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HD **Blue chips likely to shine**

BY GIUSEPPE TAURIELLO
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THE high Australian dollar and sluggish economy will result in subdued corporate earnings during this year's reporting season, while blue chips are likely to outperform the rest of the market, says Adelaide-based stockbroking **firm**Prescott Securities.

Rio Tinto's bumper $US4.4 **billion** half-year profit headlined the first week of this month's profit announcements. But that followed less impressive figures from Cochlear and Tabcorp, while Downer EDI indicated it would be a tough year ahead for the engineering group.

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Prescott Securities**equity** specialist Travis Adams said while global economic pressures were weighing on local companies, growth in earnings per share across the market was likely to come in at about 7 to 8 per cent.

"Much of this growth will come from the larger quality stocks including the banks, healthcare and non-discretionary retailers," he said.

"Based on the current economic climate, profit growth won't be quite as large as we might have hoped.

"Some of the defensive retailer stocks, while not bringing huge growth prospects, will continue to be relatively consistent." All eyes will be on Commonwealth Bank on Wednesday, when the country's biggest bank is expected to announce a cash profit of more than $8.5 **billion** for the first time in its history.

"Term deposits are at very low rates which look likely to fall further reducing the banks financing costs," Mr Adams said.

"Mortgage rates have generally remained steady, helping maintain interest margins, and the recent cut in fixed-rate home loans indicates that there is some fat in net interest margins and the CBA may be using this to increase market share.

"The market's expecting 3 per cent cash earnings growth, but we predict it will be higher than that and CBA will have quite a healthy result." Elsewhere in the financial sector, Mr Adams expects Macquarie Bank and Computershare to benefit from an upswing in merger and **acquisition** activity while the health sector is expected to deliver double-digit growth during the current reporting season.

Telstra will release its full-year results on Thursday – the same day Adelaide-based gas distributor Envestra unveils the results of its final year of operation before being taken over by **Hong Kong billionaire** Li Ka-shing's Cheung Kong Infrastructure.

"Despite flat earnings growth in recent years, Telstra will have an interesting reporting season," Mr Adams said.

"A new CEO and a change in strategy may **lead** to improved earnings for Telstra, from 32c to 33c per share.

“This is a change from the past with almost no growth in earnings per share since 2001.” Mr Adams said the Australian dollar was likely to remain stubbornly high as overseas investors continued to seek higher interest rates.“Industries such as manufacturing and tourism are likely to continue to feel the pinch of the high Australian dollar,” he said.

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