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ADVISORY

Earnings Spotlight: Stronger Growth Beneath the Surface

Our weekly view on Australian equities.

9 July 2025

The Market has Attractive Growth Outside of the 'Mega Caps'

The ASX 200 is expected to deliver negative earnings growth for the third consecutive year in FY25, with the majority of full year results due in the upcoming August 2025 reporting season.

After a multi-year downgrade cycle, market earnings are forecast to return to growth in FY26, with consensus estimates pointing to EPS growth of +5.6% for the ASX 200, which should be underpinned by a broadly supportive domestic macro outlook.

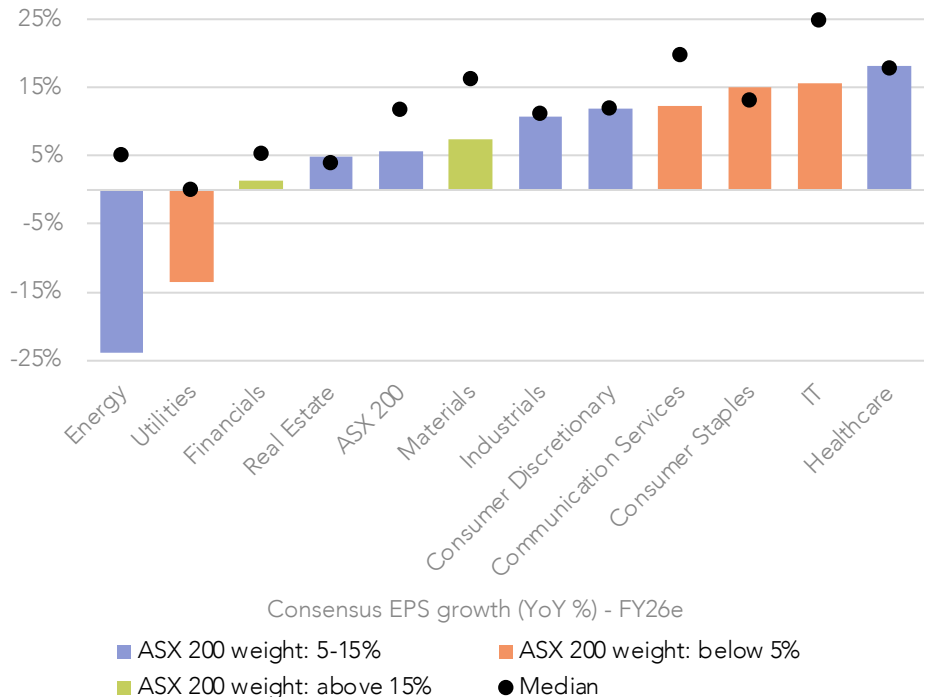
However, index-level estimates can obscure the underlying earnings trajectory of the average company due to the concentrated nature of the local market. Figure 3 demonstrates that ASX 200 index weightings are significantly skewed towards a small number of companies with limited EPS growth expected over the medium-term – including the big 4 banks (flat-to-low single-digit growth), BHP (low single-digit decline) and Woodside Energy (broadly flat).

That said, the ASX 200 has no shortage of companies with attractive EPS growth outside of the 'mega caps' for active investors (like ourselves) that are willing to deviate from the index. Interestingly, the median ASX 200 company is forecast to generate EPS growth of +12% in FY26 – well above the index's headline growth of +5.6%.

Meanwhile, the Focus Portfolio is expected to deliver weighted average EPS growth of +15.5% in FY26, reflecting our active approach and our bias towards companies with above-market earnings growth.

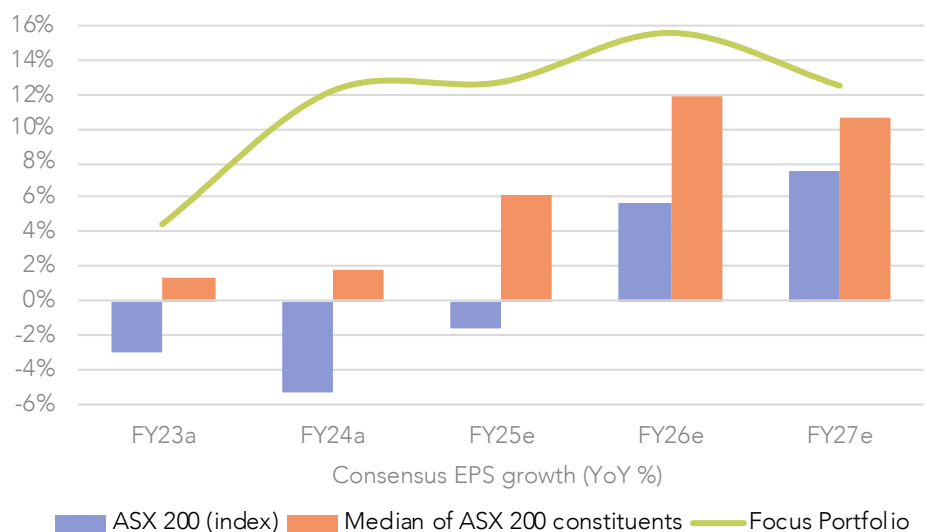
In the remainder of this report, we examine the current stage of the ASX 200 earnings cycle and highlight key consensus earnings revision trends across the market.

Figure 1: The majority of GICS sectors will deliver above-market growth in FY26, but higher-growth sectors generally have smaller index weightings



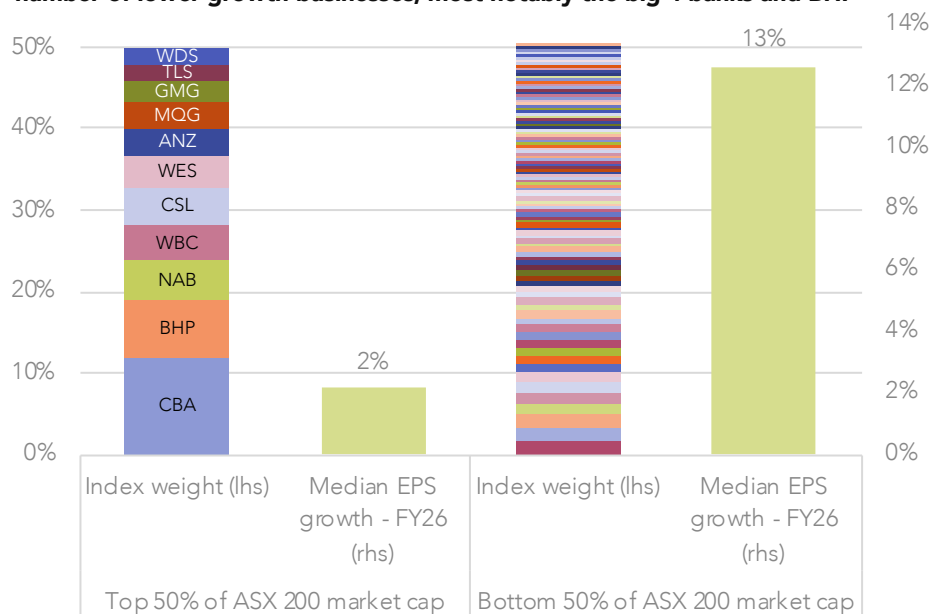
Source: Refinitiv, Wilsons Advisory.

Figure 2: The median ASX 200 company is expected to deliver 'low-teens' EPS growth in FY26 – comfortably above the index's level of growth



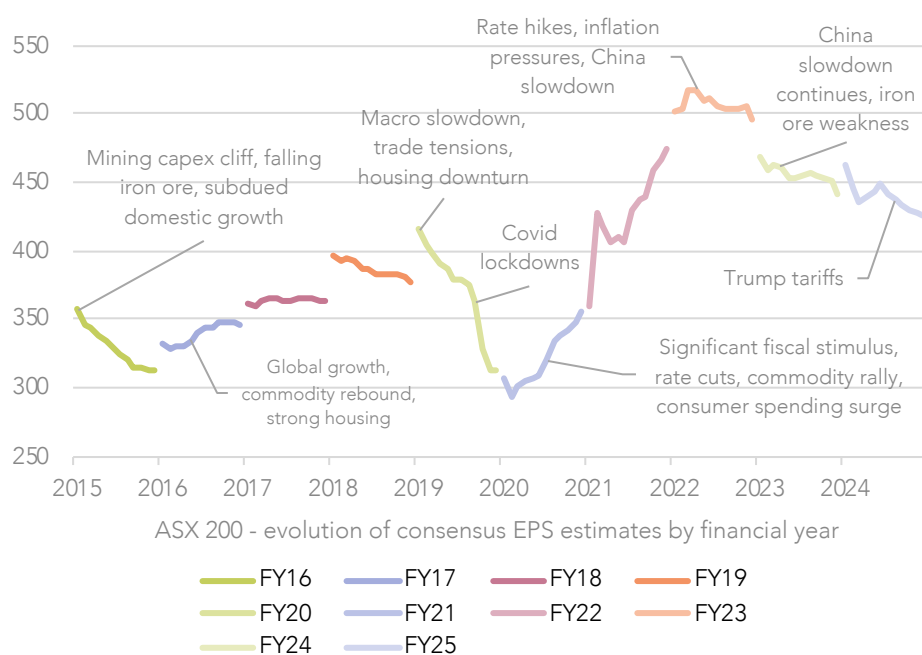
Source: Refinitiv, Wilsons Advisory.

Figure 3: The ASX 200's market capitalisation is concentrated among a small number of lower growth businesses, most notably the big 4 banks and BHP



Source: Refinitiv, Wilsons Advisory.

Figure 4: The ASX 200 has been in a downgrade cycle since 2022



Source: Refinitiv, Wilsons Advisory.

Is the Downgrade Cycle Nearing an End?

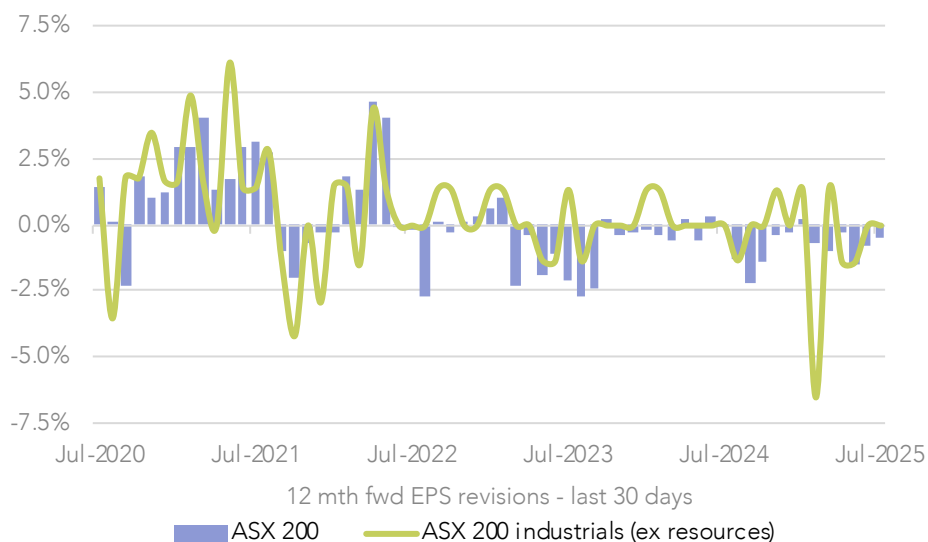
The ASX 200 has been in an earnings downgrade cycle since mid-2022 when the RBA started hiking rates. During this period, the market has also faced headwinds from elevated inflation (impacting both costs and customer demand), a slowdown in both the domestic and Chinese economies, and generally subdued commodity prices.

More recently, the macro backdrop has become increasingly supportive of an acceleration in earnings growth: inflation is now contained, unemployment is relatively steady, the RBA has begun easing policy, Australia's US tariff impost is negligible, domestic GDP growth is expected to accelerate (albeit modestly), and China is introducing stimulus measures to support its struggling economy. These factors underpin consensus expectations for a return to positive EPS growth in FY26.

However, consensus estimates have been edging lower in recent months, with relatively broad-based EPS downgrades across most GICS sectors (see Figure 5). We also note that analysts typically overestimate earnings at the start of a financial year, with forecasts often revised lower as the year progresses (see Figure 6). This points to continued earnings risks ahead of the August 2025 reporting season.

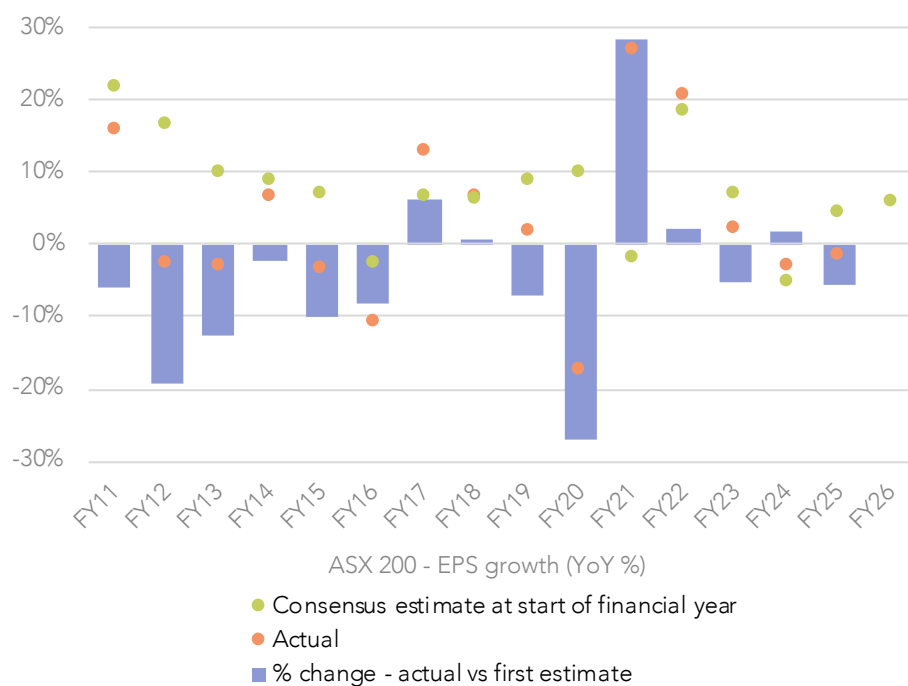
This environment warrants caution towards companies already in earnings downgrade cycles or those with meaningful downside risks to consensus estimates. Accordingly, the remainder of this report explores key consensus downgrade and upgrade trends across the ASX 100, with a focus on implications for the Focus Portfolio.

Figure 5: The market has remained in 'downgrade mode' in recent months



Source: Refinitiv, Wilsons Advisory.

Figure 6: Consensus EPS estimates are often revised down throughout the year



Source: Refinitiv, Wilsons Advisory.

Key Downgrades – Cyclical Weigh

The largest consensus downgrades over the last twelve months on the ASX 100 have been concentrated in cyclical sectors (particularly resources), including:

- **Lithium** – miners continue to be challenged by a persistent oversupply, which has severely impacted the sector's profitability and solvency (i.e. **Mineral Resources**), with several Australian assets operating at a loss at spot prices. We remain cautious on the sector, with zero portfolio exposure, given the lack of clear near-term catalysts for a lithium price recovery.
- **Energy** – weaker oil prices have underpinned significant downgrades for the oil and gas sector, particularly index heavyweight **Woodside Energy**. The outlook for oil demand remains subdued, while OPEC+ continues to add supply to the market, which has driven an ongoing oversupply, weighing on prices.

Meanwhile, thermal coal prices are down ~30% since late 2024 due to a global supply glut, which has driven downgrades for **Whitehaven Coal**. Overall, we are comfortable remaining neutral energy, with our sole exposure being to **Santos**, which is currently subject to a takeover bid.

- **Diversified Mining – South32** (held) has seen downgrades primarily due to revisions to key FY26e commodity price assumptions (*last 3 months: Alumina -8.5%, Aluminium -4.8%, Nickel -4.2%, Copper -1.1%, Manganese +1.8%*). That said, South32's delivery has been broadly in line with its guidance, its recent sale of Cerro Matoso (Nickel) for ~US\$100m has simplified its portfolio, and we remain structurally positive towards its basket of commodities (particularly Aluminium).
- **Building Materials** – ongoing softness in housing market activity in both the

US and Australia has been a key driver of earnings downgrades for names like **Reece** (plumbing supplies) and Focus Portfolio holding **James Hardie** (housing sidings). For James Hardie, EPS downgrades have also been partly driven by near-term dilution from the AZEK acquisition. However, its valuation is compelling and we continue to expect a cyclical recovery in housing activity – supported by interest rate cuts – to underpin a return to positive EPS growth over the medium-term.

Other major downgrades on the ASX 100 have been largely idiosyncratic in nature: **IDP Education** is being severely impacted by student immigration reforms; **Ramsay Healthcare's** hospitals are still facing significant cost pressures; **Seek** faces a tough macro with subdued job ads; and **Flight Centre's** corporate/leisure sales have been impacted by tougher US trade/entry policies.

Figure 7: ASX 100 – largest consensus downgrades

■ Focus Portfolio holding

Name	Ticker	Sector	FY26e EPS growth	FY26e - consensus EPS revisions			Total return - last 12 months
				3mths	6mths	12mths	
Pilbara Minerals	PLS	Lithium	nm	-70%	-79%	-91%	-50%
IGO	IGO	Lithium	nm	-63%	-71%	-89%	-25%
Whitehaven Coal	WHC	Energy	-22%	-63%	-69%	-81%	-31%
Mineral Resources	MIN	Lithium	nm	-34%	-62%	-74%	-57%
IDP Education	IEL	Education Services	0%	-48%	-56%	-61%	-71%
Woodside Energy	WDS	Energy	-37%	-25%	-35%	-44%	-11%
Lynas Rare Earths	LYC	Rare Earths	>100%	-12%	-30%	-42%	26%
LendLease	LLC	Property	-39%	-5%	-16%	-40%	-1%
Ramsay Health Care	RHC	Hospitals	25%	0%	-8%	-38%	-15%
South32	S32	Diversified Mining	19%	-21%	-22%	-36%	-16%
Seek	SEK	Online Classifieds	34%	0%	-1%	-32%	22%
Orora	ORA	Packaging	31%	-6%	-14%	-28%	6%
Reece	REH	Building Materials	7%	-9%	-20%	-27%	-39%
Ampol	ALD	Energy	40%	-5%	-15%	-27%	-21%
Fortescue	FMG	Iron Ore	-15%	-6%	-8%	-26%	-21%
Reliance Worldwide	RWC	Building Materials	-3%	-17%	-23%	-26%	-1%
Atlas Arteria	ALX	Infrastructure	30%	-2%	-19%	-23%	10%
Flight Centre Travel	FLT	Travel	20%	-11%	-14%	-22%	-37%
James Hardie	JHX	Building Materials	-2%	-7%	-15%	-21%	-11%
Santos	STO	Energy	18%	-15%	-20%	-19%	1%

Figure 7 shows the 20 largest consensus downgrades to FY26e EPS forecasts across the ASX 100 over the last 12 months, excluding non-meaningful values and notable outliers. Source: Refinitiv, Wilsons Advisory.

Key Upgrades – Gold and Healthcare Dominate

The most notable upgrades on the ASX 100 have been concentrated in three key sectors:

- **Gold** – despite mixed production/cost delivery from large producers such as **Newmont** (not held) and **Northern Star** (held), the sector has seen broad-based upgrades, driven by the ongoing appreciation in the gold price (and upward revisions to analysts' gold price assumptions). Consensus gold price estimates have yet to reflect structurally higher gold prices in our view, presenting further upside risk to medium-term earnings estimates. **Evolution Mining** and **Northern Star** remain our preferred exposures within the sector.

- **Banks** – while **CBA** (not held) is only expected to deliver low-single digit EPS growth over the medium-term, it has earned consensus upgrades every quarter in the last 12 months, which has been a key driver of the bank's continued outperformance. Notwithstanding CBA's quality and track record of delivery, we continue to view it as significantly overvalued on a forward price-to-book of 4x, and expect it to underperform over the medium-term.

- **Healthcare** – outside of index heavyweight **CSL** (held), which has underwhelmed against expectations (driving downgrades at the index level), the healthcare sector features several companies delivering consistent upgrades. Standouts include: **Telix Pharmaceuticals** (held), which continues to gain share in the US PSMA imaging market; and **ResMed** (held), which is benefiting from a continuation of robust CPAP demand alongside emerging tailwinds, including GLP-1 referral pathways, new generation wearables, and growing adoption of at-home sleep testing.

Figure 8: ASX 100 – largest consensus upgrades

■ Focus Portfolio holding

Ticker	Name	Sector	FY26e EPS growth	FY26e - consensus EPS revisions			Total return - last 12 months
				3mths	6mths	12mths	
TLX	Telix Pharmaceuticals	Healthcare	57%	3%	53%	95%	31%
EVN	Evolution Mining	Gold	37%	11%	56%	84%	120%
PRU	Perseus Mining	Gold	3%	6%	15%	80%	49%
SIG	Sigma Healthcare	Healthcare	>100%	12%	50%	59%	135%
NEM	Newmont	Gold	-1%	13%	42%	27%	43%
NST	Northern Star Resources	Gold	36%	-14%	8%	26%	48%
PNI	Pinnacle Investment Management	Div Fins	13%	-2%	1%	25%	53%
PME	Pro Medicus	Healthcare	40%	0%	6%	19%	136%
BOQ	Bank of Queensland	Banks	7%	6%	6%	18%	38%
JBH	JB Hi-Fi	Retail	7%	0%	5%	17%	84%
QAN	Qantas Airways	Aviation	12%	3%	5%	16%	79%
MPL	Medibank Private	Insurance	7%	1%	5%	9%	43%
RMD	ResMed	Healthcare	11%	2%	3%	9%	39%
LNW	Light & Wonder	Gaming	20%	-6%	4%	7%	-3%
QUB	Qube	Industrials	11%	0%	2%	7%	19%
AMC	Amcor	Packaging	16%	4%	4%	6%	9%
AGL	AGL Energy	Utilities	0%	0%	1%	6%	0%
CBA	Commonwealth Bank	Banks	2%	0%	2%	6%	45%
SDF	Steadfast	Insurance	7%	0%	-1%	6%	0%
HUB	HUB24	Div Fins	26%	-1%	2%	6%	98%

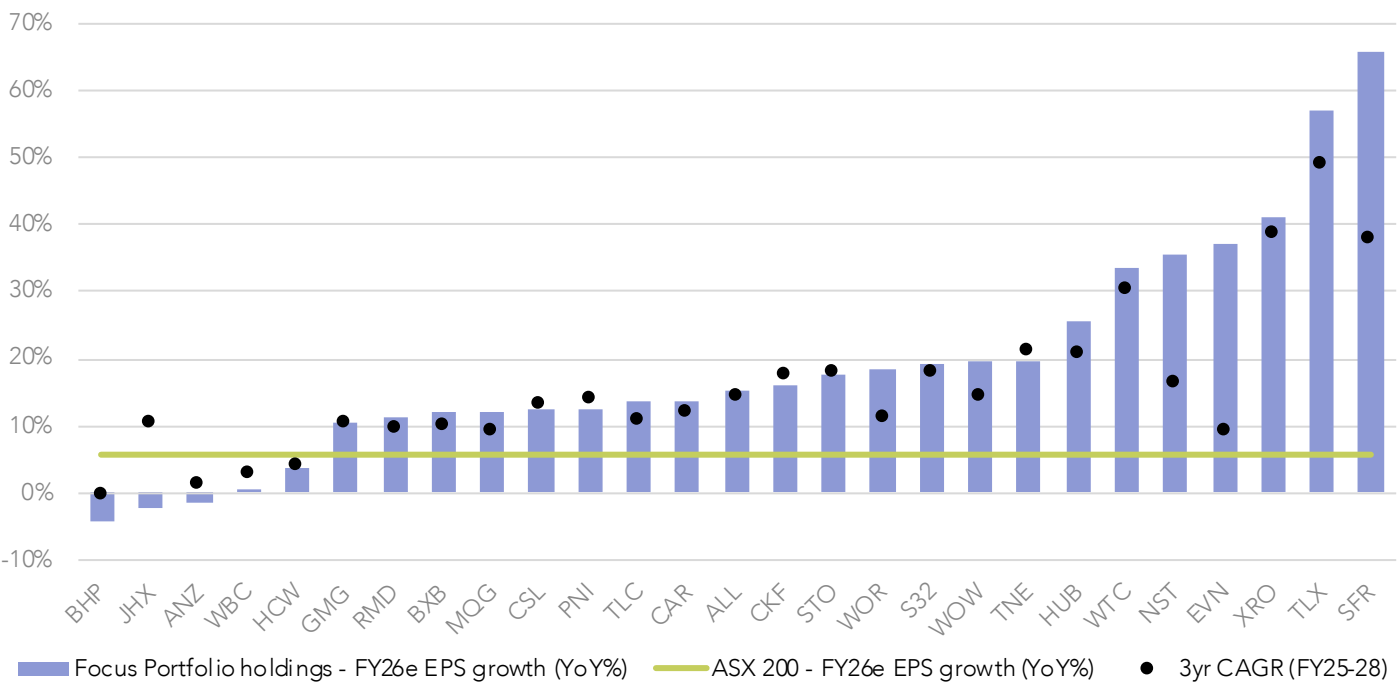
Figure 8 shows the 20 largest consensus upgrades to FY26e EPS forecasts across the ASX 100 over the last 12 months, excluding non-meaningful values and notable outliers. Source: Refinitiv, Wilsons Advisory.

Focus Portfolio – Retaining a Growth Bias

The Focus Portfolio remains skewed towards high-quality businesses with strong medium-term earnings growth prospects. The majority of holdings are expected to deliver double-digit EPS growth in FY26 and beyond – well ahead of the ASX 200's level of growth.

From a bottom-up perspective, we remain confident in the ability of our core holdings to meet or exceed consensus expectations over time. Recent notable upgrades have come from **Telix Pharmaceuticals**, **Evolution Mining**, **Pinnacle Investment Management**, **ResMed**, **HUB24**, and **TechnologyOne**.

Figure 9: The majority of Focus Portfolio holdings are expected to deliver above-market EPS growth in FY26 and over the medium-term



Source: Refinitiv, Wilsons Advisory.



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