FINANCIAL REVIEW

SE Market Wrap

HD Opening the cookie jar fails to spark rally

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WC 812 words
PD 30 August 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 41
LA English

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A dividend extravaganza failed to spark a fresh rally on the Australian sharemarket, with investors unconvinced by the growth picture painted by companies during reporting season.

For the month, the benchmark S&P/ASX 200 fell 0.1 per cent to 5625.9. Over the final week it slipped 0.4 per cent and on Friday it was flat.

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The broader All Ordinaries was flat in August, down 0.3 per cent for the week and up 0.1 per cent on Friday.

During the final week of the month, the S&P 500 crept above 2000 for the first time on the back of increased confidence in the recovery of the world's largest economy. Coming into August, Australian investors were hoping for strong revenue growth to help justify valuations after a relatively strong run.

Headline profits have been reasonably good, but much of the extra money has largely come from cost-saving, rather than improved sales. "Generally, there wasn't spectacular growth, obviously there were a few stars, in top-line sales, unless there was benefit from acquisitions," Patersons Securities strategist Tony Farnham said.

"The top-down angle is showing growth at below trend, the consumer is still a little bit cautious on spending, although that seems to be picking up – that might be to the benefit of the results of the current half-year and full-year, but that's water a little further upstream that we haven't seen yet."

Iron ore reached a fresh two-year low in the final week of August. The metal has fallen 8.7 per cent to $US87.30 a tonne over the month. Concerns about the lack of demand for steel from **China**'s property sector bubbled to the surface. However, unlike in June, when **iron ore** was at similar levels, the **Chinese** government is not expected to inject stimulus into the economy.

BHP reported a $US13.4 **billion** ($14.3 **billion**) full-year underlying profit while also announcing the $15 **billion** demerger. Rio Tinto impressed the market with a $US5.1 **billion** underlying half-year profit. Australian **iron ore** miner Fortescue reported a massive 56 per cent jump in profit to $US2.7 **billion**. But BHP shares fell 5.2 per cent in August to $36.67 and Rio dropped 5.7 per cent to $62.63.

Commonwealth Bank of Australia was the only bank of the big four to report full-year earnings, hitting a record profit of $8.6 **billion**. ANZ Bank and National Australia Bank issued quarterly updates. ANZ hit profit of $5.2 **billion** in the nine months to June and NAB lifted third-quarter profit to $1.7 **billion**.Winners and losers

The results, while solid, disappointed investors. There are concerns about weak credit growth and the impacts of David Murray's financial systems inquiry moving forward. CBA shares finished 2.9 per cent lower for the month, but the stock did trade ex-dividend. ANZ fell 1.6 per cent to $33.43 in August, while NAB dipped 0.3 per cent to $35.20.

Returning cash to shareholders was another theme that stood out during reporting season. "The traditional dividend players continued to please the market. People say the buy-in on stocks for income is getting a bit tired, and it is. But it's still there at this stage," Mr Farnham said. Telstra rewarded its 1.4 **million** shareholders by announcing not only an increased dividend, but also a $1 **billion** share buyback. The announcement came as the telco reported a 14.3 per cent increase in full-year profit to $4.3 **billion**. Telstra shares hit a 12-year high during August, finishing the month up 1.3 per cent at $5.56.

Wesfarmers was another major **company** to open the cookie jar for investors, announcing the return of $1.1 **billion** to shareholders. The funds will come from the **sale** of its insurance business earlier in the year. Shares ended August down 1.4 per cent at $43.31. "All the strategists out there haven't changed their numbers that much for this year because of reporting season. They might have nudged them a little bit lower, but there were some optimistic calls out there for where the market was going," Mr Farnham said.

Among notable losses were the two big airlines. Qantas reported a full-year net loss of $2.8 **billion**, and an underlying loss of $646 **million**. The net loss included the non-cash $2.6 **billion** write-down of the value of its international fleet. Rival Virgin Australia also reported a net loss of $355 **million** and an underlying loss of $211 **million**. Virgin shares finished the month 2.5 per cent higher at 41.5¢.

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RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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AN Document AFNR000020140829ea8u0007b

