

REPORTING SEASON IN NUMBERS

What did the volatile August 2018 reporting season tell us about corporate Australia? With information straight from Australia's listed companies, our Australian Equities Growth team share a snapshot of the economy and our key sectors.

This reporting season good results were rewarded handsomely while disappointing results saw share prices taken down.

Market expectations



25%

of companies reported **above** expectations



50%

of companies reported **in line** with expectations



25%

of companies reported **below** expectations

Source: Morgan Stanley

How are we positioned?



Underweight the banks, energy companies and REITs.



Market weight in the mining sector and health care and consumer staples.



Overweight non-bank financials, industrial companies and technology companies.

SNAPSHOT OF THE AUSTRALIAN ECONOMY

1. Overall business conditions are solid



Vacancy rates in commercial offices in Sydney and Melbourne are around

record lows

indicating a **healthy economy**.

Sydney **4.6%**



Melbourne **3.6%**



Source: Mirvac

2. The consumer is ok



with **incomes growing** at

2-3%

per annum



and **unemployment** at a low

5.5%

3. Australia is still a great place to invest



Our Government's have **low levels of debt**



Our **health system** is relatively **efficient**



Our population is growing, but we have **low unemployment**



Our level of **inequality is low** relative to other countries

WE ARE ALERT TO REGULATORY RISK IN AUSTRALIA, WITH GOVERNMENT POLICIES SET TO FOCUS ON: BANKING, WEALTH MANAGEMENT, PRIVATE HEALTH INSURANCE AND POWER UTILITIES.

KEY SECTORS

Mining



Mining companies are generally **more cautious** on new project investment, and are **returning more cash to shareholders**.

Queensland and Western Australia are seeing new projects from **BHP, Rio, Fortescue, Woodside and Santos**

Banks



We believe the **slowing property market** and **slower credit growth** will **subdue earnings** for the banks, but **dividends are sustainable**.

Credit growth heading towards **4%** down from the **6-10%** of the past two decades.

Owner occupied loans growth **7.7%**.
Investor loans growth **1.5%**.



Infrastructure

Following growth from the resources and housing sectors, **infrastructure spending** is set to remain at a **high level**, particularly in **Victoria** and **New South Wales**.

Tourism



Nationally, the **tourism sector** remains **robust**. The three **fastest growing** passenger groups in 1H18:

Source: Sydney Airport

Taiwan
49%



Vietnam
25%



India
17%



Technology

While **Australia** does not have the **FANG** stocks of the **US**, we continue to generate **highly successful technology companies** including **REA Group, Seek, Xero** and **Wisetech**.

Offshore earners



Global earners have **outperformed** the **ASX 200** by **19.6%** since 2008.

Companies such as **Brambles, CSL, Computershare** and **Aristocrat** are expected to benefit looking forward.

ASX 200



Global earners

