

What to expect from the 2008-2009 annual reporting season

Fund managers and direct investors alike look forward to the reporting season. Elio D'Amato, Lincoln Chief Executive Officer says "Despite this uncertain environment, we expect the upcoming reporting season to uncover many companies that are financially healthy with profitable growth, good cashflows and low gearing levels. If an investor can create a diversified portfolio of these companies they will be well placed to enjoy the increasing capital gains and income as the economy and the sharemarket recover. We await this reporting season with much anticipation."

Generally, around February and August of each year, most ASX listed companies release their interim and annual reports. These reports are a summary of financial performance over the preceding six month period.

Analysts and researchers at Lincoln and across the industry will spend many late nights deciphering the results and anticipating how the market will react. As with any reporting season, some companies will be 'loud and proud' when they present their results and thoughts on the future. Others will no doubt be more defensive as they explain their failure to meet targets and try to convince shareholders that they will do better next time.

Annual reports 2008-2009

Given the recent bounce in share markets around the world, this June 2008-2009 reporting season will provide a reality check for both investors' and the markets' expectations. The answers to the questions below will finally start to gain clarity:

- How bad has the last six months been?
- What are company management expectations for the coming six to 12 months?
- Is there transparency in business orders, commodity prices, retail spending, property values and sales?
- Has the Government stimulus handouts had any impact? If not, when will they start taking effect?
- How far away is the other side of the valley (recovery)?

Anticipated outcomes

Elio believes that even quality companies have not been immune from the crisis with many needing to restructure their balance sheet and dividend policies. Although many of the stronger firms have restructured, they have been in a better position to raise capital at fair prices to continue as a healthier proposition.

Over the past 12 months, Australia has seen significant capital raisings estimated at around A\$80 billion. The repercussion of this is usually reflected as a reduction in dividends per share.

"Measures taken to improve company balance sheets are a necessary step in order to better place these firms for a period of reduced global growth, such as we are currently experiencing. This will be a good thing for the market over the long term as the lower debt levels will reduce the unsustainable financial risk exposure," Elio said.

However, positive outcomes from the reset of dividend payments and capital raising; bankers leave company management teams alone to achieve profits rather than focusing on refinancing to reduce loans outstanding. Management are allowed to implement long-term strategies and shareholders focus more on the future than the past. As we come out of this downturn investors who hold financially healthy companies within their portfolios can expect to generate solid returns on a long-term basis, despite the speed bumps associated with such poor economic times.

How will the different sectors fair?

The Property Trust sector has been one of the first in the market to commence their reporting. This year we expect some writedowns in property values, which will impact on reported net tangible assets (NTA) and distributions per share (DPU). The big question is 'Are the writedowns greater or less than the market's expectations?' If writedowns are greater than expected then share prices will go down, if the writedowns are less than expected then the share price will increase.

The Banking sector only has one of the major four banks reporting during this period. Investors know that dividends will be cut and that new equity has already been raised, so there should not be any major surprises from this sector.

Now is the time to stay vigilant and as history shows, having a long term investment strategy in high quality, financially healthy stocks can be rewarding. The Lincoln Managed Investments Team will be closely watching the results over the next month and monitoring the impact on the Lincoln Australian Share Fund portfolio. In our next edition of FUNDamentals, we will provide analysis of the 2008-2009 reporting season results.

Like to know more?

To find out more about the Lincoln Australian Share Fund and investment approach please call our Managed Investments Team on **1300 676 332**.

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