Brainy's Articles on

Share Trading

Strategy considerations
Reporting season (August 2023)

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Most of the companies listed on the ASX are required to report their half-year financial results to the market twice every year, and for most of these companies this is in February and August each year. And there are penalties for not meeting the end-of-month deadline.

Depending on many factors, including the general economy and the individual performance of the companies, their share price might be heavily moved up or down when the results are announced.

So, is it safe, or wise, to be actively investing or trading in the market during the profit reporting season?

This article in Brainy's series on Share Trading (number ST-6255) provides a look at some of the investor highlights in the tail end of the August 2023 reporting season, with twelve stocks and their price charts shown below, along with comment and technical analysis observations.

For some investors and traders, this might make us think that reporting season is a time of year to be very careful because a surprise company reporting announcement might severely impact the share price.

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So, study the information below and draw your own conclusion.

One example

Before we start, here is one example at right. The daily share price of Coles Group in August 2023, with their half year results announced on 22nd August, causing a share price fall of about 7 per cent. See more examples with comments on the following pages.

Introduction

In the last couple of years (2020, 2021, 2022) there have been a few challenges for many companies. The COVID pandemic in early 2020 put many people into lock-down for weeks at a time, and drove many workers out of the city's CBD to a work-from-home (WFH) situation. In addition to this, many people were not earning an income, and so had much less money to spend – so the bricks-and-mortar retail sector suffered; but the shop-online sector soared. This happened all around Australia, and in many countries around the world. The end result was that pedestrian traffic plummeted in each CBD, and the service businesses in the CBDs – especially cafes and restaurants – suffered badly, and many are still suffering today. The flow-on effects into the broader economy were significant, and while some companies have recovered to pre-pandemic times, many have not.

Then on top of all that we've had the Russian invasion of Ukraine in February 2022 which has disrupted food supplies around the world – principally grains because Ukraine has been a major supplier of grain around the world and their exports have been severely disrupted by Russia. Also the cost of energy, with Russian oil supplies embargoed in many countries, and Russian gas frowned upon around Europe.

So, in our current 2023 reporting season, while some companies have been able to report good results and a healthy outlook, many have not been able to do that. Now remember that many of the larger companies are reviewed and analysed by many brokers and analysts, and they put out estimates of each company's earnings and profit for the period, and an estimate of the company's forward earnings. This is used to derive a so-called fair-value share price in today's terms, and an expectation for the share price today and into the future.

If a company announces financial results that are rather different to the analysts' expectations, then the share price 'fair value' is instantly adjusted, and the share price moves intraday toward the new so-called 'fair value'. A company's results can be good, but still below analyst expectations, and therefore the share price can be re-rated downward. Also the converse can occur, with the earnings results bad, but not as bad as feared, so the share price is adjusted upward.

The other thing that has happened in this reporting season is that some companies felt a need to reduce their dividend amount, resulting in a shareholder backlash and share price re-rating. But others have increased their dividend and resulted in a favourable share price move.

The conclusion we can draw from all of this is that in the current environment it is very difficult to invest in shares and be confident that the share price is rather stable – or not liable to be jerked around. In the current environment it has been difficult for many analysts to accurately determine fair value for a company's shares, so there could easily be surprises on the day the results are announced. Below are some of the current reporting season winners, and losers, in recent days, along with price charts showing the share price appreciation, or reduction.

Coles Group Limited (COL)

The Coles Group share price (see the price chart on page 1 above) had been drifting lower from above \$18 in July to under \$17.50 in mid-August, then fell 7 per cent on the company profit announcement on Tuesday 22nd. It's now trading under \$16. The news headlines reported in the press read: "*Coles battles costs as food price inflation eases...*" (see [the news story here](#)).

In technical analysis terms, we can see on the chart that the share price sat above \$18 for several weeks, and we could have called this a support level on the chart. Once the share price started to drift below \$18 from 9th August, we could have sensed that enough investors were starting to think: *"perhaps it is no longer worth \$18"*. Then on 15th and 16th August the daily trading could not get above \$18 (this became a resistance level). For some traders, that was the time to be out.

Megaport Limited (MP1)

Megaport's shares were trading under \$8 until early July 2023, then jumped 34 per cent on 11 July (the first Big White candle in the price chart at right). A steady step-wise uptrend then followed with resistance at \$10 for three weeks, then at \$11 into August, until the profit report on 22nd August when the shares jumped 16 per cent ([see the news](#) story [here](#)).

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