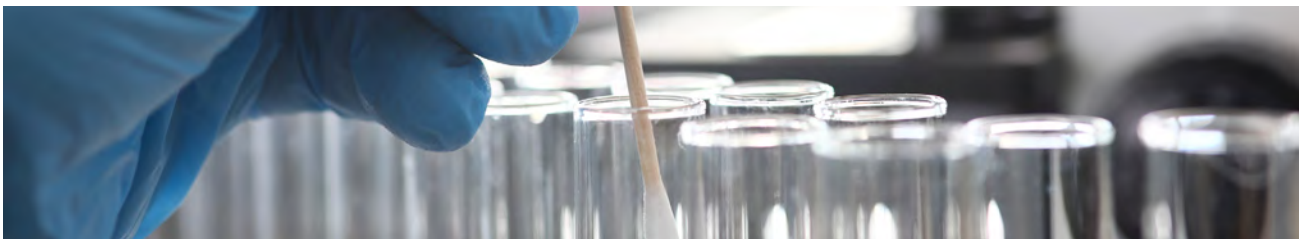
The outlook of these two sub-sectors varies considerably, with medical research and equipment companies predicting an overwhelmingly positive outlook, unlike those companies heavily vested in elective surgery. This demonstrates that healthcare companies anticipate that the impacts of COVID-19 will continue to be felt in FY21.

Technology sector



Healthcare

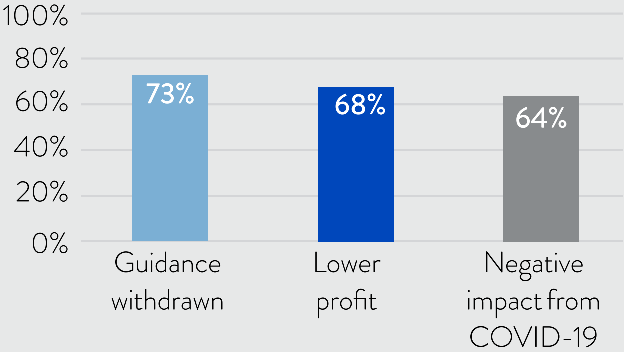




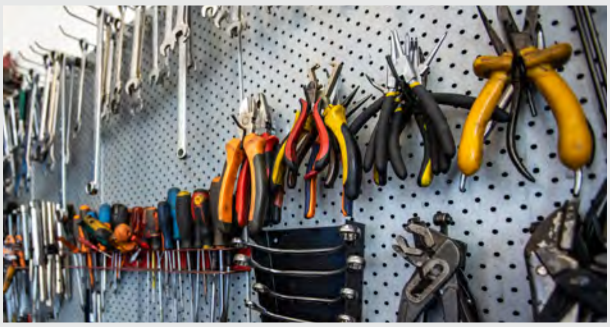
5.5 Real estate – generally struggled but some were lucky

Many real estate entities in the ASX200 suffered a decline in rental income from their negatively impacted tenants. The vast majority of companies analysed in the real estate sector withdrew their guidance and 68% reported profits lower than the prior corresponding period due to the impact of COVID-19.

Real estate



However, a small minority of real estate companies were positively impacted by the pandemic. For example, Goodman Group (whose biggest client is Amazon) benefited from increased warehouse demand during the pandemic, while BWP Trust reported higher profits off the back of Bunnings Warehouse stores remaining open.



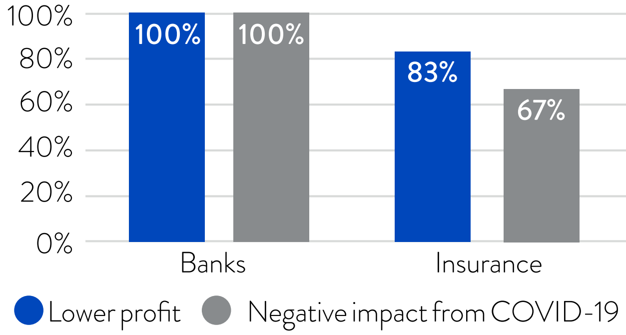
5.6 Financials – banks and insurers down, diversified financials more resilient

The financials sector, which includes banks, insurance companies and diversified financials, also saw mixed results.

The five largest banks all reported lower profits than the prior corresponding period due to the negative impact of COVID-19. Loan write-offs and repayment deferrals were the biggest contributor to lower profits, as the economic impact of the pandemic took its toll on borrowers.

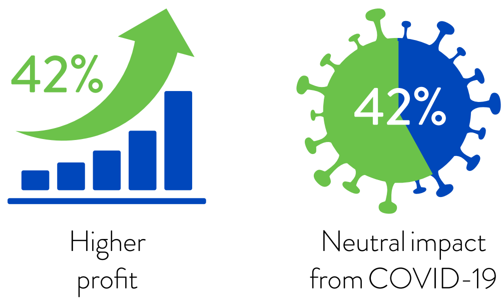
The profit results of insurance companies told a similar tale: five out of the six insurers analysed reported profits that were down on the prior corresponding period. Weaker profits were caused by both COVID-19 factors (high level of travel insurance and health insurance claims) and non COVID-19 factors (insurance claims arising from the bushfire season and other extreme weather events; younger demographic continuing to opt out of private health insurance).

Banks & insurance companies



On the other hand, the diversified financials or asset management companies analysed were generally more resilient, with 42% reporting higher profits after disclosing that COVID-19 had not had a material impact on their operations.

Diversified funds



OUTLOOK – COMPANIES CAUTIOUSLY OPTIMISTIC

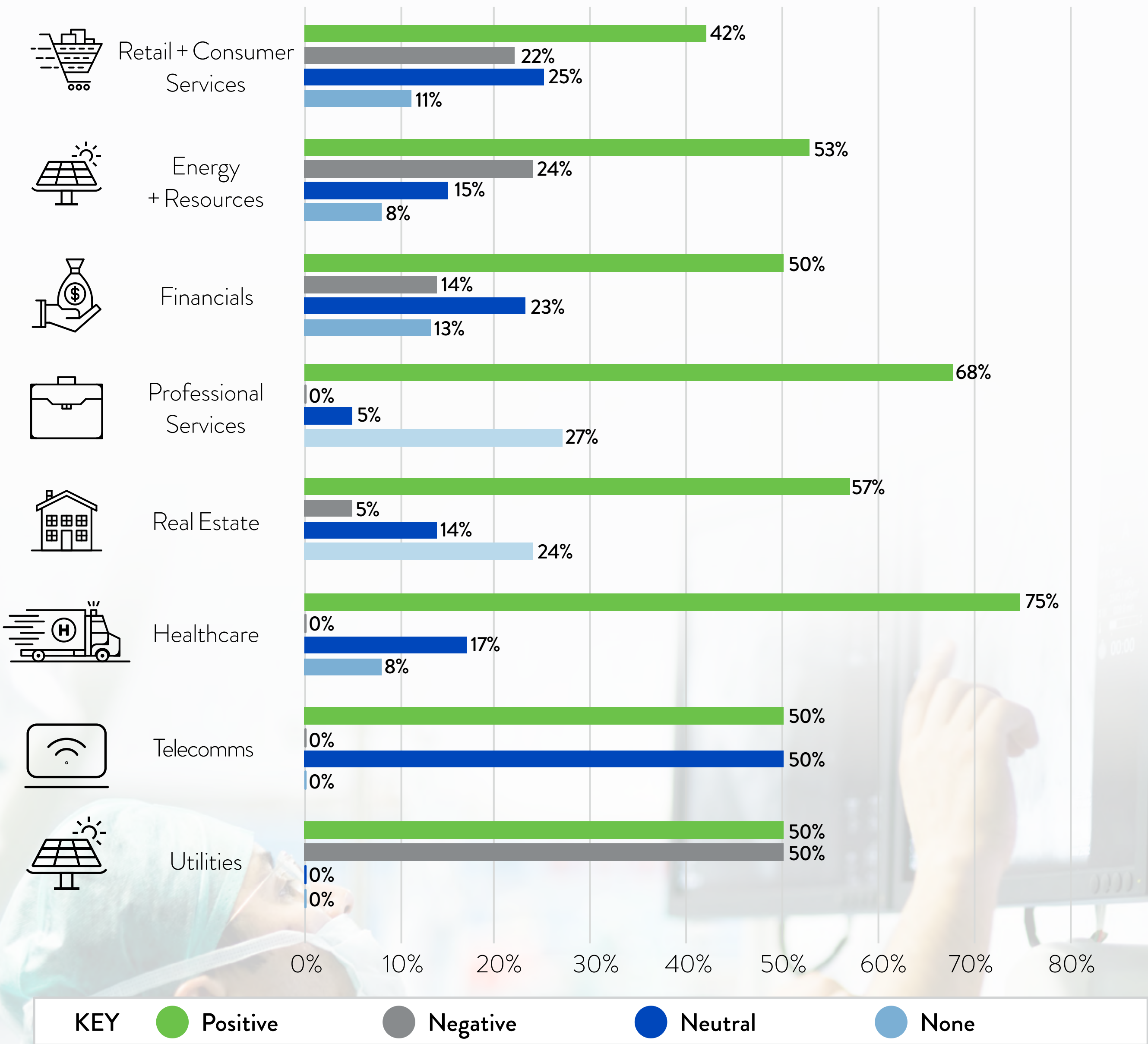
Despite the lack of willingness to provide FY21 earnings guidance (see section 3.3), 86% of ASX200 companies analysed made qualitative outlook statements.

Many of the entities analysed projected a cautiously optimistic outlook, emphasising to investors the uncertain nature of the pandemic. Generally, companies were conservative, caveating their outlook projections on the assumption that the COVID-19 situation continues to improve.

The healthcare sector was the most optimistic, with 75% of healthcare companies analysed adopting a positive view (but see section 5.4 for more detailed commentary).

In contrast, 24% of companies analysed in the energy + resources sector gave negative outlook projections, largely due to depressed commodity prices. In addition, the retail + consumer services sector was largely pessimistic, with 22% of companies analysed expressing concerns about continued economic contraction.

Sectoral outlook



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