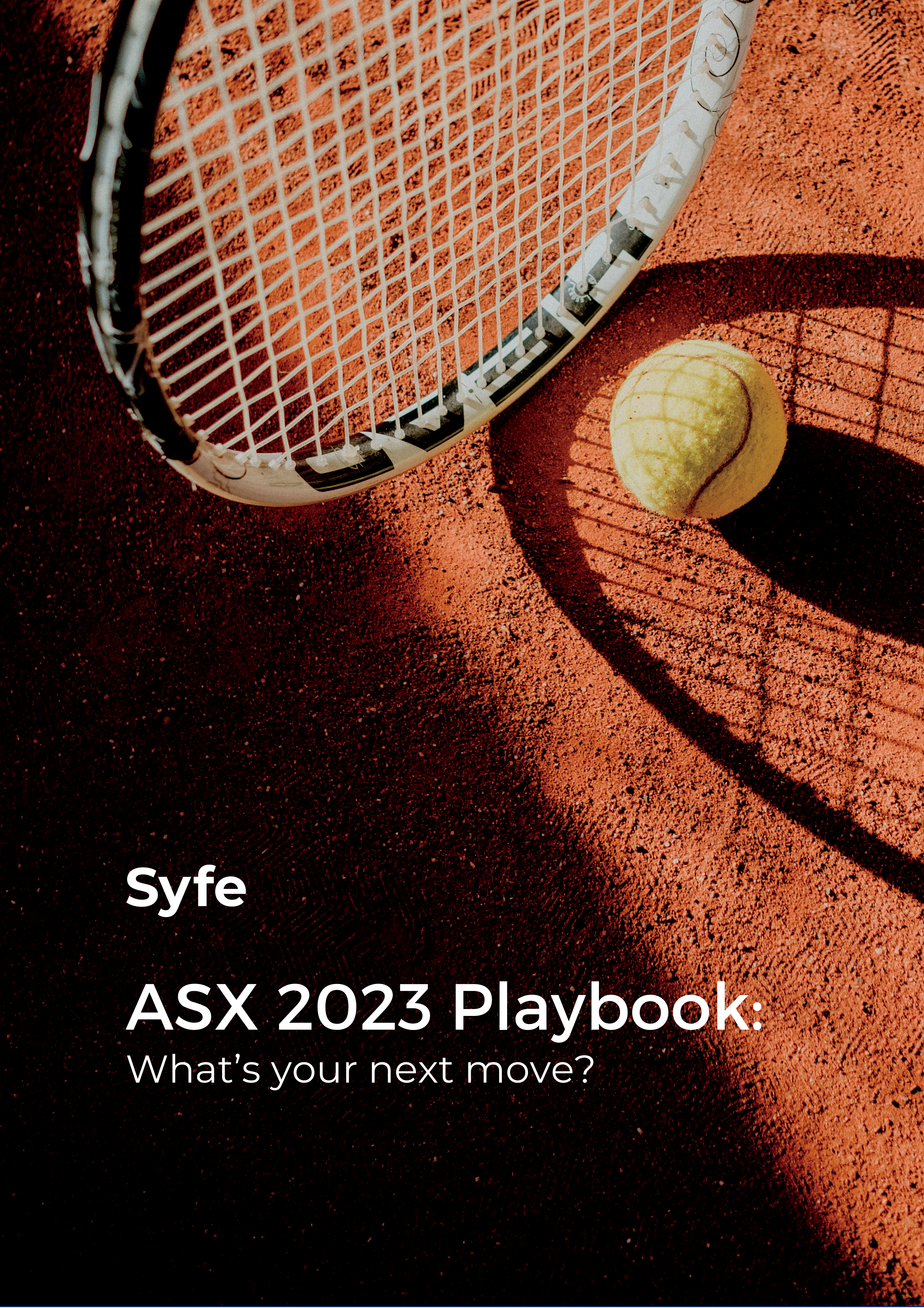

Syfe

ASX 2023 Playbook:

What's your next move?

Content

ASX earnings and 2023 outlook at a glance

Overview

Australian shares held up remarkably well in 2022, outperforming global benchmarks like the S&P 500 and the Nasdaq. In the wake of February earnings season, the ASX 200 continued to trade around all time highs, sitting at the 7,364 point level as of 7 March.

Elevated inflation, global instability, and rising interest rates have done little to dissuade Australian investors: share market darlings like CBA, CSL, and BHP continue to trade around 5-year highs, even as uncertainty remains.

Banks and miners

During February earnings season, of the two biggest weights on the local market - miners and banks - we got some good insights into where things could be heading in 2023. CBA posted bumper interim profits and hiked its dividend 20%. Margins were up, and CBA's share of the lending market was stable.

While rising rates might be good for bank margins in the short term, what it means for Australia’s housing market and the economy as a whole appears less optimistic and increasingly uncertain.

The opposite was true of Australia’s large cap miners, with BHP and FMG both slashing their dividends in the half ending 31 December, 2022. After paying out billions to investors in the last few years, with iron ore prices trending lower, investors are now left wondering: are the boom times over?

Consumers remain confident

The other key theme of the latest ASX earnings season was consumer confidence. Consumer confidence is currently sitting below the long term average, as concerns around inflation and interest rates understandably weigh on everyday Australians.

Weaker consumer confidence has yet to be reflected in the earnings results of many ASX listed companies, with February earnings season primarily covering the six month period to 31 December, 2022. In fact, retail companies like JB Hi-Fi saw their sales rise in the half, Wesfarmers and Coles reported robust results, BNPL player Zip got a boost to revenue, and Qantas even said they expected travel demand to remain strong in 2023 and 2024.

Investors should keep an eye out for the potential impact weaker consumer confidence might have on corporate earnings during the upcoming August 2023 earnings season, which would include full year results for the year ending 30 June. Before then, investors can keep a pulse on the Roy Morgan Australian Consumer Confidence reports, which are released on a monthly basis.

Using the ASX Playbook

Across the playbook we deep dive into the key investment insights from the recent operating results of some of Australia's best and brightest companies.

With every company we analyse and profile, we will:

- Unpack the most recent earnings results and data points that investors need to pay attention to in 2023
- Focus in on and explain why certain results matter to these companies
- Highlight the expected and unexpected things investors need to watch out for in 2023 and beyond

Data in *ASX 2023 Playbook* correct as of 7 March 2023.

ASX playbook glossary

An overview of some of the most important investment terms to help investors make the most of the ASX 2023 Playbook.

Revenue - refers to the total amount of money a company makes from the goods and services it sells.

EBITDA - or earnings before interest taxation, depreciation and amortisation, refers to a company's earnings excluding those four factors.

EBIT - or earnings before interest and taxation, refers to earnings that doesn't take into account those two factors.

EPS - or earnings per share, is a profitability metric calculated by dividing net profits by total shares outstanding.

NPAT - or net profits after tax, are the profits a company makes after all expenses have been accounted for.

Year on year - often shortened to YoY, is a comparison between one financial period to another.

Guidance - refers to the operating outlook or expectations a company provides investors as part of earnings results.

Large cap - refers to a company with a market capitalisation or value of between A$10 billion to A$100 billion.

AUM - or assets under management, is a metric used by financial firms which represents the total value of the assets being managed and invested for clients.

Interim dividend - refers to the dividend declared and paid during a company's half year or interim results, typically announced in February.

Interim report - or half year report, is a a company's financial report, covering a six month period. In Australia this typically covers July to December.

Payout ratio - is a ratio expressed as a percentage that shows how much of a company's earnings is paid as dividends.

Normalised earnings - refers to earnings that exclude one off outcomes or items to give investors a more a realistic picture of a company's earnings capacity.

Fiscal year - in Australia, the fiscal or financial year for ASX-listed companies is typically from 1 July to 30 June.

ROE - or return on investment is a financial metric calculated by dividing net income by shareholders' equity.

CBA company snapshot & outlook

CBA	Financial Services	5-year return: +28%	5-year average dividend yield: 4.69%

Source: Morningstar, Google Finance, correct as of 7 March 2023.

20%

CBA reported A$5.2 billion in interim profits as the bank continues to dominate home lending

CBA posted runaway results during February 2023 earnings season - reporting double digit growth across its earnings and the bank's all-important dividend.

Earnings rise, rates rise

As part of CBA's interim 2023 results, the bank reported strong profit growth: statutory profits were up 10% year on year to A$5,216 million, translating to earnings per share of A$3.04.

Bolstered by rising interest rates, CBA's net interest margin rose 23 basis points, on a half on half basis, to 2.10%.

Earnings growth in the period was driven by an increase in the bank's net interest income, which rose 19% half on half to A$11,637 million - as the bank benefitted from a higher interest rate environment and saw volume growth across its suite of products, including home loans and business loans.

What to watch for:

Given its impact on bank earnings, investors should pay attention to the official RBA cash rate - which at March 2023 - stood at 3.60%. The RBA kicked off a dramatic rate hike cycle in 2022 in response to rising inflation.

Interim dividend +20%

CBA maintained a shareholder friendly view with regards to its dividend, declaring a fully franked interim dividend of A$2.10 per share as part of its half year results.

That represents a 35 cent or 20% increase year on year from the last interim dividend paid and is equal to a 69% payout ratio.

Why it matters:

For income focused investors, CBA's commitment and consistency to its dividends will continue to be an attractive and potentially important factor in retaining and expanding its shareholder base.

Home lending leader

CBA continued to demonstrate its position as Australia's leading bank - particularly in regards to its home lending business. The bank controls 25% of Australia's entire home lending market - with its nearest rival controlling 20%, and the remaining two controlling 14% and 13%, respectively.

What to watch for:

Investors should continue to monitor CBA's home lending market share given the backdrop of an increasingly competitive home loan market, with 60% of Australian borrowers, according to Mozo research, considering neo-lenders over the traditional big four banks.

This market leadership further came through in CBA's top line results, with the bank's operating income climbing 12% year on year to A$13,593 million.

Why it matters:

CBA's scale might give the bank flexibility to provide its services at lower cost - either allow it to further entrench existing customer relationships or attract new customers.

Best-in-class efficiency

Beyond its dominant home lending market share, CBA reported a 80 basis point bump (half on half) in its return on equity (ROE) - taking first half 2023 ROE to 14.1%.

As with its lending market share dominance, CBA continues to outperform its banking peers in terms of ROE - with its closest rival's ROE coming in at 12.1%, and the remaining two banks having ROEs of 10.8% and 6.3%, respectively.

Why it matters:

ROE provides investors insights into the profitability and the efficiency at which a company is able to generate those profits. In this sense it can also be used as a quantitative gauge into the execution ability of a company's management team. CBA's market leading ROE might also explain why the company continues to trade at premium - in terms of its PE ratio - to its big four peers.

CBA outlook: key points

Speaking to the broad market outlook, CBA CEO - Matt Comywn - said:

> *The Bank remains well provisioned and capitalised to continue to support Australian households and businesses. We are investing in our business to reinforce our customer propositions, extend our digital leadership and keep our customers safe from increasing frauds and scams.*

What to watch for:

On the dividend front, the bank noted that it 'will continue to target a full year payout ratio of 70-80% of cash NPAT and an interim payout ratio of ~70% of cash NPAT.' Income focused investors should watch out for any changing commentary around CBA's dividend and in particular Board commentary in regards to the dividend target payout ratio.

Wesfarmers company snapshot & outlook

WES	Consumer Cyclical	5-year return: +70%	5-year average dividend yield: 4.14%

Source: Morningstar, Google Finance, correct as of 7 March 2023.

27%

Wesfarmers profits and revenue rise double-digits as Kmart and Bunnings shine.

The iconic Australian conglomerate posted strong interim results in February 2023, with revenue surging 27% while net profits rose 14.1% - year on year.

Robust earnings and cash flow

Wesfarmers reported solid growth in the first half of fiscal 2023, across both its top and bottom line results.

Despite elevated macroeconomic uncertainty, the conglomerate generated total revenues of A$22,558 million during the six months to 31 December 2022, a 27% increase on the prior period.

On the bottom line, net profits rose 14.1% year on year to A$1,384 million, which translated to earnings per share of A$1.22 per share, up 14% year on year.

Cash flows also remained robust in the period - with operating cash flow rising 26.7% year on year to A$1,917 million.

Key data point:

Wesfarmers declared an interim dividend of 88 cents per share, representing a 10% increase year on year as the company continues to perform strongly in a challenging environment.

Retail icons Bunnings and Kmart shine

Although Bunnings growth was flat for the half ending 31 December 2022, it remained the top earner in the group - delivering earnings (EBIT) of A$1,278 million, implying growth of 1.5% on the year prior.

If Bunnings is Wesfarmers' all weather business, then it is Kmart which proved to be the growth machine during six months to the end of calendar 2022.

The iconic retailer saw growth explode: Kmart earnings, when excluding the Catch acquisition, were up 114% year on year to A$475 million. Revenue was also up strong double-digits, gaining 24% and taking half year revenue to A$5.7 billion.

Ultimately, both business results highlight the operational excellence embedded within the Wesfarmers group of companies.

What to watch for:

While impressive results, macroeconomic headwinds do loom that could disrupt the performance of retail businesses that rely on robust consumer spending and confidence.

In 2023 investors interested in retail names like Wesfarmers should pay particularly close attention to consumer confidence levels in Australia, which acts as an important indicator for consumer consumption behaviours, including discretionary spending. Wesfarmers itself pointed this out during its interim results, with the business saying:

> *Elevated inflation and higher interest rates are expected to impact demand in parts of the Australian economy and result in households continuing to become more value conscious.*

Catch disappoints

The company's 2019 A$230 million acquisition of e-commerce retailer Catch hasn't been the runaway success management was likely expecting. Catch's financial performance in the fiscal 2023 half was described as 'disappointing' as the business saw growth turn negative and volumes go backwards.

Both gross transaction values (GTV) and revenue reversed in the half: GTV fell 26.8%, revenue fell 30.5% to A$219 million, and earnings (EBITDA) was in the red. This weak performance was attributed to 'operational and execution challenges' according to management.

What to watch for:

In future earnings releases investors should watch out for changing commentary and concrete performance improvements as it relates to Catch, to get a better understanding of whether these operational and executional issues are one off or systematic.

While Catch is likely not considered core to Wesfarmers given its scale, it could be considered an important secular growth driver for the company, given secure trends around ecommerce growth and adoption.

Despite Catch's performance since acquisition, Wesfarmers is undeterred in building out its platform capabilities across the business, with management reiterating its commitment to backing investments aimed at creating long term shareholder value. To achieve that, Wesfarmers said it would spend between A$1.0 to A$1.2 billion in net capital expenditure in fiscal 2023.

FMG company snapshot & outlook

FMG	Basic Materials	5-year return: +374%	5-year average dividend yield: 9.64%

Source: Morningstar, Google Finance, correct as of 7 March 2023.

86%

FMG interim profits, dividend lower as iron ore prices moderate

The pure play iron ore miner saw its top and bottom line growth slow in the half ending 31 December 2022, as macroeconomic headwinds intensified.

Earnings, revenue slump

FMG's leverage to the price of iron ore was on full display with the release of its fiscal 2023 interim earnings for the half ending 31 December 2022, with the pure play iron ore miner reporting declining operational results across the board.

With average iron ore prices in decline, Fortescue saw its total interim revenue dip 4% to US$7.8 billion, down from US$8.1 billion in the first half of fiscal 2022.

Key data point:

FMG made US$87 per tonne of iron ore sold - equal to a 86% realisation of the Platts 62% benchmark, up from a 70% realisation a year prior.

What to watch for:

Realisation is particularly important as it gives investors insights into the current supply-demand dynamics of the iron ore markets - with a higher realisation figure implying greater demand for FMG's iron ore products. As a result, investors should pay particular attention to how this figure changes over time given its significant impact on the miner's ability to generate revenue.

Despite those realisation increases, weaker revenue flowed onto the miner's bottom line: EBITDA was down 9% year on year to US$4.35 billion and net profits fell a more pronounced 15% to US$2.37 billion, in the half.

Dividend down 15%

In absolute terms, FMG announced a lower dividend during its interim results report. The interim dividend was A$0.75 per share - down from the A$0.86 per share dividend paid a year ago - representing a decline of 13% year on year.

That interim dividend represents a 65% payout of net earnings - in line with the company's dividend policy of paying out between 50% to 80% of earnings in the form of dividends to investors.

Why it matters:

FMG's shareholder friendly dividend policy and elevated payouts over the last few years have arguably contributed to demand for the miner's stock, its valuation, and its recent share price run up.

What to watch for:

Changes in FMG's dividend policy or a material decline in the company's revenue and earnings could potentially impact the viability of the miner's above-market dividend.

Iron Bridge almost complete

Known for producing iron ore below the 62% grade - the miner shipped 96.9 million tonnes of iron ore in the half ending December 31, 2022 - representing a 4% increase year on year.

The company has also been making moves to diversify its product mix - with the Iron Bridge Project, which is said to deliver ores up to the grade of 67% - set to start first production in the March 2023 quarter.

Why it matters:

Higher grade ore could help with FMG's average price realisation and help offset demand shifts away from the lower grade ore that has become increasingly popular in recent years.

By diversifying its iron ore product mix across both low and higher grades, FMG would be better placed to deal with changes in demand for different grades of ore, making the miner's revenue more resilient while potentially increasing the quality of its earnings.

Outlook

Looking towards the remainder of fiscal 2023, FMG reiterated its prior guidance across shipment forecasts and capital expenditure.

Key data point:

FMG's management team reiterated prior guidance, saying the miner is on track to ship between 187 million and 192 million tonnes of iron ore in fiscal 2023, and total capital expenditure is expected to come in at between US$2.7 to US$3.1 billion.

What to watch for:

Investors should monitor FMG's upcoming production reports - which are released to cover quarterly operating results not covered in a full year or interim reports. These reports can help investors get a better sense of demand for iron ore prices, up-to-date iron ore price realisation levels for FMG, and to see if any upwards or downwards revisions are made to the miner's shipment expectations.

Telstra company spotlight & outlook

TLS	Communications Services	5-year return: +19%	5-year average dividend yield: 3.65%

Source: Morningstar, Google Finance, correct as of 7 March 2023.

25.7%

Telstra earnings rise, mobile performance drives results

Telstra delivered a solid set of interim results in a challenging environment, with the telecom's mobile division proving to be a standout.

Stable operational performance

The telecom giant reported consistent growth across its top and bottom lines: total revenue rose 6.4% to A$11.6 billion while net profits gained an impressive 25.7%, coming in at A$0.9 billion for the half ending 31 December 2022.

Management attributed its top line results to its recent acquisition of Digicel Pacific and as well as strong momentum from Telstra's all important mobile segment.

Key data point:

The company declared an 8.5 cent interim dividend as part of its half year report - which represented a 6.3% increase on a year on year basis.

Telstra's CEO spoke to the telecom's shareholder friendly dividend policy, saying:

> *The interim dividend is consistent with our policy to maximise the fully franked dividend and seek to grow it over time*

Mobile a standout

Mobile remains a key driver of profitability for Telstra, making up ~56% of the company's underlying EBITDA for the half ending 31 December 2022. In the first half, the company saw its mobile earnings (EBITDA) grow 13.3% to A$2,217 million.

Key data point:

Telstra’s total mobile services revenue rose 9.3% year on year to A$3,867 million and mobile postpaid average revenue per user came in 4.5% higher to A$50.47 per user.

What to watch for:

Given the mobile segment's significant share of Telstra’s overall EBITDA as well as flat mobile retail additions in the first half of fiscal 2023, monitoring earnings from a unit basis - in this case ARPU or average revenue per user - is particularly important for investors to pay attention to.

Looking forward, seeing if Telstra can increase its ARPU over time will speak to the telecom’s ability to extract additional value from its existing customer base, an important driver of growth for a mature stage business such as Telstra.

2023 guidance reaffirmed

Looking towards the rest of the year, Telstra’s management team reaffirmed all of its key guidance metrics for fiscal 2023 during its interim results, released in February 2023.

Key data point:

For fiscal 2023 Telstra expects to report total income of between A$23.0 billion to A$25.0 billion and underlying earnings (EBITDA) of between A$7.8 billion to A$8.0 billion.

What to watch for:

While Telstra did reaffirm its previous guidance, it was noted that the expectation is now for its income or revenue ‘to be at the bottom end of guidance due to mobile hardware and fixed product revenues being lower than expected’.

CSL company snapshot & outlook

CSL	Healthcare	5-year return: **+81%**	5-year average dividend yield: **1.06%**

Source: Morningstar, Google Finance, correct as of 7 March 2023.

25.7%

The CSL growth machine remains in play

The biotech giant posted double digit growth across its top and bottom lines as part of its interim results while reaffirming full year guidance.

Double digital growth continues

CSL reaffirmed why it is an ASX sharemarket darling with the release of its interim results for the period ending 31 December 2022, notching up double digit growth across the top and bottom lines, despite challenging macro conditions.

Key data point:

CSL booked total interim revenue of US$7,575 million, up 25% on the prior year and on a constant currency basis.

Key data point:

CSL reported total net interim profits (NPATA) of US$2,014 million, up 13% year on year, on a constant currency basis.

Plasma collections +36%

After seeing its plasma collections volumes decline during the covid pandemic, the biotech giant saw plasma collections surge 36% in the half to 31 December 2022, with volumes now 10% above pre-pandemic levels.

Why it matters:

CSL's IG therapies, which are derived from plasma, are aimed at helping patients deal with 'rare and serious diseases' and make up a significant amount of the company's top line - delivering total revenue of US$2,227 million in the first half.

Given its outsized contribution to CSL's overall revenue, investors should continue to monitor this division's performance closely in the reporting periods ahead.

Guidance reaffirmed

CSL continued to flex its operational excellence with the release of its fiscal 2023 interim results - reaffirming its full-year profit guidance.

Specifically, management said they expected to report net profits (NPATA) of between US$2.7 billion to US$2.8 billion, on a constant currency basis.

In terms of CSL's all important plasma volumes, CSL CEO Paul Perreault said:

> *The strong growth we have seen in plasma collections and our immunoglobulins franchise is expected to continue.*

BHP

BHP company snapshot & outlook

BHP	Basic Materials	5-year return: +69%	5-year average dividend yield: 4.46%

Source: Morningstar, Google Finance, correct as of 7 March 2023.

40%

BHP Group’s revenue and earnings fall across the board, interim dividend slashed

The large cap miner saw its operational performance severely impacted during the half ending 31 December 2022, as weaker iron ore and copper prices hurt operating performance.

Operational performance weakens

BHP saw its revenue, earnings, and cash flow all fall in the first half of fiscal 2023 - as weaker iron ore and copper prices dragged on performance.

Key data point:

BHP’s revenue declined 16% in the half to US$25,713 million, down from US$30,527 million in fiscal 2022.

Weaker revenue flowed onto the miner’s earnings performance: year on year, EBITDA was down 28% to US$13,230 million, profits from operations fell 27% to US$10,833 million, and earnings per share (EPS) came in at 127.5 cents, down 32%.

Iron ore mixed

The miner’s iron ore division continued to lead the business: BHP's iron ore production stood at 132 million tonnes in the first half of 2023, contributing US$7.6 billion in EBITDA to the bottom line - equal to 57% of total group EBITDA.

What to watch for:

Iron ore EBITDA margins were 65% in the half ending 31 December 2022 - the lowest it has been in 2 years. Given the substantial contribution iron ore makes to the miner's earnings, investors should closely monitor BHP's iron ore margins as well as the price of iron ore over the short to medium term, given its influence on operating performance.

Dividend slashed 40%

The BHP Board declared an interim dividend US$0.90 cents per share representing a 69% payout ratio and equal to US$4.6 billion paid back to shareholders.

While that dividend remains elevated, it is down 40% year on year from the dividend BHP paid last year.

Macro outlook

Commenting on the big picture outlook, BHP CEO - Mike Henry said the company is:

> *Positive about the demand outlook in the second half of FY23 and into FY24, with strengthening activity in China on the back of recent policy decisions the major driver.*

While management is indeed constructive on the demand outlook for its commodities product mix, BHP did not provide revenue or earnings guidance as part of its interim results, but does break down its production expectations on a segment by segment basis, for the full year.

Key data point:

Full year 2023 copper production was guided to come in at between 1,635 to 1,825 kilo tonnes; iron ore production was guided to come in at between 249 to 260 million tonnes; and nickel production was guided to reach between 80 to 90 kilo tonnes.

While maintaining production guidance across the vast majority of its operating segments, as part of the interim report BHP lowered the guidance for its Escondida copper operations, which is now expected to come in at the low end of guidance, at between 1,080 to 1,180 kilo tonnes.

What to watch for:

As with FMG, investors should watch for BHP's upcoming production reports - which are released to cover quarterly operating results not covered in a full year or interim reports.

These production reports can help investors get a better sense of commodity prices across the board, BHP commodity price realisation levels, and to see if any upwards or downwards revisions are made to its production expectations.

Qantas company snapshot & outlook

QAN	Industrials	5-year return: **+10%**	5-year average dividend yield: **N/A**

Source: Morningstar, Google Finance, correct as of 7 March 2023.

40%

Qantas posts record A$1.43 billion interim profit as covid concerns ease

The covid pandemic looks well behind Qantas, with the blue chip airline snapping back to record profitability in the half ending 31 December 2022.

Earnings fly forward

After booking losses totalling A$7 billion during the pandemic, the airline reported a record set of earnings off the back of surging revenue in the first half of fiscal 2023.

Qantas reported underlying profits before tax of A$1.43 billion, statutory profits of A$1.0 billion, and earnings per share of 53.9 cents.

Key data point:

The airline continues to manage its debt profile well, with net debt now sitting at A$2.4 billion, well below the company's target range of between A$3.9 billion to A$4.8 billion.

Returning capital

While the airline didn't declare a dividend as part of its interim results, the Board did announce it would be buying back up to A$500 million in Qantas stock, starting March 2023. This follows from a A$400 million buy-back program the airline completed in December 2022.

2023 outlook

Qantas management provided high level guidance as part of its interim results, giving investors insight into where the airline expects demand and capacity will head over the short term.

In terms of the travel outlook, management said they expected travel demand to remain strong in fiscal 2023 and 2024. Across the second half of 2023 domestic capacity is expected to rise to 103% while international capacity is poised to reach 81%.

Key data point:

With those strong demand and capacity expectations, Qantas is forecasting that it will hit the top of its earnings (EBIT) guidance in fiscal 2023 - which currently forecast to come in between A$425 million to A$450 million.

Zip company snapshot & outlook

ZIP	Financial Services	5-year return: **-44%**	5-year average dividend yield: **N/A**

Source: Morningstar, Google Finance, correct as of 7 March 2023.

19%

The Zip growth machine slows, revenue rises 19% in the half

Zip saw its revenue growth slow as the company aggressively focuses on improving its profitability, for the half ending 31 December, 2022.

Growth at some costs

Zip reported slowing revenue growth in the first half of fiscal 2023 - with group revenue up 19% year on year to A$351.0 million.

Beyond revenue, Zip's other key top line metrics continued to grow solidly, but not at the rate the company witnessed during the pandemic boom times.

Key data point:

Overall, transaction volumes in the half rose 10% year on year to A$4.9 billion, while the fintech reported having 7.3 million customers and 97.5 thousand merchants on the platform as of 31 December 2022.

Cash earnings improve

While top line growth has slowed, management honed in on the company's improving profitability profile as part of its interim results.

Zip posted a cash gross profit of A$121.7 million, up 20% year on year. Core cash EBITDA remained negative however, coming in at minus A$33.2 million, an improvement, management was sure to point out, of A$27.3 million from a year ago.

Cash was always king

Looking forward, Zip management said they expected core cash earnings (EBITDA) to improve by up to 50% in the second half of fiscal 2023, driven by decisions to streamline the business.

Further out, management said they expected to achieve group-level positive cash flow during the half-year of fiscal 2024.

Why it matters:

With markets prioritising earnings and cash flow over growth at all costs, Zip's ability to meaningfully improve its bottom line results will likely be key for the company to see improved reception from investors and analysts in the market.

With the days of zero rates likely behind us for some time, Zip will have to demonstrate its operating resilience in a world of high inflation, normalised interest rates, and a valuation regime that doesn't prioritise growth at all costs.

AMP company snapshot & outlook

AMP	Financial Services	5-year return: -80%	5-year average dividend yield: N/A

Source: Morningstar, Google Finance, correct as of 7 March 2023.

19%

AMP posts solid full year earnings as investment markets bite AUM

Volatile investment markets drag on AMP’s recovery plans, as the firm’s largest revenue driver takes a hit.

What are earnings anyway?

Despite volatile macroeconomic conditions, AMP’s management team described its full year results for fiscal 2022 as ‘solid’.

On a statutory basis - when factoring in AMP’s sale of its debt platform in fiscal 2022 - the firm’s earnings do indeed look good, coming in at A$387 million, well above the statutory loss of A$252 million AMP posted in fiscal 2021.

Normalised or underlying earnings tell a slightly different story. Here AMP saw its profitability decline to A$184 million, down from A$280 million in 2021.

The firm attributed those declines to elevated share market volatility, strategic repricing within its wealth business, and weaker net interest margins for AMP bank.

Why it matters:

For investors looking towards long term earnings or dividend growth, focusing on normalised, opposed to statutory earnings, is considerably more useful.

This is because normalised earnings excludes one-off events - like AMP's sale of its debt platform, for example and therefore gives investors a better picture of a company's earnings profile on a 'true' or 'normal' basis.

And while AMP or any company for that matter can use one off events to fund business activities, like paying dividends, it doesn't necessarily accurately capture a firm's ability to deliver returns to shareholders on a consistent or long term basis.

Wealth volatility

Share market volatility was most evident in the operating performance of AMP's wealth management division.

The firm's total assets under management hit A$124.2 billion by the close of fiscal 2022, down firmly from A$142.3 billion in fiscal 2021. Outflows reached A$5.3 billion in fiscal 2022.

Key data point:

AMP remains heavily reliant on its revenue generated from the assets it manages, deriving A$843 million in revenue or more than 50% of the firm's total revenue, from AUM based revenue.

What to watch for:

Broad based improvements in financial market performance and conditions could prove to be a key tailwind for AMP. This could potentially see a boost to AMP's total AUM, likely improve its AUM based revenues, as well as boost inflows.

Do more distributions loom?

AMP announced a final dividend of 2.5 cents per share, franked at 20%, as part of its full year 2022 results released in February 2023.

Commenting on the firm's commitment to returning A$1.1 billion to shareholders, AMP's CEO Alexis George said:

> *I am pleased that we are able to deliver an FY 22 final dividend to shareholders of 2.5 cents per share as part of that, in addition to the $350 million on-market share buyback that we currently have underway.*

Why it matters:

While that dividend is down significantly from AMP's last dividend in 2020, the resumption of any dividend is decisively a positive sign from the company, signals improving balance sheet health and points to a potentially shareholder friendly Board.

Looking forward, the company said it has planned 'capital management' activities of up to A$350 million in fiscal 2023 as part of its promise to return up to A$1.1 billion to shareholders.

What to watch for:

Investors should continue to watch for AMP's profitability levels and earnings stability over time, its dividend payout ratio against normalised earnings, and franking levels.

Coles company snapshot & outlook

COL	Consumer Defensive	5-year return: +36%	5-year average dividend yield: N/A

Source: Morningstar, Google Finance, correct as of 7 March 2023.

36%

Coles shines as a defensive play, revenue and earnings stable as inflation runs hot

Coles posted strong operating results for the half ending 31 December 2022, highlighting its attractiveness as a defensive pick during periods of high volatility.

Solid performance, challenging times

Coles notched up another period of consistent growth for the half ending 31 December 2022, with the supermarkets giant seeing improvements across all of its key operating metrics, on a continuing basis.

Across the top line, Coles saw its revenue edge higher - up 3.9% year on year to A$20.8 billion. This coincided with second quarter comparable sales growth across its supermarkets business, which was up 7.4% in the half.

Key data point:

Revenue growth flowed onto the bottom line: earnings (EBIT) came in at A$1.05 billion, net profits after tax were A$616 million, which translated into earnings per share of 46.3 cents.

Defensive dividends

Off the back of solid interim Coles declared a fully franked interim dividend of 36 cents per share. That represents a 9.1% increase on the interim dividend from the year prior and builds on the company's consistent history of paying a dividend.

What to watch for:

For income focused investors, this consistency - from both a dividend and operational resiliency perspective - might be considered an especially attractive characteristic of the business.

The fact that Coles has been able to grow its revenue and earnings in periods of elevated inflation speaks to the defensive nature of the stock. Looking forward, investors should pay particular attention to whether Coles can maintain comparable levels of growth - across both its top and bottom lines.

Coles growth outlook

Coles management provided a number of important insights into the operating outlook of the retail giant as part of its interim results.

What to watch for:

In terms of the growth outlook, speaking to the current quarter, which covers January 2023 to March 2023, management positively noted that its ‘supermarkets volume growth returned to modestly positive from mid-January.’

Elsewhere, after seeing its earnings (EBIT) decline in the first half of fiscal 2023, Coles management said they expected the operating performance of the group’s liquor business to drastically improve in the second half of the year.

Here it was noted that liquor earnings are forecast ‘to return to growth in the second half as we exit COVID-19 cycling and focus on building sales momentum, partially assisted by the February excise increase.’

Finally, on the investment front, Coles reiterated its fiscal 2023 capital expenditure guidance of between A$1.2 billion to A$1.4 billion.

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