

Australia Equity Strategy

Reporting Season Shouldn't Be That Bad

- **Not too dire** — With the weakening in business conditions again in recent months and the uptick in earnings downgrades during the “confession season”, it’s hard to see this reporting season being overly positive. But, while we don’t expect the estimates for market earnings to hold up like they did in February, we equally don’t see them being cut to the extent they were in the few reporting seasons before that. There will inevitably be surprises at the company level, but we think FY13 market earnings should come in close to expectations, and FY14 estimates shouldn’t be lowered too much.
- **Some offsets** — Continuous disclosure and the confession season should limit the risks to FY13 market earnings, and it’s really FY14 earnings that could come under pressure after the conditions of recent months. Slower spending domestically, more volatile financial markets since May, lower commodity prices since earlier in the year, etc, will tend to encourage cautious guidance. But the potential benefit to earnings from the recent decline in the AUD, and from cost savings being achieved under widely adopted cost programs, should prevent FY14 estimates being cut too heavily.
- **Broadly neutral** — With the pessimism there seems to be about this reporting season, only moderate downgrading of FY14 earnings would probably end up a reasonable outcome. The market would still be anticipating decent FY14 earnings growth and, provided downgrades start to properly abate, our year end target for the ASX200 of 5400 would still seem achievable. Across companies, the surprises in reporting could still be widespread, and inside we list two dozen candidates identified by our analysts.

Tony Brennan

+61-2-8225-4890

tony.brennan@citi.com

Zee Yusuf

zee.yusuf@citi.com

Figure 1. EPS Growth Outcomes and Current Consensus Forecasts

	FY 11	FY 12	FY 13 (f)	FY 14 (f)
Market	16.9	-1.8	-2.9	10.0
Resources	56.9	-5.9	-20.8	16.6
Banks	11.3	3.5	5.3	4.8
Industrials ex Banks	-10.6	-3.0	4.6	10.3
Selected Sectors				
Media	-0.3	-18.6	-9.3	13.5
Non-food Retailing	-3.1	2.5	2.3	6.1
Food Retailing	9.2	7.6	5.8	8.4
Health Care	2.5	-2.4	16.6	14.3
Insurance	-12.3	-8.1	10.5	19.4
Diversified Financials	-2.3	-9.9	11.2	14.7
Telecommunications	-15.9	6.9	9.8	4.2

Source: IRESS, Datastream, Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Reporting season shouldn't be that bad

Expectations about reporting season seem quite pessimistic

There seems to be a fair amount of pessimism about the upcoming reporting season. That's understandable after the confession season, with a substantial number of companies lowering their guidance for FY13 earnings since May. What's a little less appreciated is that the associated downgrades haven't reduced consensus estimates of earnings for the market too dramatically (see figure 4).

Estimated earnings growth in FY13 has come down about 3 percentage points since March. What has lessened the impact of the downgrades is that there have also been more earnings upgrades occurring, though these get less attention (figure 5). And as a result, overall, the rate of *net* downgrades still hasn't been as pronounced as we were seeing for much of last year and the year before (figure 6).

With business conditions clearly subdued and this being reported across most industries (figure 7), we believe it's unlikely the reporting season will pass without some further downward revision to the consensus earnings estimates for the market, with the impact likely to be on the FY14 estimates now. But compared to the previous two August reporting seasons, when FY12 and FY13 earnings growth were cut by 7-8 percentage points, we're expecting downgrades to be more moderate.

Business conditions aren't dire, or as bleak as a year or two ago

Though conditions are subdued, they aren't as bleak as 12 months ago or a year earlier. Commodity prices have come off further, but not like iron-ore did last year, and the AUD has come down as well. Mining investment has slowed down, and consumer spending is still relatively weak, but housing is picking up, and equity markets are up on 6 to 12 months ago.

Companies are also much more focused on costs, and work we've done points to the cost savings likely to be achieved as potentially adding considerably to earnings, both in FY13 and FY14 (figure 8). And as a result, despite still seeing only limited improvement in revenue growth in FY14 for companies outside of the resource and financial sectors, Citi analysts still envisage margin improvement and considerable operating leverage and earnings growth (figure 9).

Citi economists also expect another interest rate cut in Australia next month, which should be seen as supportive of earnings in FY14 (figure 10). So far, as with the economy, lower interest rates seem to be taking a little longer than usual to underpin earnings in the way they have in the past, with downgrades typically more moderate previously with rates as low as they are. Part of this seems due to the delayed adjustment of the exchange rate, but our economists now also expect further depreciation as well, and our estimates suggest this should also add considerably to market earnings in FY14, other things equal (figure 11).

Reporting season could be fairly neutral for the market overall

For these reasons, we wouldn't expect the consensus estimates of earnings for the market to come down by more than a couple of percent over August. That would probably leave the reporting season fairly neutral for the market overall. Our forecasts for the ASX200 is still to reach 5400 by year end, and some moderate further earnings downgrades could make that a bit harder.

At the moment, with the ASX200 a little over 5000, the market is on just under 14x FY14 earnings, close to a long run average PE. Unless the market re-rates from here, which we wouldn't look for, there needs to be about 5% earnings growth over the next 6 months, or 10% for FY14, to drive the market towards our target. So we need to see earnings downgrades abate after this reporting season, but that doesn't seem out of the question if interest rates and the exchange rate come down a bit further and are supporting earnings progressively more.

Citi analysts are cautious about a number of sectors

Figure 2. Citi analysts' sector overviews

Sector	Overview
Banks	Broadly stable credit quality and margins expected in June half, risk to FY13 earnings looks low; CBA expected to pay a special dividend, 10cps.
Building Materials	Earnings could still fall short of FY13 consensus; due to pace of housing recoveries in US, Aust and NZ, and weak non-res building activity in Aust.
Contractors	Some have pre-warned (LLC, UGL, WOR), so FY13 should mostly meet expectations; concern is about guidance and downgrades to FY14.
Diversified Financials	Some modest underlying improvement, should come through for smaller stocks, individual issues impacting the larger companies (AMP, CPU).
Energy	Results are mostly interims, and near-term earnings are unlikely to change investment thesis, project execution and growth options will be important.
Food and Beverage	Companies have mostly pre-announced (CCL, GFF, TWE), but colour on operating conditions, divisional performance and so on will get attention.
Gaming	Subdued mass market revenues represent some risk to FY13, but other revenue streams and cost control should support earnings in most cases.
General Insurance	Strong domestic conditions still, should allow strong dividends (IAG, SUN), while macro trends may not benefit QBE earnings as much as hoped.
Healthcare	Mostly depends on stock-specifics, some have revised FY13 guidance (CSL, COH); guidance generally in constant currency, so AUD less key.
Media	Subdued FY13 earnings are widely expected; FY14 consensus envisage strong growth and the risk is little guidance is given, leaving uncertainty.
Mining	More negative surprises than usual in quarterlies, so less risk to FY13 results; only real area of potential surprise is on costs.
Retail	With sales trends having deteriorated through the fiscal year, companies will be very cautious, so there's downside risk to FY14 earnings estimates.
REITs	Larger stocks have updated guidance (SGP, MGR, GMG), or have interims (WDC, GPT), so FY13 shouldn't disappoint; FY14 guidance should be ok.
Telecoms	FY13 results should be sound, and should give confidence in FY14 for TLS, with earnings stability and good cash generation, but less so for TEL.

Source: Citi Research

Our analysts also suggest some downgrades

As part of this preview we asked our analysts for their expectations for reporting season and figure 2 contains a quick summary of the key features they see in their sectors, while figure 3 is a list of the stocks they consider capable of surprising (with their assessment of all stocks under coverage in figure 12 later in the report).

There's confidence in earnings meeting expectations in some significant sectors

Across the sectors, there's little expectation of earnings upgrades anywhere (figure 2), the only possible exceptions being domestic general insurance and rail transport. But in some of the large defensive type sectors, like REITs and telecoms, and also the banks, there's reasonable confidence in earnings meeting expectations, and not much fear of disappointment. So for a significant part of the market our analysts at least don't see earnings that much at risk.

Unlike last August, there's not as much surprise anticipated in the resource sectors either, at least not relating to earnings in FY13 and FY14. For the mining sector, the potential to surprise is considered to mostly lie in cost savings, and this isn't expected to be that significant; while for the energy stocks, it's expected to be more to do with project execution and growth options. Commodity prices and macro trends will still influence earnings, but developments up to this point have already been factored in.

Earnings downgrades are considered a risk in a number of cyclical sectors

So that leaves a lot less of the market at risk of significant downgrades. And our analysts see the threat of these in the obvious sectors where conditions have been tough, like building materials, contractors, media, and retailing. Here they are not so concerned about FY13 earnings, given the pre-announcements in some of these areas; but they aren't very confident about guidance, and so think estimates for FY14 are at significant risk.

Of course, were large downgrades to occur in these sectors, it could still turn out to mean only moderate downgrades for the market, if earnings in the other sectors weren't under the same pressure, which seems to be what's expected. So in aggregate our analysts only seem to be anticipating moderate downgrades overall, like ourselves.

Quite a few of the stocks the analysts see as capable of surprising (figure 3) fit with these perceptions about the sectors. IAG, SUN and AZJ are felt likely to surprise positively, as too are CBA, TLS and TPM, all of which are in sectors where earnings are expected to be reliable. While BLD, FBU, BLY, DJS, EGP and FXJ are regarded as at risk of disappointing, all in the areas where conditions have been tough.

Stocks thought capable of surprising positively are similar in number to those expected to surprise negatively

It's also interesting that our analysts see the stocks capable of surprising positively as equal in number to those that could disappoint, and not heavily outweighed by them. If there was risk of heavy downgrades for the market, one might expect more stocks at risk of negatively surprising.

The surprises anticipated relate in most cases either to FY13 earnings or the FY14 outlook, though a few also relate to stronger dividends (CBA, IAG, SUN). A small number of companies were also thought capable of a new capital management announcement, namely AMC, AZJ, CSL (thought to be widely anticipated), and RMD (see the note at the bottom of figure 3).

Figure 3. Stocks Citi analysts consider capable of surprising during reporting season

	NPAT Upcoming Result			DPS Upcoming Result			NPAT		Potential Surprise	Analyst Comment
	Citi estimate		IBES	Citi estimate		IBES	Citi	IBES		
	Interim	Final	FY13	Interim	Final	FY13	FY14	FY14		
	\$m	\$m	\$m	\$	\$	\$	\$m	\$m		
AMP	443	-	873	0.12	-	0.24	969	995	Negative	Wealth protection problems continue. Dividend to fall as a result.
AZJ	-	485	461	-	0.11	0.10	563	497	Positive	Strong coal export volumes, new cost savings positive for FY14.
BLD	-	90	99	-	0.10	0.09	180	201	Negative	Slow recovery in building activity in Aust & housing in the US.
BLY*	1	-	1	0.00	-	0.00	-21	13	Negative	Abandoned guidance, risks on utilisation, price erosion, gearing
CBA	-	7572	7614	-	3.70	3.62	7917	7967	Positive	Credit quality & margins broadly stable, expect special dividend.
CWN	-	451	454	-	0.37	0.37	573	562	Positive	MPEL continues to offset domestic earnings weakness.
DJS	-	96	101	-	0.17	0.17	91	93	Negative	Declining sales and excess inventory remain a concern.
EGP	-	118	121	-	0.07	0.07	157	151	Negative	Weak Sydney mass market revenue partially offset by cost cuts
FBU^	-	299	318	-	0.35	0.34	396	395	Negative	NZ housing slow ex Auckland & Christchurch, permitting delays
FXJ	-	123	128	-	0.02	0.02	128	128	Negative	Cost out unlikely to be enough to cover revenue losses.
GEM	11	-	33	0.06	-	0.12	40	42	Positive	Underlying growth and acquisition pipeline will be key.
GWA		40	39		0.11	0.12	47	48	Negative	Weak underlying activity partially offset by six months cost out.
HGG#	80	-	137	0.02	-	0.08	146	146	Positive	Flow turnaround could be imminent, could surprise.
IAG	-	1186	1053	-	0.36	0.31	922	909	Positive	Pre-announced insurance margin, could surprise on dividend.
IFL	-	108	107	-	0.42	0.41	128	120	Positive	Plan B synergies could be conservative.
IIN	-	54	57	-	0.19	0.18	69	64	Negative	Subs growth and cost-out driving earnings.
JBH	-	117	115	-	0.69	0.71	115	122	Positive	Electronics sales firm and gross margins restored.
NVT	-	78	77	-	0.19	0.19	99	94	Positive	SAE profitability to stabilize, positive UP business trends
ORG	-	751	768	-	0.50	0.50	772	844	Negative	FY14 outlook tough with aggressive discounting.
QAN	-	45	76	-	0.00	0.00	338	289	Positive	Emirates alliance and International's earnings will be the focus.
QBE*	555	-	1297	0.19	-	0.53	1679	1526	Negative	Interest rate moves likely strengthening b/s more than NPAT.
SAI	-	49	46	-	0.14	0.14	57	53	Positive	Looking for organic growth from various divisions.
SUN	-	679	649	-	0.67	0.61	1294	1289	Positive	Higher GI estimates than consensus, dividend should surprise.
TEL^	-	334	324	-	0.17	0.16	320	325	Negative	Subs and ARPU outlook, competitive environment tougher.
TLS	-	3653	3765	-	0.28	0.28	3546	3918	Positive	Potentially mobile subs better, voice decline less than expected.
TPM	-	143	140	-	0.08	0.07	171	156	Positive	Subs potentially stronger than expected.

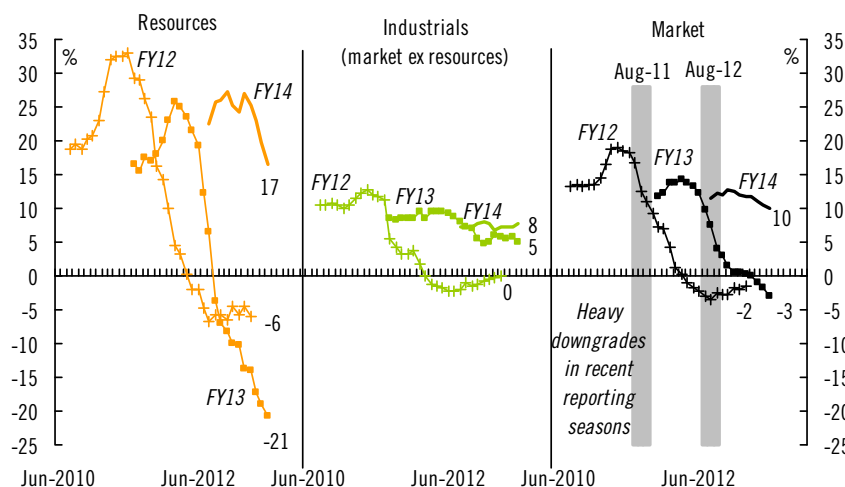
Note: a few companies were thought capable of a new capital management announcement: AMC, AZJ, CSL and RMD. * Figures are in USD. ^ Figures are in NZD. # Figures are in GBP. Source: Company Data, IBES, Citi Research Source: Citi Research

Only moderate downgrades to FY14 market earnings seem likely during reporting season

The consensus market earnings estimates have come down further in recent months, after holding steady in the February reporting season, but they haven't been reduced as sharply as in the earlier few reporting seasons, and they shouldn't be in the coming reporting season.

Earnings growth hasn't been revised down as sharply as in previous years

Figure 4. Consensus earnings growth revisions

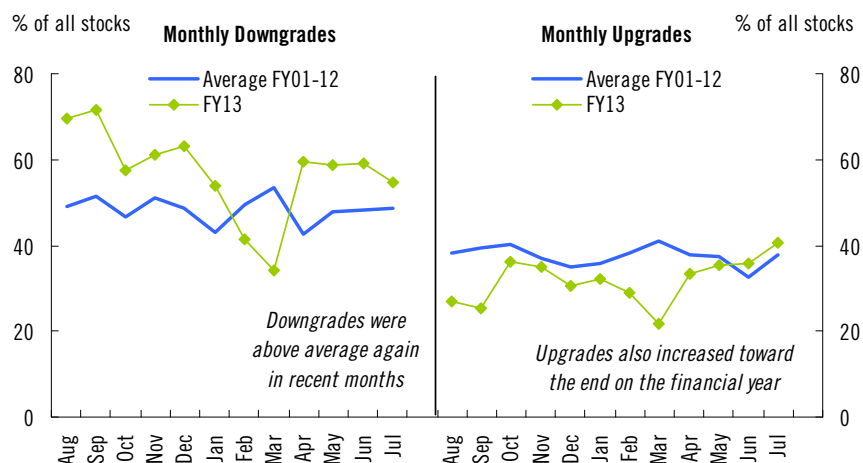


Source: IBES, Datastream, Citi Research

The fact that earnings haven't been revised down more recently, particularly outside resources, might be a surprise but, while the number of downgrades has been above average again, upgrades have also been above average recently, in part reflecting the impact of the lower AUD

Downgrades have increased, but upgrades have also risen

Figure 5. ASX200 earnings revisions by month



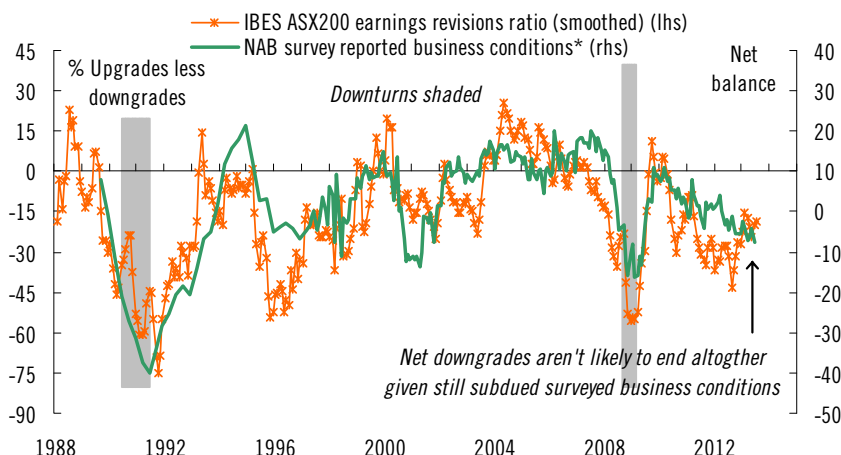
Source: IBES, Datastream, Citi Research

Subdued business conditions make it hard to see downgrading of earnings easing altogether

The rate of net downgrades hasn't been as severe as during last year or the year before, but equally it doesn't seem likely downgrades will end altogether in the next month or two, with business conditions reported to be below average and unlikely to improve immediately.

Weak business conditions are likely to see some downgrading continue

Figure 6. Business conditions and consensus earnings revisions

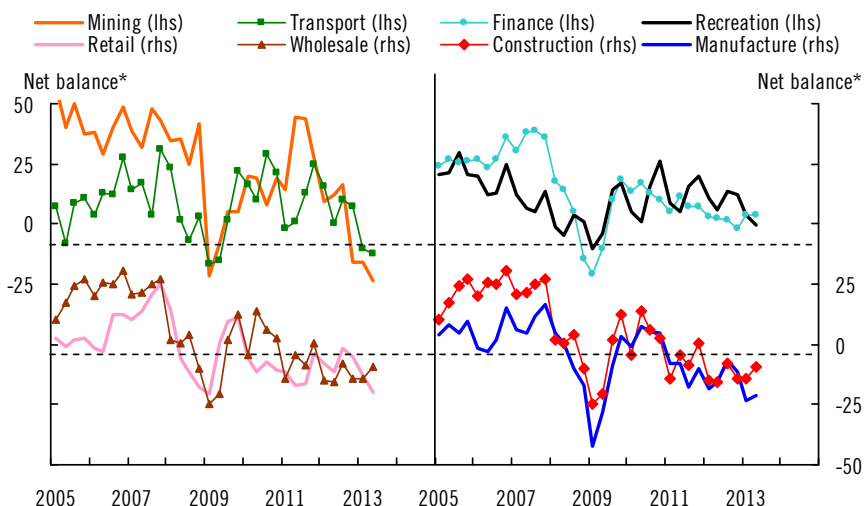


Source: NAB, IBES, Datastream, Citi Research

Businesses are still reporting below par conditions across most of the broad sectors of the economy, with the deterioration in mining not yet being balanced by much pick up elsewhere, so it seems reasonable to expect there will still be some pressure on earnings for a while.

The subdued business conditions remain widespread

Figure 7. Business conditions by sector



Source: NAB, Datastream, Citi Research

In the subdued business conditions, cost savings should help limit earnings downgrades

Even with still modest revenue growth, the cost savings likely to be achieved through the increased focus on efficiency should add meaningfully to earnings, and Citi analysts still envisage decent growth in NPAT in FY14 as expense items prove reasonably benign.

Cost savings should increase operating leverage

Figure 8. Industrials (ex financials) P&L Summary

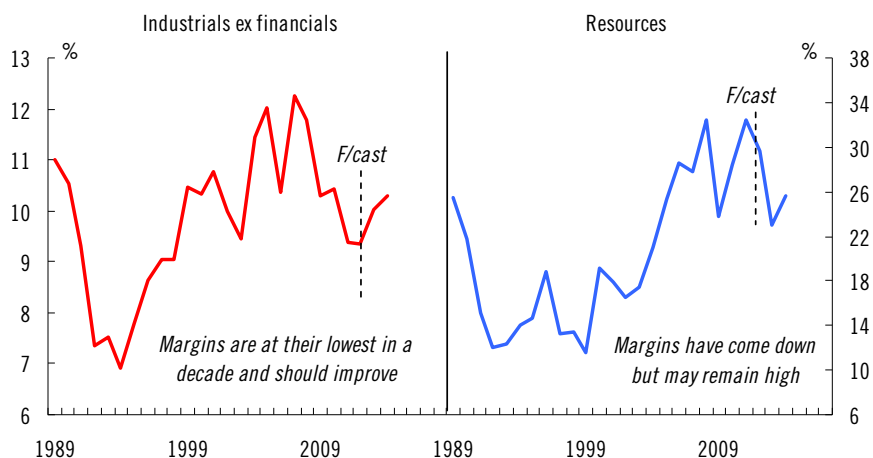
		FY11	FY12	FY13(f)	FY14(f)
Sales	\$B	336.1	353.7	362.2	375.2
	%Δ	5.5%	5.2%	2.4%	3.6%
Operating Costs	\$B	285.7	302.4	308.7	318.6
	%Δ	6.5%	5.8%	2.1%	3.2%
D&A*	\$B	13.6	13.7	14.5	14.9
	%Δ	-1.0%	0.2%	5.9%	3.2%
Net Interest**	\$B	6.2	5.9	5.8	5.5
	%Δ	5.1%	-4.6%	-2.0%	-4.2%
NPAT	\$B	20.5	21.1	21.8	23.9
	%Δ	1.1%	2.9%	3.3%	9.7%

*Depreciation and amortization. **Net interest expense. Source: Company data, Citi Research.

With the focus on costs, operating margins are expected to rise, after falling to their lowest level in a decade and a half for industrial companies, and also approaching their lowest in a decade for resource companies, suggesting the scope for cost savings to support earnings.

Operating margins should improve

Figure 9. EBIT margins



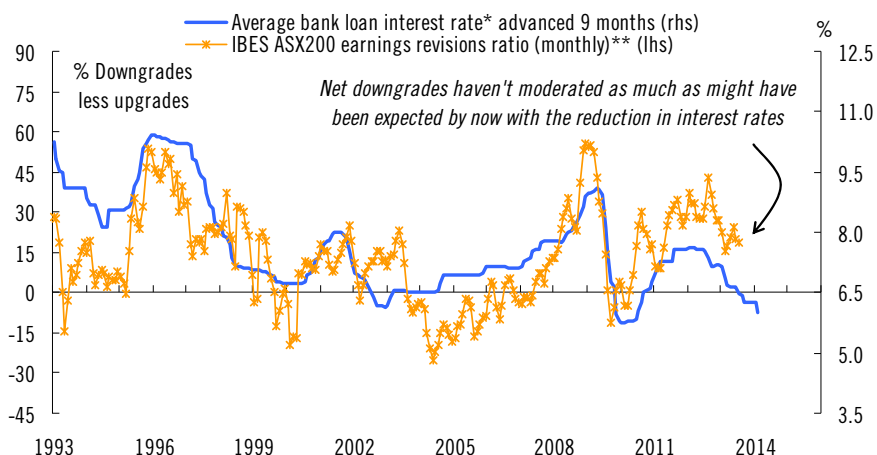
Source: IBES, Datastream, Citi Research

The decline in interest rates and the exchange rate should also provide support to earnings

As noted, lower interest rates seem to be taking longer than usual to benefit earnings, which seems partly due to the delayed depreciation of the AUD, but downgrades should start to properly abate in time, especially if interest rates come down further in coming months.

Earnings downgrades should abate with lower interest rates

Figure 10. Earnings revisions and interest rates.



** 3 month moving average, except last observation which is a two month average. Downgrades less upgrades are as a percentage of all stocks in the index. Source: RBA, IBES, Datastream, Citi Research

The initial move down in the AUD into the mid 0.90s we estimated could contribute significantly to FY14 earnings growth, and the further decline closer to around 0.90 would increase the contribution, with 0.90 just in the past week adopted as the new Citi forecast for FY14.

The lower AUD should contribute significantly to earnings

Figure 11. Citi EPS growth forecasts and estimated potential currency contribution*

	EPS Growth (%)	Currency Δ contribution (%)	
	FY14(f)	FY14(f)	
AUD	0.96	0.96	0.90
Market	10.4	2.6	6.2
Resources	21.1	6.9	16.1
Financials	5.6	0.8	1.9
Industrials ex Financials	11.7	0.9	1.8
Selected Sectors			
Banks	3.4	0.8	1.6
Insurance	19.7	1.7	3.5
Diversified Financials	7.8	0.7	1.8
Discretionary Retail	4.7	-2.5	-5.0
Food Retailing	7.4	-1.6	-3.2
Food and Beverages	8.8	0.4	0.7
Media	18.7	0.5	1.1
Transport	27.8	-2.5	-5.0
Healthcare	17.2	3.7	9.1

*Note: The Citi EPS growth forecasts should fully reflect the assumption of AUD 0.96 for FY14, but may not fully reflect the new assumption of AUD 0.90 in FY14 adopted in the past week. Source: Citi Research

Figure 12. Stocks reporting, Citi estimates relative to consensus

	NPAT			DPS			NPAT		Potential Surprise	Analyst Comment
	Upcoming Result		IBES FY13 \$m	Upcoming Result		IBES FY13 \$	Citi FY14 \$m	IBES FY14 \$m		
	Citi estimate Interim \$m	Final \$m		Citi estimate Interim \$	Final \$					
Banks										
ANZ [‡]	-	-	6348	-	1.66	1.58	6884	6802	Positive	Quarterly update, should reflect relatively stable industry trends
BEN	-	349	349	-	0.60	0.61	362	379		In-line with expectations, wil largely reflect mortgage lending.
BOQ	-	236	245	-	0.56	0.56	259	276		Expense growth and business lending will be the focus.
CBA	-	7572	7614	-	3.70	3.62	7917	7967		Credit quality & margins broadly stable, expect special dividend.
NAB [‡]	-	-	5799	-	1.86	1.88	5926	6348		Quarterly, should reflect industry trends.
WBC [‡]	-	-	6979	-	1.94	1.85	7156	7222		Quarterly, with regulatory disclosures.
Bld. Mats.										
ABC	66	-	152	0.08	-	0.18	166	164	Negative	No surprises in the outlook expected.
BKW	-	88	89	-	0.41	0.41	94	101		Aust housing still weak, no clear pick up in build. mat. earnings
BLD	-	90	99	-	0.10	0.09	180	201		Slow recovery in building activity in Aust & housing in the US.
FBU [^]	-	299	318	-	0.35	0.34	396	395		NZ housing slow ex Auckland & Christchurch, permitting delays
JHX ⁺	96	-	175	0.00	-	0.42	178	175		Selling prices, market share, dependent on US housing recovery
Chems.										
NUF	-	68	78	-	0.10	0.09	87	108		Impact of poor seasonal conditions in Australia.
Contract.										
ASL	-	107	104	-	0.13	0.13	105	94	Negative	Significant revenue dependent on gold sector and thus gold price
BLY [*]	1	-	1	0.00	-	0.00	-21	13		Abandoned guidance, risks on utilisation, price erosion, gearing
DOW	-	210	212	-	0.21	0.21	200	219		Focus on FY14, mining margins and tender pipeline.
FGE	-	64	69	-	0.20	0.20	70	66		Significant cash balance could bond a large contract win.
GWA		40	39		0.11	0.12	47	48		Weak underlying activity partially offset by six months cost out.
LEI	254	-	540	0.45	-	0.97	542	564		Focus on FY13 guidance, gearing, underclaims collection, WIH
MND	-	157	158	-	1.45	1.49	139	143		FY13 likely in-line, focus on FY14 revenue and margin outlook.
NWH	-	74	76	-	0.13	0.14	54	54		Key will be margins and conditions regarding order book.
UGL	-	92	92	-	0.49	0.47	123	127		More on de-merger plans, update on WIH & bidding pipeline.
Div. Fins.										
ASX	-	351	347	-	1.71	1.69	385	393	Positive	Velocity hasn't recovered, also limited surplus capital.
CGF	-	400	310	-	0.20	0.19	311	301		Annuity sales growth could be challenged by low interest rates.
HGG [#]	80	-	137	0.02	-	0.08	146	146		Flow turnaround could be imminent, could surprise.
IFL	-	108	107	-	0.42	0.41	128	120		Plan B synergies could be conservative.
Gen Ins.										
IAG	-	1186	1053	-	0.36	0.31	922	909	Positive	Pre-announced insurance margin, could surprise on dividend.
NHF	-	70	68	-	0.10	0.10	74	75		Margins temporarily squeezed due to claims inflation.
QBE [*]	555	-	1297	0.19	-	0.53	1679	1526	Negative	Interest rate moves likely strengthening b/s more than NPAT.
SUN	-	679	649	-	0.67	0.61	1294	1289	Positive	Higher GI estimates than consensus, dividend should surprise.

[†] FY14 result. ^{*} Figures are in USD. [^] Figures are in NZD. [#] Figures are in GBP. [‡] Quarterly trading statement. Source: Company Data, IBES, Citi Research

Figure 12 (Cont'd). Stocks reporting, Citi estimates relative to consensus

	NPAT			DPS			NPAT		Potential Surprise	Analyst Comment
	Upcoming Result		IBES FY13 \$m	Upcoming Result		IBES FY13 \$	Citi FY14 \$m	IBES FY14 \$m		
	Citi estimate Interim \$m	Final \$m		Citi estimate Interim \$	Final \$					
Energy									Negative	
AUT*	54	-	133	0.00	-	0.00	192	207		Interest costs could exceed consensus, production fall short.
BPT	-	109	125	-	0.02	0.02	134	158		Production volumes and costs could be below consensus.
CTX	185	-	420	0.15	-	0.36	346	465		Margins expected to be lower than consensus.
KAR	-	-40	-29	-	0.00	0.00	-86	-23		Current earnings have little impact on company valuation
MIO*	16	-	53	0.02	-	0.05	70	65		Focus will be on underlying growth and acquisition pipeline.
ORG	-	751	768	-	0.50	0.50	772	844		FY14 outlook tough with aggressive discounting.
OSH*	106	-	167	0.02	-	0.04	292	356		Current earnings have small impact to company valuation.
STO	252	-	602	0.15	-	0.31	512	705		Key revenues/costs in line with consensus, other costs above
WHC	-	-105	-66	-	0.00	0.01	-59	5		Weaker coal prices at risk of generating margin compression.
WOR	-	329	332	-	0.90	0.88	360	368		FY14 focus on slowdown in Oil Sands, US recovery
WPL*	904	-	1917	1.46	-	2.24	2249	2254	Revenue ests below consensus, likely on Pluto realised pricing.	
Food/Bev										
CCL	220	-	556	0.27	-	0.61	614	596		First half guidance provided at AGM.
GFF	-	89	84	-	0.03	0.02	110	107		Pre-announced, non-baking divisions are stabilising.
PFL	-	17	17	-	0.07	0.07	19	18		Updated guidance in June, pressure on private labels.
TWE	-	136	128	-	0.14	0.14	167	156		Pre-announced, divisional breakdown will be the focus.
Health.										
ANN	-	126	135	-	0.40	0.38	139	156		Subdued end markets, but lower input costs and new products.
COH	-	131	133	-	2.50	2.50	132	148		Pre-warned FY13, FY14 key given soft 2H13, FX hedging roll off
CSL*	-	1248	1231	-	1.15	1.06	1325	1373		Upgraded FY13 earlier, greater competition, R&D costs in FY14
PRY	-	105	155	-	0.14	0.17	122	175		With strong organic growth, margin expansion the main issue.
RHC	-	285	277	-	0.68	0.68	310	317		Aust. hospitals performance key, esp brownfield contributions.
RMD*	-	321	316	-	0.68	0.13	403	353		Impact from US Competitive Bidding will be of most interest.
SHL	-	318	331	-	0.57	0.60	380	371		Drag from US business, size of cost saving initiatives the focus.
SIP†	27	-	52	0.02	-	0.05	52	55		Extent of organic growth will be key.
IT										
CPU*	-	301	296	-	0.30	0.28	332	330		Downside risk to corporate action revenues.
CRZ	-	81	83	-	0.28	0.28	106	98		Revenue growth and marketing costs will be key to result
NXT	-	19	-20	-	0.00	0.00	1	-9		Utilisation rates for the three active data centres will govern result
Infra.										
AIO	-	341	352	-	0.11	0.10	362	379	Positive	Focus on cost savings to increase leverage to economic growth.
AZJ	-	485	461	-	0.11	0.10	563	497		Strong coal export volumes, new cost savings positive for FY14.
QUB	-	69	75	-	0.05	0.05	89	89		Focus will be on integration of existing businesses and outlook.
TCL	-	-	-	-	0.31	0.31	273	154		Looking for dps guidance of around 34cps for FY14.

† FY14 result. * Figures are in USD. ^ Figures are in NZD. # Figures are in GBP. ‡ Quarterly trading statement. Source: Company Data, IBES, Citi Research

Figure 12 (Cont'd). Stocks reporting, Citi estimates relative to consensus

	NPAT			DPS			NPAT		Potential Surprise	Analyst Comment
	Upcoming Result		IBES FY13	Upcoming Result		IBES FY13	Citi FY14	IBES FY14		
	Citi estimate Interim	Final		Citi estimate Interim	Final					
	\$m	\$m	\$m	\$	\$	\$	\$m	\$m		
Media									Negative	
APN	18	-	48	0.00	-		32	48		Declining print revenues being offset by cost savings.
FXJ	-	123	128	-	0.02	0.02	128	128		Cost out unlikely to be enough to cover revenue losses.
SKT*	-	127	130	-	0.26	0.56	137	149		ARPU growth, cost-growth will be the focus.
SWM	-	218	218	-	0.12	0.11	271	244		TV ad growth and cost out should improve confidence in FY14.
SXL	-	95	91	-	0.10	0.09	109	101		Radio growth, balance sheet leverage limited.
WTF	-	49	54	-	0.25	0.23	57	59		Lack of traction in commission rise and higher costs to impact.
Mining										
AGO	-	55	34	-	0.03	0.03	132	99		Growth beyond 12mtpa dependant on rail access from FMG.
AWC*	-32	-	-6	0.00	-	0.01	-64	84		Alumina/Aluminium prices remain under pressure.
BDR	7	-	120	0.00	-	0.00	94	129		Cash generation is key given the looming debt maturities.
BHP*	-	12655	12899	-	1.17	1.17	14001	14707		Oil prices and falling costs offsetting weak base metals prices.
FMG*	-	1786	1545	-	0.04	0.04	2420	2404		Update on TPI sale in light of higher iron ore prices, lower AUD.
GBG	-	-84	-30	-	0.00	0.00	-48	35		Karara not yet in commercial production so costs capitalised.
GRY	-	-23	-6	-	0.00	0.00	-6	-9		Cash preservation is a focus given tough outlook with gold price.
ILU	15	-	105	0.00	-	0.19	427	332		Update on Zircon & Feedstock demand will be key driver.
KCN	-	30	36	-	0.10	0.09	-9	34		Outlook for Challenger assets important, also costs in general.
MBN*	-21	-	-44	0.00	-	0.00	-56	-19		Nickel prices continue to languish, and are key for the outlook.
MGX	-	83	116	-	0.03	0.04	102	127		Higher iron ore prices, cost savings update and M&A plans.
MML*	-	63	63	-	0.07	0.02	63	98		Operational issues a focus with Co-O plant expansion.
NCM	-	405	518	-	0.12	0.16	196	493		Free cash flow focused strategy update, shift to all in cash costs
OGC*	21	-	51	0.00	-	0.00	-1	72		Ramp up of Didipio project will be a focus, and M&A plans.
OZL	-11	-	-36	0.00	-	0.06	1	36		Long term strategy will be important, esp. Carrapateena vs M&A
PDN*	-	-215	-109	-	0.00	0.00	2	0		Impairments announced in prior quarters key driver of losses.
PNA*	48	-	102	0.04	-	0.06	55	117		Soft quarter expected due to changed Phu Kham mine plan.
PRU	-	31	35	-	0.00	0.00	-16	22		Colour on operational issues in the June quarter report important
RES	-	-7	-4	-	0.00	0.00	-16	-7		Still several years away from production so earnings skewed.
RIO*	4469	-	9158	0.84	-	1.80	9627	10486		Iron ore price, lower AUD likely offset by weak base metal prices
RRL	-	130	144	-	0.15	0.15	71	179		Pre-released June production weaker than expected.
RSG	-	118	133	-	0.00	0.03	-8	79		Interest in discretionary capex plans given gold prices.
SBM	-	34	26	-	0.00	0.00	3	36		Operations remain high cost, improvement looked for.
SFR	-	119	112	-	0.00	0.01	96	134		Disclosure on costs will be focus as they reach capacity.
WSA	-	3	12	-	0.02	0.03	-29	16		Pre-announced production was slightly higher than guidance.

† FY14 result. * Figures are in USD. ^ Figures are in NZD. # Figures are in GBP. ‡ Quarterly trading statement. Source: Company Data, IBES, Citi Research

Figure 12 (Cont'd). Stocks reporting, Citi estimates relative to consensus

	NPAT			DPS			NPAT			
	Upcoming Result			Upcoming Result					Potential Surprise	Analyst Comment
	Citi estimate	IBES		Citi estimate	IBES		Citi	IBES		
	Interim	Final	FY13	Interim	Final	FY13	FY14	FY14		
	\$m	\$m	\$m	\$	\$	\$	\$m	\$m		
Leisure										
CWN	-	451	454	-	0.37	0.37	573	562	Positive	MPEL continues to offset domestic earnings weakness.
EGP	-	118	121	-	0.07	0.07	157	151	Negative	Weak Sydney mass market revenue partially offset by cost cuts
SKC^	-	140	138	-	0.20	0.20	157	150		In-line with company guidance
TAH	-	126	139	-	0.17	0.17	138	145		Underlying costs under control, NPAT impacted by VIC transition
TTS	-	206	221	-	0.14	0.15	224	236		Lotteries trends solid, one-off hit from discontinued VIC business
Other. Ind.										
AMC	-	680	682	-	0.41	0.40	789	800		Margin expansion and synergies from recent acquisitions key.
GEM	11	-	33	0.06	-	0.12	40	42	Positive	Underlying growth and acquisition pipeline will be key.
HIL	-	19	18	-	0.03	0.03	22	25		Update on steel divestments will be important.
MMS	-	62	63	-	0.53	0.52	45	71		Double digit EPS growth expected to continue.
NVT	-	78	77	-	0.19	0.19	99	94	Positive	SAE profitability to stabilize, positive UP business trends
REH	-	109	114	-	0.61	0.61	118	126		Expected solid performance in a tough year.
RIC	-	20	13	-	0.00	0.03	20	17		Improving seasonal conditions, returning to more average rainfall.
SAI	-	49	46	-	0.14	0.14	57	53	Positive	Looking for organic growth from various divisions.
SEK	-	138	142	-	0.20	0.21	149	167		Volume outlook, Zhupin Growth, Education turnaround important
REITs										
ABP	-	86	83	-	0.17	0.17	90	88		DRP may be driving NPAT variation.
BWP	-	76	75	-	0.14	0.14	80	79		Low operating risk, refinancing announcement positive for FY14.
CFX	-	387	382	-	0.14	0.14	406	388		Conditional guidance provided, soft operating outlook.
CHC	-	70	70	-	0.20	0.20	75	77		Citi in line with market. Focus on fund-raising outlook.
CPA	-	204	197	-	0.07	0.07	204	199		Focus likely on corporate activity.
CQR	-	98	96	-	0.27	0.27	107	104		FY14 partly dependent on reinvestment of asset sale proceeds.
DXS	-	367	360	-	0.06	0.06	388	377		Already released FY14 guidance, focus on corporate activity.
FDC	-	228	223	-	0.14	0.14	245	236		Consensus estimates have been progressively upgraded.
GMG	-	550	543	-	0.20	0.20	619	598		New FY13 guidance released in June, is below consensus.
GPT	229	-	442	0.10	-	0.20	462	454		Interim result, shouldn't surprise, though retail fundamentals soft
IOF	-	137	138	-	0.18	0.18	138	141		Limited risk of surprise.
LLC	-	546	545	-	0.40	0.42	542	546		In line result likely, focus will be on FY14 guidance.
MGR	-	373	370	-	0.09	0.09	443	426		Reaffirmed guidance in May, implicit FY14 guidance at ~10%.
PPC	-	13	12	-	0.00	0.00	21	30		Focus will be on residential housing outlook.
SGP	-	489	491	-	0.24	0.24	560	557		Updated guidance in May, rising industry sales positive for FY14
WDC	733	-	1436	0.26	-	0.51	1581	1483		Interim result, unlikely to surprise.
WRT	304	-	594	0.10	-	0.20	631	606		Interim result, shouldn't surprise, despite fundamentals weaker.

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Figure 12 (Cont'd). Stocks reporting, Citi estimates relative to consensus

	NPAT			DPS			NPAT		Potential Surprise	Analyst Comment
	Upcoming Result		IBES FY13	Upcoming Result		IBES FY13	Citi FY14	IBES FY14		
	Citi estimate Interim	Final		Citi estimate Interim	Final					
	\$m	\$m	\$m	\$	\$	\$	\$m	\$m		
Retail										
ARP	-	44	43	-	0.28	0.28	48	50	Negative	Profits rebounding after negative impact of Thai Floods in pcp
BBG	-	10	11	-	0.00	0.00	-4	20		Management focus on restructure and debt levels.
DJS	-	96	101	-	0.17	0.17	91	93		Declining sales and excess inventory remain a concern.
FLT	-	248	237	-	1.30	1.34	262	259		Positive momentum should continue, esp. in domestic business
HVN	-	182	188	-	0.09	0.09	200	209		Improved sales trends, expect 2H13 franchising margins up 70bp
IVC	21	-	48	0.16	-	0.37	50	53	Positive	What is impact of higher operating costs on margins?
JBH	-	117	115	-	0.69	0.71	115	122		Electronics sales firm and gross margins restored.
MYR	-	131	132	-	0.18	0.18	131	134		Slowdown in LFL sales, rising rent and wage cost pressures.
ORL	-	26	26	-	0.50	0.50	19	18		Oroton sales weaker, pricing pressure, strong half likely for Polo.
PBG	-	73	73	-	0.05	0.05	76	74		Slow sales, gross margin offsetting negative operating leverage.
PMV	-	72	74	-	0.36	0.38	71	80		Expect sales below consensus, esp in Jay Jays & Just Jeans.
SFH	-	13	15	-	0.04	0.04	19	19		Weaker 2H, but continued margin recovery.
SUL	-	119	119	-	0.38	0.38	139	140		Strong sales, but some operating costs pressures.
WES	-	2319	2290	-	1.80	1.78	2554	2584		Coles margin rise, strong Kmart result, Bunnings margin down.
WOW	-	2350	2347	-	1.34	1.33	2510	2469		Margin expansion in F&L, but pressure from Masters losses.
Telecom										
AMM	-	21	21	-	0.06	0.06	24	24	Negative	Guidance given in May.
IIN	-	54	57	-	0.19	0.18	69	64		Subs growth and cost-out driving earnings.
MTU	-	58	54	-	0.20	0.20	94	79		Profit growth driven by annualisation of Primus acquisition.
TEL^	-	334	324	-	0.17	0.16	320	325	Negative	Subs and ARPU outlook, competitive environment tougher.
TLS	-	3653	3765	-	0.28	0.28	3546	3918	Positive	Potentially mobile subs better, voice decline less than expected.
TPM	-	143	140	-	0.08	0.07	171	156	Positive	Subs potentially stronger than expected.
Transp.										
MRM	-	62	61	-	0.12	0.12	69	68	Positive	Improved vessel utilisation needed to see better FY result.
QAN	-	45	76	-	0.00	0.00	338	289		Emirates alliance and International's earnings will be the focus.
VAH	-	10	34	-	0.00	0.00	77	77		Focus will be on the cost base and capacity growth.
Utils.										
AGK	-	594	596	-	0.63	0.63	618	654		FY14 outlook tough with aggressive discounting.
APA	-	165	196	-	0.35	0.36	186	183		Expecting flat distribution guidance.
DUE	-	-	-	-	0.17	0.17	75	129		Expect to reaffirm FY14 distribution guidance of 17.0cps
SKI	-	-	-	0.06	-	0.11	210	222		Expect update on status of court case with ATO on tax liabilities
With Mgrs.										
AMP	443	-	873	0.12	-	0.24	969	995	Negative	Wealth protection problems continue. Dividend to fall as a result.
PPT	-	77	79	-	1.30	1.25	94	102		Cost out could disappoint high expectations.

† FY14 result. * Figures are in USD. ^ Figures are in NZD. # Figures are in GBP. ‡ Quarterly trading statement. Source: Company Data, IBES, Citi Research

Figure 13. Companies mentioned

Code	Price (26-Jul)	Rating (26-Jul)	Code	Price (26-Jul)	Rating (26-Jul)	Code	Price (26-Jul)	Rating (26-Jul)
ABC	\$3.31	Neutral	FXJ	\$0.49	Neutral	PPC	\$1.17	Neutral
ABP	\$2.26	Neutral	GBG	\$0.16	Neutral, High-Risk	PPT	\$39.51	Sell
AGK	\$14.74	Neutral	GEM	\$2.69	Buy	PRU	\$0.59	Sell
AGO	\$0.85	Buy	GFF	\$0.73	Neutral	PRY	\$5.06	Neutral
AIO	\$5.15	Buy	GMG	\$4.81	Buy	QAN	\$1.30	Buy
AMC	\$10.55	Neutral	GPT	\$3.80	Neutral	QBE	\$16.35	Neutral
AMM	\$1.83	Buy	GRY	\$0.20	Buy, High-Risk	QUB	\$1.76	Neutral
AMP	\$4.54	Neutral	GWA	\$2.46	Sell	REH	\$23.50	Neutral
ANN	\$18.56	Sell	HGG	\$2.84	Buy	RES	\$0.22	Buy, High-Risk
ANZ	\$29.41	Buy	HIL	\$1.22	Buy	RHC	\$36.66	Sell
APA	\$5.95	Neutral	HVN	\$2.65	Sell	RIC	\$0.84	Buy
APN	\$0.29	Neutral, High-Risk	IAG	\$5.86	Neutral	RIO	\$57.24	Buy
ARP	\$13.48	Neutral	IFL	\$7.86	Buy	RMD	\$4.93	Buy
ASL	\$1.10	Neutral	IIN	\$5.81	Buy	RRL	\$3.41	Sell
ASX	\$34.60	Neutral	ILU	\$11.05	Neutral	RSG	\$0.83	Buy, High-Risk
AUT	\$3.16	Neutral, High-Risk	IOF	\$2.99	Buy	SAI	\$3.80	Neutral
AWC	\$1.00	Sell	IVC	\$11.58	Sell	SBM	\$0.53	Buy
AZJ	\$4.50	Neutral	JBH	\$18.02	Sell	SEK	\$9.27	Sell
BBG	\$0.39	Buy, High-Risk	JHX	\$9.20	Sell	SFH	\$0.87	Buy
BDR	\$0.75	Buy	KAR	\$5.90	Neutral, High-Risk	SFR	\$5.64	Sell
BEN	\$10.61	Neutral	KCN	\$1.71	Neutral	SGP	\$3.67	Buy
BHP	\$34.60	Neutral	LEI	\$16.48	Neutral	SHL	\$14.45	Neutral
BKW	\$12.21	Buy	LLC	\$8.77	Buy	SIP	\$0.70	Sell
BLD	\$4.29	Sell	MBN	\$0.08	Buy, High-Risk	SKC	\$3.66	Neutral
BLY	\$0.54	Sell, High-Risk	MGR	\$1.70	Neutral	SKI	\$1.77	Neutral
BOQ	\$9.35	Neutral	MGX	\$0.56	Buy, High-Risk	SKT	\$4.70	Buy
BPT	\$1.34	Sell, High-Risk	MIO	\$1.90	Buy	STO	\$13.81	Buy
BWP	\$2.56	Neutral	MLL	\$2.21	Buy	SUL	\$12.66	Sell
CBA	\$73.65	Buy	MMS	\$9.80	Sell	SUN	\$12.69	Buy
CCL	\$13.04	Buy	MND	\$16.10	Sell	SWM	\$2.05	Buy
CFX	\$2.04	Neutral	MRM	\$3.83	Neutral	SXL	\$1.44	Buy
CGF	\$4.17	Neutral	MTU	\$6.00	Buy	TAH	\$3.29	Buy
CHC	\$3.97	Neutral	MYR	\$2.66	Neutral	TCL	\$6.99	Neutral
COH	\$60.70	Sell	NAB	\$31.00	Neutral	TEL	\$2.04	Sell
CPA	\$1.17	Neutral	NCM	\$12.41	Sell	TLS	\$4.92	Neutral
CPU	\$9.84	Neutral	NHF	\$2.22	Neutral	TPM	\$3.50	Buy
CQR	\$3.92	Neutral	NUF	\$4.40	Sell	TTS	\$3.21	Neutral
CRZ	\$9.51	Buy	NVT	\$6.03	Neutral	TWE	\$4.89	Sell
CSL	\$65.89	Sell	NWH	\$0.96	Neutral	UGL	\$7.25	Neutral
CTX	\$18.40	Sell	NXT	\$2.81	Buy, High-Risk	VAH	\$0.43	Neutral
CWN	\$12.70	Buy	OGC	\$1.74	Buy	WBC	\$30.52	Buy
DJS	\$2.65	Sell	ORG	\$12.23	Neutral	WDC	\$11.57	Neutral
DOW	\$3.75	Buy	ORL	\$7.19	Sell	WES	\$40.34	Sell
DUE	\$2.19	Neutral	OSH	\$8.04	Neutral	WHC	\$2.13	Neutral
DXS	\$1.07	Neutral	OZL	\$4.13	Neutral	WOR	\$21.91	Neutral
EGP	\$2.69	Neutral	PBG	\$0.81	Buy	WOW	\$33.61	Sell
FBU	\$7.27	Sell	PDN	\$1.04	Buy, High-Risk	WPL	\$37.78	Buy
FDC	\$2.32	Buy	PFL	\$1.29	Neutral	WRT	\$3.08	Buy
FGE	\$4.26	Buy	PMV	\$7.68	Neutral	WSA	\$3.20	Neutral
FLT	\$43.98	Neutral	PNA	\$2.11	Sell	WTF	\$5.02	Sell
FMG	\$3.61	Buy						

Source: Citi Research

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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Mark Tomlins, Analyst, holds a long position in the securities of Australia and New Zealand Banking Group Ltd, Commonwealth Bank of Australia, CSL Ltd, David Jones Ltd, InvoCare Ltd, National Australia Bank Ltd, BHP Billiton Ltd, Amcor Limited, Ansell Ltd.

Craig Williams, Analyst, holds a long position in the securities of Australia and New Zealand Banking Group Ltd.

Anthony Moulder, Analyst, holds a long position in the securities of Qube Holdings Limited.

Nigel Pittaway, Analyst, holds a long position in the securities of AMP Ltd.

A member of the household of Philip Cheetham, Analyst, holds a long position in the securities of Commonwealth Bank of Australia.

A member of the household of Zee Yusuf, Associate, holds a long position in the securities of BHP Billiton Ltd.

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