

13<sup>th</sup> February 2019

## Reporting Season - February 2019

### Amcor (AMC)

#### Overview

Amcor Limited (AMC) is a global packaging company with operations across Australasia, North America, Latin America, Europe and Asia. AMC offers a range of packaging related products and services, including packaging for beverages, food, healthcare, personal and homecare, tobacco, and industrial applications.

#### Profit result - half year to Dec 18

Costs outpaced revenues in the last financial year, and this was again evident in the half year to December. Although overall profit and earnings per share were sharply lower compared to the previous corresponding period, operating cashflow rebounded strongly. This facilitated a 2.4% increase in the interim dividend and, more broadly, positions the company well for the second half. Moreover, AMC has received European Commission approval for its proposed merger with US counterpart Bemis Company. This approval preserves AMC's European healthcare packaging interests, which focus on the high-value segment of the market.

Amcor						
Metric		FY Jun-17	HY Dec-17	FY Jun-18	HY Dec-18	
Revenue from sale of goods	US\$ m	\$ 9,101.0	\$ 4,502.2	\$ 9,319.1	\$ 4,551.8	
Cost of sales	US\$ m	-\$7,189.2	-\$3,607.3	-\$7,462.3	-\$3,702.6	
Profit for the financial period	US\$ m	\$ 614.0	\$ 333.9	\$ 735.4	\$ 272.7	
EPS - basic	US cents	51.6	28.5	62.6	23.1	
DPS - interim	US cents		21.0		21.5	
DPS - final	US cents	23.5		24.0		
Net cash flows from operating activities	US\$ m	\$ 1,027.4	\$ 178.1	\$ 937.1	\$ 229.0	
Percentage Change: FY v Previous FY / HY v Previous HY						
		FY Jun-17	HY Dec-17	FY Jun-18	HY Dec-18	
Revenue from sale of goods		2.4%		1.1%		
Cost of sales		3.8%		2.6%		
Profit for the financial period		19.8%		-18.3%		
EPS - basic		21.3%		-18.9%		
DPS - interim				2.4%		
DPS - final				2.1%		
Net cash flows from operating activities				-8.8%	28.6%	

#### Outlook

Management focused on the improvement in operating cash flow and the progress made towards successfully concluding the Bemis transaction when re-affirming its earnings outlook for the full year. In particular, the integration of the Bemis operation is anticipated to deliver "higher margins, stronger growth potential" as well as underpinning dividend growth and balance sheet strength.





## Challenger (CGF)

### Overview

CGF is an investment management firm focused on providing Australians with financial security in retirement. Challenger operates two core investment businesses, Life division and Funds Management division.

### Profit result - half year to Dec 18

The headline details of CGF's December half-year result are stark but not totally informative. Admittedly, a 97 per cent slump in profitability is confronting, but a closer inspection of the result reveals that annuity sales, a key operational element, declined by less than 7 per cent from the previous corresponding period. Life sales declined significantly, but this was no doubt partly driven by the revelations flowing from the banking Royal Commission. The investment experience, which is CGF's "mechanism employed to isolate the volatility arising from asset and liability valuation with the results so as to more accurately reflect the underlying performance of the Group" was a particularly heavy drain on profits, taking out almost \$200 million. This was nevertheless close to the amount management had predicted due to market volatility and may reverse somewhat over the second half. Shareholders were spared the pain with an unchanged dividend, which was partially justified by a reasonable cash flow result given the circumstances.

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Challenger			FY	FY	FY	FY	HY	FY	HY
Metric	% Frank		Jun-14	Jun-15	Jun-16	Jun-17	Dec-17	Jun-18	Dec-18
Annuity Sales	\$m		\$2,798.8	\$2,753.1	\$3,351.2	\$4,011.2	\$2,289.5	\$4,000.7	\$2,140.5
Other Life Sales	\$m		\$581.6	\$944.0	\$998.5	\$941.2	\$1,034.5	\$1,554.9	\$430.5
Funds Management - net flows	\$m		\$2,147.4	\$7,738.9	-\$2,517.2	\$6,220.6	\$3,900.0	\$5,301.2	-\$1,000.0
Normalised cash operating earnings	\$m		\$481.3	\$543.8	\$592.4	\$631.4	\$336.1	\$669.6	\$329.6
Total net income	\$m		\$593.3	\$662.6	\$721.1	\$766.2	\$408.6	\$821.8	\$405.3
Total expenses	\$m					-\$1,310.4	-\$763.2	-\$1,536.6	-\$784.9
Investment experience after tax	\$m		\$11.9	-\$35.0	-\$56.1	\$12.7	-\$12.5	-\$76.0	-\$193.7
Profit attributable to equity holders	\$m		\$340.6	\$299.0	\$327.7	\$397.6	\$195.4	\$322.5	\$6.1
Basic EPS - statutory profit	cents		66.3	54.8	58.5	70.7	33.1	54.0	1.0
Statutory return on equity - post tax	per cent		16.7	12.4	12.5	14.4	11.9	9.7	0.3
Total dividend	100 cents		26.0	30.0	32.5	34.5	17.5	35.5	17.5
Net cash inflows from operating activities	\$m					\$1,597.2	\$966.7	\$1,977.4	\$654.5

  

Percentage Change: FY v Previous FY / HY v Previous HY			FY	FY	FY	FY	HY	FY	HY
			Jun-14	Jun-15	Jun-16	Jun-17	Dec-17	Jun-18	Dec-18
Annuity Sales			-1.6%	21.7%	19.7%		-0.3%	-6.5%	
Other Life Sales			62.3%	5.8%	-5.7%		65.2%	-58.4%	
Funds Management - net flows			260.4%	-132.5%	-347.1%		-14.8%	-125.6%	
Normalised cash operating earnings			13.0%	8.9%	6.6%		6.1%	-1.9%	
Total net income			11.7%	8.8%	6.3%		7.3%	-0.8%	
Total expenses							17.3%	2.8%	
Investment experience after tax			-394.1%	60.3%	-122.6%		-698.4%	1449.6%	
Profit attributable to equity holders			-12.2%	9.6%	21.3%		-18.9%	-96.9%	
Basic EPS - statutory profit			-17.3%	6.8%	20.9%		-23.6%	-97.0%	
Statutory return on equity - post tax			-25.7%	0.8%	15.2%		-32.6%	-97.5%	
Total dividend							2.9%	0.0%	
Net cash inflows from operating activities							23.8%	-32.3%	

### Outlook

Commenting on CGF's near-term prospects, management said that the company retains a "very strong" capital position, citing a holding of \$1.4 billion of excess regulatory capital and group cash. Moreover, capital holdings are 54% above the minimum requirements set by APRA. CGF anticipates annuity sales to continue to benefit from the ageing profile of the Australian population. To this end, it has expanded its distribution reach with the establishment of a presence on fast-growing independent platforms. Predicated on lower volatility in the equity and fixed income markets, the platform appears set for a stronger operational performance in the second half.

### Performance Chart

Timeframe: 1 Year

ChartStyle: Line Chart





## Orora (ORA)

### Overview

ORA provides a range of tailored packaging and visual communication solutions. This includes design and manufacture of packaging products such as glass bottles, beverages cans, corrugated boxes, recycled paper, multi-walled paper bags and point of purchase displays.

### Profit result - half year to Dec 18

Over the past five financial years, ORA has achieved solid revenue gains and has converted these into exceptionally strong gains in profitability. This pattern continued in the latest half-year period.

Shareholders have correspondingly benefited from a dividend stream that has grown at a similar pace. Moreover, in the latest half-year period the level of franking on dividends has increased from 30 per cent to 50 per cent.

Orora			FY	FY	FY	FY	HY	FY	HY
Metric	%Frank		Jun-14	Jun-15	Jun-16	Jun-17	Dec-17	Jun-18	Dec-18
Revenue from continuing operations		\$m	\$ 3,176.1	\$ 3,407.8	\$ 3,849.8	\$ 4,039.1	\$ 2,097.8	\$ 4,248.0	\$ 2,305.5
Net profit from ordinary activities - before significant items		\$m	\$ 104.4	\$ 131.4	\$ 162.7	\$ 186.2	\$ 105.7	\$ 214.1	\$ 113.7
Net profit from ordinary activities - after significant items		\$m	\$ 104.4	\$ 131.4	\$ 168.6	\$ 171.1	\$ 103.8	\$ 212.2	\$ 113.7
EPS - Basic		cents	8.7	10.9	14.1	14.3	8.7	17.7	9.4
DPS	*	cents	6.0	7.5	9.5	11.0	6.0	12.5	6.5
Net cash flow - operating activities		\$ ooo	\$ 151.1	\$ 254.0	\$ 305.0	\$ 351.2	\$ 138.2	\$ 329.0	\$ 124.8
<b>Percentage Change: FY v Previous FY / HY v Previous HY</b>									
			FY	FY	FY	FY	HY	FY	HY
			Jun-14	Jun-15	Jun-16	Jun-17	Dec-17	Jun-18	Dec-18
Revenue from continuing operations			7.3%	13.0%	4.9%		5.2%	9.9%	
Net profit from ordinary activities - before significant items			25.9%	23.8%	14.4%		15.0%	7.6%	
Net profit from ordinary activities - after significant items			25.9%	28.3%	1.5%		24.0%	9.5%	
EPS - Basic			25.3%	29.4%	1.4%		23.8%	8.0%	
DPS			25.0%	26.7%	15.8%		13.6%	8.3%	
Net cash flow - operating activities			68.1%	20.1%	15.1%		-6.3%	-9.7%	

Having experienced such strong growth over recent years, a note of caution regarding dividend sustainability is warranted, given that operating cash flow growth turned negative in FY18 and was again negative in HY19.

### Outlook

At a broad level with regard to Australia, management say that “economic conditions remain flat, with organic volume growth broadly in line with GDP”. Moreover, they caution that recent adverse winter weather conditions in the US have impacted operations and may pose “a risk to sales volumes”. Dividend-focused investors are reminded that management has flagged that the 50 per cent level of franking attached to the interim dividend is not sustainable, so franking is anticipated to revert to 30 per cent for the final dividend.

### Performance Chart



Please note that **NO ADVICE** has been provided.

**Gail Gadd**

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