

In search of gems amid the reporting gloom

BY: [KATHERINE JIMENEZ](#) From: [The Australian](#) February 09, 2013

HEALTHCARE, local and global industrials, energy, internet businesses and Australian companies with a US exposure are expected to shine in the reporting period.

But those bright spots come amid market expectations of an otherwise subdued overall result..

"There's been a lot of hope built into equity pricing, particularly over the last two months," said Credit Suisse analyst Atul Lele.

"To an extent, that is justified, but to a larger extent in certain sectors (it is) not justified. So I think the major theme will be whether earnings can justify where share prices have moved to."

In the past six months, the local stockmarket has rallied about 17 per cent.

UBS strategist David Cassidy said that despite improving signs in select areas, "we still expect reporting season to confirm the profit backdrop is tough and see February reporting as more of a handbrake than an accelerant to the recent rally".

"You've still got a sluggish domestic economy, you've still got sluggish credit growth, you've still got a high Australian dollar and you've still got some cost issues in the resource sector," he told Wealth.

"Some of the earnings drivers have brightened a little bit in the last few months . . . but it's still not going to be a picture of robust profitability."

Montgomery Investment Management founder Roger Montgomery is more optimistic about the reporting period.

In fact, this time last year, the firm was 40 per cent invested in equity and this year it is 74 per cent invested. Montgomery points to three key areas where profits are likely to be strong.

One is the internet sector. "Basically, we think more and more devices are going to be connected to the internet," he said.

Based on figures from US networking company Cisco Systems, he said the world's population stood at 6.8 billion in 2010 and there were 12.5 billion internet-connected devices. By 2020, it is predicting there will be about 50 billion internet-connected devices. Some of the internet stocks the firm likes are carsales.com.au; realestate.com.au; webjet and wotif.

Another theme he cites is a recovery in consumer sentiment. "There's lots of anecdotal evidence that suggests that consumer confidence is returning," said Montgomery.

"Big-ticket items like boats are selling well, farms seem to be turning over a little more than they have in the past, luxury cars seem to be going a little bit better."

Healthcare is another bright spot for Montgomery, who highlighted the ageing baby-boomers and increase in healthcare spending.

"That's going to continue to surprise on the upside," he said.

Goldman Sachs Asset Management head of Australian equities Dion Hershman is also "more optimistic" about this reporting period.

"What I think is noticeable is that we are here in February and we have seen very few profit downgrades and, under continuous disclosure requirements, if companies were materially out of sync with expectations, we should probably know about it by now. Again, that provides a layer of comfort and certainty."

Energy, industrial and banking are the sectors Hershman is particularly enthusiastic about.

For Credit Suisse, the greatest risk lies within domestic cyclical companies such as those in retail, media, building materials and, to a

less extent, smaller to mid-cap mining companies.

Montgomery believes the mining services sector could become a trap for investors. While he expects the sector's performance for this financial year to be good, "we reckon there is going to be deflation, we think that they are going to have to offer lower price in their tenders because there are few jobs around and 2014 will be a tough year".

Hershan also cites mining services as an area of concern.

"We've seen the pressure on mining companies, but we haven't seen all the pressure all the way through the mining services companies," he said.

Among some of the stocks favoured by strategists and fund managers are Brambles, Flight Centre; The Reject Shop; Seek, Cash Converters and Amcor.