ASX Earnings Insights: Motley Fool Halftime Report

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Part 1: Performance Of Our ASX Buy Recommendations

Welcome to part one of our follow up edition of the *Earnings Insights* report.

With this series of reports, our goal is to offer insights and analysis on the key trends impacting ASX listed companies. You can read the main report *here*.

In this edition, we go beyond the headlines and stock price reactions during the recently concluded earnings season to review the underlying performances of the companies we love and recommend to you.

We think this is particularly important given how volatile the stock market has been over the past few months.

During volatile periods, it's extremely hard to separate stock price reactions associated with company specific performance, from the noise coming from inflation fears, impending interest rate hikes and bouts of volatility caused by Russia's invasion of Ukraine.

Pullbacks make every investor question their long-term investing strategy even when it's entirely on track.

So how can investors guard against giving in to emotions, pessimism and fear and be forced out of their positions? One way is to focus on the underlying performance of the companies one is invested in.

This is exactly what this report intends to do for all the Buy recommendations across all our services here at the Motley Fool.

Read on to find out how the ASX companies recommended by the Motley Fool performed in the first half of FY2022.

When Markets and Fundamentals Disconnect

Few would disagree that the stock market has given investors an extremely challenging environment over the past several months, unless one was invested in energy and commodity companies.

Most major market indexes are down double digits and the carnage is much worse at individual growth company levels.

In fact, one of our Australian investing Fools recently quipped that, during the February earnings season, an earnings miss would see a company stock drop at least 20%; a good report would see a stock drop 10%; and a beat would see the stock trade flat. He was joking, but there was an element of truth to it.

The reason why we think markets have been challenging so long has to do with the nature of connection between the stock market and fundamental business performance.

In the long run, stock markets tend to follow the success of the broader economy, and individual stock prices rise or fall with the success or failure of a company's underlying businesses.

But in the short run -- even a period of a couple of months or years -- markets can and often do disconnect from underlying fundamentals.

We've all seen the impact during the most recent earnings season. One after another, share prices of growth companies, even those that reported strong revenue growth, have fallen significantly.

And the war that has gripped eastern Europe has only served to exacerbate the disconnect between stock price movements and business fundamentals.

Record Breakers For The Six Months Ended December 2021

The Motley Fool currently has 166 ASX listed buy recommendations across all our services. As of the date of this report, 148 companies had released their interim earnings results.

If all our buy recommendations were a company, below would be our scorecard.

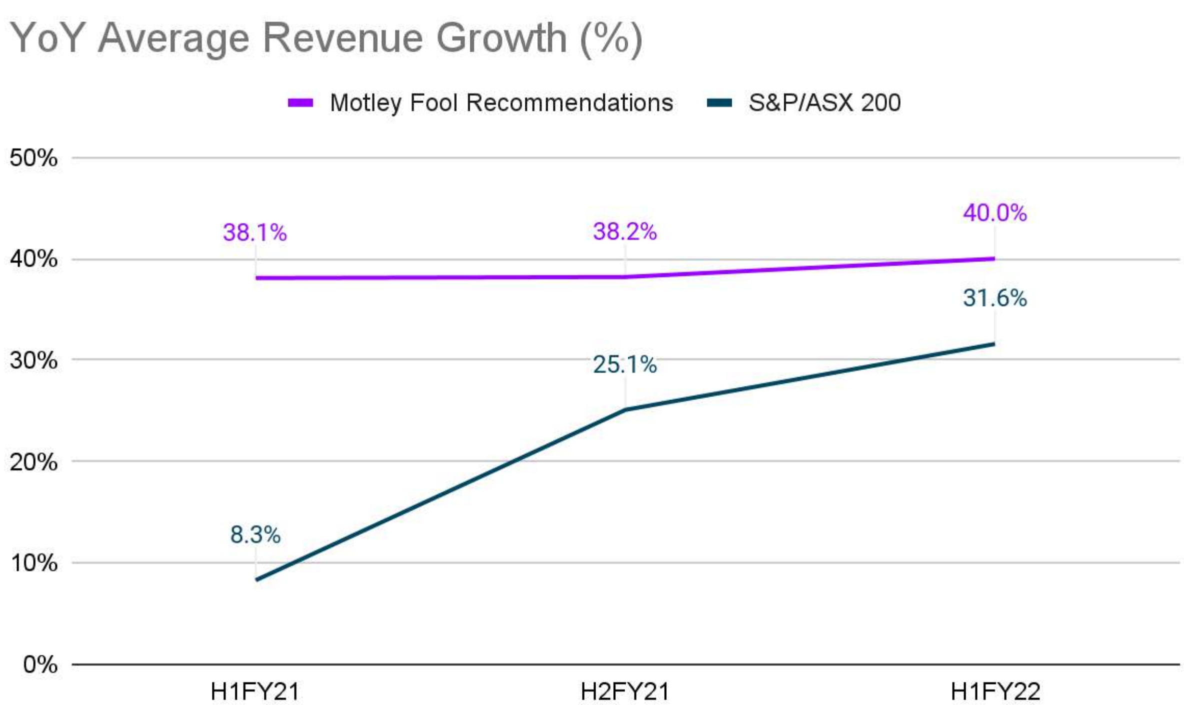
Income Statement

Our ASX listed buy recommendations reported a combined $122 billion in revenue for the six months.

92% of our buy recommendation reported a revenue increase, with the average revenue growing 40% year-over-year.

59 of the 148 companies (i.e. 40%) grew revenue by more than 30% year-over-year. 40 companies (i.e. 27%) grew revenue by more than 50% year-on-year and 15 companies (i.e. 10%) grew revenue by more than 100% year-over-year.

Insight: These numbers compare favorably with S&P/ASX 200 companies where only 77% of the companies reported revenue increase with an average revenue growth of 31.6%[1], up on the back of Covid-related recoveries across different industries. Motley Fool recommendations on average tend to have higher revenue growth than the typical company listed on the ASX. Research conducted by BCG and Morgan Stanley shows that over 10 year periods, revenue growth accounts for as much as 74% of shareholder returns.

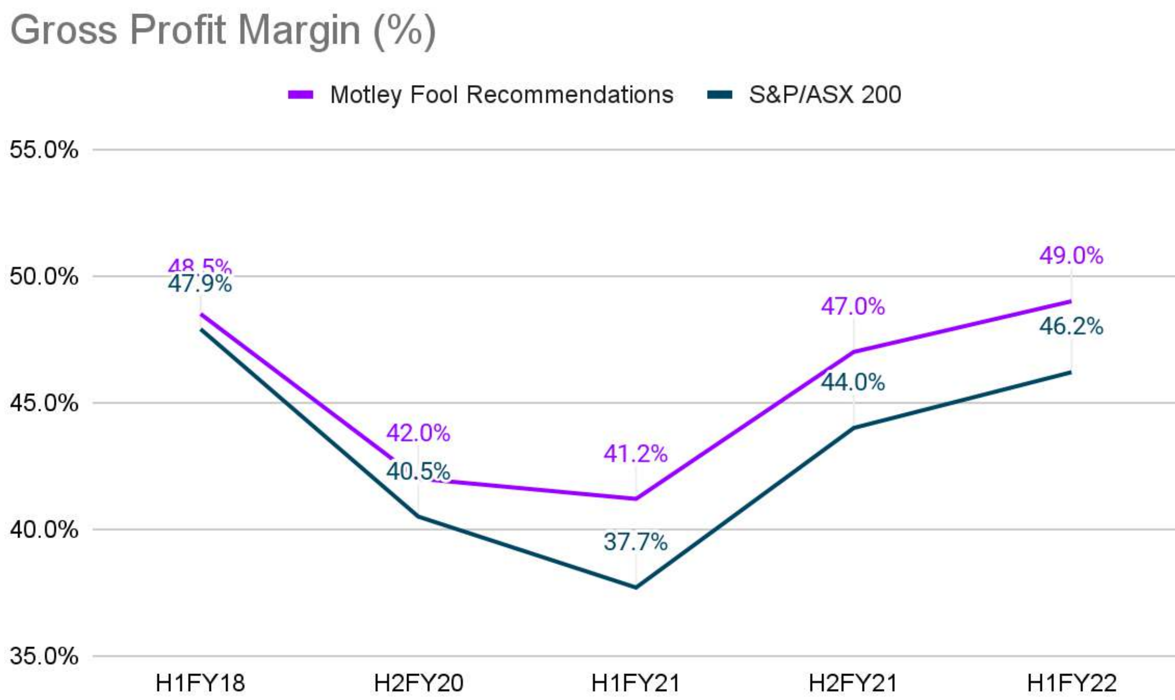


Source: CapIQ

The average Gross Profit Margin across all Motley Fool recommendations was 49% for the six months.

Insight: This compares to the average gross profit margin of 46% for companies on the S&P/ASX 200 Index. Motley Fool recommendations on average tend to have higher profit margins than the typical company listed on the ASX.

[1] Source: CommSec Dividend Report



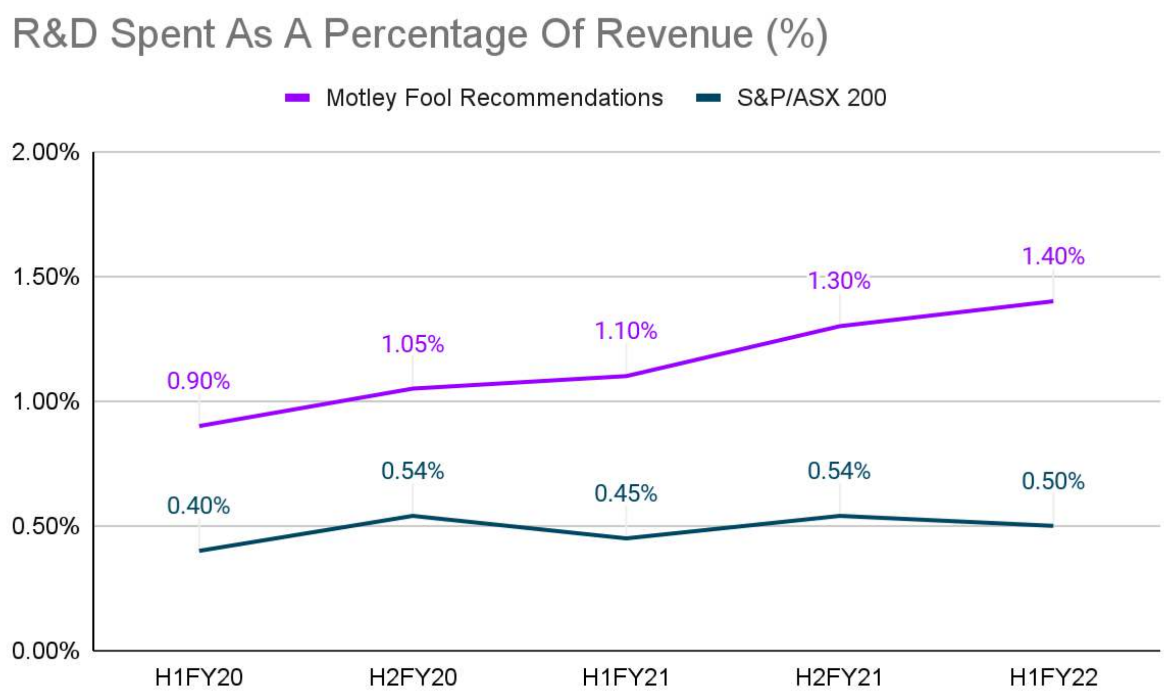
Source: CapIQ

For the six months to the end of December, our buy recommendations spent a combined $1.7 billion in Research & Development, up more than $450 million compared to the corresponding previous period.

The R&D spent was 1.4% of total revenue, a new high compared to the two year moving average of 1.1%

Insight: This compares to the average R&D spend as a percentage of revenue of 0.5% for companies on the S&P/ASX 200. Motley Fool recommendations on average tend to spend more on R&D than the typical company listed on the ASX.

*That being said, this is still a relatively low commitment to R&D compared to some of the most innovative companies in the world. The Boston Consulting Group ranked **Apple Inc** (NASDAQ: AAPL) as the most innovative company in the world for 2021. In the first quarter of FY 22, Apple spent US$6.3 Billion (i.e. 5% of revenue) on R&D.*



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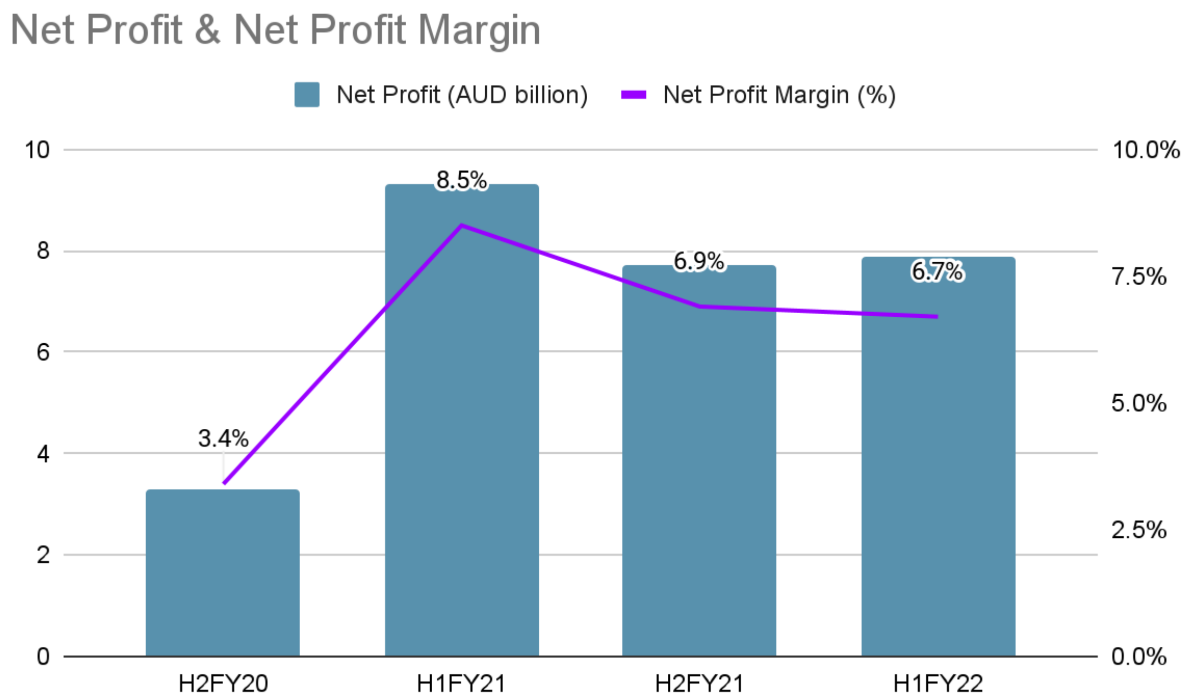
Source: CapIQ

Combined operating profits (before tax and depreciation) came in at $18 billion, representing a profit margin of 15%, which was 100 basis point higher compared to the rolling two year average.

Insight: This compares to the average operating profit margin of 25% for companies on the S&P/ASX 200. Motley Fool recommendations on average tend to be high growth but less profitable than the typical company listed on the ASX.

Almost 50 per cent of all our Buy recommendations reported a first-half net profit, with a combined net profit of $8 billion, which reflects a net income margin of 6.7%



Cash Flow Statement

Combined cash flows from operations were $14.4 billion for the six months ended December 2021, reflecting a 6.6% decline from the previous corresponding period as companies battled with supply chain- and labor shortage- induced increase in operating expenses.

Balance Sheet

Motley Fool recommendations held a combined cash and cash equivalents of $33.5 billion, approximately $4 billion higher than the previous corresponding period.

A Record Interim Dividends

Our recommendations declared a combined total dividend of $5.7 billion after the interim earnings season. This represents 15.8% of the total dividends declared by all Australian-listed companies in the February earnings season.

The $5.7 billion in dividends is ~$450 million or 8.6% higher than the payout in the previous corresponding period, February 2021 ($5.2 billion) and about $900 million higher than the $4.1 billion paid out in the interim reporting season in February 2020.

50 out of the 142 buy recommendations increased their dividends while 12 companies cut. Also, 77 companies did not issue a dividend while 3 companies left their dividends stable.

The cash payouts come amid mixed operating conditions for most companies, with lockdowns, the rapid spreading of the Omicron variant and supply chain issues limiting activity, causing production delays and pushing prices higher.

In Part 2 of the report, we will look at how our US recommendations performed for the quarter ending December 2021

Until then,

Fool On!

Trevor Muchedzi, Kevin Gandiya and Ryan Newman contributed to this report.

The Motley Fool Australia's parent company Motley Fool Holdings Inc. owns and or has recommended Apple Inc. The Motley Fool has a disclosure policy. This article contains general investment advice only (under AFSL 400691). Authorised by Scott Phillips.