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Sydney Wealth Update

Autumn 2024

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Welcome to our latest Wealth Management Update.

This edition covers the following topics:

- Helping your super work harder – the flipside of tax reform
- Reporting season update – Australian equities
- Reporting season update – International equities

Helping your super work harder – the flipside of tax reform

In response to the cost-of-living crisis, next financial year (FY2024-25), all 13.6 million Australian individual taxpayers will receive a tax cut under Treasury Laws Amendment (Cost of Living Tax Cuts) Bill 2024. Workers employed under the pay as you go (PAYG) payroll scheme will see an increase in their take-home pay (after withholding tax) from 1 July 2024 as part of their normal pay cycle. In this article, we outline the changes to the personal income tax rates and a strategy you could utilise to maximise the wealth effect from the tax savings.

Tabled below is a comparison between the current personal income tax brackets and the legislated changes effective from the start of next financial year, 1 July.

FY2023-24 rate (%)	FY2023-24 taxable income ($)	FY2024-25 rate (%)	FY2024-25 taxable income ($)
Tax free	0 - 18,200	Tax free	0 - 18,200
19	18,201 - 45,000	16	18,201 - 45,000
32.5	45,001 - 120,000	30	45,001 - 135,000
37	120,001 - 180,000	37	135,001 - 190,000
45	Greater than 180,000	45	Greater than 190,000

**Please note the above excludes Medicare levy, Medicare levy surcharge and low-income tax offset (LITO).*
Source: Treasury Laws Amendment (Cost of Living Tax Cuts) Bill 2024, pages 1-8, Subsection 2, Clause 1. Date: January 2024.
https://parlinfo.aph.gov.au/parlInfo/download/legislation/bills/r7140_first-reps/toc_pdf/24010b01.pdf;fileType=application%2Fpdf

The legislated changes are:

- For a taxable income between $18,200 and $45,000, the top marginal tax rate reduces from 19% to 16%
- The top marginal tax rate for the low to middle income tax bracket of $45,001 to $135,000 reduces from 32.5% to 30%
- The threshold for when the 37% top marginal tax rate applies increases from $120,000 to $135,000
- The threshold for the top marginal tax rate of 45% increases to $190,000 from $180,000

Tax saving at various taxable incomes (salary excluding super)

Below is a table of the annual tax savings compared to the current financial year across various Taxable Income levels. Taxable income is gross salary after deductions and excluding employer paid superannuation payments:

Taxable Income ($)	Tax payable FY24 ($)	Tax payable in FY25 ($)	Tax saving per annum ($)
40,000	4,942	4,288	**654**
50,000	7,716	6,788	**929**
60,000	11,166	9,988	**1,179**
70,000	14,616	13,188	**1,429**
80,000	18,066	16,388	**1,679**
90,000	21,516	19,588	**1,929**
100,000	24,966	22,788	**2,179**
110,000	28,416	25,988	**2,429**
120,000	31,866	29,188	**2,679**
130,000	35,766	32,388	**3,379**
140,000	39,666	35,937	**3,729**
160,000	47,466	43,737	**3,729**
190,000+	59,966	55,437	**4,528**

The above is an estimate only based on publicly available information supplied by the Australian Treasury department; you can source this calculator here: https://treasury.gov.au/tax-cuts/calculator. For the basis of our calculation, we have excluded the impact of the Low-Income Tax Offset as this remains unchanged.

Making additional contributions to super

For many households these tax cuts will curb the impacts of higher mortgage repayments, groceries, energy, and everyday essentials. However, for households with surplus cashflow, directing the additional tax savings into superannuation from 1 July 2024 onwards will have a neutral impact on their cashflow position relative to the previous financial year, while boosting their retirement savings for the future.

For most Australians, superannuation is the preferred tax structure for growing a retirement nest egg. An individual can make a personal deductible contribution into superannuation, claiming a tax deduction against their individual assessable income, while saving for retirement more quickly. Tabled below is an estimate of the amount an individual can contribute into super next financial year before reducing their take-home pay relative to the previous year.

Taxable Income ($)	Amount to contribute to super without reducing take home pay ($)		
	per annum	per month	per week
40,000	800	67	15
50,000	1,400	117	27
60,000	1,700	142	33
70,000	2,100	175	40
80,000	2,500	208	48
90,000	2,800	233	54
100,000	3,200	267	62
110,000	3,600	300	69
120,000	3,900	325	75
130,000	5,000	417	96
140,000	6,000	500	115
160,000	6,100	508	117
190,000+	7,400	617	142

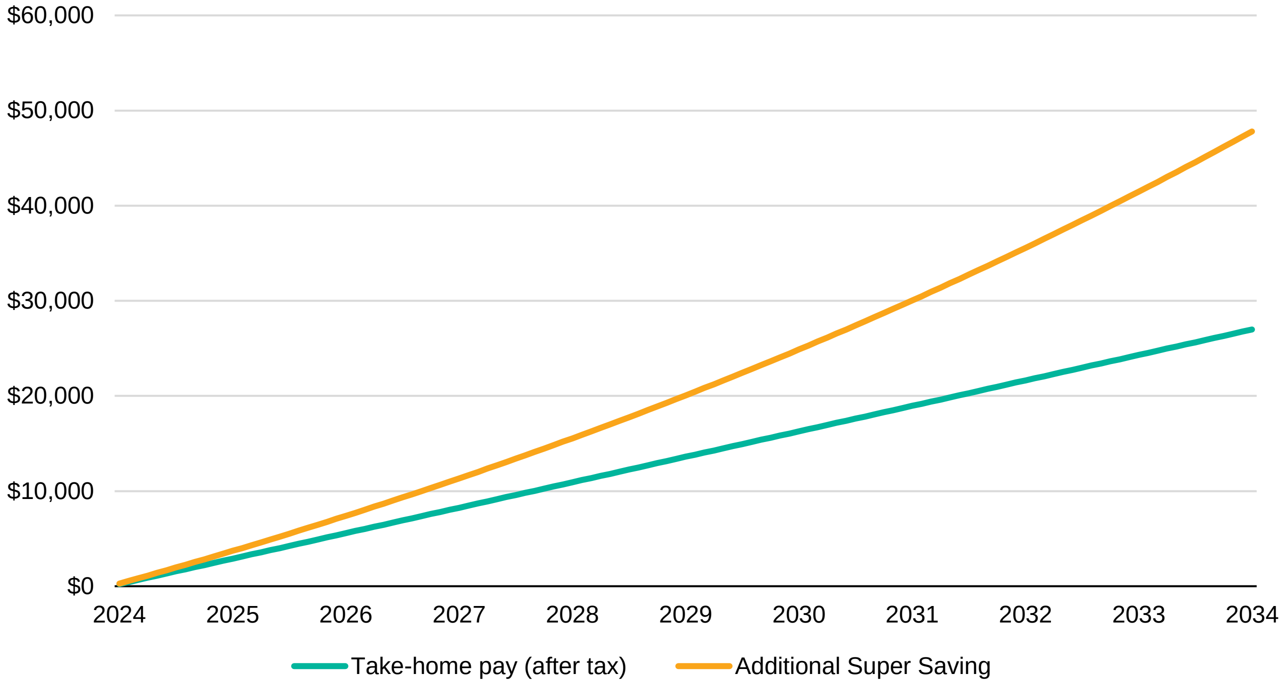
Note, the annual concessional contribution annual limit is currently $27,500, inclusive of employer and personal pre-tax contributions. The above strategy should only be considered from 1 July 2024 onwards. If you are earning $190k or over, as in the current financial year your employer may already be contributing $20,900 or more, limiting further concessional contributions to a maximum of $6,600. The proposed amounts above become relevant from 1 July, as the annual concessional contribution cap is being raised to $30,000.

Concessional contributions are subject to a 15% tax on entry into super and there is also an additional tax 15% (Division 293) applied for individuals who earn a gross salary plus employer made super contributions of more $250,000 a year. The Division 293 ruling is determined after the member lodges their individual tax return and can be paid for using cash inside of super or personal cash at bank. Despite these conditions, super remains a tax effective way for Australians to save for retirement, as explained in the scenario below.

Hypothetical scenario

In FY2023-24, Stuart receives an annual salary package of $120,000 plus super and is paid $7,345 per month after PAYG withholding tax. Assuming no change in his circumstances, Stuart's net pay will increase from 1 July 2024 to $7,568 (an extra $223 each month after tax). Rather than receive the extra amount each month, Stuart establishes a salary sacrifice arrangement with his employer of $325 per month out of his pre-tax pay, subject to his annual concessional contribution cap space. Over the entire year, Stuart will direct an extra $3,900 into his superannuation fund (in addition to the mandatory employer paid contributions of $13,800) but will continue to earn $7,345 per month after-tax (same as the previous financial year). If Stuart maintains this salary sacrifice arrangement for the next 10 years and his super fund averages a 7% net return per annum, he will have an extra $47,815 in his superannuation by the end of the period as illustrated in the chart below. Note, our calculation takes into consideration the 15% contribution tax payable, explained above. Stuart doesn't incur the additional Division 293 tax as his gross salary inclusive of employer super contributions of $133,800 is less than $250,000.

Taking home tax-saving versus investing into superannuation



Source: PPWM modelling.

The alternative scenario where Stuart receives the extra $223 per month in his after-tax income would see him earn $26,760 in cumulative personal income over a 10-year period. This difference is widened when you consider the impact over a 20-year period, $143,906 in extra super benefits under the salary sacrificed arrangement vs $53,520 in extra income earned over the entire 20 years. Note, our analysis has taken into consideration the 15% concessional contribution tax payable.

Other changes

Next financial year will also see the employer contributions increase to 11.5% of an individual's gross salary, up from 11% in the current financial year. Furthermore, the annual concessional contribution limit will increase to $30,000, currently $27,500, all personal and employer concessional contributions are included in the annual cap. These changes mean concessional contributions are more attractive for high income earners as a form of reducing taxable income and improving longer-term superannuation outcomes as more can be directed into super on a regular basis. In the scenario discussed above, Stuart would have likely had an even larger benefit as a result of wage growth over time and the ability to contribute even more into the tax-advantaged vehicle of superannuation thanks to this higher cap.

This article is general in nature only. Before making super contributions you should consider the appropriateness given your personal financial circumstances. Please consult your adviser should you wish to discuss further.

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Reporting season update

Australian Equity Portfolio

APA Group Ltd (APA: AU)

Share price	8/3/24: $8.10
Result	1H 2024
Revenue	$1,274m, up 3.4% on the pcp
Underlying EBITDA	$930m, up 5.8%
Key points	• APA recorded a solid result in the first half of FY24 with a 5.8% increase in underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) • This was driven by a mix of inflation-linked price hikes, as well as the inclusion of recent acquisitions in BassLink and Pilbara Energy. Both acquisitions continue to track in line with their respective business cases with Pilbara expected to deliver $90m in EBITDA for its eight months contribution in FY24. The latter is a reassuring note given the sizeable equity raise needed to fund the acquisition. • Underlying free cashflow was also 4% higher thanks to the uptick in earnings. • Distribution growth lagged, rising only 1.9%, due to the recent Pilbara acquisition as part of an overall $2.2bn in capital investment, which included further gas pipeline expansion. The interim distribution of 26.5c and full-year guidance for 56c puts the company on a forward yield of 7.1% as of the 27 February closing price. • Management highlighted the scale of energy transition opportunities for its future with an organic growth pipeline of over $1.8bn and the further potential for a Pilbara development pipeline of over $3bn in renewables-focused projects. The partnership with French utility giant, EDF, should also support further growth of its electricity transmission capability, diversifying the business away from its current gas operations. • Cost control was also flagged with corporate costs expected to rise 13% before stabilising in FY25.
Our comments	• Our thesis for APA as a steady cashflow generator with pricing power remains intact. • As a mover rather than generator or retailer of gas-powered electricity it has been substantially less affected to date by government intervention in the gas and energy markets. As an operator in a regulated sector, this remains an area that we continue to monitor closely. We note in its latest announcement the company flagged the potential for increased regulatory intervention. While this could be a risk to the business by constraining inflation recovery, we note the company retains a strong relationship with end customers (no disputes over its pricing mechanism to date) that should hold it in good stead. The major drivers of higher gas prices are found elsewhere in the supply chain, we would argue so any potential changes should not present a major risk to the business. • Commitment to gas transmission, as well as building out its renewable energy portfolio, should stand the business in good stead for the long-term unlike legacy generators still reliant to varying extents on coal-fired power plants. • Overall, the business continues to track well in its core gas transmission and the beginning to see progress on its acquisitions and investments to date with additional upside if these are ultimately successfully in earning good returns on the capital employed. In the meantime, investors are earning a high single digit dividend yield with reasonable certainty on mid single-digit earnings growth (EBITDA is expected to expand 8.2% p.a. from FY23 to FY27 on current consensus forecasts) due to a mix of inflation-linked tariff increases and growth in its energy generation capability.

AUB Group (ASX: AUB)[1]

Share price	8/3/24: $31.08
Result	H1 FY24
Revenue	$635.7m, up 36.4% on the pcp
Underlying EPS	$0.6476, an increase of 34.4% on the pcp
Key points	• Revenue growth was strong across all divisions with all achieving double digit growth including the core Australian Broking segment. Agencies and New Zealand segments were the strongest contributors with revenue up 45.4% and 37.3% respectively and seeing material margin expansion as well. • Underlying net profit after tax (UNPAT) rose 50.5% for the half. This was driven by a mix of organic growth (33%), inorganic growth (38.4%) offset by funding costs (-19%) and divestments (-1.9%). • The Tysers UK business also saw continued improvement with the business expected to achieve target revenue and cost synergies by the end of June 2024. • The company also launched a large, successful refinancing of its debt facilities in January to fund future acquisition growth which saw a meaningful reduction in its interest costs as the new blended margin is BBSY + 1.89% versus BBSY + 4.5% previously, a 2.6% saving. • On the back of a strong first half and positive outlook, management upgraded its FY24 UNPAT guidance to $166m, an increase of 4.4%.
Our comments	• This was a strong result for AUB Group and continues to highlight the twin drivers of performance in organic growth and growth by acquisition that continue to drive a meaningful uplift in EPS with limited dilution. • The dividend uplift is also encouraging with 17.6% growth on the prior year result, fully-franked as well, underpinning investor returns going forward. • We expect the business to continue executing successfully on its current strategy. It remains our preferred way to play on rising insurance costs given the drive for savings will continue to prompt increased activity with brokers, such as AUB's network. • The potential for further overseas expansion is attractive given successful execution is a well-trodden path with global giants, such as Aon or Arthur Gallagher, showing the way in delivering exceptional long-term investor returns with this approach. We caution that in AUB's case it is very much early days with Tysers executing well to date and management will need to be diligent in their capital discipline to ensure only the right acquisitions at a fair price are purchased, and the overall Group returns on investment are not impaired.

[1] Company Transcripts, Reuters and Bloomberg

BHP Group Ltd (BHP: AU)

Share price	8/3/24: $43.95
Result	1H 2024
Revenue	US$27.2b, up 6% on the pcp
Underlying profit	US$6.6b, flat versus the pcp
Key points	• BHP saw revenue growth of 6% thanks to a combination of higher iron ore and copper prices, as well as volume growth from the production of new mines, such as Prominent Hills. These were partly offset by a 65% decline in realised coal prices which offset a 43% increase in sales volumes for its NSW thermal coal business. • The business announced the divestment of its 50% stake in two coking mines held in a joint venture with Mitsubishi Development, which have been sold to ASX-listed Whitehaven Coal for up to US$4.1b. This reduces the contribution to overall earnings, although we note through its NSW coal business, it still retains meaningful exposure to thermal coal. This divestment does see the concentration of remaining coking coal shift towards higher quality with a strong long-term outlook for the sector giving the resource's critical role in steel production. • Overall, underlying EBTIDA rose 5% on the pcp to $US13.9b. This lagged the increase in revenue due to higher cost pressures in wage growth and equipment pricing inflation offset only partially by the normalisation of consumables prices, such as diesel. • Outside of these factors, what BHP describes as "controllable" drivers were a drag of US$0.4b due to a mix of weather impacts and other drivers. This was mostly negated by increased volumes from the commissioning of new mines. • "Exceptional items" were a large feature in the result with a US$5.6b charge taken. This was driven by two factors. First, a non-cash impairment of US$2.5b due to non-cash impairment of its WA Nickel business, as a crash in nickel prices due to increased Indonesian production saw it re-evaluate the economics of this business with a period of mining shutdown being contemplated. Additionally, there was a provisioning of US$3.2b taken against the prospect of further cost obligations to resolve historic claims from the Samarco dam collapse in 2016. • The Group also highlighted its organic opportunities for additional copper production, as well as potash to diversify from its leading iron ore franchise and profit from metals necessary for the transition towards more renewable energy production. As part of this, it is guiding to approximately US$11b on average in capital spending over the medium term (beyond FY25).
Our comments	• The business is tracking well in its current operations with the recent surprise on nickel prices difficult for management to counteract. • Two risks loom. First, the prospects for iron ore amidst continued weakness in China. Management noted that 2023 saw real estate challenges more than offset with growth in infrastructure, autos and machinery within China with the country also seeing net steel exports hit a 7-year high. India also continued to be called out as a source of ongoing demand with 140Mt of steel produced and the government targeting 300 Mtpa by 2030, a meaningful improvement albeit dwarfed by current Chinese production of over 1Bt. Management also expects supply growth will not be sufficient to offset the higher-cost production required to match demand for iron ore with iron ore prices expected to find meaningful support in the US$80-US$100/t range and China news flow to remain the dominant swing factor for prices. • The second risk lies in maintaining strong returns for investors with its extensive expansion plans. This is a meaningful uptick on recent investment spending and given an environment of still elevated inflation, we will be watching this execution closely to monitor for any loosening in capital discipline.

	• Lastly, the return of capital to shareholders remains intact with an interim dividend of US$3.6bn (US$0.72 per share) versus free cash flow generation of US$3.8b for the half.

Car Group Ltd (CAR: AU)

Share price	8/3/24: $36.30
Result	1H 2024
Revenue	$530.7m, up 60% on the pcp
Underlying EPS	$0.432, an increase of 25% on the pcp
Key points	• A strong first half for FY24 with market leadership across key regions and strong performance from its US acquisition, Trader Interactive, as well as the increased exposure to Brazilian subsidiary webmotors. • In Australia, the business saw double digit revenue growth across its major business segments with improved penetration of higher value products underpinned by a robust private seller market. • Management maintained guidance for “good growth” in both revenue and EBITDA in FY24, as well as flagging an expansion in profit margins for the full year. This is expected to be broad-based with both Australian and International operations continuing to perform strongly. • Underlying EPS growth lagged broader business results due to the share issuance in the half to fund the acquisition of further stakes in its US subsidiary, Trader Interactive, and its Brazilian business, webmotors. • Cash flow conversion remains strong with reported EBITDA converting to cash at 98% over the period consistent with prior half-years.
Our comments	• The company continues to execute well in its leading domestic franchise achieving margin expansion and impressive growth despite a challenged environment for household spending. This is arguably being supported by still elevated backlogs for new cars that is seeing activity in used car sales remain elevated. • We remain positive on the company’s longer-term prospects given its commanding market position domestically and strong overseas execution to date in Korea, the US and Brazil. • Our main concern is that the business has re-rated to a substantially higher valuation on the back of its successful execution and growth. It is currently trading at ~36x its 2025 consensus EPS versus a long-term average of ~25x, a material premium. Part of this is undoubtedly justified by the strength of the business performance and an improved recognition of its moat by the broader market. It may be prudent to reducing exposure slightly given the excessive rally we have seen in both this and other perceived “growth” names in the Australian market.

Coles Group Ltd (COL: AU)

Share price	8/3/24: $16.75
Result	1H 2024
Revenue	$22.3b, up 6.7% on the pcp (continuing operations excluding Coles Express)
EPS	$0.445, down 3.9% on the pcp (continuing operations excluding Coles Express)
Key points	• Revenue rose strongly for the period driven by strength in the core supermarket retail business, which saw sales growth of 4.9%. Liquor remained anaemic with revenue only growing 1.8%. A supply arrangement with Viva Energy, the new owner of the Coles Express business saw an uplift on revenue growth to 6.7% overall. Excluding this one-off impact, sales expanded 4.6% for the half. • Group profitability contracted due to rising interest rates. Underlying earnings before interest and tax (excluding Coles Express) rose 3.3% for the half supported by the stronger supermarket performance. However, a 13.9% increase in financing costs saw overall net profit after tax fall marginally by 0.3%. • The result exceeded consensus expectations for both revenue and earnings driven by a stronger-than-expected result in the supermarket business. • In addition, management provided a reassuring outlook for supermarket revenue growth with revenue rising 4.9% in the first eight weeks of the second half of FY24, a stronger result than main peer Woolworths. Liquor remained a point of weakness however, with a 2.2% decline in sales over the same period. • Management downgraded their cost guidance by $20m with project implementation costs coming in lower than expected. • Lastly, the business expects positive volume growth in its supermarkets franchise and improvement in theft-related losses that have been called out in recent halves following investment in security upgrades. Inflationary pressures are expected to remain but be offset by continued investment initiatives to improve inventory management and overall productivity.
Our comments	• Coles continues to navigate the current environment well particularly via its supermarkets franchise. After some cost control issues, it appears that reinvestment in the business is continuing to gain traction with automated distribution centres due for commissioning in the near-term another potential source of improved margins via productivity gains. • Notably, liquor sales growth was a source of slight weakness with Endeavour Group's 2.5% retail growth by contrast, indicating the latter had likely taken increased market share in contrast to the Coles range. • Strong stakeholder relations were also flagged in the results release with management focusing on its varied supplier relationship and favourable dealings. This is an important battleground with supermarket chains in the firing line currently over excessive profiteering ahead of an upcoming ACCC supermarket inquiry. • Overall, the business looks primed to offer a reasonable yield (3.9% pre-franking to FY24 consensus) and strong single digit earnings growth at a reasonable valuation remaining an attractive defensive allocation within the portfolio in our view.

CSL Ltd (CSL: AU)

Share price	8/3/24: $285.47
Result	1H 2024
Revenue	US$8.05b, up 11% on the pcp (in constant currency terms)
Underlying EPS	US$4.26, up 13% on the pcp (in constant currency terms)
Key points	• The recovery in plasma volumes underpinned an overall improvement in the core CSL Behring business. Plasma collections were strong while collection costs continued to trend lower, supporting improved profitability with the operating margin expanding from 40.8% to 42.4% in USD terms. • Immunoglobulin sales of $US2.76b were up 23% in constant currency terms with strong growth across all major regions driven by improved supply conditions and strong patient demand. Other segments within Behring also showcased high single digit sales growth to see the overall division sales up 14% in constant currency terms. • Reduced immunisation rates saw slower growth in its Seqirus division with sales up 2%, while profitability softened from weaker pricing growth (due to elevated competition) as the operating result was up only 1.4%. • Vifor achieved total revenue of US$1b for the half. An improvement on the $US0.9b achieved in the pcp, though that was only 5 months under CSL ownership. Essentially, this business line appears to be under pressure due to a mix of increased competition and regulatory challenges that has seen management note their lower expectations for near-term growth. • The outlook for FY24 was re-affirmed with revenue growth of 9-11% in constant currency terms and an expected NPATA result (underlying profit measure) of $2.9b-$3b, representing 13-17% growth (also in constant currency terms).
Our comments	• The business of CSL's core Behring franchise consists of two aspects. First, "mining" or collecting plasma from its network and second, taking that raw material to create a range of vital medical treatments. The improvement in collection costs highlighted in this result coupled with strong patient demand for its leading products is continuing to see a gradual recovery in margins for Behring that should underpin earnings growth in the near term. • The performance of Vifor looks to be a disappointing start initially with subdued growth and a need to deliver a turnaround in the acquisition to justify management's outlay to date. This remains an area we will continue to monitor, particularly as its purchase saw higher net financing costs as a result of debt taken to finance the Vifor acquisition which reduced earnings growth in a higher rate environment. • The CSL112 drug failed to prove material efficacy in trials testing its effectiveness at treating cardiovascular disease. There are other late-stage drugs in trial phase that may lead to promising results with regulatory reviews already underway in one case and trials commencing for others. The failure of CSL112 was a disappointment that saw the share price correct slightly on the day of the announcement as it tempered longer-term growth expectations. • Lastly, the re-affirmation of guidance is encouraging especially in the context of a subdued Vifor and Seqirus performance as the Group looks to move past the challenges of the pandemic and grow its franchise further. It also showcases the strong bounce back in the core Behring business that is expected to drive earnings growth in the near-term.

HUB24 Ltd (HUB: AU)

Share price	8/3/24: $41.74
Result	1H 2024
Revenue	$156.7m, up 14% on the pcp
Underlying EPS	$0.362, up 12% on the pcp
Key points	• Hub24 saw a strong first half of FY24 with record inflows of $7.2b, leading the overall industry in flows over the past year. Total funds under administration (FUA) reached $72.4b as of 31 December 2023 • The strong inflows underpinned expanding revenues in its core Platform business, which rose 17% on the pcp whilst underlying EBITDA was up 16%. Profit growth lagged sales due to the inclusion of a new acquisition, myprosperity, which is an early-stage software offering that is currently loss-making. In addition, lower spreads on deposits offered to investors also detracted from profitability. • Its Tech Solutions division was somewhat lacklustre by contrast with revenue growth of 4% but profitability going backwards as underlying EBITDA declined 4%. This was driven by a mix of initiatives investing for future growth, as well as higher staff costs. Disappointing growth in its Class acquisition was also a feature where the mature industry backdrop and incumbent competition has seen limited traction in synergy benefits to date under Hub24 ownership. • Managed accounts remain a growth area with FUA rising over 26% for the year to $32.7b. Hub24 has an 18% market share of June 2023 and still has scope for further growth given the size of the market. In addition, amongst advisers the solution is still growing in use with now 56% of financial advisers employing some form of managed account option, up from 30% in 2018, • Management has guided towards ambitious 32.6% growth in FUA to FY25 within a range of $92b to $100b. This is expected to be accompanied by strong revenue growth and expanding profitability. • New features were also flagged as the business looks to improve its offering for wholesale investors including improved reporting and non-custodial solutions for off-platform investments, such as direct shareholdings overseas and unlisted managed funds with a rollout planned in March 2024. This is in line with what leading rival Netwealth has also been working towards.
Our comments	• The quality of the Hub24 platform offering remains intact with strong growth compared to established industry peers and the leading "challenger" option in terms of growth and customer satisfaction. • Tech Solutions was disappointing in its overall result and more work needs to be done to improve outcomes in this space with management's spending on further investment needing to deliver results to justify its strategy here. While it is clear management has ambitious goals to become a broader centrepiece in household finances, the actual entrenchment of these solutions and their ultimate growth is more difficult to ascertain at this juncture. • Some lingering concerns to monitor will be the extent to which competition from established peers in terms of platform pricing may impact net inflows given the lofty valuation premium Hub24 and to a lesser extent, Netwealth, both enjoy. • In addition, there remain question marks over its Tech Solutions division, specifically its ability to drive meaningful growth and improve lock-in for the Platform business given the capital already deployed to date and to ensure these acquisitions do not become material distractions from the core business.

NIB Holdings (NHF: AU)

Share price	8/3/24: $7.99
Result	1H 2024
Revenue	$1.7b, up 12.4% on the pcp
Underlying EPS	$0.22, up 15.8% on the pcp
Key points	• Revenue growth was driven by strong policyholder growth (up 3.7%) in its core Australian private health insurance, as well as continuing recovery for its international inbound health insurance (iihi) and New Zealand offerings. • We saw a normalisation of claims expenses continue following the pandemic. Incurred claims for the Australian business were up 9.1% for the half driven by a mix of this normalisation and strong policyholder growth. Underlying claims inflation was within management expectations of 4-6%. • The net margin for the Australian business was a surprisingly high 9.7%, well above the longer-term average of 6-7%. This was largely driven by a favourable liability adjustment as provisions against future claims were unwound due to better-than-expected experience. Adjusting for this liability movement the underlying margin was a still strong 7.7% for the half. • Performance in the other business segments was mixed. International inbound insurance saw its strongest sales ever in the first half with 23% in revenue growth split between students and workers. A notable expansion of profit margins was a highlight of the result with underlying operating profit up almost 59% and the net margin rising from 9.3% to 11.1% for the half. Continued investment in telehealth and other online initiatives drove a material improvement in net promoter scores due to stronger member service levels which should assist in policyholder retention. • In New Zealand by contrast, a strong revenue result (up 11.8%) was undermined by heightened cost inflation in both claims and other costs with overall underlying operating profit down 7.4% as a result. This was an industry wide challenge across both consumer inflation and service costs. Management was confident that these issues would not persist indefinitely and highlighted both pricing power relative to regulations in Australia to recover margin, as well as the strong secular growth story given New Zealand's population growth as reasons for confidence over the long term and slightly higher margins than the Australian business. • The company's NDIS foray remains on track with the new NIB Thrive division contributing $6.4m to underlying operating profit. Pleasingly, this business is achieving organic growth of almost 4,000 additional participants to date, which will be important to achieving on ambitions for this sector. • The Travel business saw a hit to overall operating profit (falling 36%) driven by the loss of a contract with Qantas. In December, a new partnership with Woolworths was announced, which should help to offset the volume loss in time. Excluding the Qantas contract, overall sales were up 3.7% thanks to still resilient travel demand. • Lastly, the firm maintained its FY24 outlook for net policyholder growth of 3-4%.
Our comments	• NIB remains the leading private health insurance franchise in our view with attractive returns on capital and business results relative to peers. • Some issues such as New Zealand claims inflation should ultimately prove temporary in the context of the firm's longer-term growth trajectory. Pricing power is also being highlighted with a 4.1% average hike in health insurance premiums to underpin revenue growth in the near term (full impact in FY25 as hike is effective in April 2024). Optionality from new acquisitions in Thrive, as well as growing health startups, should improve customer retention and gradually reach profitability over the medium term.

Origin Energy Ltd (ORG: AU)

Share price	8/3/24: $8.93
Result	1H 2024
Revenue	$617m, up 5% on the pcp
Underlying EPS	$0.434, up 1736% on the pcp
Key points	• Underlying profit for the business was up strongly to $747m from $44m in the pcp. This was driven by improved profitability across all business divisions. • Its exposure to the Australia Pacific LNG gas field was a notable support with increased production and steady demand as one of the largest gas suppliers to the Australian East Coast market. • The Energy Markets division also performed well across both electricity and natural gas segments with higher prices allowing for more recovery from elevated wholesale costs as well benefitting from lower fuel costs. • The retail segment also saw continued growth for the sixth straight half with the addition of 56,000 new accounts to a total of 4.6m. • Investing for the future was a focus of this results with approximately $1bn committed to two large scale batteries at existing power stations, as well as exploring greenfield development of wind power assets both onshore and offshore. • Finally, the company increased its position in leading UK energy retailer and software provider Octopus Energy to 23%, up from 20%. Octopus is now the UK's second-largest energy retailer, and its Kraken software has over 50m licensed accounts globally as it continues to grow penetration with other utility providers. • Management outlined its confidence in the business performance with upgraded guidance for its Energy Markets division in FY24. In addition, it issued a strong upgrade in its interim dividend of $0.275, up 67% from $0.165 in the pcp. As part of the announcement, a new distribution policy was flagged for August release with heightened expectations for stronger shareholder returns in the form of dividends and buybacks on the back of the improved fundamental performance.
Our comments	• Overall, this was a strong result flagging the diverse asset mix and drivers of expanding profitability for Origin. • The business is being progressive in its investments for future power generation and storage, while also retaining additional upside from its minority stake in fast-growing Octopus Energy, which has shifted into profitability. • The improved dividend will also support returns going forward and we anticipate a formalisation of the company's policy in August should be additive to shareholder returns going forward. • The company did also flag some retreat from current elevated electricity prices as a detractor for FY25, but we believe that there are sufficient avenues for growth elsewhere in the business to help offset this decline in line with management's guidance.

Rio Tinto Ltd (RIO: AU)

Share price	8/3/24: $119.89
Result	FY23
Revenue	US$54.04b, down 3% on the pcp
Underlying EPS	US$7.25, a decrease of 12% on the pcp
Key points	• Revenue fell sharply driven by weaker commodity prices, notably aluminium with increased production (up 3% overall) unable to offset the price weakness, a contrast to the BHP result though we note the underlying commodity mixes differ between the two majors. • Underlying EBITDA fell 9.1% to US$23.9b, down from US$26.3b. • Weaker prices were a notable contributor (-US$1.5b). Unit cost factors (-US$1.6b) were another driver including decisions, such as the Kennecott copper smelter shutdown. These were partly offset by favourable exchange rate movements (+US$0.6b) and improved volumes and production mix (+US$0.4b). • Input cost inflation is projected to be an ongoing issue for iron ore with a 5.2% increase guided for FY24 due to persistent wage and parts inflation in Western Australia. • Increased scale in copper production is expected to yield a material improvement in unit costs with a 23% decline provided in the outlook that should support higher margins. This material decline is driven by increased volumes at its Mongolian mine Oyu Tolgoi, as well as improved production of refined copper following a smelter rebuild at its Kennecott mine in the US.
Our comments	• The Rio result shares similarities with BHP where a decline in prices drove weakness in earnings. In the Rio case, the impact of increased production was insufficient to offset pricing and other impacts. The inflationary cost pressures continue to be an industry-wide challenge particularly in certain locations, such as Western Australia. • Future growth options, such as copper, remain a priority with capital redeployed into its Oyu Tolgoi operations looking to bear meaningful results in economies of scale from this year, as well as other capital spending opportunities. In addition, the first production of its giant Simandou joint venture in Guinea (producing together with several Chinese firms) looks set to drive growth capital spending but should result in a new Tier 1 iron ore resource of high quality and low cost, supporting earnings growth over the medium term. • The commitment to returning capital also appears intact with both miners acting more responsibly towards shareholders than in the previous mining boom by all accounts. • Management optimism for Chinese iron ore demand remains intact with the country importing a record 1.18Bt in 2023 thanks to elevated domestic consumption. This is expected to persist due to strong infrastructure investment and growth in manufacturing output, though we note this is ultimately contingent on other countries accepting Chinese steel, which may be subject to increased scrutiny in the near-term including sanctions or other anti-dumping measures, such as tariffs.

ResMed Inc (RMD: AU)

Share price	8/3/24: $28.97
Result	Q2 FY24
Revenue	US$1.16b, up 12% on the pcp
Underlying EPS	US$1.88, up 13% on the pcp
Key points	• ResMed delivered a strong quarterly result thanks to double-digit growth across its key business divisions – sleep and respiratory care, and software. • This saw it beat consensus expectations for both revenue and earnings per share by 1.3% and 4.8% respectively, prompting a sharp rally in the share price. • The at-home software offering continues to grow at a strong, double-digit, pace and is leveraging artificial intelligence solutions including its ComplianceCouch offering, which models and flags the most at-risk patients to a home medical equipment provider to improve adherence to the therapy program and better health outcomes as a result. • Management also flagged continuation of its buyback program with a run-rate of $50m per quarter alongside a quarterly dividend of US$0.48 per share. • The business also published a study into sleep disorders highlighting the secular growth story still expected to play out and its relative lack of penetration. • Management continued to reiterate that fears of GLP-1 weight-loss drugs leading to less obesity and therefore weaker demand for ResMed devices were unfounded. They cited a study of over 529,000 patients on GLP-1 prescriptions and found there was a 10% increase in take up of positive airway pressure (PAP) therapy. Similarly, they have also found it less likely that those on GLP-1s will discontinue their therapy entirely with stronger than average recurrence in treatment.
Our comments	• The ResMed mix of medical devices and software diversified across regions is continuing to deliver strong growth defying the concerns of GLP-1 headwinds to date. These headwinds could remain a near-term factor with a new trial result by biotech name Viking Therapeutics, suggesting it could have its own highly viable GLP-1 solution hampering the ResMed share price subsequently. • The competitive threat of rival, Philips, also appears substantially reduced following a January settlement with US authorities that will prevent any new device sales until it makes the necessary changes to its production process, which may take up to 5-7 years according to comments by CEO Roy Jacobs[2]. Philips is also facing lawsuits alleging health damage from their devices, which will add to the challenge of recovering the market share it has lost given the reputational damage inflicted. • Ongoing investment in the business was a recurring theme in the call with new software and product features being highlighted to investors and management flagging their ongoing investment of 7% of revenues into research and development. • Overall, the strong underlying growth and commitment to capital returns to investors was reassuring that business fundamentals and growth both remain intact. The continued strong performance should contribute to a gradual recovery in the share price as business performance highlights GLP-1 concerns were overplayed.

[2] B. Meijer, 'Philips' US sales of sleep apnea devices face years-long halt after FDA deal', *Reuters*, https://www.reuters.com/business/healthcare-pharmaceuticals/philips-reaches-compliance-agreement-with-fda-over-ventilator-recall-2024-01-29/, (accessed 8 March 2024).

South32 Ltd (S32: AU)

Share price	8/3/24: $2.99
Result	1H 2024
Revenue	US$3.88b, down 14% on the pcp
Underlying EPS	US$0.01, down 93% on the pcp
Key points	• A weak revenue result was driven by commodity price headwinds, as well as lower metallurgical coal production. Record aluminium production and lower raw material input prices were an insufficient offset leading to an overall decline in underlying EBIT of 74% to $US236m. • The bulk of commodity price weakness was concentrated in aluminium, nickel and manganese with approximately equivalent declines in EBIT as a result of weaker prices. Higher input cost inflation in Australia, consistent with the BHP and Rio experience, also dragged on profitability. Lower coal volumes had an outsized impact reducing Underlying EBIT by US$267m with maintenance spending adding a further US$39m in costs. Higher net financing costs also weighed on profitability (the bulk of this related to the accounting treatment of discounting closure and rehabilitation provisions, rather than heightened interest costs) leading to an EPS decline larger than the EBIT experience for the business. • Management guided to a 7% production uplift in the second half of FY24. In addition, it either maintained or reduced the bulk of its unit cost guidance supporting earnings growth. • Capital returns slowed in the half with only US$180m returned to shareholders consisting of a US$145m fully-franked dividend and the remainder via an on-market share buy-back. Disappointingly, the company cancelled its on-market share buy-back in order to support balance sheet strength and flexibility including maintaining its investment grade credit rating. • Following their half-year results, the company announced the sale of its Illawarra metallurgical coal operations for up to US$1.65b. These proceeds are expected to strengthen the balance sheet and support the development of the company's current zinc and copper projects.
Our comments	• Capital spending for future growth has raised question marks recently. The company announced in mid-February its approval for an estimated US$2.16b program to develop the Taylor deposit in the US. This project is not expected to reach target production until FY30 and involves some questionable assumptions. First, it is reliant on a zinc price of US$3,207/t, a 30.6% premium to the current spot price and a 26.6% premium to the latest Bloomberg consensus forecast for the 2027 zinc price. While the company makes a reasonable case on limited new supply and growing demand for zinc the end IRR raises a second concern. The project is expected to generate an internal rate of return of only 12% p.a., which appears low given the capital outlay required, the cost overruns already experienced at this site and lastly, the depressed valuation S32 shares currently trade at. This begs the question of whether the proceeds for the Illawarra Coal sale might be better placed on either more attractive investments or on South32's own shares via an enlarged buyback program. • Current valuations are undemanding given a forward price-to-earnings ratio of ~10x and a forward cashflow yield of ~18% based on current consensus forecasts for FY25. This suggests a reasonable baseline of earnings power especially should base metal prices recover, which should underpin ongoing capital returns and reinvestment for future growth. We note current consensus pricing in generally positive across the South32 commodity portfolio, which will support earnings expansion materially if it transpires.

Sonic Healthcare (SHL: AU)

Share price	8/3/24: $28.48
Result	1H 2024
Revenue	$4.31b, up 5% on the pcp
Net profit	$0.2b, down 47% on the pcp
Key points	• The last remnants of COVID-testing revenue continued to plague the Sonic result for the half. COVID-testing revenue was $39m, down 90% on the pcp. Excluding this impact the base business saw revenue growth of 15% driven by a mix of acquired and organic growth. Organic growth for the half was 6.2% in constant currency terms. • The company achieved first-half EBITDA of $737m in line with its AGM guidance and flagged that it would meet its full-year guidance of $1.7-1.8b in EBITDA but towards the lower end of the range. CEO Goldschmidt also highlighted major cost-out initiatives as further support for its commitment to growing earnings in addition to the contribution of recent acquisitions. These initiatives coupled with improved traction from new acquisitions need to deliver a meaningful uptick in EBITDA, a 30.1% uplift on the first half result to meet the lower end of the guided result. Current consensus is effectively anticipating a slight miss on guidance at $943m vs the required $963m, which has contributed to recent share price weakness in our view. • The result amounted to a miss on net profit relative to consensus expectations due to higher-than-expected depreciation and amortisation charges, as well as the drag of higher interest rates with the additional $1b in net debt taken to fund new acquisitions contributing to this. Higher labour costs were another notable contributor to reduced profitability rising 12% for the year to December. Much of this 12% was due to currency effects and acquisition-related with the rise a more manageable 3.8% excluding these temporary factors. • Artificial intelligence was highlighted as a potential cost-saving tool in the next few years with the company commencing field trials of its first AI product from its Franklin.ai joint venture, while part-owned Harrison.ai continues to develop innovative radiology AI solutions. These are expected to support improved productivity and profitability over the longer term. They may come at a cost of dragging on margins in the near-term as it takes to time to build out and reach profitability.
Our comments	• The stretch in the current guidance does raise some concerns about whether management will achieve it given the headwinds associated with acquisition costs in the near term. • The current roll-up strategy (acquiring smaller pathology operators and integrating into the broader Sonic network) appears to be executing well with attractive returns on capital being maintained and an above-market level of growth, particularly when compared against the travails of other Australian listed peers, such as Healius. Regulatory headwinds, e.g. Belgian fees cut, do flag some of the risks with operating in regulated industries, but at the same time the recurring revenue and tailwind of ageing populations remain attractive qualities of this company. • Even if the guidance is not ultimately achieved, we believe the business retains an attractive pathway for future growth at a relatively undemanding valuation (20x FY25e EPS) with current consensus anticipating earnings growth in the high single digits from FY25 to FY27.

Transurban Group (TCL: AU)

Share price	8/3/24: $13.58
Result	1H 2024
Revenue	$2.125b, up 4.5% on the pcp
EBITDA	$1.331b, up 7.5% on the pcp
Key points	• A 2.1% increase in average daily traffic (ADT) across the portfolio underpinned growth in proportional toll revenue (up 6.3% on the pcp). The uptick in ADT was also bolstered by the opening of the M4-M8 link and Rozelle Interchange in Sydney, as well as the FedEx roadway in the US. This was partly offset by lower port activity in Sydney (container movements down 7% on the pcp), as well as construction projects, such as the Warringah Freeway Upgrade. • Despite rising interest rates, prudent capital management and hedging of almost 95% of its debt saw the cost of AUD debt rise only fractionally in the half by 0.2% to 4.3%. This was despite over $2.3b in gross debt raised or refinanced during the period. • Management in line with previous guidance upgraded the interim dividend by 13.2% to 30c per share. Some observers were disappointed that an upgrade was not forthcoming, but this may be driven by Sydney roadworks slowing revenue in the December quarter. The outlook remains for a total distribution of 62c per share (a 4.6% yield) with approximately 4c of this paid for out of capital releases from WestConnex and may not be sustainable without additional growth in toll revenue. • Over 67% of the existing toll road concessions remain CPI-linked and a further 6% employ dynamic pricing, offering a strong hedge against rising inflation and underpinning the profit and distribution growth over the medium term.
Our comments	• Transurban remains an attractive play on Australian population growth with inflation-linked revenues only add to the relative attractiveness offering a meaningful inflation hedge particularly given the lower (and fixed) cost of debt. • Cost overruns with asset expansion projects remain a point of concern that we are monitoring given the risk of political backlash and imperilling future projects. • Another challenge for the business is expanding its existing asset mix to perhaps add a new city, which could a meaningful uptick in both revenue and earnings growth. Melbourne at this stage appears difficult given ACCC opposition to a Transurban bid on the East-Link motorway. Brisbane extensions and North America initiatives appear the closest near-term prospects for expanding the network.

Telstra Group Ltd (TLS: AU)

Share price	8/3/24: $3.83
Result	1H 2024
Revenue	$11.7b, up 1.2% on the pcp
Underlying EBITDA	$4b, up 3.1% on the pcp
Key points	• A subdued revenue result nevertheless saw an uptick in EBITDA driven by a reduction in operating expenses. • Another key support for expansion in profitability was the 13.2% growth in Mobile EBITDA driven by customer flight following latest Optus outage, as well as cost discipline and price increases. The business has retained the bulk of customer gains from the Optus outage with 401k net subscriber additions for the half. This segment should continue to be underpinned by elevated population growth as well, which is a tailwind to new subscriber additions. • A 3.3% increase in the InfraCo Fixed business was also a notable support to earnings growth boosted by CPI-linked escalation pricing with the NBN for usage of Telstra' network. • There were material offsets in the Fixed Enterprise and International division results that dampened the result. In Fixed Enterprise, the decline in legacy higher-margin offerings had an outsized impact on profitability. Another higher margin offering, professional services, also struggled as customers reduced engagements and cut back on investment spending. The overall combination was a 67% decline in EBITDA for the half. • The international business saw revenue growth of 5% but EBITDA slide to 8% mainly due to unfavourable currency effects. Excluding the currency impact, EBITDA expanded 3% for the wholesale business. The Digicel Pacific business in Papua New Guinea (PNG) saw EBITDA growth of 1.8%, lagging the revenue increase of 4.2% due to increased operating costs. An unfavourable operating environment in PNG (increased violence and unrest) weighed on the underlying profitability of the business. • The Fixed – Consumer and Small Business division was able to offset a 2% revenue decline with a more than doubling of EBITDA thanks to higher pricing and improved productivity within the business. Improved NBN reseller margins were also a notable support in the face of continued market-share losses with cost optimisation also helping contribute to improved profitability. • Management tightened its guidance for FY24 Underlying EBITDA to $8.2b-$8.3b. This was a slight downgrade on a midpoint basis from $8.3b in its initial update to $8.25b. • The Board also authorised a fully-franked interim dividend of 9c per share, a 5.9% increase on the pcp.
Our comments	• The execution to its T25 strategy aimed at boosting outcomes for customers and investors appears mostly on target. Notable improvements include the growth in mobile while the slight EBITDA downgrade is concerning, but ultimately the longer-term thesis remains intact. • The pricing power in mobile remains a key driver of improved earnings growth in the near-term. Postpaid churn was 11.4% despite higher prices, which is a reasonable outcome given major competitor, Optus, left prices constant in the half. Ensuring churn is contained if they choose to leverage higher pricing will be an important area for us to continue monitoring. In addition, increased take-up of 5G amongst the customer base (on track for the T25 target of 95% population coverage) should also support profitability via network efficiencies that reduce operating costs.

International equity portfolio

Note: All figures are in USD unless otherwise stated. Results referring to percentage changes (increases/decreases) relate to the previous corresponding period (pcp) e.g. Q4 FY23 results are compared to those of Q4 FY22.

Aena SME SA (AENA: ES)[3]

Share price	8/3/24: €175.65
Result	FY23
Revenue	€5.14b, up 14.2% on the pcp
Underlying EBITDA	€3.02b, an increase of 21.3% on the pcp
Key points	• Aena saw strong revenue growth in 2023 driven by a material uptick in passenger traffic, which rose 16.2% to 314.1m passengers across the group compared with the 2022 experience. Overall, traffic is now 2.3% above 2019 levels pointing towards a final recovery from the ravages of the pandemic period. • Recent acquisitions in Brazil now see Aena assets comprise 20% of the country's passenger traffic as it looks to deepen its presence in Latin America's largest market. • This EBITDA result saw the Group exceed its pre-pandemic profitability a full year earlier than anticipated as part of their 2022-2026 Strategic Plan. • The Spanish regulator approved an increase in the annual maximum adjusted revenue that can be charged to €10.35 per passenger in 2024, a 4.09% increase that will underpin further growth in revenue and profitability. • Operating costs for the Group rose by 6.1% due to a mix of inflation and increased activity but were also partially offset by a substantial 45.2% decline in electricity costs for its core Spanish airport division. • The strength of the non-airport businesses was a highlight for the annual result. Commercial business lines (duty-free shops, food and beverage outlets, car parks etc) saw 24.7% revenue growth, while the real estate services also saw sales climb 21.8%. Overall, EBITDA for the Commercial business climbed 32.6%, while real estate EBITDA rose 20.5% on the pcp. Both segments are higher margin than the core air travel on the Spanish network supporting an expansion in overall profitability.
Our comments	• 2023 marked a strong year for recovery in the Spanish airport division with material expansion in sales and profitability. This despite Eurozone growth essentially flatlining for the year, makes the result notably impressive and suggests a high degree of pent-up demand. • Demand remains strong with the number of passengers now above 2019 (pre-pandemic) levels and passenger traffic coming in at the top end of the guided range (relative to 2019). • On pricing power, the authorised hike in maximum revenue charges per passenger will support growth in the core Spanish network going forward even if volumes see some signs of weakness. • One point of concern is the profitability of the Brazilian business given the capital outlays to date. There we are seeing notable traction with 18.9% growth in EBITDA although margins declined slightly. Management is positive on the growth story for the region, and we will continue to monitor closely to ensure it remains an attractive proposition.

[3] Company Transcripts, Reuters and Bloomberg

Abbott Laboratories (ABT: US)[1]

Share price	8/3/24: US$120.92
Result	FY23
Revenue	$US40.1b, up 11.6% on the pcp (excluding COVID-19 testing sales)
Underlying EPS	$US4.44, a decrease of 40.5% on the pcp
Key points	• Abbott exceeded its full-year guidance with $4.44 in Underlying EPS (excluding the impact of Covid testing sales). In three of its four major divisions the company achieved double-digit sales growth with Diagnostics the weakest at only 5.8% growth. • Management announced full-year 2024 guidance for adjusted diluted EPS of $4.50 to $4.70 (growth of 3.6% on a midpoint basis) and organic sales growth (excluding COVID-19 testing sales) of 8-10%. • In 2023, the business continued to recapture market share in its US infant formula segment and has now reclaimed its previous leading position on a volume basis. • The company announced US Food and Drug Administration (FDA) approval of GLP systems, Track, a new clinical lab automation system that will help optimise lab performance and safety improving productivity. It also began the first in-human procedures of its new Volt system to treat heart rhythm disorders with approval anticipated for its US clinical trial in the first half of this year. • COVID-testing sales declined sharply with only $US1.6b in revenue, an 81% decline in 2023. These should increasingly decline in relevance over the coming months in keeping with the current, decelerating trend and reduce the noise in Abbott's financials. • The company declared its 400th consecutive dividend and in keeping with the past 52 years was able to increase its dividend payout in 2023.
Our comments	• The recovery in elective surgery volumes is continuing to underpin overall growth with 15.4% organic growth in its key Medical Devices business supporting the 11% overall growth seen in 2023. • The guidance for FY24 EPS of US$4.60 (on a midpoint basis) looks potentially conservative given the 9% target for organic sales growth. This may be management's strategy to set the stage for easier guidance upgrades if the current momentum in business performance is sustained into 2024 similar to how it ultimately beat its original underlying EPS guidance in 2023. • While the stock's valuation has been impacted by GLP-1 fears (the idea being that lower obesity leads to reduced medical device demand), we are not seeing signs of any material headwinds to date and retain our conviction in the business. • Despite headwinds from weaker COVID testing sales, the business remains well-positioned for strong growth over time and investors will benefit from both this and a regular, increasing dividend presenting an attractive total return versus the broader market in our view.

Adobe (ADBE: US)[1]

Share price	8/3/24: US$556.04
Result	FY23
Revenue	$US19.41b, up 10% on the pcp
Underlying EPS	$US16.07, an increase of 17.2% on the pcp
Key points	• Adobe surprised expectations for both full year revenue and earnings by 0.2% and 0.9% respectively. The company also exceeded its guidance for underlying EPS by 2.4% for the full year. • Management guided to underlying EPS of US$17.60 to US$18.00 per share with revenue of US$21.3b to US$21.5b for FY24 reflecting growth of 10.8% and 10.3% respectively. • As with other multinationals, foreign exchange movements were a notable driver of outcomes financially. Revenue grew 13% in constant currency terms for the full year implying a 3% headwind from currency movements. • 11.5 million shares were repurchased during the year helping to bolster earnings per share growth with the existing diluted shares outstanding shrinking 2.5% as a result. • Business segments saw broad-based strength with Digital Media, Creative and Document Cloud all experiencing double-digit revenue growth of 11%, 10% and 13% respectively. Stripping out currency change impacts see these growth rates ratchet higher to 14%, 14% and 15% respectively. • Adobe's $US20b acquisition of Figma was abandoned following resistance from competition regulators. While disappointing, the embrace of new generative AI tools and growth in interest from its installed base of users suggests the core business retains a strong appeal and pricing power.
Our comments	• The core Adobe business has been rewarded by investors with upgrades to guidance and strong earnings growth seeing shares re-rate from ~ up momentum with upgrades on the back of this stronger performance seeing the business re-rate from ~19x forward EPS in Dec-22 to ~27x in early March, returning over 40% from this valuation expansion, which outweighed the still enviable 17.2% growth in earnings. • Its breadth of tools makes it well-suited to the rise of new or more popular forms of media for creatives and the building annual recurring revenue (ARR) book with an additional $US1.9b (similar to the 2023 result) expected to be added in net new Digital Media ARR. Signs of heightened churn here are an area we follow closely to see if alternative solutions might be gaining traction. • In summary, the core business is continuing to execute well in balancing profitability while spending for growth and should be able to compound earnings growth above the broader market in the medium term. • The failure of the Figma acquisition is still disappointing for both sides of the transaction with Figma arguably unlikely to fetch as lofty a price in the near term. That said management now has a chance to re-focus on the core business rather than be potentially distracted by the integration exercise that would have resulted had the transaction proceeded. • The unveiling of OpenAI's (a part-owned Microsoft business) new video tool Sora saw Adobe shares sell off in February as investors grew concerned about the potential for new competitive threats to Adobe's creative solutions. At this juncture, we feel these concerns are somewhat premature but note the stock has enjoyed a strong run over the past year including expansion in its valuation that can make it more susceptible to these corrections. We are monitoring Sora developments and will be watching management commentary closely to see if it is making any inroads in undermining the Adobe franchise.

American Water Works (AWK: US)[1]

Share price	8/3/24: US$118.61
Result	FY23
Revenue	$USb4.23b, up 12.3% on the pcp
Underlying EPS	$US4.90, an increase of 8.6% on the pcp
Key points	• The company exceeded both revenue and earnings expectations by 1.6% and 1.5% respectively for its 2023 result. • Earnings were supported by warmer and drier weather conditions, which added $US0.13 per share by driving increased water usage. On a weather normalised basis EPS growth was slightly lower with US$4.77 per share vs US$4.45 per share in 2022, a growth rate of 7.2%. • Importantly alongside its sizeable US$1.7b in equity raised the company was able to grow its rate base of water utility assets by $US2.7b or 10.7% compared to 2022. This is important as a support for growth over the longer term given a higher base of regulated assets enables higher revenue growth. Part of this increase was reinvestment in the existing network and the remainder consisted of 23 acquisitions across eight US states deepening its geographic footprint. • Management upgraded its 2024 EPS outlook by 1.9% to US$5.20 to US$5.30 per share thanks to a one-off adjustment related to the sale of a non-core subsidiary, HOS, a few years ago. The conditions for contingent consideration (agreed when HOS was sold) have been met and with the restructuring of a legacy note receivable equate to an uplift in the interest receivable and a one-off boost to EPS as a result. • Acquisitions remain important to the business with further expansion in the rate base targeted for 2024. Management has guided to a 14.8% increase, which would see expansion from US2.7b to US$3.1b as a result. This would be a mix of organic growth and inorganic expansion via acquisitions with $589m-worth currently under agreement as of 31 December 2023. • One potential detractor is a new set of proposed regulations by the US Environmental Protection Agency (EPA) to upgrade existing water service lines to reduce lead usage as an example. Management is developing cost estimates to understand the scope of potential costs that would result from this initiative. Important offsets will be the ability to recovery costs via higher charges to customers, as well as the extent to which water service lines are utility vs customer-owned, which has implications for who must fund the upgrade.
Our comments	• American Water continues to execute well at a fundamental level consistent with long term targets for both dividend and earnings growth of 7-9% p.a. • The value of its water infrastructure assets including embedded inflation protections has been showcased even in a tougher interest rate regime for the US. • One near-term risk and source of potential upside is the extent to which the business is debt-financed. Prospective US rate cuts later in the year could be an important catalyst for higher profitability with long-term financing costs reducing EPS by US$0.38 per share in 2023. • The prospective EPA regulations present a new risk to earnings potentially depending on how high the cost impost will be. Given the critical nature of AWK's infrastructure, we would anticipate much of this burden will be recovered from rate payers where their relationships and lobbying efforts will play an important role in managing any burden that results.

Alphabet Inc. (GOOGL: US)[1]

Share price	8/3/24: US$134.38
Result	FY23
Revenue	$US307.4b, up 9% on the pcp
Underlying EPS	$US5.80, an increase of 27.2% on the pcp
Key /points	• Google ended 2023 on a stronger footing supporting by the resilience of its core Search business and a growing contribution from its YouTube and Cloud segments. • Unfavourable currency movements remained a drag with 10% revenue growth for the year in constant currency terms, implying a headwind of 1%. • Management initiatives to reduce costs with sizeable workforce reductions yielded a meaningful improvement in net profit margins, which rose to 24% from 21.2% in 2022. • Google Cloud performance remained a positive with an operating profit reported for the December quarter coupled with higher margins of 9.4%. Revenue growth was also strong at 25.7% for the quarter. Profitability in this segment has been flattered somewhat by a large reduction in depreciation costs as the company extended the estimated useful life of servers and other network equipment. This one-off “sugar-hit” to earnings will not persist in 2024 and we will see a better reflection of underlying business economics as a result in the forthcoming quarters. The December quarter result was encouraging as it saw an acceleration in revenue growth and expansion in profitability. • The public perception of Alphabet’s AI offerings continues to be challenged with some notable own-goals in the effectiveness of its Gemini AI tool, particularly regarding certain political and cultural biases in its algorithm. • Management flagged a material step up in capital spending in 2024 to meet the growing demand for AI applications
Our comments	• The Alphabet group has shown signs of sensitivity to global economic conditions particularly in advertising demand. The secular tailwind of growth in digital advertising coupled with resilient properties, such as YouTube, have however given it a platform for continued impressive growth in advertising revenue. • Google Cloud remains a source of longer-term revenue growth and profitability with a re-acceleration of sales growth in the December quarter, a welcome sign of its attractiveness to clients. • The quality of the franchise, particularly its core Search business, remains intact in our view with its distribution advantage key to combating novel threats, such as AI-based solutions. • Cost management efforts were welcome in 2023 after a degree of over-hiring in the height of the pandemic. A more disciplined approach to costs should underpin earnings growth going forward though the test will be in the returns on the substantial capital being invested to profit from growth in AI tools.

Johnson & Johnson (JNJ: US)[1]

Share price	8/3/24: US$158.87
Result	FY23
Revenue	$US85.2b, up 6.5% on the pcp
Underlying EPS	$US9.92, an increase of 11.1% on the pcp
Key points	• Full-year revenue was mildly above consensus expectations whilst underlying EPS was in line with consensus. • A stronger US dollar dragged on international business performance, similar to other American multinationals with worldwide sales growth of 6.5%. Adjusting for currency fluctuations however revenue rose 7.4% over the period. • International sales were still a source of relative weakness rising only 3.8% in constant currency terms due to more anaemic growth from Europe (down 2.2% in constant currency terms) with other regions such as Asia Pacific and Africa up 9.5% and Western countries excluding the US up 15.8% on a similar basis. • At a segment level its MedTech offerings (medical devices) were a standout with 13.4% in sales growth on a constant currency basis versus 4% growth for the innovative medicine division. • Management updated their Dec-23 guidance for 2024 with sales growth of 5-6% re-affirmed and 7.4% in underlying EPS growth anticipated. These figures are arguably conservative given the strength of results from its medical device sales particularly the run rate seen at the end of the December quarter. • Ongoing lawsuits over the company's legacy talc products saw some resolution with the company announcing a US$700m settlement to resolve consumer protection claims across 42 US states. Cancer lawsuits over talc products and other claims still remain on foot, however with the company's effort to use the bankruptcy process to resolve the issue unsuccessful. • Management subsequently announced the US$2b acquisition of biotech Ambrx, which deepens its drug pipeline with innovative prostate cancer treatments and promising antibody drug therapies.
Our comments	• The business has shown the benefits of its diversified operations in being able to navigate a difficult macroeconomic backdrop and eke out earnings growth. The European experience is somewhat concerning but the macro picture should eventually improve and be a tailwind to growth in time. • Our opinion on JNJ as a mature but growing business at a reasonable valuation remains intact. The guidance for 2024 is arguably conservative with consensus fractionally higher at 7.5% growth. This could be a catalyst for further share price re-rating if medical device demand continues to hold up as strongly as it is currently. • The persistence of the legacy talc concerns is an issue that we are continuing to monitor closely given its potential to distract and weigh on investor sentiment until it is adequately resolved.

Microsoft Corporation (MSFT: US)[1]

Share price	8/3/24: US$409.14
Result	Q2 FY24
Revenue	$US62b, up 18% on the pcp
Underlying EPS	$US2.93, an increase of 26% on the pcp
Key points	• We saw signs of currency effects as a tailwind with revenue growth of 16% in constant currency terms and underlying EPS up 23% on a similar basis implying a tailwind of 2% and 3% respectively. • Cloud revenue was $US33.7b overall, up 24% (22% in constant currency terms) with highlights including Azure growth of 30% (28% in constant currency terms). • Sources of business weakness in past quarters appear to have bounced back notably. The Productivity and Business Processes division saw sales growth of 13% (12% in constant currency terms). Meanwhile, the consumer-sensitive, More Personal Computing division, was bolstered by the Activision acquisition increasing revenue by 19%. Within this segment, Devices revenue remain a point of weakness with sales declining 9%, although search and advertising revenues were a positive, up 8% on the pcp. • The company returned US$8.4b to shareholders via share repurchases and dividends during the December quarter. • Results topped consensus forecasts by 1.4% and 5.6% for revenue and underlying EPS respectively helping the business outperform the broader market for the March quarter to date (as of early March). • The company successfully completed its acquisition of Activision Blizzard in October 2023, which should support the creation of new content for its entertainment franchise (including products such as the Xbox and offer new pathways for revenue growth via monetisation of Activision's extensive, high-quality content with a range of leading and popular game offerings.
Our comments	• Microsoft is still performing strongly in underlying terms particularly with its cloud business. The diversified mix of currencies the business deals with have seen currency effects emerge as a tailwind in the current period unlike other US multinationals. • Our overall thesis on the business remains intact with the shift to cloud offering a path to continued earnings growth (an acceleration in Azure growth to 30% remains enviable for a business of this size and reach). It also offers returns on capital at a premium to the broader market and the acceleration of growth in recent months has justified its loftier valuation. The company remains a compelling investment in our view. • The company's minority stake in OpenAI will also be an important driver of performance over the medium term given the innovation within that business and the increased ties between Azure and OpenAI software offerings. Investor sensitivity to the potential of AI could be seen in the reaction of Adobe investors to the unveiling of Sora and we would expect more of the same in the quarters and years ahead as the use case continues to grow. The NVIDIA result was another illustration of encroaching into healthcare, and we expect it to continue to attract growing business and consumer interest which should support Microsoft revenue and earnings growth. • Management has also been much more forthcoming and proactive on communicating its approach to and entrenchment of AI across the business compared to Alphabet for instance with CEO Nadella flagging the improved productivity and adoption across its tech stack helping to acquire new customers and enhance the attractiveness of Microsoft solutions.

Nestle S.A. (NESN: CH)[1]

Share price	8/3/24: CHF 93.31
Result	FY23
Revenue	CHF 93b, down 1.5% on the pcp
Underling EPS	CHF 4.80, an increase of 0.1% on the pcp
Key points	• Overall revenue and earnings growth was impacted heavily by foreign exchange movements. Holding currency movements constant revenue growth was up 6.3% and underlying EPS rose 8.4%. Net divestment activity reduced sales growth by 0.9% in addition. • Organic sales growth for the year was 7.2%, which comprised pricing growth of 7.5% and volume growth (or real internal growth in Nestle's parlance) of -0.3%. • Volume growth in developed economies, such as the US and Europe, remains challenged, declining in both major regions over the full year. This was partly a consumer response to "trade down" for less premium products in response to high single digit/low teen price hikes by Nestle. • Another factor that had previously supported consumer spending resilience had been support payments from the pandemic period, which have now ended as noted in management's remarks. • Management provided its 2024 outlook for organic sales growth of approximately 4% and an improvement in profitability. Underlying EPS is expected to grow 6-10% in constant currency terms. Over the medium-term management guided to an expansion in its operating profit margin from 17.5% to 18.5% by 2025 with underlying EPS also expected to rise by 6-10% p.a. over this period.
Our comments	• Nestle continues to exert strong pricing power, leveraging the power of its brands with only a mild decline in volume growth (down 0.3%) despite the scale of its price hikes. • The business has performed well, given its global scope, in largely containing inflationary pressures in its cost base and also passing on increases to end consumers. A return to volume growth appears key for Nestle leadership given its 2024 guidance for only 4% in organic sales growth. The presumption there is that with input costs largely slowing if not outright deflating the company can afford to reduce the magnitude of its price hikes in recent years. Cuts in interest rates if they eventuate could also be an important catalyst for a re-rating as consumers focus on resilient businesses capable of generating attractive income generation. • Overall, the business remains well-placed to continue generating high single digit earnings growth without being overly troubled by inflationary challenges and returning capital back to shareholders in the form of dividends and buybacks. • The current valuation of 18.6x expected 2024 earnings is at the bottom of its long-term range and we expect a resumption of volume growth coupled with expected rate cuts could be important catalysts for a re-rating and above-market returns in that scenario.

Novo Nordisk (NVO: US)[1]

Share price	8/3/24: US$135.92
Result	FY23
Revenue	DKK 232.3b, up 31% on the pcp
Underlying EPS	DKK 18.62, an increase of 52% on the pcp
Key points	• Novo Nordisk had a strong result in 2023 with both revenue and earnings exceeding consensus expectations by 1.2% each respectively. • The result was driven by strong sales growth of 31%. Currency effects were a notable drag with sales expanding 36% at constant exchange rates, implying a headwind of 5% over the full year. • The key driver of the result was 38% growth in its Diabetes and Obesity Care business. This was due to heightened sales of its GLP-1 weight loss drug, which rose 48% over the full year. Its smaller Rare disease business continued to underperform with sales falling 16% due to a reduction in manufacturing output. • The company completed its first phase 3a trial of IcoSema, an oral GlP-1 drug (i.e. tablet format), which should enable it to keep up with main rival Evi Lilly that is engaged in similar trials of its own GLP-1 treatment. • Importantly, in the GLP-1 space the company has continued to hold onto market share with 54.8% of the overall market. It also increased its share of market value in the global diabetes market by 1.9% to 33.8% in 2023. • In its 2024 outlook management expects sales growth of 18-26% in constant currency terms and 21-29% in terms of operating profit on a similar basis.
Our comments	• Our overall view on the business remains intact that GLP-1 demand far exceeds current supply and will support above-market revenue and earnings growth over the near term. • We do note that other rival offerings are being pursued with US biotech Viking Pharmaceuticals highlighting its own GLP-1 treatments successful trial results with higher efficacy than either Novo or Evi Lilly's offerings. This company is still years away from successful commercialisation, but it does point towards the prospect of eventual increased competition, which would reduce profitability within this space. • Management remains focused on its pipeline with IcoSema looking to reach regulatory decisions in the second half of this year, which could be a catalyst for further share price appreciation. Other treatments remain underway in both diabetes and obesity care that are falling due for final decisions over the course of 2024 and could also serve as useful supports for revenue growth if efficacy is proven and approvals attained.

Nvidia (NVDA: US)[1]

Share price	8/3/24: US$926.69
Result	Q4 FY24
Revenue	$US22.1b, up 265% on the pcp
Underlying EPS	$US5.16, an increase of 486% on the pcp
Key points	• Nvidia issued a strong release for the last quarter of FY24. CEO Jensen Huang described demand for AI as reaching a tipping point with demand surging worldwide. • Its Data Center segment is the key driver with revenue growth of 409% on the pcp to US$18.40b while Gaming continues to recover strongly, rising 56% on the pcp to US$2.87b. The growth in Data Center revenue was driven by a broad set of industries, countries and use cases with generative AI's potential seeing a surge in AI-related investment. • The company announced a new partnership with AWS to host the Nvidia DGX Cloud software and accelerate the training of both generative AI and large language models (LLMs) on AWS with Amazon continuing to deepen its purchases of Nvidia chip designs to facilitate this partnership. A partnership with large data centre provider Equinix will also help entrench Nvidia chips and software demand across a larger user base with the unveiling of a fully managed private cloud service. • The scope of AI applications continues to widen with the company also flagging its foray into healthcare with the use of its Nvidia BioNeMo generative AI platform to explore applications in improving drug discovery. • Management issued March quarter guidance (Q1 FY25) for revenue of US$24b (± 2%) and gross margins of 77% (± 0.5%). They also noted an expectation for a slight contraction in gross margins to the mid-70% range and material growth in operating expenses in the mid-30% range. This operating expense outlook needs to be compared against the expectations for revenue growth with current consensus forecasts seeing Nvidia revenues up almost 80% for FY25 and underlying EPS up an impressive ~89%.
Our comments	• This has been a staggering start to the year for NVIDIA with strong revenue and profit growth seeing the share price almost double for the March quarter alone as analysts race to keep up with the surging sales and earnings growth. • Capital spending plans by major US companies, including Alphabet and Microsoft, should continue to underpin sales growth in the near-term. A meaningful slowdown in any of these players may result in a material correction in the share price if it causes investors to downgrade their growth expectations. • The development of alternative chip designs could be another headwind to the business although these appear to be more niche than the generalist approach NVIDIA has adopted. The Alphabet work in this area is a case in point with our understanding that the chips developed are optimised for internal infrastructure and use cases preventing their broader proliferation. They could however see sales to these businesses decline over the medium term as alternatives are pursued successfully. • We continue to be attracted to the high quality of the NVIDIA business and the broadening of use cases beyond "just" major technology companies will be important to the overall resilience of the business as we would anticipate a deceleration in sales at some point. Some analysts have evoked analogies to the tech bubble of the early 2000s in its share price growth and while we think that eventually it will undoubtedly disappoint these, the near-term runway remains attractive with an elevated but not excessive valuation in our view given the growth potential and return on capital we are currently observing.

Universal Music Group (UMG: EU)[1]

Share price	8/3/24: €27.00
Result	FY23
Revenue	€11.11b, up 7.4% on the pcp
Underlying EBITDA	€2.37b, an increase of 11% on the pcp
Key points	• UMG saw top line revenue rise 7.4% for the year to December or 11.1% in constant currency terms. This result was driven by strength across all business segments. • The Recorded Music result was driven by growth in subscription revenue, up 9.6% (12.8% in constant currency terms) with physical music revenue remaining resilient, up 14.3% (19.4% in constant currency terms) as changing consumer habits are leading to something of a renaissance for the category after a long decline in favour of digital music. Taken together, these movements saw adjusted EBTIDA for the division grow by 7.5% for the year (11% in constant currency terms). • Music Publishing saw revenue growth of 8.7% (12.3% in constant currency terms) driven by the Digital business (revenue up 12.5% in constant currency terms) with overall adjusted EBITDA up an impressive 14.6% (17.8% in constant currency terms), as a result of strong sales growth and operating leverage. • Adjusted EBITDA (a profitability measure) was up 14.6% in constant terms suggesting a headwind of 3.6% from currency movements with the adjusted EBITDA margin also 0.7% to 21.3%. • Management also announced a strategic restructuring of the business that it expects to deliver €250m p.a. in cost savings via headcount reduction and other operational efficiencies by 2026. They anticipate reaching some €75m in run-rate savings during 2024 and a further €50m in 2025 with the remainder achieved in 2026. These measures are expected to be accretive to EBITDA and should see profitability improve as a result provided the headcount reduction does not impair overall revenue growth. • Management also announced the expiration of its licensing agreement with TikTok effective 31 January 2024. This was in response to several issues including TikTok's low royalty payments, as well as its policy on artificial intelligence with UMG alleging the platform has been flooded by AI-generated recordings in effect a quasi-replacement of artists by AI. This is not expected to have a material impact on revenue with TikTok's low royalty payments, meaning the platform despite its size and reach only amounts to 1% of UMG revenue. Other platforms, such as Spotify, have been more forthcoming and notably other artist representatives such as the National Music Publishers Association in the US announcing its own TikTok license would end in April. • In recent legislative moves, we could also potentially see TikTok banned in the US on national security grounds, which would render this disagreement moot we note.
Our comments	• Our thesis of Universal Music as a diversified record label able to extract value from different facets of the music industry ranging from live events to streaming (e.g. Apple Music, Spotify) offerings as it benefits from its extensive catalogue of music rights. The bounce back in earnings from live events offers an added near-term bonus as a pandemic recovery story, as well though we note this impulse is fading somewhat with growth slowing but still in double-digit territory. • Universal Music will continue to be capital intensive to an extent as it needs to find and develop new artists to bolster its music catalogue. We would also expect some royalty acquisitions over time where the company sees the value in being opportunistic in adding new music royalties as part of its stable. • AI presents a new potential danger. We believe that some level of compromise will be achieved, however, given the real detriment that a zero regulations scenario would have for artists as well. In that sense, we see it as somewhat analogous to the risk

posed by online piracy until the industry found viable options in established platforms such as, Spotify, Apple Music and social media.

- The TikTok disagreement whilst disappointing in terms of the platform's influence ultimately makes sense for us. The platform remains highly controversial in the US given its China ties and as noted it may in fact be outlawed outright in the coming months if legislator goals are achieved. Thankfully, this is a relatively immaterial exposure in terms of revenue and earnings but if the platform does ultimately have a future in the West, we will hopefully see some kind of viable agreement be reached eventually.
- The cost-cutting initiatives being announced imply a sizeable of up to 10% on current Adjusted EBITDA which could be a source of material growth in the near-term. The main concern will be the extent to which, if any, lost staff lead to impairment of the strong sales growth of recent years. We will be watching management's progress on this path closely to ensure the overall business quality remains intact.

Vinci SA (DG: FR)[1]

Share price	8/3/24: €118.88
Result	FY23
Revenue	€68.8b, up 12% on the pcp
Underlying EPS	€8.18, an increase of 17.9% on the pcp
Key points	• Vinci saw broad-based strength across all its major segments in 2023 with property development the sole exception due to industry-wide struggles in the face of higher interest rates. • In its Concessions business (toll roads and airports), it saw traffic levels for Vinci Autoroutes continue to climb even in the face of higher fuel prices with total traffic up 1.3% on 2022. The Vinci Airports business saw strong growth akin to the experience at Aena with total passenger numbers up 26% versus 2022. As a result of the strong topline growth, the segment saw overall operating income (earnings before interest and tax) grow substantially by 28.8% even with the headwind of higher interest rates. • The Energy business continues to be bolstered by two secular trends consisting of the energy transition (towards less fossil-fuel intensive options) and digital revolution (moving businesses away from lower tech operations). This division grew top line revenue by 15% with operating income up 18.7% as profit margins expanded thanks to stronger operating leverage. • The more resource-intensive Construction and Cobra IS business lines also saw strong revenue growth of 7.5% and 17.7% respectively with operating income expanding by 14.5% and 19.2% respectively as profitability improved further. Cobra IS also entered into a commitment deed for a private-public partnership in NSW with the 35-year contract including the financing, construction and operation of 4.5 GW of renewable energy generation. • In its 2024 outlook, management outlined their confidence in the underlying businesses and expect both top-line and earnings growth to continue into 2024 even with an uncertain and weak macroeconomic environment in Europe. • The update on recent tax changes in France saw management dampen its outlook for 2024 with an expected impost of €280m as a result of the tax. They did flag their intentions to fight against the change given contractual provisions relating to their toll business so we may see a less severe impact depending on the outcome of this contest. Importantly, the order book in aggregate continued to expand in 2023 with 7% growth to €61.4b even in the face of a challenged macroeconomic backdrop expected to continue supporting the business with this book representing almost 13 months of average business activity. This should improve the overall resilience of earnings even if the macroeconomic environment were to worsen further.
Our comments	• This was a mixed result with the strength of the business performance in 2023 a resounding success and given the scale of incoming orders we have reasonable visibility that revenue and earnings will continue to expand at a high single-digit rate over the near term. The notable detractor was the planned tax impost affecting the French business. While we do take comfort in management's comments to date, we note this may be a protracted saga before relief for the business is finally achieved. • The continued commitment to shareholder returns with dividends growing 12.5% in 2023 and a further €397m in share buy-backs looks set to continue and should underpin capital growth and income generation in the near term. • Lastly, the tailwinds of the energy transition for example are improving the recurring nature of revenues in the more cyclical business lines. This may eventually lead to a re-rating in the share price as market awareness improves. Even if this does not transpire the improvement in earnings growth should see shareholder returns in the high single digits over the medium term.

Visa Inc. (V: US)[1]

Share price	8/3/24: US$278.26
Result	Q1 FY24
Revenue	$US8.6b, up 9% on the pcp
Underlying EPS	$US2.41, an increase of 11% on the pcp
Key points	• Visa saw a solid start to FY24 with high single digit growth in payments volume and processed transactions while cross-border volume remained in double digit territory, up 16% on the pcp. Importantly, consumer spending has remained resilient with the recovery in travel volumes seen for our airport stocks also being echoed in higher cross-border transactions. Operating expense growth of 7% lagged the expansion in the top line, which contributed to higher profitability for the quarter. • The business was supported by favourable currency moves with EPS growth slowing slightly to 10% on an adjusted constant-currency basis. • The business returned $US3.36b to shareholders in buybacks with a further $US1.1b paid in dividends. • The company announced its decision to take a majority stake in Mexico-based payments processor, Prosa, to deepen its Latin American footprint. It also announced the completion of its Pismo acquisition in January, which will enable Visa to utilise cloud-native APIs to provide client with core banking and card-issuer processing capabilities, as well as provide better ties to emerging payment schemes, clearly targeting emerging markets for potential growth. • In its full year outlook for FY24, management guided to low double-digit growth in both revenues and expenses with diluted EPS expected to expand with low-teens growth (current consensus is anticipating 13.3% growth we note). • In early March, the Reserve Bank of India announced banks could no longer forge exclusive partnerships with card networks, such as Visa or Mastercard. Card issuers must instead be given a choice of providers when choosing a new card with existing holders to receive this choice at renewal. This may affect revenue growth out of India due to increased competition.
Our comments	• Visa continues to play a role in global commerce as a key payments processor with its duopoly with Mastercard remaining intact. • Travel volumes are a notable boost to overall sales and as travel demand remains sustained it is helping underpin low-teen EPS growth. • The business has seen margin expansion more recently in line with the boost in underlying consumer spending further justifying our position as a high-quality exposure to global commerce with strong growth prospects going forward. • The news out of India is a potential concern if adopted in other economies as it might encourage further competition particularly in countries with low card adoption to date. We would expect the impact to be more muted where Visa and Mastercard are likely to be entrenched options already given the power of defaults in consumer behaviour.

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