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Reporting season highlights high dollar impact

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Reporter: Andrew Robertson

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Industrial stocks are finding life much tougher than miners as the high dollar and subdued consumer demand take their toll on earnings.

Transcript

PHILLIP LASKER, PRESENTER: One of the most eagerly-awaited reporting seasons in many years gets underway tomorrow.

Rio Tinto and Transurban start the ball rolling. While Rio and other miners continue to bask in strong Chinese demand for Australian iron ore, industrial stocks are finding life much tougher.

The high Australian dollar and subdued consumer demand are taking their toll on earnings.

Andrew Robertson reports.

ANDREW ROBERTSON, REPORTER: Company profits in large measure are dependent on the state of the economy, and in the June quarter the Australian economy went backwards.

PETER WARNES, HEAD OF EQUITY RESEARCH, MORNINGSTAR: They're going to report results that reflect those conditions. It's just a matter of what the expectations are out there in the marketplace as to whether they are in line with what the companies report.

ANDREW ROBERTSON: In the current depressed economic environment, it's almost certain there'll be surprises and most of them will be negative.

ELIO D'AMATO, CEO, LINCOLN SHAREMARKET SOLUTIONS: BlueScope and OneSteel, both of those companies we actually expect to very much report on the downside of even current expectations. Other stocks like Billabong, as well another retailer who we believe will actually produce a result below depressed expectations.

And other stocks such as Leighton, which we know have had consistent pressures with regards to rising labour costs and delays in projects.

ANDREW ROBERTSON: Qantas and Virgin Blue are also in the spotlight as consumers tighten their wallets. Fund managers are suffering from the depressed state of the stock market, and there are those who believe life is getting much tougher for the banks as credit growth slows.

In the struggling retail sector, Myer, Premier Investments and David Jones have all announced profit downgrades this year, but fund manager Roger Montgomery sees some good news among retail results.

ROGER MONTGOMERY, CEO, MONTGOMERY INVESTMENT MANAGEMENT: I would be very surprised if JB Hi-Fi and Oroton don't surprise on the upside. They've been tarred with the same brush as all retailers, but as we saw recently Kathmandu came out with a significantly higher profit result and I'd like to see whether or not JB Hi-Fi and Oroton actually outperform.

ANDREW ROBERTSON: Rio Tinto is expected to kick off another bumper profit season for the resources sector, with some analysts expecting earnings per share to jump by around 30 per cent.

Lincoln's Elio D'Amato expects that to flow through to the service companies that support the mining industry.

ELIO D'AMATO: Stocks like Forge Group, MonoDelphis, Deknel, Ausdrill, all quality companies, generally expected to produce record profits on the back of this latest reporting season.

ANDREW ROBERTSON: But the profit results refer to the past. What investors will seize on this reporting season are the outlook statements which accompany the results. In the current difficult economic climate, they'll be looking for confidence in strong earnings next time and for the big miners that the good times will continue to roll.

For Morningstar's Peter Warnes, realism in those outlook statements will be the key.

PETER WARNES, MORNINGSTAR: They've got through this year in reasonable shape, and so the balance sheet and financial statements are good, and the cash flow operations are good, and the conversion of, if you like, revenue to free cash flow is very, very high, then I'd like forward to companies saying, "We can maintain the status quo going forward without making some wild optimistic outlook statements."

ANDREW ROBERTSON: On that point, the stock market isn't optimistic. It represents investors' views on the future of company earnings. The benchmark ASX200 index is now back to where it was in July 2005.



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