

ANZ Banking Group

Second-half FY19 result review

The second-half FY19 result from Australia and New Zealand Banking Group (ANZ) did not contain much good news, with pre-provision profit of \$4.577 billion missing Ord Minnett's already below-consensus forecasts by 2% due to lower-than-expected revenue and higher-than-forecast costs. A final dividend of \$0.80 per share was declared, as expected.

Net interest margin (NIM) pressures were particularly acute – group NIM fell 5.0 basis points (bp) excluding one-off items and the markets business – and ANZ provided downbeat commentary on the outlook. These factors, combined with a number of headwinds identified on costs and more subdued expectations for markets income, have led us to make material downgrades to our earnings forecasts.

One of the main surprises to come from this result was the announcement that ANZ would cut the franking level of its dividend to 70% from 100%, reflecting the continued decline in the statutory earnings contribution from Australia, which fell to 55% in FY19 (versus the 76% dividend payout ratio), and the bank's nil franking credit balance.

ANZ's valuation of 12.5 times FY21E earnings looks cheap versus the other major banks at 13–15 times, but we consider this discount is justified given a number of challenges and significant execution risk. Cost savings are also looking more uncertain and capital management is little more than a distant possibility.

Overall, we maintain our Hold recommendation on ANZ but cut our target price to \$26.40 from \$27.70.

- **Second-half FY19 review** – Headline cash earnings of \$2.906bn were 1% below OMLe of \$2.939bn. Adjusting our estimates for the composition of remediation charges, revenue fell short of our estimate by 1% half-on-half (HoH), while costs were 1% higher than expected – leaving the pre-provision operating profit (PPOP) of \$4.577bn some 2% below our number. Cash earnings, however, missed by only 1%, supported by better-than-expected bad and doubtful debt charges (BDDs) of 13bp of gross loans and advances (GLA).
- **Franking rate** – ANZ maintained its final dividend at \$0.80 per share but cut the level of franking to 70% from 100%. This was pitched as a 'rebased' level, reflecting the changed shape of the business (Australia now contributes only 55% of statutory earnings) and a nil franking credit balance.
- **Interest margins** – NIM excluding one-off items and the markets business fell 5bp in 2H19. This largely reflected pressure from central bank rate cuts, which had a 6bp impact, but divisionally the pain was mainly in the institutional operations and the New Zealand business. NIM headwinds are largely expected to continue into 1H20, particularly given recent monetary policy easing globally.
- **Costs** – ANZ's 2H19 underlying costs were slightly above our expectations, but the real surprise was a flagged \$150–200m step-up in 1H20 – implying circa 4% HoH cost growth. We have long argued ANZ has been under-investing, and this is being addressed by the company. Simultaneously, however, the regulatory and compliance cost burden is also rising. ANZ has retained its aspirational \$8bn medium-term cost-savings target but this looks to be an increasingly heroic assumption, in our view.
- **Institutional division** – In 1H19 ANZ's institutional business provided a positive surprise, with revenue growth of 6% HoH, all of which was driven by the international operations, principally Asia. In 2H19 the Asian arm gave all of this back, which drove a deterioration in institutional risk-adjusted returns. Given ANZ has also lowered its group return on equity (ROE) hurdle to 8.5% and the very competitive market it faces, Ord Minnett finds it hard to be optimistic about the future trajectory for this business.
- **Earnings estimates** – We have cut our cash EPS forecasts by 7% and 5% in FY20 and FY21, respectively, with lower revenue, i.e. a greater decline in FY20 NIM, and higher costs equally responsible for the change.

Recommendation

Hold

Risk

Medium

Target price

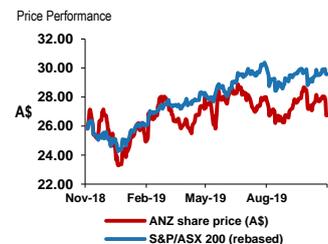
▼\$26.40

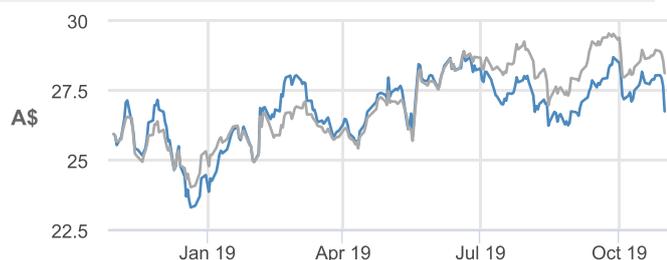
Previous

\$27.70

Last price

\$26.74



Price Performance


	YTD	1m	3m	12m
Abs	9.3%	-6.2%	-4.2%	3.1%
Rel	-1.7%	-2.1%	-1.3%	-5.3%

Company Data

Shares O/S (mn)	2,835
52-week range (\$)	29.30-22.98
Market cap (\$ mn)	52,324.18
Exchange rate	1.45
Free float(%)	99.2%
3M - Avg daily vol (mn)	5.49
3M - Avg daily val (\$ mn)	103.8
Volatility (90 Day)	15
Index	AS51 Banks
BBG BUY HOLD SELL	4 10 1

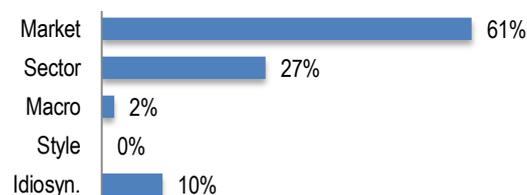
Key Metrics (FYE Sep)

\$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Net interest income	14,339	14,092	14,264	14,471
Non interest income	4,690	4,367	4,746	4,831
Operating expenses	(9,071)	(9,261)	(8,875)	(8,670)
Adj. PPOP	9,958	9,198	10,135	10,632
Provision for loan losses	(795)	(952)	(1,073)	(1,312)
Adj. PBT	9,163	8,246	9,062	9,319
Adj. net income	6,738	6,105	6,684	6,867
Adj. EPS	2.18	1.98	2.15	2.20
BBG EPS	2.26	2.26	2.28	-
DPS	1.60	1.60	1.60	1.60
Loans	615,258	631,969	653,601	676,804
Deposits	637,677	656,951	676,807	697,264
Total assets	981,137	1,010,059	1,045,736	1,083,770
Margins and Growth				
NIM	1.8%	1.7%	1.7%	1.6%
Ratios				
Loan/ Deposit ratio	96.5%	96.2%	96.6%	97.1%
NPL / Loans	0.3%	0.4%	0.4%	0.5%
Coverage	-	-	-	-
CET 1	11.4%	11.6%	11.6%	11.7%
Non-int. income/ Income	24.6%	23.7%	25.0%	25.0%
Cost/Income	47.7%	50.2%	46.7%	44.9%
LLP/Loans	-	-	-	-
ROA	0.7%	0.6%	0.7%	0.6%
ROE	11.2%	9.9%	10.5%	10.4%
Valuation				
Dividend yield	6.0%	6.0%	6.0%	6.0%
Adj. P/E	12.3	13.5	12.4	12.2
P/ BV	1.2	1.2	1.2	1.1

Summary Investment Thesis and Valuation

Our Hold recommendation for ANZ reflects an inexpensive valuation at face value, offset by a challenging revenue outlook and the need to re-invest in its business. While in recent years ANZ has driven cost-out and delivered capital efficiencies, the low hanging fruit has been picked and further progress will become more challenging on both fronts. While momentum in Australia Retail/Commercial should improve, our outlook is moderated by concerns relating to relatively high level of execution risk and capital uncertainties on RBNZ/APS 222/APS 111.

Our Jun-20 PT of \$26.40 reflects the aggregate of the present value of the dividend stream paid to shareholders through to FY22E and the present value of a multiple of FY22E tangible book value – premised on our sum-of-the-parts methodology, which values the earnings profile of the APEA business separately from the rest of the group. The LR price-to-tangible-book multiple of 1.3x is calculated with primary consideration given to the surplus capital generated above a hurdle rate of return. This surplus capital generation is reflected in our estimated sustainable ROTE of 11.25% for ANZ.

Performance Drivers


Factors	6M Corr	1Y Corr
Market: MSCI Australia	0.69	0.78
Sect: Financials	0.92	0.86
Ind: Banks	0.83	0.78
Macro:		
Crude Oil	-0.48	-0.30
Economic Surprise	-0.19	-0.27
TR/CC CRB ER Index	-0.48	-0.26
Quant Styles:		
Momentum	-0.39	-0.33
Growth	-0.19	-0.26
Value	0.27	0.25

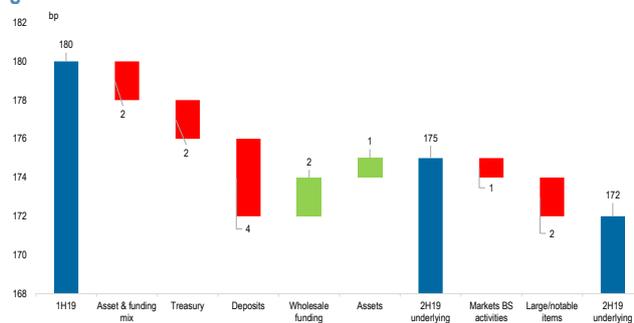
Sources for: Performance Drivers – Bloomberg, Ord Minnett Quantitative and Derivatives Strategy; all other tables are company data and Ord Minnett estimates.

Charting the Focal Points

2H19 result disappoints

ANZ's headline cash NPAT of \$2.906bn was 1% below OMLE of \$2.939bn. Adjusting our estimates for the composition of remediation charges, revenue missed OMLE by -1%, as did costs +1% HoH, which contributed to a ~2% miss at PPOP. Cash earnings were only 1% below OMLE, thanks to lower than expected BDDs (13bp/GLA). ANZ maintained its DRP at 80cps.

Figure 1: ANZ 2H19 NIM movements

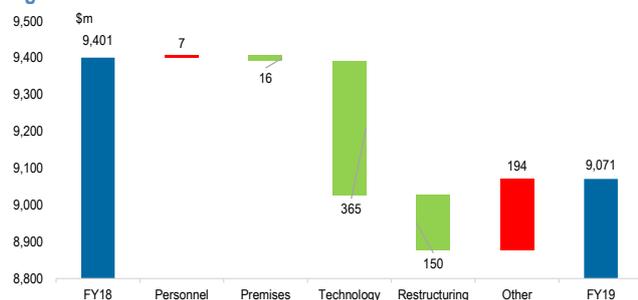


Source: Company data

\$8bn cost target increasingly unrealistic

ANZ CEO Shane Elliot reconfirmed his aspirational cost target for the bank of \$8bn, albeit given building cost pressures, we believe it is increasingly unlikely that the bank will achieve this. ANZ CFO Michelle Jablko suggested underlying costs in 1H20 would rise by \$150-\$200m, which at the mid-point would infer ~4% HoH cost growth (BS 11 and investment headwinds).

Figure 3: ANZ FY19 cost waterfall

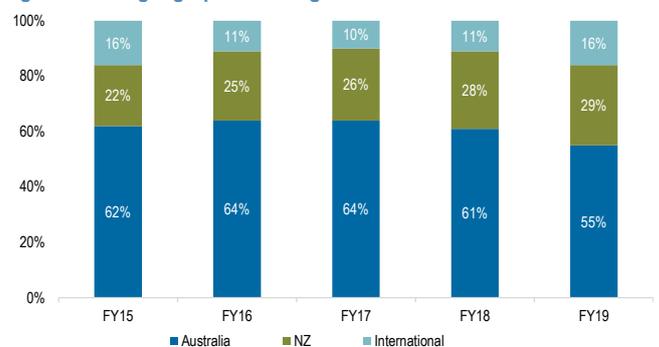


Source: Company data

ANZ cuts franking to 70%

ANZ announced it would lower its franking from 100% to 70%, citing greater offshore earnings. This was seen as being a “re-based” level that is more appropriate for the business. We see this as an incremental negative for ANZ’s share price, given it will lower gross returns for domestic investors. While NAB also has a nil franking balance its geographic mix is supportive of its LT franking ability.

Figure 2: ANZ geographic earnings

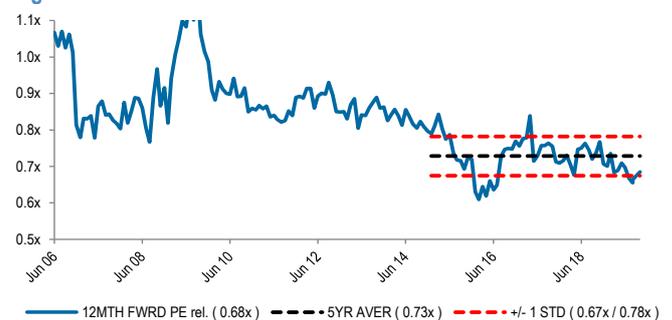


Source: Company data.

ANZ screens ‘inexpensive’

On our revised forecasts, ANZ is trading on a 12mth fwd P/E of ~13x, which represents a 32% discount to the ASX200 Industrials. This is around 1 standard deviation below its 5yr average P/E rel vs the ASX 200 Industrials. However, ANZ's 9% discount to the other major banks is slightly above its 5yr average. We have retained our Hold recommendation, with a \$26.40 PT.

Figure 4: ANZ PE rel ASX200 Industrials



Source: Ord Minnett estimates, Bloomberg

2H19 Result

We see the key issues coming out of ANZ's 2H19 result as follows.

- Operating performance weaker than expected with revenue ~1% below and costs slightly above OMLe;
- Dividend maintained but franking cut to 70%;
- Near term cost challenges make “aspirational” \$8bn cost level more difficult to achieve;
- Risk-adjusted returns down in all divisions;
- Cost of equity hurdle rate lowered...likely to lead to lower risk-adjusted returns in Institutional; and
- Impairment expenses low but asset quality indicators mixed.

We discuss each of these in the following sections.

Operating performance weaker than expected

ANZ's headline cash NPAT of \$2.906bn was 1% below OMLe of \$2.939bn. Adjusting our estimates for the composition of remediation charges, revenues missed OMLe by -1%, as did costs +1% HoH, which contributed to a ~2% miss at PPOP. Cash earnings however only missed by 1%, supported by better than expected BDDs (13bp/GLA).

Table 1: ANZ financial summary (adjusted OMLe for actual composition of remediation charges)

\$m	2H19E	2H19A	vs OMLe
NII	7,234	7,040	-2.7%
Other	2,111	2,243	6.3%
Revenue	9,345	9,283	-0.7%
Expenses	(4,681)	(4,706)	0.5%
PPOP	4,663	4,577	-1.9%
BDD	(436)	(402)	-7.8%
Tax & minorities	(1,288)	(1,269)	-1.5%
Cash earnings	2,939	2,906	-1.1%

Source: Ord Minnett estimates, Company data.

Below we highlight growth rates for the group and divisions on an ex one-off basis.

Table 2: ANZ 2H19 divisional growth rates (HoH, ex large/notable items)

	Revenue	Expenses	PPOP	Cash profit	2H19 cash profit (\$m)
Australia Retail & Commercial	-1%	1%	-2%	1%	1,795
Institutional	-4%	-1%	-8%	-16%	848
NZ (NZD)	1%	8%	-2%	-5%	744
Other	0%	4%	20%	-32%	-42
Group	-1%	2%	-4%	-5%	3,305

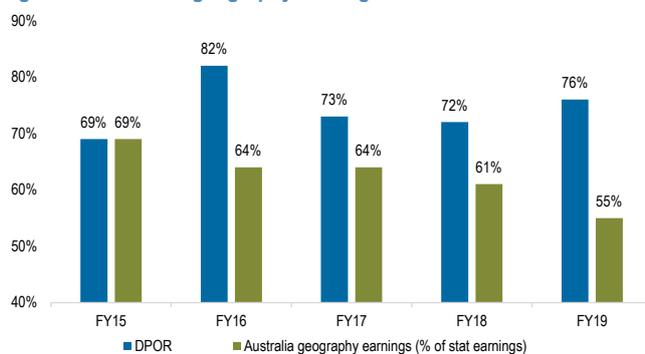
Source: Company reports.

Franking cut to 70% at a 're-based' level

One of the main surprises to come from this result was the announcement that ANZ would cut the franking % on its dividend from 100% to 70%. This reflected a continued decline in the statutory earnings contribution from Australia, which fell to 55% in FY19 (vs the 76% dividend payout ratio).

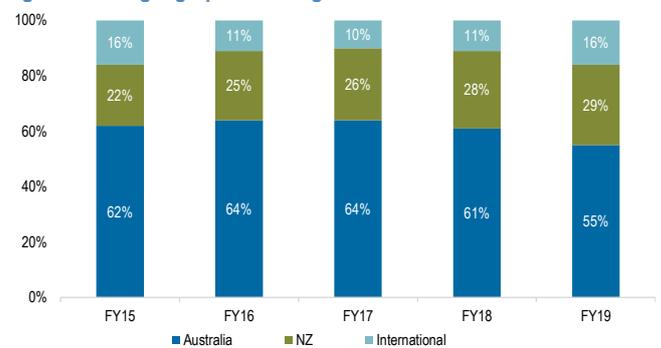
By comparison, all of the other major banks still fully frank their dividends. Both CBA and WBC have accumulated large franking balances (given a relatively small component of earnings earned outside of Australia), which makes it highly unlikely that they would need to follow ANZ's lead. While NAB also generates ~85%-90% of its earnings from Australia, NAB has a lower franking balance so is at some risk of a franking reduction if one-off costs were large enough to put significant undue pressure on its franking balance.

Figure 5: Australian geography earnings & DPOR



Source: Ord Minnett estimates, Company data. DPOR: dividend payout ratio

Figure 6: ANZ geographic earnings



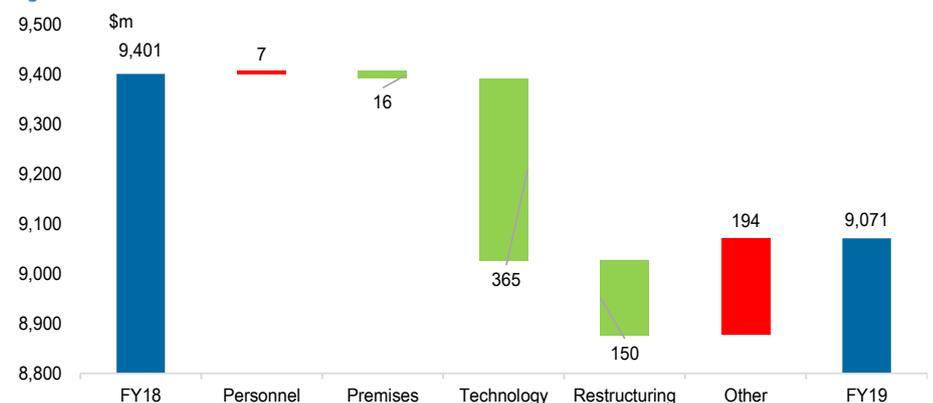
Source: Company data.

We expect this will weigh on ANZ's share price, given it will lower its gross dividend yield for Australian based investors (which make up ~72% of its register across retail and institutional).

Near-term challenges on costs make \$8bn 'aspirational' cost target more unlikely

ANZ CEO Shane Elliot reconfirmed his aspirational cost target of \$8bn, albeit it looks increasingly unachievable to us. Underlying costs in 1H20 are expected to rise \$150-\$200m, which at the mid-point would infer ~4% HoH cost growth. We expect this will be due to: 1) ongoing cost inflation; 2) higher investment spend (FY20 investment spend expected to be above the \$1.4bn in FY19, with a greater proportion expensed upfront); 3) impact from BS11 (NZ outsourcing policy), which is expected to add >\$100m in FY20 (~\$350m in total over 2yrs); and 4) rising regulatory/compliance burden.

Figure 7: ANZ FY19 cost waterfall

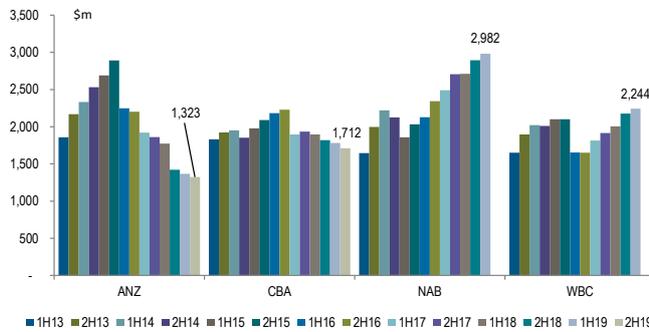


Source: Company data

Private Client Research

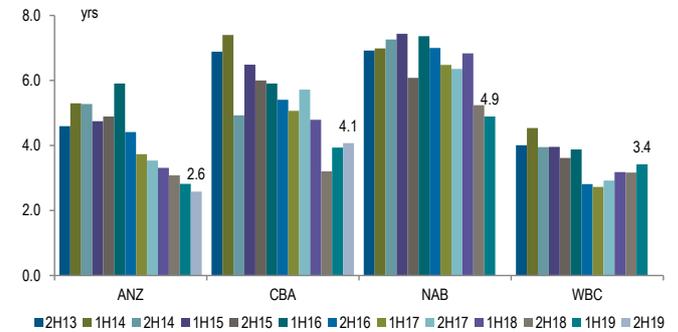
As shown below, ANZ has lagged its major bank peers in terms of investment spend for some time. Countering this, it has the most conservative accounting settings, with an average Useful Working Lift (UWL) of 2.6yrs.

Figure 8: Major banks investment spend



Source: Ord Minnett estimates, Company data.

Figure 9: Major banks implied useful life

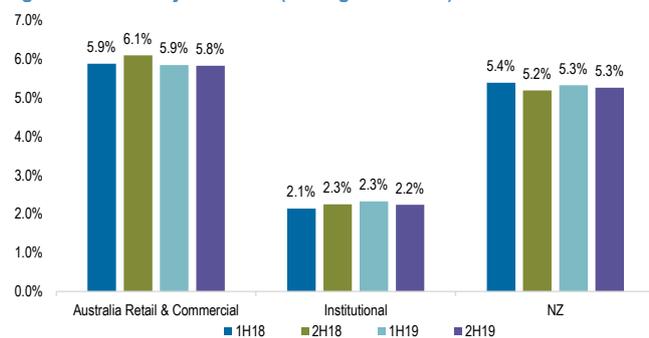


Source: Ord Minnett estimates, Company data.

Risk adjusted returns fell in all divisions

If ANZ's 1H19 result was noteworthy for the resurgence in ANZ's Institutional business, then this result is surely as remarkable for its abrupt retracement. Using ANZ's preferred risk adjusted filter, the improvement in the performance of its Institutional business in the previous half was clearly apparent, with a noticeable improvement both in risk adjusted margins and return.

Figure 10: Risk adjusted NIM (ex large notables)



Source: Ord Minnett estimates. Note: based on NII/average CRWA

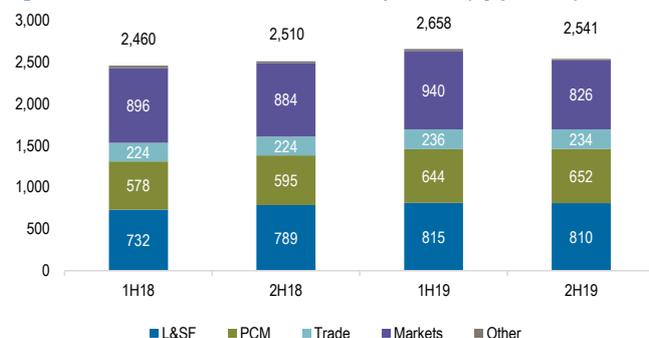
Figure 11: PBP/average RWA (ex large notables)



Source: Ord Minnett estimates. Note: based on NII/average CRWA

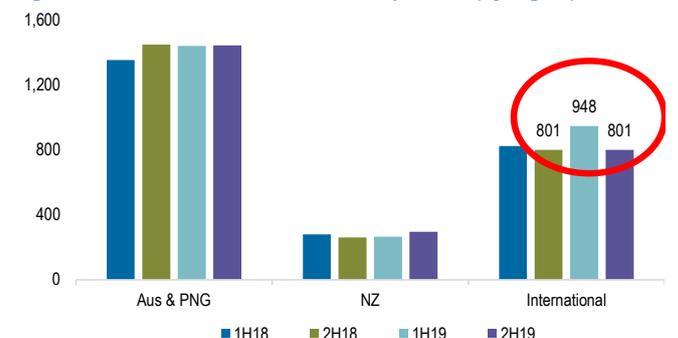
In 1H19, all institutional products delivered positive revenue growth, although 100% of this came from its International (primarily Asian) business. 2H19 saw a full retracement of this increase, with Asia back where it started in 2H18. Further, all but its PCM product line, delivered negative revenue growth in 2H19.

Figure 12: ANZ institutional income composition (by product)



Source: Company reports

Figure 13: ANZ institutional income composition (by region)



Source: Company reports

Cost of equity hurdle rate lowered

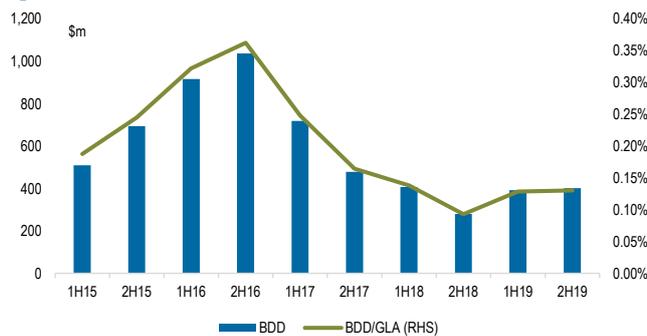
CEO Shane Elliot commented that ANZ had lowered its group cost of equity assumption from ~10% over the last 4-5yrs to ~8.5% on a forward looking basis, given the current interest rate environment. Divisional hurdle rates are also likely to be lowered, but this work remains ongoing.

With ANZ's Institutional business closest to the existing ROE hurdle, it will be the division that will benefit the most from the change. While this may be entirely realistic, we do view it as a bearish sign for Institutional returns into the future. And perhaps a sign that Institutional asset growth is likely to be stronger in the next few years.

Impairment expenses low, but asset quality indicators mixed

ANZ's BDD/GLA charge was just 13bp in the half, below our 14bp forecast and stable HoH. Gross impaired assets fell HoH while new impaired assets rose HoH. 90+ arrears rates also rose, however Australian housing arrears stabilised in the fourth quarter.

Figure 14: ANZ BDDs stable in 2H19



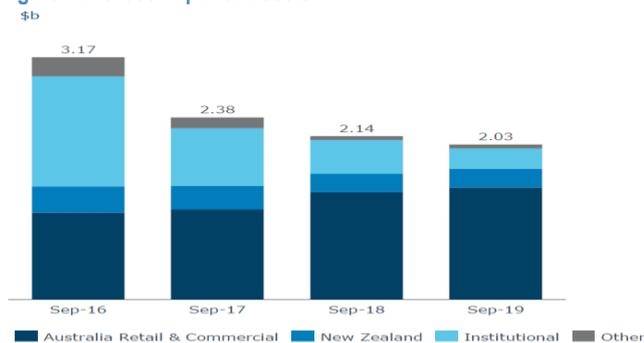
Source: Company reports

Figure 15: ANZ Australian housing 90+DOD



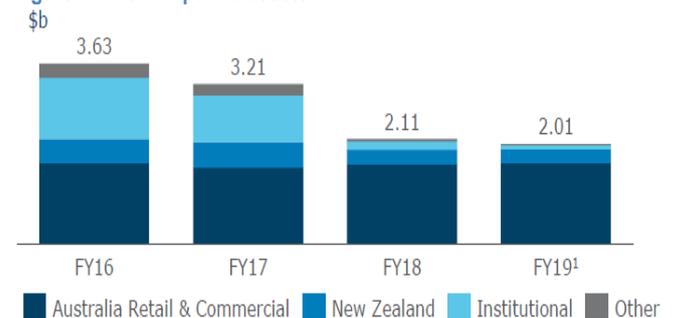
Source: Company reports

Figure 16: Gross impaired assets



Source: Company reports

Figure 17: New impaired assets



Source: Company reports

Overall we find it hard to be too negative on the BDD outlook in the near term given the interest rate environment, and we have further pushed out our BDD increase profile in our forecasts.

Earnings Revisions

We have made the following changes to our earnings forecasts.

Table 3: ANZ earnings forecast changes

Summary	FY20E			FY21E			FY22E		
	Revised	Previous	% Change	Revised	Previous	% Change	Revised	Previous	% Change
Cash Earnings (\$m)	5,843	6,337	-7.8%	6,422	6,839	-6.1%	6,605	n/a	n/a
Diluted Cash EPS (c)	197.8	212.6	-7.0%	215.1	227.3	-5.4%	219.5	n/a	n/a
DPS (c)	160	160	0.0%	160	160	0.0%	160	n/a	n/a

Source: Ord Minnett estimates.

As shown above, our cash EPS forecasts have reduced by -7% in FY20 and -5% in FY21. We continue to assume \$300m of post-tax remediation charges spread 50/50 across non-interest income and operating expenses.

The key drivers of our earnings changes have been as follows.

- **Net interest income:** Reduced by -4% in FY20 and -5% in FY21. This reflects the lower starting point (ex one-offs, NII was -2.7% vs our forecast on a like-for-like basis in 2H19) and the more subdued outlook for NIM in FY20.
- **Other operating income:** Increased by +6% in FY20 and +7.5% in FY21, on the better starting point from FY19. As guided to by ANZ, we assume Markets income remains subdued for the near term before picking up in FY21.
- **Total revenue:** has reduced by -2% in FY21/22 as a result of the above.
- **Operating expenses:** have increased materially, up 5% in FY20 and FY21. While previously we had forecast a -1% decline in costs in FY20 on an underlying basis we now forecast 4.5% growth in FY20 given guidance for a \$150m to \$200m step up in 1H20 vs 2H19. We assume 2H20 costs fall -1% HoH, before ANZ continues to take costs out in FY21 and FY22. Even so, we expect FY22 opex of ~\$8.7bn which is significantly higher than the \$8bn aspirational target.
- **Pre-provision profit:** reduced by -8.5% in FY20 and -7.5% in FY21.
- **Impairment expenses:** BDD forecasts reduce by -15% in FY20 and -18% in FY21 given the low interest rate environment. We continue to allow for a step up over 3 years to a more normal level of BDDs.
- **Dividends/franking:** we hold the dividend flat at 80cps and assume they remain 70% franked with a zero discount DRP program applying over the forecast period.

Key Points from Result Call

- Underlying costs expected to be higher in 1H20. ANZ CFO Michelle Jablko suggested underlying costs in 1H20 would rise by \$150-\$200m, which at the mid-point would infer ~4% HoH cost growth. We expect this will be due to: 1) ongoing cost inflation; 2) higher investment spend (FY20 investment spend expected to be above the \$1.4bn in FY19, with a greater proportion expensed upfront); 3) impact from BS11 (NZ outsourcing policy), which is expected to add >\$100m in FY20 (~\$350m in total over 2yrs); and 4) rising regulatory/compliance burden. During the Q&A part of the presentation, ANZ CEO Shane Elliot further reiterated the 'aspirational' \$8b cost target, but the near-term challenges make this more difficult to achieve in our view (our current FY22 forecasts already have ANZ missing the target by some margin).
- Hurdle rate lowered to ~8.5%. CEO Shane Elliot commented that ANZ had lowered its group cost of equity assumption from ~10% over the last 4-5yrs to ~8.5% on a forward looking basis, given the current interest rate environment. Divisional hurdle rates are also likely to be lowered, however this work remains ongoing. He expects ANZ's Institutional business will likely benefit the most from this, albeit we think this will weigh on risk-adjusted returns in the future.
- Sensitivity to rate cuts. ANZ provided a sensitivity to a 25bp reduction in AUD, NZD and USD interest rates. The impact of a 25bp cut is a -3bp impact on NIM.
- CFO Michelle Jablko also provided the 1H20 impact from recent rate cuts, including by the RBA and Federal Reserve. This is also expected to be a -3bp impact on NIM (net of recent repricing actions).
- Housing volumes showing positive early signs. ANZ's mortgage application volumes improved during its home loan campaign. Momentum was said to have continued into 1Q20, with Application volumes now running just slightly below the campaign average. However, loan amortisation is faster than historically has been the case.
- Expectations for 'normal' Markets income contribution lowered. ANZ has lowered its sights on what a normal contribution from Markets income looks like. While previously it had talked about a ~\$2bn annual contribution, given the low rate environment it now believes the FY19 performance (of ~\$1.8bn) is a more realistic pointer for the next few years.
- Investment spend expected to continue to grow. As mentioned above, ANZ CEO Shane Elliot suggested investment spend was likely to be higher YoY in FY20. Areas that he identified will require further investment include: 1) Australia; 2) process redesign, and 3) payments and data capabilities. In regards to ANZ's accounting policies, its capitalisation threshold of \$20m remains unchanged, while comments from CFO Michelle Jablko would suggest the expensed proportion of new projects is likely to rise.
- Capital efficiencies to mitigate impact rule changes. In response to a question on the impact of APS 111, ANZ indicated there were some potential mitigating factors, including: 1) re-valuation of subsidiaries; and 2) Issuance of Additional Tier 1 securities (by ANZ New Zealand) to external investors.

Investment Thesis, Valuation and Risks

ANZ Banking Group *(Hold; Price Target: \$26.40)*

Investment Thesis

Our Hold recommendation for ANZ reflects an inexpensive valuation at face value, offset by a challenging revenue outlook and the need to re-invest in its business. While in recent years ANZ has driven cost-out and delivered capital efficiencies, we think the low hanging fruit has been picked and further progress will become more challenging on both fronts. While momentum in Australia Retail/Commercial should improve, our outlook is moderated by concerns relating to relatively high level of execution risk and capital uncertainties on RBNZ/APS 222/APS 111.

Valuation

Our Jun-20 PT of \$26.40 reflects the aggregate of the present value of the dividend stream paid to shareholders through to FY22E and the present value of a multiple of FY22E tangible book value – premised on our sum-of-the-parts methodology, which values the earnings profile of the APEA business separately from the rest of the group. The LR price-to-tangible-book multiple of 1.3x is calculated with primary consideration given to the surplus capital generated above a hurdle rate of return. This surplus capital generation is reflected in our estimated sustainable ROTE of 11.25% for ANZ.

Risks to Rating and Price Target

Key risks to our Hold rating and price target relate to changes in asset quality, changes in the margin outlook, the execution of its cost reduction strategy, and the clarification of capital rules (particularly in NZ).

Australia New Zealand Banking Group (ANZ) : Financial Summary

Profit & Loss (A\$m)	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Net interest income	7,040	7,037	7,055	14,339	14,092	14,264	14,471
Other operating income	2,243	2,139	2,228	4,690	4,367	4,746	4,831
Operating income	9,283	9,176	9,283	19,029	18,459	19,010	19,301
Operating expenses	-4,706	-4,755	-4,506	-9,071	-9,261	-8,875	-8,670
Pre provision profit	4,577	4,421	4,777	9,958	9,198	10,135	10,632
Credit impairment charge (BDD)	-402	-478	-475	-795	-952	-1,073	-1,312
Income tax	-1,263	-1,144	-1,248	-2,678	-2,391	-2,628	-2,703
Minorities / Other	-6	-6	-6	-15	-12	-12	-12
Cash NPAT	2,906	2,794	3,049	6,470	5,843	6,422	6,605

Key Metrics	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Diluted cash EPS (cps)	99	95	103	218	198	215	220
DPS (cps)	80	80	80	160	160	160	160
Cash pay out ratio	78%	81%	75%	70%	78%	72%	70%
ROE	9.7%	9.1%	9.8%	10.9%	9.5%	10.1%	10.0%
ROTE	10.8%	10.0%	10.8%	12.1%	10.4%	11.0%	10.9%
Full time equivalent employees (FTEs)	37,588	36,838	36,088	37,588	36,088	34,838	33,838

Operating Performance	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
NIM	1.72%	1.71%	1.69%	1.76%	1.70%	1.66%	1.63%
Cost to income ratio	50.7%	51.8%	48.5%	47.7%	50.2%	46.7%	44.9%
JAWs	-12.6%	0.0%	6.4%	1.8%	-5.1%	7.1%	3.8%

Growth Rates (hoh for half years)	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
NIM (bp)	-8 bp	0 bp	-2 bp	-11 bp	-7 bp	-3 bp	-3 bp
Operating revenue	-4.8%	0.0%	1.2%	-1.7%	-3.0%	3.0%	1.5%
Operating expenses	7.8%	0.0%	-5.2%	-3.5%	2.1%	-4.2%	-2.3%
Pre provision profits	-14.9%	0.0%	8.1%	-0.1%	-7.6%	10.2%	4.9%
Cash NPAT	-18.5%	0.0%	9.1%	-0.3%	-9.7%	9.9%	2.8%
Diluted cash EPS	-16.6%	0.0%	8.4%	2.0%	-9.3%	8.8%	2.1%
Gross loans & acceptances (GLAs)	0.8%	0.0%	1.4%	1.7%	2.6%	3.4%	3.5%
Risk weighted assets	5.2%	0.0%	1.4%	6.7%	2.6%	3.4%	3.5%

Asset Quality	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
BDD / GLAs	0.13%	0.15%	0.15%	0.13%	0.15%	0.17%	0.20%
Gross impaired / GLAs	0.33%	0.35%	0.38%	0.33%	0.38%	0.43%	0.48%
Loans past 90 days due / GLAs	1.21%	1.30%	1.39%	1.21%	1.39%	1.59%	1.78%
Collective provision / CRWAs	0.76%	0.77%	0.77%	0.76%	0.77%	0.77%	0.79%
Specific provisions / impaired assets	39.0%	40.1%	40.1%	39.0%	40.1%	40.1%	40.1%
Total provisions / impaired assets	172.9%	166.9%	156.9%	172.9%	156.9%	138.7%	131.9%
Total provisions / GLAs	0.57%	0.59%	0.59%	0.57%	0.59%	0.60%	0.64%

Capital	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Core tier 1 (CET1) ratio	11.4%	11.5%	11.6%	11.4%	11.6%	11.6%	11.7%
Total capital ratio	15.3%	15.4%	15.4%	15.3%	15.4%	15.4%	15.3%
Risk weighted assets / GLAs	67.4%	67.4%	67.4%	67.4%	67.4%	67.4%	67.4%

Private Client Research

ANZ Banking Group: Financial Summary

\$ in millions, year end Sep

Income Statement	FY18	FY19	FY20E	FY21E	FY22E	Valuation Summary	\$m	ps			
Net Interest Income	14,514	14,339	14,092	14,264	14,471	Current mkt capitalisation	75,796.80	26.74			
Non-lending Fees & Commissions	2,058	1,975	1,827	2,085	2,138	Price Target		26.40			
Trading Income	0	0	0	0	0	Capital growth to price target		(1.3%)			
Non-interest Income	4,853	4,690	4,367	4,746	4,831	Per Share Data	FY18	FY19	FY20E	FY21E	FY22E
% Change Y/Y	(1.8%)	(3.4%)	(6.9%)	8.7%	1.8%	DPS (\$)	1.60	1.60	1.60	1.60	1.60
						% Change Y/Y	0.0%	0.0%	0.0%	0.0%	0.0%
Total Operating Revenues	19,367	19,029	18,459	19,010	19,301	Dividend Yield	6.0%	6.0%	6.0%	6.0%	6.0%
Total Non Interest Expense	(9,401)	(9,071)	(9,261)	(8,875)	(8,670)	Franking	100.0%	85.0%	70.0%	70.0%	70.0%
Pre-provision Operating Profit	9,966	9,958	9,198	10,135	10,632	Payout Ratio	75.8%	79.5%	80.9%	74.4%	72.9%
Loan Loss Provisions	(688)	(795)	(952)	(1,073)	(1,312)	NTA per share	18.47	19.59	20.06	20.72	21.43
Pre Tax Result (Reported)	9,895	8,920	8,246	9,062	9,319	Return Ratios	FY18	FY19	FY20E	FY21E	FY22E
Adjusted Pre Tax Result	9,278	9,163	8,246	9,062	9,319	ROA	0.7%	0.7%	0.6%	0.7%	0.6%
						ROE	11.4%	11.2%	9.9%	10.5%	10.4%
Tax (charge)	(2,784)	(2,609)	(2,391)	(2,628)	(2,703)	Revenues	FY18	FY19	FY20E	FY21E	FY22E
o/w Tax on Exceptional Items	(9)	69	0	0	0	Net Interest Margin	1.9%	1.8%	1.7%	1.7%	1.6%
o/w Tax on Normal Items	(2,775)	(2,678)	(2,391)	(2,628)	(2,703)	Non-IR / Average Assets	0.5%	0.5%	0.4%	0.5%	0.5%
Minorities	(711)	(358)	(12)	(12)	(12)	NII / Total Revenues	74.9%	75.4%	76.3%	75.0%	75.0%
Preference Dividends	0	0	0	0	0	Trading / Total Revenues	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (Reported)	6,679	6,221	6,105	6,684	6,867	FX Income / Total Revenues	8.6%	6.7%	0.0%	0.0%	0.0%
Normalised NPAT	6,487	6,470	5,843	6,422	6,605	Cost Ratios	FY18	FY19	FY20E	FY21E	FY22E
						Cost / Income	48.5%	47.7%	50.2%	46.7%	44.9%
EFPOWA	3,164	3,090	3,087	3,107	3,128	Cost / Assets	1.0%	0.9%	0.9%	0.9%	0.8%
Reported EPS (\$)	2.11	2.01	1.98	2.15	2.20	Staff Numbers	37,860	37,588	36,088	34,838	33,838
Normalised EPS (\$)	2.14	2.18	1.98	2.15	2.20	Balance Sheet Gearing	FY18	FY19	FY20E	FY21E	FY22E
% Change Y/Y	(3.8%)	2.0%	(9.3%)	8.8%	2.1%	Deposit/Loan	103.0%	103.0%	103.8%	103.7%	103.3%
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	Loan/Assets	-	-	-	-	-
Total Assets	943,182	981,137	1,010,059	1,045,736	1,083,770	Customer Deposits / Total Assets	65.9%	65.3%	65.0%	64.9%	64.5%
Shareholders' equity	59,265	60,783	62,537	64,840	67,296	LT Debt / Liabilities	13.3%	13.9%	14.1%	14.0%	14.0%
Risk Weighted Assets	390,820	416,961	427,963	442,370	457,833	Asset Quality	FY18	FY19	FY20E	FY21E	FY22E
% YoY change	(0.1%)	6.7%	2.6%	3.4%	3.5%	Average IEA/ Total Asset	82.1%	82.9%	82.3%	82.2%	82.2%
Impaired Assets	1,802	1,711	2,397	2,821	3,281	Loan Loss Provisions / Loans	-	-	-	-	-
						NPLs / Loans	0.3%	0.3%	0.4%	0.4%	0.5%
Average Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	LLP / RWA	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.3%)
Other Assets	-	-	-	-	-	Loan Loss Reserves / NPLs	-	-	-	-	-
Total Assets	920,254	962,160	995,598	1,027,898	1,064,753	Total Tier 1	13.4%	13.2%	13.4%	13.4%	13.5%
Interest bearing Liabilities	693,051	723,164	744,052	768,267	795,031						
Other Liabilities	-	-	-	-	-						
Total Liabilities	861,014	902,060	933,927	964,199	998,674						
Ordinary Shareholders Funds	58,999	59,493	61,609	63,694	66,067						
Total Shareholders Equity	58,999	59,493	61,609	63,694	66,067						
Free Float	81,793	90,016	86,896	90,003	93,439						

Source: Company reports and Ord Minnett estimates.

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Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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