Entrust

Reporting Season Update

August 2024

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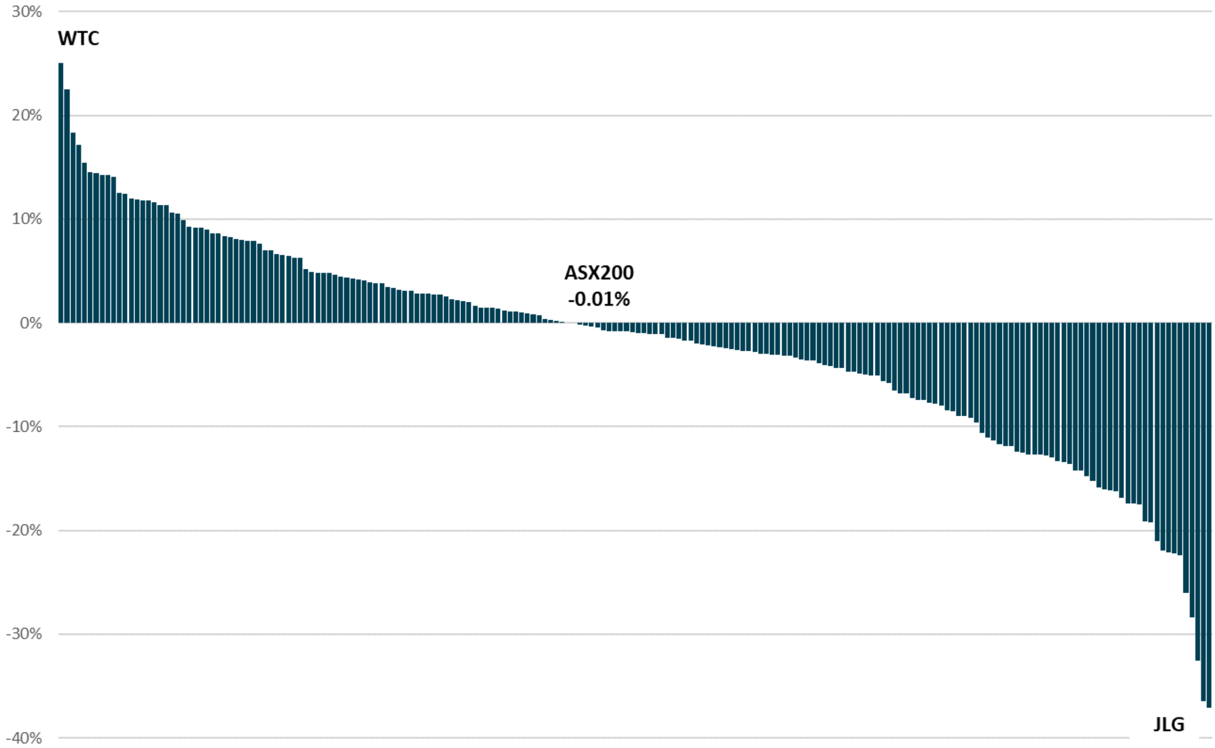
During August 2024 the ASX200 was down marginally (-0.01%). The ASX200 Accumulation Index (inclusive of dividends) gained 0.5%.

As is generally the case, at a stock specific level things were a bit different (Figure 1). Only 86 stocks (43%) recorded a positive share price gain during the month, while the remainder were flat or negative.

The best performing stock during August was global freight forwarding technology company WiseTech (WTC) which recorded a share price gain of 25%. WTC is a Brisbane-based, Australian success story, which is now one of the largest 15 stocks on the ASX, with a market capitalization of over $40bn, valuing Founder Richard White's ~39% holding at over $15bn. WTC is a wonderful business that we would love to own, however at present we think it is too expensive, sporting a Price / Earnings (PE) ratio of ~100x.

At the opposite end of the scale was integrated building services provider John Lyng Group (JLG) with a share price decline of 37%.

Figure 1: ASX200 – Individual Stock Performance in August



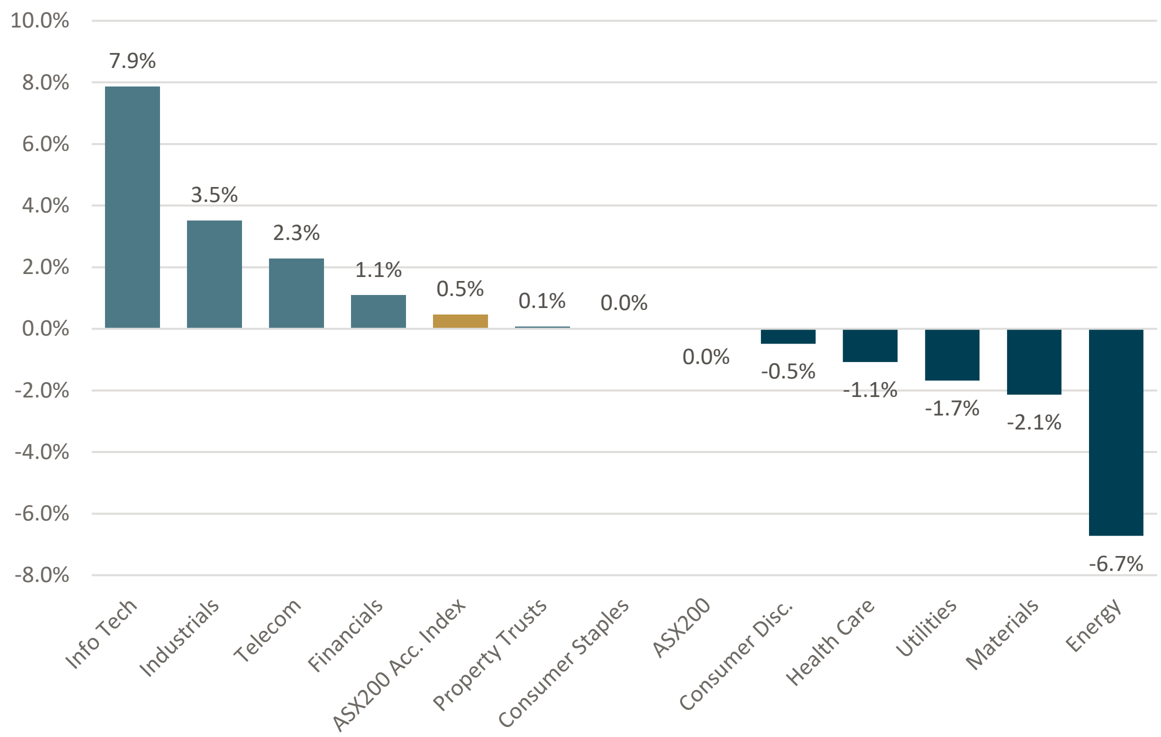
Source: Iress

Note: Returns are based on change in share price only and do not take into consideration dividends.

At a sector level, performance was more equally spread than has been the case over recent reporting periods. The technology sector was again the best performer with a 7.9% return, driven by the strong returns of its largest component part WTC, discussed above.

The Energy sector, which is dominated by Woodside (WDS) and Santos (STO) was the weakest performer falling 6.7%, in part driven by the 2.4% fall in oil prices.

Figure 2: ASX200 – Performance by Sector



Source: Iress

Relative to market expectations, earnings results of ~350 companies across the broader ASX, as tracked by FNArena, were generally seen to be more negative than positive **(Figure 3)**.

Figure 3: FY24 Reporting Season – Results versus Expectations

Beats	In Line	Misses
28%	36%	36%

Source: FNArena

Key Themes & Features: What companies are saying

Each reporting season we seek to understand some of the key themes that companies are pointing to, both in regard to the period just passed and what they see ahead. Understandably a number of these themes remain constant across periods or change only gradually.

A number of the themes we have highlighted in our Reporting Season Update for both August 2023 and February 2024 remain in place today. For example:

- Many companies are still seeing inflationary pressures on their cost base, related particularly to wage inflation, rent and cost of utilities.
- Regulatory risk continues to be an ever-present issue, in part driven by populist political approaches. In addition to the ACCC enquiry into supermarkets, among a myriad of potential interference, we have seen thought (or maybe more accurately, lack of thought) bubbles being floated around inquiries into big box retailers. Also, BHP has again ruled out Queensland as a destination for additional investment given changes to the royalty regime.

Below, we discuss in greater detail some of the other themes we took from Reporting Season.

Domestic economy resilience continues, though impacts differ by cohort

Consistent with commentary over the prior two reporting periods, a number of companies, notably the Commonwealth Bank (CBA), highlighted that the overall economy remains resilient. CBA provided details of spending by age cohort which clearly demonstrated that the younger cohorts were spending and saving less than compared to a year ago. And this was particularly the case for those in the lowest income quartile. Meanwhile the older age cohorts were spending and saving more. In particular over 65's were saving 7.0% more than a year ago, whilst also spending over 4% more on both discretionary and essential items.

While inflationary costs on items such as Food (up 21% v December 2019), Insurance (up 40%) and Transport (up 22%) impact most people, the discrepancy between the spending and saving of the various age cohorts predominantly comes down to the impact of interest rates. For those with mortgages (generally the younger cohorts) rising rates have been a big negative, while for those with higher savings (generally the older cohorts) rising rates have been a big benefit.

Value-based and trusted retailers well-placed

As consumers continue to seek value, we again heard from those retailers that have a well-earned reputation for providing great value that they are seeing steady growth. Key examples here again are Kmart (owned by Wesfarmers) and JB Hi-Fi (JBH) through its ownership of JB Hi-Fi and The Good Guys.

Into the early days of FY25, in addition to JBH and Kmart, a number of retailers (e.g., Supercheap Auto, BCF and Temple & Webster) also reported solid sales growth. This strength is likely to play its part in the RBA potentially pushing out interest rate cuts in Australia.

In what was somewhat of a surprise, Liquor sales, a category long thought to be fairly resilient (times are good, you drink to celebrate; times are tough you drink to commiserate), were quite weak, as reported by Coles (COL) and Endeavour Group (EDV).

Residential property showing positive signs

A number of listed property developers reported improving conditions as supply chains started to ease and price growth was being seen. Locally, Cedar Woods Properties (CWP) reported that price growth of over 30% was achieved across its Western Australian properties during FY24. The one market that is currently bucking this positive trend is the Victorian market which has seen little to no price growth and soft sales. Australia's largest residential property developer, Stockland Group (SGP), noted that "*The residential market has shown signs of recovery over 2H24, however further improvements in conversion rates and sales volumes will depend on the interest rate environment, and the pace of market recovery in Victoria, which has underperformed the other Eastern Seaboard markets to date. We remain confident in the fundamentals of the residential market as net overseas migration and the labour market remain strong amid a chronic undersupply of new housing product."*

Residential construction doing it tough

The above improvement in residential property can't come soon enough for those businesses exposed to residential construction. As the AFR reported, "*These are tough times for the plumbers of Australia, with both bathroom products manufacturer GWA (home to the Caroma brand) and plumbing supply giant Reece reporting flat results in the Australian businesses. Not only are building approvals weak but Reece says the backlog of construction activity has now been largely exhausted, suggesting there is little growth on the horizon. It's a different story for Reece in the US and GWA in Britain; both markets are choppy but at least there are signs of growth."*

Iron Ore under pressure

Just to underline the cyclical nature of commodity prices, after having highlighted the strength of Iron Ore (and the benefits it delivers to Australia and by definition, Australians) in the February 2024 *Reporting Season Update*, Iron Ore prices have taken a turn, falling from US$142/t at the start of 2024 to below US$95/t in recent times. The 3 major Iron Ore players (BHP, RIO, FMG) remain hugely profitable at these lower prices; just not as hugely profitable as before.

The falling Iron Ore (and Lithium) price is a further reminder that being a business exposed to commodity prices can be fraught with danger if you also happen to be carrying a significant amount of debt. Mineral Resources (MIN) finds itself in this situation currently, emphasising the time-tested truism, that *"the more debt you have, the narrower the range of volatile outcomes that you can endure."*

Core Portfolio Holdings

Below we provide brief commentary on the core portfolio holdings that reported their financial results over the period. We have also provided similar commentary on a number of companies that are currently on our "watch list".

Overall, we were pleased with Reporting Season, as most portfolio holdings delivering solid results. We believe the direct equity portfolio is relatively well-positioned given the combination of business quality and industry positioning. While Resources stocks generally have been under pressure due to weakness across a broad range of commodities, we are comfortable with our holdings (BHP and PLS); being leaders within their industry, sporting strong balance sheets, leaving them well-positioned to ride out the cycle.

Commentary related to "profits" refers to the key earnings metric highlighted by each company. Many companies these days focus on a line other than Net Profit after Tax (NPAT) and may for example use Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

While EBITDA has become more common as a metric, it is worthwhile keeping in mind that this excludes numerous charges that impact upon the cash ultimately generated by the business, and available for reinvestment and/or returns to shareholders.

BHP Group Limited ASX: BHP

Underlying EBITDA of US$29.0bn up 4% on FY23 (US$28.0bn).

- Underlying NPAT of US$13.7bn was up 2% on FY23 (US$13.4bn).
- Reported NPAT of US$7.9bn was impacted by write-downs of US$6.5bn related to BHP's Western Australian nickel operations (US$2.7bn) and the 2014 Samarco dam failure in Brazil (US$3.8bn). These were slightly offset by a US$0.7bn gain on the disposal of Blackwater and Daunia coal mines.
- A final dividend of US$0.74 per share was declared, bringing total FY24 dividends to US$1.46 per share (FY23 US$1.70)
- Net debt at period end was US$9.1bn (1H24 – US$12.6bn), comfortably within BHP's target range of US$5-15bn.
- Iron Ore was again the key driver of the result generating EBITDA of US$18.9bn, while Copper (US$8.6bn) and Coal (US$2.3bn) also contributed.
- In regard to the long-term, BHP commentary remains consistent: "*the outlook for our key commodities remains positive. We continue to expect that population growth, urbanisation, rising living standards, and the infrastructure required for decarbonisation and electrification will drive demand for steel, non-ferrous metals such as copper, and fertilisers.*"
- The short-term outlook (as usual) is a little more clouded, particularly in relation to the intertwined relationship of the Chinese economy and Iron Ore demand. Iron Ore prices have weakened from ~US$140/tonne at the start of calendar 2024 to now sit below US$100/tonne. In this respect BHP highlights that Chinese Government central policy around stabilising and stimulating the (steel intensive) property sector, along with the Government's approach to regulating steel production will be large swing factors over the remainder of 2024 and across 2025.
- Over the medium-term BHP expects that Chinese demand for Iron Ore will be below today's levels.
- We note that given its position as the world's lowest cost Iron Ore producer, BHP will continue to be incredibly profitable even at prices well below today's.

- It is however, this more subdued outlook for Iron Ore that is in part driving BHP's focus on expanding the production coming out of its Copper division, which was a key focus of management's result presentation.
- ***We think BHP provides a quality resources exposure, backed by its Tier 1 asset base and solid balance sheet. While heavily leveraged to Iron Ore prices, given its large and growing Copper business, BHP is relatively less exposed to Iron Ore pricing than major peers RIO and FMG.***

BWP Trust ASX: BWP

Net Tangible Assets (NTA) up 1% to $3.79 per unit from $3.75 in FY23.

- Profit before valuation movements was $119.3m, up 5% (FY23 $113.6m)
- Net Tangible Assets (NTA) increased to $3.79 from $3.75, up 1% despite capitalisation rates increasing to 5.54% from 5.38% at June 2023 and 5.53% at December 2023.
- The acquisition of Newmark Property REIT (NPR) was completed toward the end of the year, with BWP noting that post-merger activities are going well. Notably NPR debt has already been refinanced through increased facilities within BWP.
- Portfolio occupancy remains high at 99.1%.
- BWP's balance sheet remains in very good shape, with gearing at 21.5%, at the bottom end of BWP's target range of 20-30%. This provides BWP the flexibility to pursue other accretive acquisitions should they become available.
- BWP has a number of leases expiring in FY26 and FY27, with these lease expiries generally requiring 6-12months notice. As far as practicable, BWP will be preparing well ahead of time for any potential vacancies resulting from these expiries.
- Importantly, after five years with no increase in the annual distribution, BWP expects the FY25 distribution to be ~2% higher than FY24. This implies an annual distribution of 18.66 cents per unit.
- ***BWP is a well-managed Property Trust heavily exposed to a high-quality tenant (in Wesfarmers-owned, Bunnings). BWP has a strong balance sheet, providing the opportunity to undertake value accretive transactions, as we have seen with the recent acquisition of NPR. While share price fluctuations can be expected based on the outlook for interest rates, BWP's underlying assets are of very high quality, underpinning a good-quality defensive exposure for portfolios.***

Commonwealth Bank ASX: CBA

Cash NPAT of $9.8bn, down 2% on FY23 ($10.1bn).

- A higher than expected, final dividend of $2.50 per share was declared, bringing total FY24 dividends to $4.65 per share, up 3% on FY23 ($4.50) and reflecting a payout ratio of 79%, at the top end of CBA's target range of 70-80%.
- Competitive pressures eased slightly over 2H24 with CBA's Net Interest Margin (NIM) of 199 basis points, declining just 1bp over the prior six months. In basic terms, Net Interest Margin, or NIM, is the difference in the overall interest rate charged to borrowers less the cost of providing the finance (which is largely made up of customer deposits). So, for example, if Home Loan rates remain stable, but, say due to competition, rates on deposit products increase, the NIM the Bank earns will reduce.

- Home Loan Arrears (of more than 90 days) increased to 0.65%, which is above FY23 (0.47%) but remains in line with historic levels. While CBA expects that arrears will continue to increase in coming periods, the Bank remains comfortable with the loan book, for which it has provisions for losses well above the base case expectations.
- The balance sheet remains strong with a Common Equity Tier 1 (CET1) ratio of 12.3%, well above APRA's requirement of 10.25%.
- Recognising this strength, Moody's rates CBA as one of only 5 global banks accorded its highest rating of A1.
- In regard to the outlook CBA notes:
  - *The Australian economy remains resilient with low unemployment, continued private and public investment, and exports supporting national income.*
  - *Higher interest rates are slowing the economy and gradually moderating inflation.*
  - *Australia remains well positioned but downside risks continue around productivity, housing affordability, as well as ongoing global uncertainty.*
- Two interesting statistics provided by CBA stood out to us:
  - 35% of Retail banking customers have CBA as their main financial institution (MFI). This figure rises to 46% among "young adults", suggesting, to us at least, that CBA has a strong chance of continuing to grow its overall market share over the longer-term, positioning the business very well to further extend its already large lead over peers.
  - 62% of migrants bank with CBA – given the very high levels of net migration (~450,000) over the last year, this has driven a jump in new client numbers.
- ***CBA is by far the largest of the Big 4 banks and has for many years been the best performed in regard to key measures such as Return on Equity and growth in Earnings per Share. We think the business is positioned well to continue this performance into the future.***

CSL Limited ASX: CSL

NPATA of US$2.9bn, up 11% on FY23 (US$2.6bn).

- Constant Currency NPATA (i.e., had currency been constant over the year) was $3.0bn, up 15% on FY23 and at the top end of CSL's guidance range of US$2.9-3.0bn.
- A final dividend of US$1.45 per share was declared, bringing total FY24 dividends to US$2.64 per share (FY23 US$2.36).
- Net debt remains elevated at US$10.5bn, with CSL expecting this to trend down over time on the back of expected cash flows in coming periods.
- Pleasingly, CSL's main division (CSL Behring) delivered strong results with revenue up 14% along with further improvement in Gross Margin, which is a key focus of the business.
- In regard to the outlook for FY25, CSL provided guidance for:
  - Revenue growth of 5-7% (implying revenue of US$15.5-15.8bn)
  - NPATA growth of 10-13%, to between US$3.2-3.3bn.
- Over the longer-term, CEO Paul McKenzie was emphatic in his belief that CSL would deliver double-digit earnings on an annual basis out to at least 2030.
  - While this is easier said than done, should this target be reached, it would essentially imply a doubling in annual earnings by 2030 – achievement of which would also bring a high probability that the prevailing share price will be materially higher than today.

- ***CSL's long-track record of double-digit earnings growth was punctuated by the impacts of the pandemic. As we move past this period, with strong industry tailwinds at its back, CSL is once again well-positioned to achieve double-digit annual earnings growth over the longer-term.***

GPT Group ASX: GPT

GPT reported its 1H24 result as it has a December year end.

- GPT reported a Statutory Net Loss of $249.4m, primarily related to negative property revaluations of $567m.
- Excluding the property revaluations, GPT delivered Funds from Operations (FFO) of $309m, down 2.4% on 1H23 ($317m).
- On the back of the negative property revaluations, Net Tangible Assets (NTA) reduced by ~4.5% to $5.36 per share from $5.61 per share at 31 December 2023.
- In terms of divisional valuations, GPT reported that Office valuations declined by 10.4% ($579m), while the decline in Logistics of 0.7% ($29m), was offset by a rise in Retail of 0.8% ($42m).
- GPT's balance sheet remains in good shape with gearing of 29.6%, well within the 25-35% target range.
- Occupancy across GPT's asset portfolio was 98.1%, with Logistics (99.4%) and Retail (99.6%) both very strong. Office occupancy at 92.4% was marginally up on December 2023 levels (92.3%) and ahead of GPT's prior expectations.
- Guidance for FY24 was reiterated, with management expecting FFO of 32.0cps and Distributions per unit (DPU) of 24.0cps.
- ***GPT is a well-managed property trust of significant scale ($34bn of Assets Under Management) with a solid balance sheet. GPT currently trades at a discount of ~7% to its NTA and currently provides an unfranked dividend yield of ~5.0%. Should interest rates start to come down as expected, interest rate sensitive stocks such as GPT should perform relatively well from both a share price and operational perspective (from lower interest costs).***

Lifestyle Communities Limited ASX: LIC

Operating Profit of $52.9m down 26% on FY23 ($71.1m)

- A final dividend of 5.0c per share was declared, bringing total FY24 dividends to 10.5c per share (FY23 11.5cps).
- Annuity revenue of $54.7m grew by 16% (FY23 $47.2m) as the number of Homes Under Management grew to 3,860, up from 3,549 in FY23.
- In FY24 LIC achieved 375 new home sales and 311 new home settlements, which was down from 443 and 356 respectively in FY23 on the back of the weakening Victorian property market.
- Following the $275m capital raising in February 2024 the balance sheet is sound, with net debt of $320m and available cash and facilities of an additional $375m.
- The investment in LIC has to date been disappointing from a share price perspective. The initial catalyst for the share price decline was an *ABC 7.30 Report* story questioning the validity of LIC's business model and primarily its use of Deferred Management Fees (DMFs).

- A group of residents from LIC's Wollert community have made applications to the Victorian Civil and Administrative Tribunal (VCAT), the effect of which questions the ability of LIC to charge a DMF under the Residential Tenancies Act in Victoria.
- DMF's are used by most operators in the industry and enable owners to pay a lower upfront price for their home, in return for paying a fee upon departure. LIC is incredibly transparent with the fees it charges and how it charges them. This link to LIC's website explains the DMF. https://www.lifestylecommunities.com.au/for-home-buyers/dmf
- We have spoken with LIC Founder and Managing Director, James Kelly along with a number of other investors in LIC. It is widely thought that the likelihood of a decision against LIC is highly unlikely, however, we also need to consider the implications were a decision to go against LIC.
- ***We maintain our view that LIC is a highly-principled well-managed business, run by a passionate co-founder in James Kelly. We believe LIC operates under a strong and simple business model which it has consistently executed. However, given the potential regulatory risk that LIC now faces, with a view toward protecting capital we are currently reviewing our investment in LIC.***

Pilbara Minerals Ltd ASX: PLS

Underlying NPAT of $318m down 86% on FY23 ($2,391m).

- The material drop in earnings is reflective of the dramatic slide in lithium prices over the period. Across FY24 PLS achieved an average realised spodumene price of US$1,176/t, down 74% on prices achieved in FY23 (US$4,447/t).
- No dividends were declared in FY24 as management focussed on the preservation of its balance sheet strength.
- To this end, PLS balance sheet finished the year in good shape with net cash of $1.3bn. This is down from $3.1bn at 30 June 2023 and amongst other movements, reflects a combination of tax payments ($1.0bn), capital expenditure ($0.8bn) and payment of the FY23 final dividend ($0.4bn) earlier in FY24.
- PLS has guided to total capex of $615-685m in FY25, including $435-$483m related to the finalisation of the P680 and P1000 expansion projects and supporting infrastructure.
- Earlier in August, PLS announced its intention to acquire Latin Resources (LRS) and its flagship Salinas Lithium project in Brazil. Should the transaction proceed PLS will issue scrip to LRS shareholders equivalent to ~6.4% of the combined entity. While this move came as a surprise, we see the potential upside merit in the transaction if and when lithium prices recover. We also highlight that PLS will not be utilising (i.e., diminishing) their cash holdings as part of the transaction.
- Early into FY25 the lithium price has continued to fall to sit at ~US$800/t, with very few if any global lithium miners thought to be profitable at these prices.
- ***With its strong balance sheet, and importantly a management team acutely aware of the importance of maintaining this balance sheet strength, we remain comfortable with PLS providing our exposure to the (still) positive long-term outlook for lithium. The highly volatile and negative short-term swings we are currently seeing underlines the need for a solid balance sheet for those companies with earnings heavily exposed to inherently volatile commodity prices.***

ResMed Inc. ASX: RMD

Underlying 4Q24 NPAT US$306m, up 30% on 4Q23 (US$235m).

- RMD reports its results quarterly as its prime listing is on the New York Stock Exchange.
- 4Q24 results were strong and importantly showed continued improvement in Gross Margins.
- Reductions to the cost base implemented earlier in the year are also bearing fruit with operating profit up 30% on a 9% uplift in revenue.
- The outlook into FY25 provided by RMD is positive, with management expecting solid revenue growth and further improvement in Gross Margins. Post the result, analyst consensus expectations for FY25 are for an increase in Net Profit of 18%.
- While RMD's revenue and profit has continued its consistent growth trajectory over the last 12 months, the share price has displayed significantly more volatility as market concerns over the emergence of anti-obesity drugs (AODs) have from time to time reared their head.
- As RMD continues to gather further evidence on AODs, it continues to look as though this group of drugs may be a net positive for RMD, in large part resulting from the greater awareness of conditions such as sleep apnea that AODs are generating.
- ***We think RMD is very well-positioned over the long-term. It is the global leader in its field, backed by strong long-term demand tailwinds and a significant and growing addressable market opportunity.***

Santos Ltd ASX: STO

STO reported its 1H24 result as it has a December year end.

- STO reported 1H24 Underlying NPAT of US$654m, down 18% on 1H23 (US$801m).
- Free cash flow from operations of US$1,068m was generated (1H23 US$1,129m).
- An interim dividend of US$0.13 per share was declared (1H23 US$0.087).
- Balance sheet remains solid with net debt of US$4.8bn and gearing of 19.9%.
- The major Barossa project is now 80% complete with first gas expected in 3Q2025.
- Phase 1 of the Pikka project in Alaska is 60% complete with first oil expected in 1H2026.
- With completion of these major projects nearing, STO also edges closer to the completion of its current heavy investment phase.
- Upon completion of its major projects STO forecasts free cash flow from operations of ~US$4.0bn in 2027, assuming oil prices of US$90/bbl. Based on STO's current Enterprise Value (equity + debt) of ~US$20bn, this implies a cash flow yield of ~20% in 2027 – suggesting potential for material valuation upside if STO can achieve its targets (and of course the oil price co-operates).
- Oil prices remain highly volatile, with Brent Crude prices currently sitting near 12-month lows of ~US$73/bbl.
- STO has regularly been touted as a potential target for corporate activity, noise which has not gone away.
- ***In the current environment with energy security front of mind, we believe that exposure to a well-managed, cash generative energy business is appropriate for client portfolios.***

Wesfarmers Limited ASX: WES

Net Profit After Tax (NPAT) of $2,557m, up 4% on FY23 ($2,465m).

- A final dividend of $1.07 per share was declared bringing total FY24 dividends to $1.98 per share (FY23 $1.91).
- Balance sheet remains in good shape with net debt of $4.3bn. WES has ~$1.9bn of available facilities, providing plenty of capacity should growth opportunities present.
- Bunnings (~60% of group earnings) was again resilient in a tough environment with revenue growth up 2.3% and divisional earnings up 2.6% to $2,251m,
- Kmart Group (~26% of group earnings) was again the stand-out with revenue growth of 4% and earnings growth of 25% to $958m.
- The early part of FY25 has seen Kmart sales growth continue broadly in line with 2H24 (4%) while Bunnings has moderated slightly, impacted by the market-wide softening in building activity.
- WES 50/50 Lithium JV, Covalent, generated its first spodumene production and sales. Construction of the lithium refinery is now 80% complete with first product now expected in mid-CY25.
- While earnings from the Health division improved, it is still early days. Significant investment has been made into the division, with management expecting satisfactory returns on capital to be generated within the next 5 years.
- WES expects earnings growth in FY25, notwithstanding that inflationary pressures are expected to continue, driven by labour market constraints, wage cost increases, and higher energy and supply chain costs.
- ***WES is a very well-managed business with a shareholder friendly focus. The business has a strong balance sheet providing optionality. Over the medium to longer-term we believe there is a high probability that WES will continue to grow earnings at high rates of return on capital.***

Woolworths Group Ltd ASX: WOW

Net Profit After Tax (NPAT) of $1,711m down 0.6% on FY23 ($1,721m).

- Statutory NPAT of $108m was primarily driven by the $1.5bn impairment charge taken in 1H24 against WOW's New Zealand Food operations.
- A final dividend of $0.57 per share was declared bringing total FY24 dividends to $1.04 per share (FY23 $1.04).
- In addition, a special dividend of $0.40 per share was declared, representing funds received from the sale of a 5% stake in Endeavour Group (EDV) in early May. Subsequently, in early September, WOW sold its remaining EDV shares for $383m.
- As discussed in our February *Reporting Season Update*, WOW had an eventful period earlier in FY24 which culminated in the resignation of Managing Director Brad Banducci.
- WOW ceded ground to Coles (COL) during FY24, however momentum over 2H24 started to improve with better customer scores translating into a narrowing of the sales growth gap to COL. Further, WOW noted that sales momentum in the early part of FY25 had continued to improve.
- BIG W continued to struggle with sales down 2% and earnings down 90% to just $14m. While BIG W is undoubtedly being impacted by the tough retail environment, we think it probably more so underlines the strength and market share gains beings achieved by WES-owned, Kmart and Target.
- Amanda Bardwell assumed the CEO reigns on 1 September, bringing her 23 years of WOW experience with her.

- ***While Ms Bardwell has some immediate challenges from a resurgent Coles and an ACCC enquiry into the Supermarket sector, over the longer-term we think that as Australia's largest supermarket chain, providing largely essential products WOW remains an attractive defensive exposure.***

Watch List Holdings

Goodman Group ASX: GMG

Operating profit of $2,049m, up 15% on FY23 ($1,783m).

- GMG recorded a Statutory Net Loss of $99m, largely on the back of negative property revaluations of $1.6bn as increasing capitalisation rates continued to negatively impact valuations.
- Operating earnings per share (EPS) was up 14% to 107.5cps.
- The balance sheet remains in excellent shape with gearing at 8.4% and look-through gearing (including GMG's share of debt held in co-investments) of 22.7%.
- Portfolio occupancy remained strong at 97.7%, with like-for-like growth in net property income of 4.9%. Additionally, GMG believes that its portfolio is "under-rented" (i.e., the level at which current contracted rents are below market rents) by ~24% on average, suggesting strong income growth potential as contracts come up for renewal.
- In regards to outlook:
  - GMG has provided guidance for FY25 growth in Operating EPS of 9% (to 117.2cps). The forecast distribution for FY25 is 30cps, in line with FY24
  - Looking further ahead, GMG highlights that "*The expansion of the digital economy continues at pace. The growth of e-commerce, cloud computing, and adoption of new technologies, including artificial intelligence and machine learning, is creating significant opportunity for Goodman to develop the infrastructure our customers are seeking. Goodman expects significant data centre commencements in FY25. The Group continues to optimise returns by orienting the development workbook towards data centres and higher intensity use outcomes*."
- ***GMG is excellently managed, has a strongly positioned portfolio and maintains a balance sheet that provides the ability to take advantage of opportunities that may present.***

JB Hi-Fi Limited ASX: JBH

NPAT of $438m, down 16% on FY23 ($525m).

- A final dividend of $1.03 per share was declared, bringing total FY24 dividends to $2.61 per share (FY23 $3.12).
- In addition, JBH declared a special dividend of $0.80 per share given the strength of the balance sheet, which held net cash at period end of $303m.
- While JBH's profit was lower than FY23, it was considered an excellent result given it was delivered on the back of the COVID-induced strength of recent years.
- In the five years since FY19 (the last pre-COVID period) JBH has increased NPAT by 75%, an exceptional performance.

- JBH also announced the acquisition of 75% of e&s Trading for $48m, a family-operated business founded in 1962 that has a premium offering across the kitchen, laundry and bathroom segments. While small in dollar terms, JBH sees e&s as highly complementary to its existing brands, providing the Group with new and expanded customer segments and product categories.
- JBH noted that sales in July were strong, with comparative sales growth of 5.2% at JBH Australia and 2.7% at The Good Guys. Management noted that *"In this tough retail environment where customers are seeking value, our brands continue to resonate strongly driven by the trust customers have in our low-price best value proposition".*
- ***JBH is an excellently managed business, with each of its brands being the Number 1 player in their respective markets. JBH has a very strong balance sheet, strong cash generation and capital management policies favourable to shareholders.***

REA Group ASX: REA

Adjusted NPAT of $461m, up 24% on FY23 ($372m)

- Statutory NPAT of $303m was down 15% on FY23 ($356m) due to further impairments recorded against the value of its offshore operations.
- A final dividend of 102cps was declared bringing the full year dividend to 189cps, up 20% on FY23 (158cps)
- The very strong result was driven by a combination of ~13% average price rises in its core product along with strong growth in listings which were up 7% for the year. The Sydney and Melbourne markets were particularly strong with listings growth of 21% and 22% respectively.
- The ability to pass through price increases of 13% underlines the pricing power that REA has and provides a strong base for long-term earnings growth given the near-monopoly position that REA holds. REA has implemented further price increases of 10% for the FY25 year.
- The levels of profit growth on a shorter-term (year to year) basis are also heavily influenced by annual growth (or declines) in the number of listings on the REA sites.
- REA continues to invest heavily in its REA India business which recorded a loss of $36m as the business focusses on growing market share. REA remains confident in its prospects for India. While the prize is potentially big, we note that REA's other offshore forays have, to date, been less than successful.
- ***REA's core domestic operations is one of the best businesses in Australia and one that we would again like to own. Period to period earnings and share price moves tend to display significant volatility based on annual listings growth and associated investor sentiment. We would expect the market to provide us with future opportunities to buy REA at attractive prices.***

Transurban Group ASX: TCL

EBITDA of $2,631m, up 7% on FY23 ($2,448m).

- FY24 total distribution of $0.62 per share (FY23 $0.58).
- Average daily traffic volume grew 1.7% to over 2.5m trips per day across the TCL network. Combined with toll increases, this resulted in revenue increasing by 6.7% to $3,535m.
- TCL's balance sheet remains well-managed with 88% of debt hedged and a weighted cost of debt of 4.5%. TCL expects the interest rate on its debt to remain at around this level moving forward.

- TCL guided to an FY25 distribution of $0.65 per share, representing a 5% uplift on FY24.
- A key focus for TCL over the remainder of calendar 2024 is the NSW Toll Review. In line with prior comments, TCL notes that it is *"committed to working with the NSW Government on developing solutions that improve efficiency, fairness, simplicity and transparency for motorists, while protecting the $36bn investment Transurban and its investment partners have made in the network."*
- The outcome of the Toll Review may influence the future trajectory of TCL and its ability / inclination to make further investments into road infrastructure in the State. At this early stage we are looking to an outcome suitable to both parties, given their material importance to each other over the long-term.
- TCL is a bond-like exposure and as such sees its valuation impacted by movements (and expected movements) in interest rates.
- ***TCL is very well-positioned as Australia's dominant (monopoly) operator of toll roads. Over time this should see ongoing growth in distributions to shareholders through population growth-inspired increases in traffic coupled with the inexorable growth in toll charges (~70% of TCL toll road concessions have CPI-linked increases).***

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