The Rock
INVESTMENT PLANNING LIMITED

Investment Market Update No. 23

31 July 2005

Editorial

It seems like only yesterday that we were discussing the mid-year reporting season, and now the end of financial year reporting season is here.

In this issue we cover:
1. Reporting season; and
2. Investment briefs

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Reporting season

The following table shows a selection of companies and when they are due to announce their full year financial results.

Date	Stock
Aug-03	Rio Tinto
Aug-04	Alumina, WA Newspapers
Aug-09	Repco, Wesfarmers
Aug-10	CBA, Stockland
Aug-18	Amcor, AMP, Multiplex, Qantas
Aug-24	BHP, Brambles, Transurban
Aug-30	Tabcorp, Foster's Group

When companies release their results terms including 'significant items', 'underlying earnings', and 'earnings per share' are often mentioned. Following is a brief overview of the some of the terms you can expect to encounter this reporting season and their meaning (all definitions have been taken from The Australian Financial Review, pp 24, 3/8/05).

Net profit after tax: the declared profit after tax has been paid.

Underlying earnings: Profit before tax and significant items.

Earnings per share: the value of a company's earnings that can be attributed to a single share. It is calculated by dividing profit by the number of shares on issue.

Significant items: one-off losses or gains that are listed separately as they are not incurred from normal daily operations (eg sale of a subsidiary or one-off restructuring costs). A close look at the company's explanation of why a particular item should be treated as a one-off gain or loss, rather than a normal gain/loss is often warranted.

Earnings upgrade or downgrade: a company announcement regarding its future earnings, specifically whether they are likely to be better or worse than previously indicated. Often accompanied with information about what has caused the upgrade/downgrade (eg high oil prices, high Australian dollar).

Profit warning: a term that is used when earnings are significantly lower than forecast. Generally any announcement that sees forecast profits reduced by more than 10 per cent constitutes a profit warning.

In the first six months of this year over 100 companies issued earnings downgrades. Whether these companies were being overly cautious about domestic and/or international trading conditions remains to be seen (for example Paperlinx).

One of the key themes in the current reporting season will be the continued strength of the Australian dollar. For Australian companies that earn a sizeable portion of their revenues off-shore (exporters) the result will be continued pressure on profit margins. The Australian dollar is at much the same level as last year when compared to the US dollar (about 72 cents last year and 75 cents this year). This sustained contraction of profit margins will be a negative for some stocks, like Amcor and Multiplex (although this should already be factored into their share prices).

For importers (like retailers) the effect will be the opposite as they will be able to acquire internationally produced goods (slightly) cheaper than last year, but still sell them at the same price to domestic consumers, thereby improving profitability.

Naturally it's not all black and white as there are other factors at play. Retailers have had to endure higher transport costs due to high oil prices which will mitigate some of the gains accrued from the high Australian dollar.

While oil prices remain high there is little reason for the Reserve Bank of Australia (RBA) to raise interest rates. High oil prices are basically doing the job for the RBA by dampening domestic economic conditions. If oil prices remain at current levels for an indefinite period it is likely the RBA will need to reduce interest rates to stimulate the economy.

Investment briefs

Telstra (**TLS**): Federal National Party MPs and Senators look like making the sale of the government's remaining holding in TLS difficult. CEO, Sol Trujillo, is looking to reduce the company's service obligations to rural and regional areas by claiming these are unfair to TLS. We expect the stoush between the Government and the TLS CEO to intensify.

Rio Tinto (**RIO**): RIO is on track to double full-year profit this year to more than $5.26 billion. The company has signaled further capital returns to shareholders at the end of the year as cash flow soars on the back of still-booming commodity prices and demand (*source: Macquarie Equities*).

Brisbane Airport Corporation (**BAC**): BAC ended a seven-year run of disappointing results to lay claim to being one of Australia's fastest growing transport companies, after a 187 per cent boost in annual net profit to $A50.7 million (*source: Macquarie Equities*).

BHP Billiton (**BHP**): BHP is poised to post an Australian record profit of more than $7.9 billion next month after announcing stronger than ever production of iron ore, coking coal, natural gas and several other commodities (*source: Macquarie Equities*).

National Australia Bank (**NAB**): NAB will pay back $80 million to thousands of customers it has been overcharging for more than two decades. NAB admitted to a series of administrative bungles dating back to 1982, which led to almost 200,000 customers being taxed incorrectly or charged excessive fees.

Santos (**STO**): STO has struck record half-year sales revenue of $1.02 billion, through higher prices and increased production off the coast of Western Australia (*source: Macquarie Equities*).

Tabcorp (**TAH**): TAH took its first significant step into Asia recently, announcing that its Keno lottery joint venture had won a deal in China which is expected to generate about $50 million a year in earnings within five years (*source: Macquarie Equities*).

Alumina (**AWC**): AWC, Australia's third-largest listed mining company, has downgraded first-half profit expectations after suffering a $9 million cost blow-out relating to the overhaul of its Anglesea power station in Victoria (*source: Macquarie Equities*).

Qantas (**QAN**): QAN recently announced it was merging its Jetstar Asia subsidiary with a Singapore rival, Valuair. The merger is part of the gathering pace of consolidation of low-cost airlines operating in the region. There has been specualtion recenlty of a merger between QAN and Singapore Airlines.

Sydney Airport Corporation (**SAC**): SAC, 55 per cent owned by Macquarie Airports, reported that top-line profit rose 16.5 per cent to $423.5 million for the year to June 30 despite another slowing in passenger growth in June (*source: Macquarie Equities*).

Rinker Group (**RIN**): Booming residential construction markets in the southern states of the US are fuelling a surge in profits at RIN, Australia's largest construction company. The company has increased its earnings forecast for the second time in two months on the back of robust first-quarter earnings (*source: Macquarie Equities*).

Orica (**ORI**): ORI has teamed with Macquarie Bank to bid for Norwegian explosives company Dyno Nobel, in what is expected to be a deal worth more than $A1.5 billion.

News Corp (**NWS**): Lachlan Murdoch has recently announced his resignation from all executive positions with NWS.

ANZ Bank (**ANZ**): ANZ has revealed plans to swell its Indian IT operations to as many as 1,000 employees in two years, up from 650 now. The move is likely to come at the expense of domestic jobs.

Zinifex (**ZFX**): Lead and zinc miner ZFX upgraded its full-year profit forecast by 20 per cent. This is one of those cases where further analysis is required, as the upgrade was driven largely by bonus tax credits, after the company realised higher than expected Australian dollar metal prices.