FINANCIAL REVIEW

Turkish lira fall to rattle ASX ahead of big week of earnings

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by **William McInnes**

Fears of contagion risk set off by the plunge in the Turkish lira look set to overshadow the start of the biggest week of Australian company results this earnings season.
The lira hit an all-time low on Friday when it fell by more than 13 per cent in a single session, hitting several major markets.

All three major indices in the US closed almost 1 per cent lower on Friday in response while some of the major European indices fell by close to 2 per cent.
The global sell-off has hit the Australian dollar, which fell sharply on Friday afternoon, dropping below US73¢ for the first time since January 2017.

Results due this week and market expectations

COMPANY	EXPECTATIONS
MONDAY 13	
Aurizon Holdings FY18	EBIT guidance of $900 – $960 million for FY18
Bendigo & Adelaide Bank 1H	Market forecasting 7.2% revenue growth
BlueScope Steel FY18	Expected full year underlying EBIT of around $1.2 billion
Domain Holdings 1H	Consensus forecast of $359.1 million in revenue
JB Hi-Fi FY18	FY18 Total Group NPAT expected to be circa $230 million
TUESDAY 14	
Challenger FY18	Expecting normalised NPBT growth 8% to 12% ($545m to $565m)
Cochlear FY18	Net profit guidance of $240 – $250 million
Dominos FY18	NPAT guidance of growth "in the region of 20%" for FY18
Whitehaven Coal FY18	Forecasting a record set of financials in FY18
WEDNESDAY 15	
CSL FY18	Upgraded profit guidance of $US1,680 to $1,710 million
Fairfax Media FY18	Market forecasting revenue of $1.67 billion
Insurance Australia FY18	Will record a 16% growth in EPS according to consensus
Mineral Resources	EBITDA guidance of greater than $500 million for FY18
Seek FY18	NPAT for 2018 to be around $230 million
Wesfarmers FY18	EBITDA expected to be 3% weaker than FY17 according to consensus
Woodside Petroleum 1H	Recorded $2.39 billion revenue in second half of FY18
THURSDAY 16	
ASX FY18	Market expecting EBITDA of $634 million
Iluka Resources 1H	2H FY18 Total mineral sands sales 1.7% higher YTD than 2H FY17
Origin Energy FY18	Targetting EBITDA of $1.78 – $1.85 billion
Oz Minerals FY18	FY18 revenue expected to be boosted by stronger metal prices
QBE Insurance 1H	Expected to return to profitability after loss-making FY17
Sonic Healthcare FY18	Targeting growth of 6-8% from FY17 EBITDA of $889m
Telstra FY18	EBITDA expected to be at bottom end of $10.1 – $10.6 billion range
Treasury Wine FY18	Market consensus EBITDA of $629.1 million
FRIDAY 17	
Kogan.com FY18	Expecting 40% growth from FY17 revenue of $289.5 million

SOURCE: FINANCIAL REVIEW, CONSENSUS FORECASTS VIA BLOOMBERG

That sell-off is likely to knock the local sharemarket, which will digest profit results from index heavyweights and market darlings including CSL, Telstra, Domino's Pizza and Treasury Wine Estates.

Analysts are expecting results to be mostly positive while investors will be keen to pounce on any weaker than expected results if they believe the stock is undervalued by the market.

JP Morgan global market strategist Kerry Craig said healthcare and bank stocks would be the key focus.

"The next two weeks will see a large number of companies report," he said. "The reporting so far has been mixed, but is best viewed against the very strong earnings we've seen globally not just in the last quarter but this year.

"Last week's reaction to bank reporting was a relief rally on 'not as bad as feared' sentiment. Will be tough for this to continue given the further potential ramifications from the royal commission and the headwind to margins from rising wholesale funding costs.

Companies like IAG and CSL were unlikely to provide any major surprises when they report on Wednesday but that Telstra would also be closely watched. ***Joe Armao***

"Meanwhile, healthcare has been the strongest sector this year gaining 28 per cent but is also reflected in the multiples and the sector is trading at close to 30 times forward P/E, which is 50 per cent above the average P/E for the past decade. The healthcare story this year has been so stock specific, I wonder if this momentum can be maintained."

Investors Mutual investment director Anton Tagliaferro said he expects most results to be in line with expectations, echoing the results in the past two weeks.

"So far the reporting season is going on track with no major surprises," he said. "The economy is reasonably patchy and company results are reflecting that."

He said companies like IAG and CSL were unlikely to provide any major surprises when they report on Wednesday but that Telstra would also be closely watched when it reports on Thursday.

Investors Mutual investment director Anton Tagliaferro said he expects most results to be in line with expectations, echoing the results in the past two weeks. ***Fona Morris***

"Obviously the general insurance industry continues to do well and CSL is benefiting from new products. We're not expecting any major bits of news there.

"Obviously Telstra is going to be a focus given the competition in that sector and investors will be keen to get a closer look at how the company is intending to do."

He said investors will be watching closely for softer than expected results, as they hunt for value in a market, which it is often hard to come by.

"We take a three-to-five year view and obviously if there's any bad news, we'll look at that as a potential time to accumulate more stock," he said. "In the last week or so, we saw Amcor come off and we thought the stock was looking reasonable again.

"The point is that the direction of stocks is often dictated to by the quant funds and then it's up to people like us to see whether there are any opportunities."

Morgan Stanley said CSL's fiscal 2018 earnings were likely to be towards the top end of its issued guidance. The broker also said that its FY19 outlook was likely to be below market expectations but that such softness was likely to be viewed as conservatism on the part of CSL.

One of the more anticipated results will be Domino's Pizza which has seen a high-level of buy-side scepticism as to whether it can achieve issued guidance.

Tribeca Investment Partners portfolio manager Jun Bei Liu says the company will need a big second half in order to achieve their issued guidance.

"They delivered a very poor first half result and yet they've stuck to their previous guidance of around 20 per cent growth. They need a very big second half, especially in the Australian market. It's going to be quite challenging and we'll see whether they can get there."

Ms Liu said JB Hi-Fi, reporting on Monday, and Treasury Wine Estates, reporting Thursday, would also be closely observed by investors this week.

"JB Hi-Fi, that will be exciting to see," she said. "That will provide a pretty good bell weather as to what other retailers will report. It probably will be a slowdown from the first half. The key thing for this business will be The Good Guys business. We expect that to attract a lot of attention and that will have an implication for Harvey Norman and other retailers.

"We're also really looking forward to seeing Treasury Wine's accounts. We don't expect them to miss the guidance given they've still got a lot of momentum in the US business. We will be very keen to see the accounts though and I expect Michael Clarke will still talk the big game."

She said she expected the market as a whole to react positively to most of the results being reported next week although there could be some risk in the resources.

"Just looking through the results, the market will move slightly to the positive for most of those results," she said. "If you look at the splits, we expect the banks to be quite benign. Resources of course, we actually see a little bit of risk.

"I think the cost pressure is coming through so that represents a bit of a risk. The growth names are just too expensive and the market will move towards rewarding value names."

Mr Craig also said that cost pressures would be a key risk during the reporting season with expectations for many companies running high.

"There are high expectations for what Australian companies will deliver this year and consensus earnings expectations have been steadily rising this year. Looking at the forward earnings per share estimates rebased to the start of each year, this is the strongest year for the past five.

"Given the broader value of the ASX 200 at 15.8x forward P/E being close to one standard deviation above average for the last decade, this earnings season will be a case of 'must deliver' for many companies as even though expectations are high, so are prices."