Early birds indicate limited COVID impact on earnings

The pandemic has not been all that bad for ASX-listed companies, if you go by the results unveiled in the first week of earnings season.

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Prashant Mehra, is a freelance journalist. Any Morningstar ratings/recommendations contained in this report are based on the full research report available from Morningstar.

Mentioned: AGL Energy Ltd (AGL), Amcor PLC (AMC), BWP Trust (BWP), Janus Henderson Group PLC DR (JHG), News Corp DR (NWS), Origin Energy Ltd (ORG), REA Group Ltd (REA), ResMed Inc DR (RMD), Reliance Worldwide Corp Ltd (RWC)

The first of the company results have offered a peek into what the February earnings season has on offer for investors. The numbers show that despite a pandemic raging across the world, the second half of 2020 wasn't all that bad for corporate Australia.

As Morningstar's head of equity research Peter Warnes foreshadowed in his newsletter last week, the backward-looking results reflect the height of the pandemic but also the peak of government support and stimulus.

Some businesses have certainly felt the impact of lockdowns and closed borders, but many companies have held their own and several, in fact, have managed to capitalise on new revenue streams and new ways of doing business.

That approach was best reflected in the bumper earnings detailed by plumbing fixtures manufacturer Reliance Worldwide (ASX: RWC) and packaging giant Amcor (ASX: AMC).

Reliance's first-half sales jumped by 13 per cent to $642 million, and earnings will be at least 30 per cent higher from a year ago. The company benefited from coronavirus-related social distancing measures in its key US, UK and Australian markets driving a near-term boom in DIY home improvement and repair.

It has been a similar case with Amcor, which delivered a 6 per cent lift in half-year profit, as lockdowns in North America and Europe lifted demand for readymade meals, juices, coffee and pet food products that use Amcor packaging.

The strength in consumer categories helped offset weakness in Amcor's healthcare franchise which has suffered from dramatically reduced elective surgeries and pharmacy visits amid the pandemic, Morningstar senior equity analyst Grant Slade said.

As a result, Slade has raised Amcor's FY2021 earnings per share forecast by 6 per cent, but still retains the $16.30 a share fair value estimate on the undervalued stock.

Streaming subscriptions boost News

Coronavirus hasn't just bolstered growth in retail or home improvement-related sectors; media consumption has jumped too.

Media giant News Corp (ASX: NWS) more than doubled its December quarter net profit to $198.4 million, helped by a surge in subscriptions and advertising across its digital platforms.

While revenue has continued to fall at its Australian print mastheads, its Foxtel joint venture with Telstra reported a large increase in paying subscribers due to the growth of streaming services Kayo Sports and Binge.

On Friday, News Corp shares on the ASX surged more than 12 per cent to $28.24 each, and still screen as overvalued above Morningstar's fair value estimate of $19.50. Senior analyst Brian Han had lifted the fair value by 6 per cent in November following strong first quarter results.

News Corp's real estate listing arm REA Group (ASX: REA) also delivered a 17 per cent jump in net profit for the December quarter, although revenue fell 2 per cent to $430 million. The news helped push up the stock price by 3.5 per cent $159.60 a share, far exceeding Morningstar's fair value estimate of $80.

Analyst reports for the two stocks will follow in the coming days.

Meanwhile, medical device maker ResMed (ASX: RMD) is confident it can take advantage of the growing focus on remote or at-home healthcare.

It posted a 12 per cent jump in profit and a 7 per cent rise in revenues for the December quarter, helped by continuing hospital demand for its ventilator products and some recovery for its core sleep apnea solutions.

"While ResMed stands to benefit from structural trends in respiratory and digital health, we still expect sleep apnea diagnosis rates to remain under pressure near-term due to the pandemic," Morningstar analyst Johannes Faul said.

Nevertheless, Faul has raised his fair value estimate for the company by 5 per cent to $US 145 to reflect the strong results. For the ASX-listed stock, however, the fair value was down by 3 per cent to $19 a share to account for the stronger Australian currency.

Duller picture for power operators

Not all earnings news was positive in this first week. Australia's two biggest electricity operators outlined hefty write downs due to weaker power prices.

Origin Energy (ASX: ORG) cut its full-year earnings guidance by 8.6 per cent, citing subdued energy demand due to a combination of coronavirus and a milder summer, and higher costs in its gas business.

Rival AGL (ASX: AGL) said it will write down charges of $2.69 billion in its half-year results, reflecting the recent deterioration in long-term wholesale energy prices and challenging macro-economic conditions.

"The core issue is low wholesale electricity prices and government policies aimed at keeping them suppressed for an extended period," Morningstar senior analyst Adrian Atkins says. He has toned down his medium-term electricity price assumptions and trimmed earnings forecasts for the two utilities.

He now expects AGL and Origin's earnings before interest tax depreciation and amortisations (EBITDA) to fall at average annual rates of 6.2 per cent and 1.8 per cent respectively for the next five years. Over the longer-term, however, electricity prices and earnings will recover, he said.

Real estate insights

Among other key companies reporting this week, BWP Trust (ASX: BWP) provided an insight into prospects of the highly defensive real estate sector.

BWP, which gets the bulk of its rent from Bunnings Warehouse outlets, reported nearly unchanged revenue for the half-year result. Rent abatements to smaller tenants affected by virus lockdowns pared back some profit but this was more than offset by gains in the value of its investment properties.

Morningstar analyst Adrian Atkins maintained his $3.60 a share fair value estimate, although the stock trades 19 per cent above his valuation.

Janus Henderson (ASX: JHG) posted a 12 per cent rise in assets under management for the December quarter, while outflows of $US1.1 billion were the lowest since it was established. The fund manager also announced that its largest shareholder—Japan's Dai-ichi Life Holdings, which holds a 17 per cent stake, would sell-off its holdings.

Morningstar analyst Gregory Warren has kept unchanged his $US28 ($36) per share fair value estimate for the narrow-moat company.

Looking forward, the earnings season will really kick into gear next week with financial heavyweights, Telstra and some miners among the companies reporting.

They include:
- Challenger Financial (ASX: CGF)
- Commonwealth Bank (ASX: CBA)
- Suncorp (ASX: SUN)
- Insurance Australia Group (ASX: IAG)
- AMP Ltd (ASX: AMP)
- ASX Ltd (ASX: ASX)
- Telstra (ASX: TLS)
- Transurban Group (ASX: TCL)
- Newcrest Mining (ASX: NCM)

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