Private Client Research

4 November 2019

Macquarie Group

First-half FY20 result review

Macquarie Group (MQG) reported a first-half FY20 cash net profit of $1.457 billion, up 11% on the same period last year and 1% ahead of Ord Minnett's forecast. A 40% franked interim dividend of $2.50 was declared, above our $2.30 estimate.

Compositionally, the Commodities and Global Markets (CGM) and Macquarie Asset Management (MAM) divisions came in well ahead of our forecasts, while Macquarie Capital (MacCap) was quite a bit weaker. This reflected slightly better revenue than we expected, offset by higher costs due to accelerated amortisation of previous years' equity awards for retiring executives.

Full-year guidance was unchanged. We continue to expect 2% net profit growth in FY20 versus guidance of *"slightly down"* on FY19. There are no changes to our net profit forecasts for FY20 or FY21, although we have reduced our FY22 estimate by less than 1%.

Given a solid share price run into the result, Macquarie no longer looks overly cheap. The stock is trading on a 15.5x FY21E price-earnings (P/E) multiple and there is only modest potential upside to our valuation. Given material challenges for most of our banks coverage universe, however, we still see some relative appeal in what we consider a high-quality company, leading us to **maintain our Accumulate rating. We raise our target price to $136.00 from $133.00** due to movements in peer group valuation multiples.

- **1H20 result –** The 1H20 result was in line at pre-tax profit level and revenue was just 1% ahead, although compositionally revenue was a little different than expected. Trading income from the CGM business, and base and performance fees from Macquarie Infrastructure Real Assets (MIRA) arm, contributed more strongly than expected, which was pleasing given these are two core niches of Macquarie. This was offset partly, however, by weaker net interest income (NII) and softer 'other' income.

- **Net profit forecast –** We continue to expect Macquarie to outperform its own FY20 guidance *of "slightly down"* on FY19, with 2% growth pencilled in. We note our forecast equates to a 48%/52% first half/second half split, which is line with the average over the past four years.

- **MacCap –** The MIRA and CGM business units fired yet again, while MacCap disappointed due to: 1) lower debt capital markets (DCM) fee income; 2) some asset impairments; 3) the timing of asset sales. This was reflected by a pre-tax, pre-bonus simple return on Basel III capital supply allocated to the division of 12% in the first half, well below MacCap's five-year average of 33% and counterintuitive given the strong recent capital deployment into the division. As such, we expect performance to improve in the second half and into FY21. The green energy opportunity set is as large as ever, with more than 250 projects under development or construction as at 30 September.

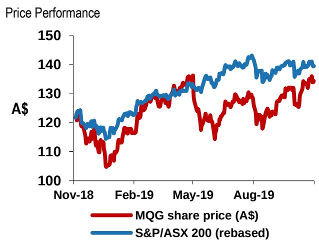
Recommendation
Accumulate

Risk
Higher

Target price
▲$136.00

Previous
$133.00

Last price
$134.38



Price Performance

	YTD	1m	3m	12m
Abs	23.7%	1.8%	5.0%	14.0%
Rel	13.8%	7.1%	8.9%	6.4%

Company Data

Shares O/S (mn)	354
52-week range ($)	136.84-103.30
Market cap ($ mn)	32,830.82
Exchange rate	1.45
Free float(%)	98.8%
3M - Avg daily vol (mn)	0.97
3M - Avg daily val ($ mn)	84.9
Volatility (90 Day)	18
Index	AS51 Banks
BBG BUY|HOLD|SELL	7|6|0

Key Metrics (FYE Mar)

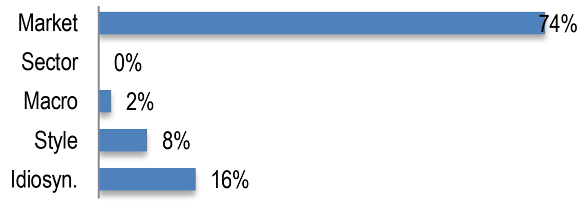
$ in millions	FY19A	FY20E	FY21E	FY22E
Financial Estimates				
Net interest income	1,760	1,619	1,724	1,848
Non interest income	11,226	11,266	11,559	12,136
Operating expenses	(8,887)	(8,932)	(9,117)	(9,472)
Adj. PPOP	4,099	3,953	4,165	4,512
Provision for loan losses	(232)	(54)	(115)	(144)
Adj. PBT	3,867	3,899	4,050	4,368
Adj. net income	3,033	3,141	3,260	3,508
Adj. EPS	8.64	8.59	8.76	9.43
BBG EPS	8.64	8.61	8.80	-
DPS	5.75	5.95	6.10	6.55
Loans	78,474	88,624	95,598	101,791
Deposits	56,191	61,108	65,461	70,123
Total assets	203,182	225,070	236,168	246,609
Margins and Growth				
NIM	1.6%	1.4%	1.4%	1.4%
Ratios				
Loan/ Deposit ratio	139.7%	145.0%	146.0%	145.2%
NPL / Loans	2.9%	2.7%	2.4%	2.4%
Coverage	27.0%	27.0%	27.0%	27.0%
CET 1	11.4%	11.6%	11.6%	11.8%
Non-int. income/ Income	86.4%	87.4%	87.0%	86.8%
Cost/Income	68.4%	69.3%	68.6%	67.7%
LLP/Loans	-	-	-	-
ROA	1.5%	1.5%	1.4%	1.5%
ROE	17.8%	16.5%	15.7%	16.0%
Valuation				
Dividend yield	4.3%	4.4%	4.5%	4.9%
Adj. P/E	15.6	15.6	15.3	14.3
P/ BV	2.6	2.3	2.2	2.1

Summary Investment Thesis and Valuation

We believe Macquarie is well positioned within the global investment banking and diversified financials space, supported by its market positioning in key niches (commodities, infrastructure and green energy) and strong attention to risk management. While we expect the contribution to revenue from volatile income streams (performance fees and gains on sale) will normalise over FY20, on a medium term view, we expect its ongoing investment (including in renewables, technology and infrastructure sectors) will be a positive earnings driver, with current asset values likely having benefited from the lower bond yield environment. Given these factors, we rate Macquarie at Accumulate.

Our Jun-20 PT of $136 is premised on our sum-of-the-parts valuation methodology, which separately values Macquarie's business units. The P/E applied to each unit has been adjusted to match Macquarie's March year-end.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Australia	0.77	0.86
Sect: Financials	0.09	0.01
Ind: Diversified Fin	0.70	0.60
Macro:		
#N/A	0.03	0.25
TR/CC CRB ER Index	0.08	0.23
GS Australia FCI	0.05	0.21
Quant Styles:		
LowVol	-0.25	-0.45
Size	-0.40	-0.39
Value	0.23	0.27

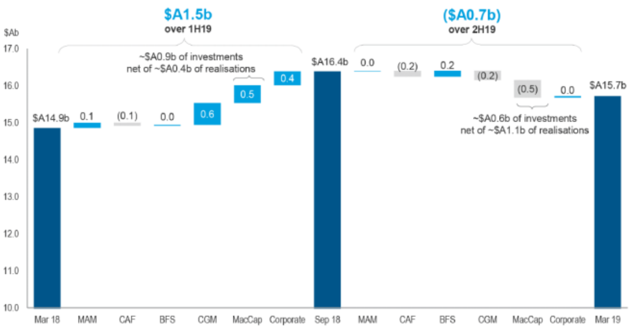
Sources for: Performance Drivers – Bloomberg, Ord Minnett Quantitative and Derivatives Strategy; all other tables are company data and Ord Minnett estimates.

Charting the Focal Points

1H20 in line at pre-tax

Macquarie reported 1H20 cash NPAT of $1.457b (+11% vs pcp), which was 1% ahead of OMLe. Revenues were 1% ahead of OMLe, offset by slightly higher expenses, which saw pre-tax income come in-line with our estimates. Movements in volatile items were largely as expected, CGM delivered another strong result, and MacCap disappointed partly due to lower DCM revenues.

Figure 1: MQG business capital requirements

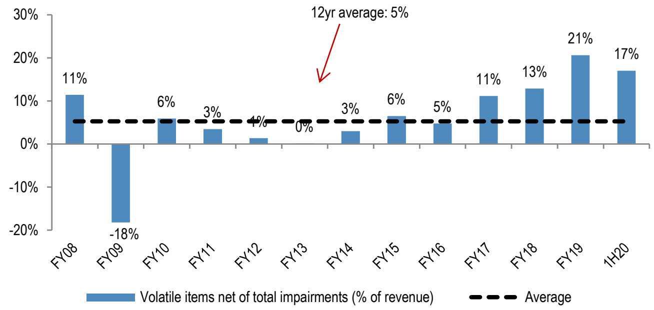


Source: Company data.

Volatile items persist

Volatile items (perf fees, gain on sale) provided a clear boost to Macquarie's result. Performance fees for the half of $546m was the best result since 1H16. These were earned from a very wide range of funds (MEIF1, MEIF3, MIP I, MIP II, GIF II and GIF III). Some of these funds retain the capacity to pay further performance fees, with a number of assets still to be divested.

Figure 2: MQG volatile items (ex impairments) as % revenue

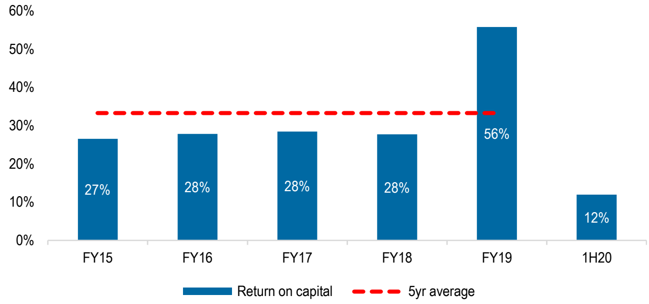


Source: Ord Minnett estimates, Company data.

MacCap ROE should improve

On our estimates, MacCap's pre-tax, pre-bonus simple return on Basel III capital fell to 12% this half, which is well below its 5yr average of 33%. Given the strong recent capital deployment into the division, we expect performance to improve in 2H20 and into FY21. The Green Energy opportunity set is as large as ever, with over 250 projects under development or construction as at 30 Sep 19.

Figure 3: MacCap ROE vs history (pre-bonus, pre-tax on Basel III capital supply)

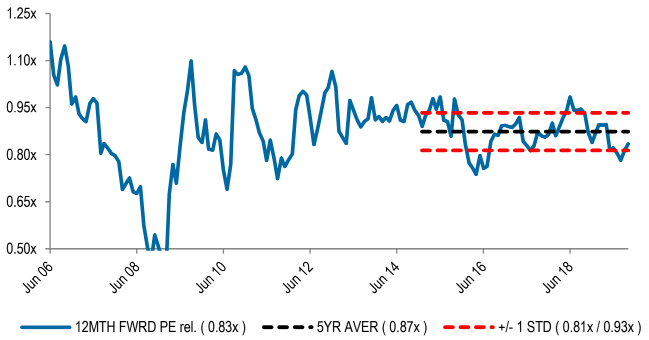


Source: Company data.

MQG screens cheap rel ASX200 Indust.

On our revised estimates, Macquarie trades on a 12mth forward PE of ~15x, which is approx. 1std above its 5yr average. On a relative basis (ASX200 Industrials) however, it is trading below its long run average. We view this latter metric as a better indicator of relative value. Macquarie is currently trading on a ~5% dividend yield (12mth forward).

Figure 4: MQG PE (fwrd 12mth) rel ASX200 Industrials



Source: Company data. Bloomberg

1H20 Result

We see the following key issues coming out of Macquarie's 1H20 result:

- Result in line at pre-tax profit, no change to “slightly down” FY20 guidance;
- Volatile item contribution normalised lower…performance fees should persist at solid levels;
- MacCap returns should recover;
- BFS continues to expand aggressively in the housing market; and
- 1H20 conference call highlights.

In line at pre-tax, no change to guidance

Macquarie reported 1H20 cash NPAT of $1.457b (+11% vs pcp), which was 1% ahead of OMLe. Revenues were 1% ahead of OMLe, offset by slightly higher expenses, which saw pre-tax income come in-line with our estimates. The tax rate was lower than expected. Movements in volatile items were largely as expected, CGM delivered another strong result, and MacCap saw a sharp reduction in earnings partly on DCM weakness.

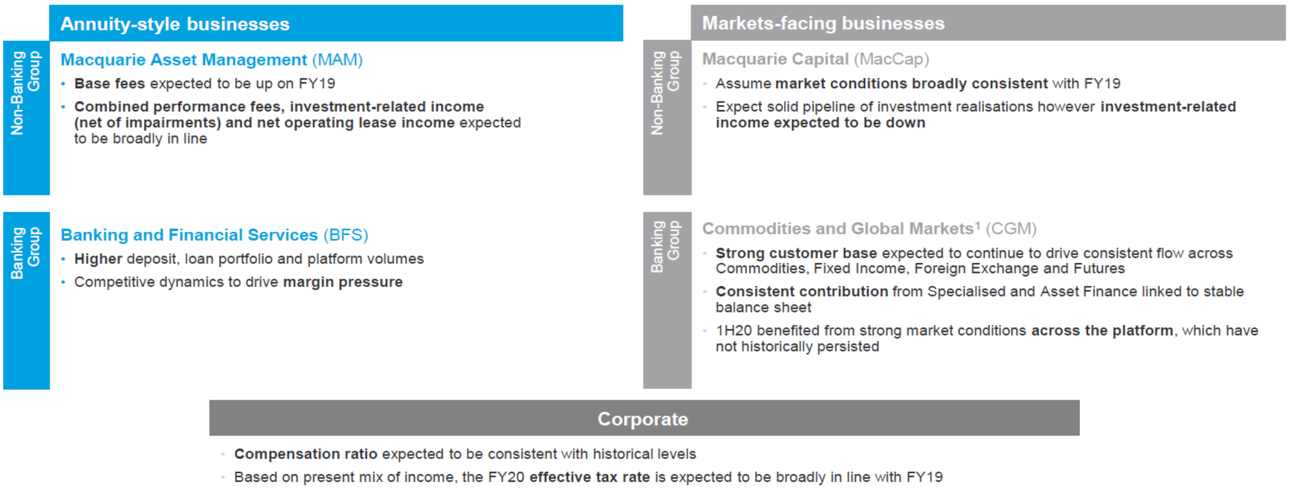
Table 1: MQG financial summary

$m	1H19	2H19	1H20E	1H20A	vs 1H19	vs OMLe
Net Interest Income	998	762	870	790	-20.8%	-9.1%
Net Fee & Commission Income	2,661	2,865	2,922	2,874	8.0%	-1.6%
Trading Income	1,231	1,560	1,256	1,627	32.2%	29.5%
Other Income	940	1,737	1,188	1,029	9.5%	-13.4%
Total Income	**5,830**	**6,924**	**6,235**	**6,320**	**8.4%**	**1.4%**
Expenses	(4,125)	(4,762)	(4,389)	(4,480)	8.6%	2.1%
Cash NPAT	**1,310**	**1,672**	**1,442**	**1,457**	**11.2%**	**1.0%**

Source: Ord Minnett estimates, Company data.

Guidance was largely unchanged. At the group level, profits are still expected to be “slightly down” yoy. Commentary would suggest CGM will slow in 2H, given the strong market conditions that benefitted it this half “have not historically persisted”. Guidance for base fees in MAM was upgraded to 'up on FY19' (from in-line previously).

Figure 5: MQG guidance commentary

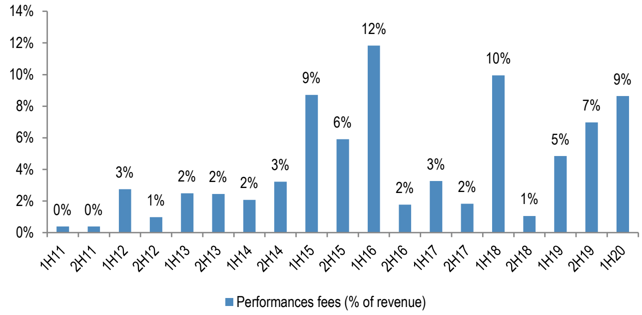


Source: Company reports.

Volatile items normalised lower, performance fees should persist at solid level

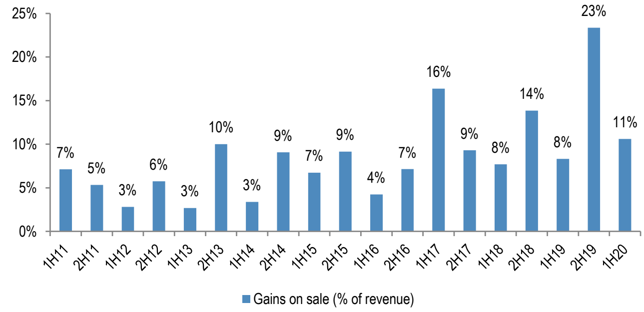
Macquarie's revenue contribution from "volatile items" (which we define as performance fees and gains on sale) fell to 20% of total revenue, which is around the average since 1H17. Performance fees rose, but this was offset by a big drop in gains on sale from the record in 2H19.

Figure 6: Performance fees as % MQG revenue



Source: Ord Minnett estimates, Company data.

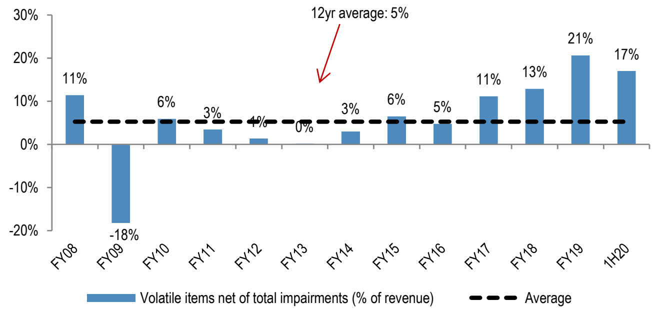
Figure 7: Gain on sale as % MQG revenue



Source: Ord Minnett estimates, Company data.

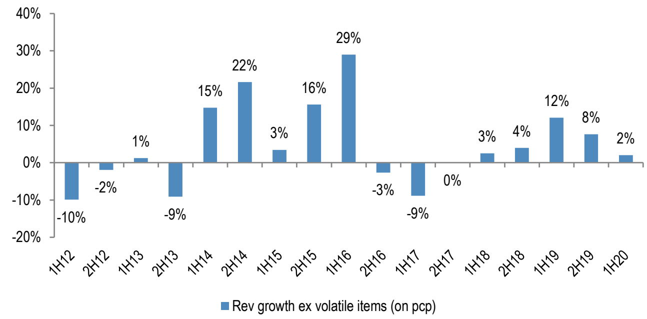
Revenue growth ex volatile items & loan/investment impairments was relatively subdued, largely reflecting lower DCM income relative to a strong pcp. However arguably gains on sale are increasingly becoming ‘core’ as Macquarie deploys balance into the Green Energy space.

Figure 8: MQG volatile items (ex impairments) as % revenue



Source: Ord Minnett estimates, Company data.

Figure 9: MQG revenue growth ex volatile items, impairments



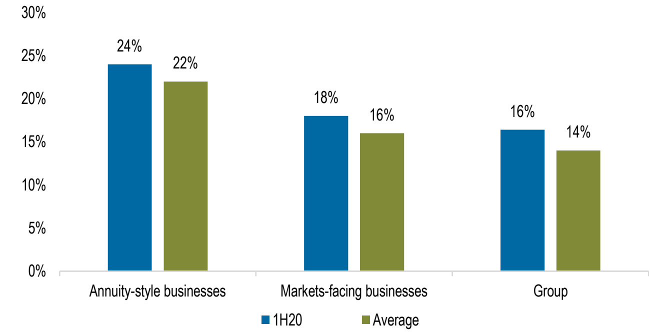
Source: Ord Minnett estimates, Company data.

From here we believe that performance fees should provide a relatively solid contribution to earnings over the near term. A number of assets remain to be sold out of MEIF, MIP and GIF funds. Nonetheless given the strong performance fees in 1H20 ($546m), we have lowered our expectation for 2H20 to $500m from our previous $555m and left FY21/22 unchanged.

MacCap ROE disappointed but should improve

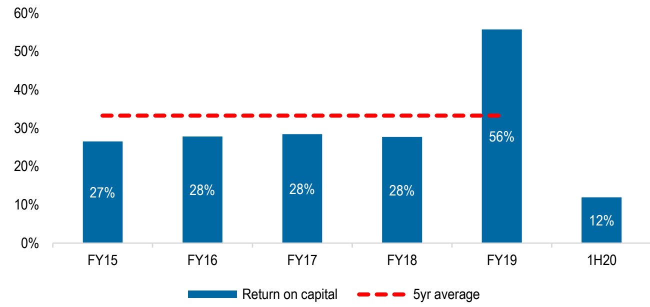
Looking at divisional ROEs as shown below Macquarie estimates its long run ROE for its annuity-style businesses is 22%, and 16% for its markets-facing businesses. Macquarie indicated that 1H20 was higher for both segments, as shown below. However MacCap was significantly under-earning relative to the past.

Figure 10: MQG 1H20 divisional ROE vs average



Source: Company data. Note: average based on past 13yrs

Figure 11: MacCap ROE vs history (pre-bonus, pre-tax on Basel III capital supply)



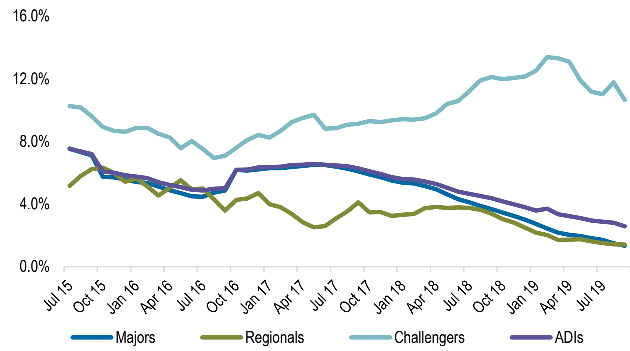
Source: Company data.

We expect MacCap ROE to improve over the next few halves, as DCM conditions normalise, investment impairments reduce, and recently deployed capital into the Green Energy space start to deliver benefits.

BFS continues to expand aggressively in the housing market

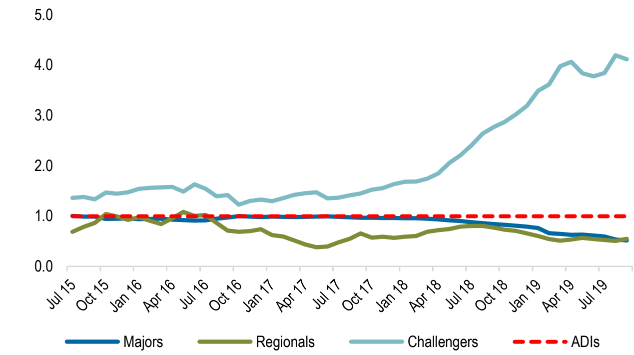
Challenger banks have been among the main aggressors in the housing market over the past couple of years. As shown below, they have been growing at up to 12% yoy (representing ~4x the level of ADI growth), which has been in stark contrast to the major banks, who have had to endure the Royal Commission, and have seen their market share eroded by their much smaller peers.

Figure 12: Housing credit growth (yoy)



Source: Ord Minnett estimates, APRA Note: Challenger banks comprises MQG, HSBC, ING, AMP and ME Bank

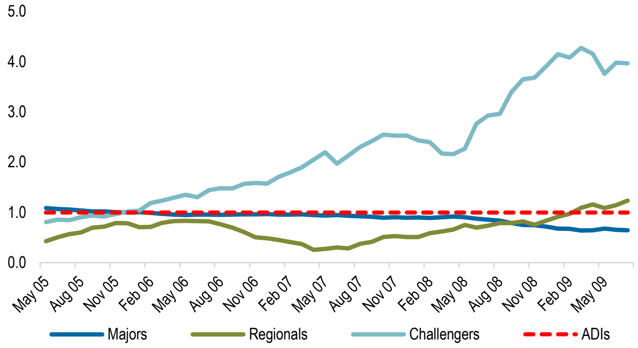
Figure 13: Relative housing credit growth (yoy)



Source: Ord Minnett estimates, APRA Note: Challenger banks comprises MQG, HSBC, ING, AMP and ME Bank

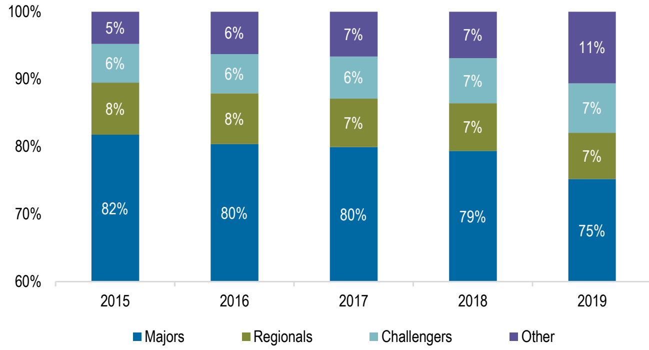
This growth has predominantly come in the investor segment, which has historically been priced at a premium to owner occupier loans, and has (to an extent) been less of the focus for the majors given macro pru restrictions.

Figure 14: Relative household deposit growth (yoy)



Source: Ord Minnett estimates, APRA Note: Challenger banks comprises MQG, HSBC, ING, AMP and ME Bank

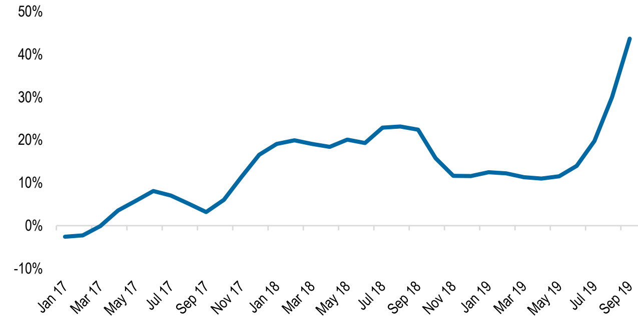
Figure 15: Relative housing credit growth (yoy)



Source: Ord Minnett estimates, APRA Note: Challenger banks comprises MQG, HSBC, ING, AMP and ME Bank

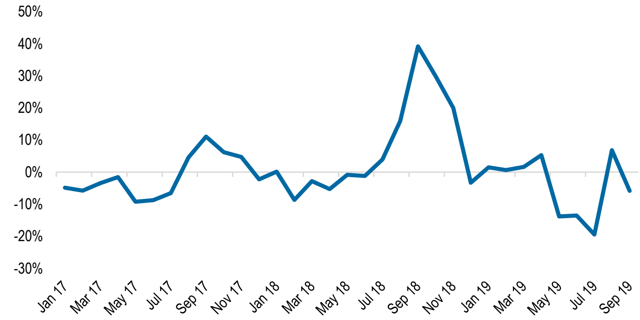
Macquarie has grown ahead of all other reasonable sized players, with 21% growth in housing balance over the past 12mths.

Figure 16: MQG housing credit growth (3mth ann)



Source: Ord Minnett estimates, APRA

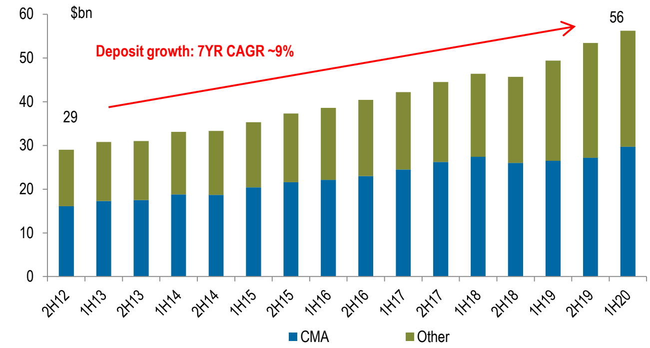
Figure 17: MQG business credit growth (3mth ann)



Source: Ord Minnett estimates, APRA

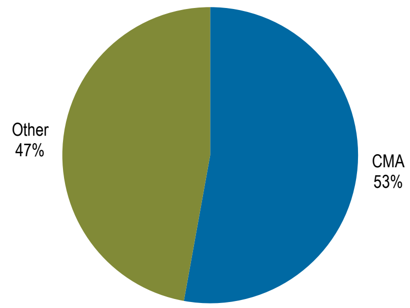
In addition, Macquarie has seen continued strong growth in deposits and has also recently completed a $2.8bn RMBS issue to help fund its growth ambitions.

Figure 18: MQG deposit growth



Source: Ord Minnett estimates, Company data

Figure 19: MQG deposit composition (1H20)



Source: .P. Ord Minnett estimates, Company data

That said NPAT growth for the BFS division has disappointed (+2% on pcp), however this mostly reflects challenging conditions in the motor vehicle finance space and reshaping of the Advice business. We expect these headwinds will reduce and the housing/business growth will start to pull through to earnings over coming years.

Earnings changes

We have made the following changes to our earnings forecasts.

Table 2: MQG earnings changes

	FY20E			FY21E			FY22E		
MQG earnings changes	**Revised**	**Previous**	**% Change**	**Revised**	**Previous**	**% Change**	**Revised**	**Previous**	**% Change**
Cash Earnings ($m)	3,035	3,037	-0.1%	3,154	3,139	0.5%	3,402	3,425	-0.7%
Diluted Cash EPS (c)	859.3	862.3	-0.4%	876.1	876.2	0.0%	943.0	953.6	-1.1%
DPS (c)	595	590	0.8%	610	605	0.8%	655	650	0.8%

Source: Ord Minnett estimates.

As shown above there has been very little change to our forecasts, with FY20e and FY21e broadly unchanged, and FY22 downgraded by -1%. That said, there has been some change to the composition of our forecasts.

- **Net interest income:** NII forecasts have reduced due to the lower starting point from 1H20 however we assume a pick-up in growth in FY21/22;
- **Net fees & Commission income:** Overall net fees & commissions have been lowered slightly, with an increase in base fees more than offset by a reduction in other fees & commission income;
- **Trading income:** Trading income forecasts have increased by ~15% in FY21/FY22, however this increase is less than the extent of the 1H20 beat from this line item as we continue to fade the strength in Commodities;
- **Other income:** Other income forecasts have reduced by ~10% with higher gains on sale more than offset by lower assumed equity accounted earnings and other income;
- **Revenue:** Overall our revenue forecasts are broadly unchanged due to the above changes;
- **Operating expenses:** Our opex assumptions area also broadly unchanged. We expect staff expenses to normalise lower next half on non-recurrence of the accelerated amortisation of KMP share based payments; and
- **Tax:** We assume the tax rate sits at 23% from 2H10 onwards.

Conference call highlights

- **Performance fee outlook.** Macquarie's performance fees for the half of $546m was the best result since 1H16. These were earned from a very wide range of funds (MEIF1, MEIF3, MIP I, MIP II, GIF II and GIF III). Some of these funds retain the capacity to pay further performance fees and MEIF2 appears on the cusp of reaching its hurdle rate, with a number of assets still to be divested.
- **Macquarie happy with the pace of asset realisations.** Gains on sale by comparison were much weaker, declining ~$1b hoh. However this largely reflected an unsustainable level of gains in the previous year. CEO Shemara Wikramanayake said she was happy with the pace of divestments and conditions appear healthy to accommodate further divestments.
- **Weaker MacCap performance on lower fees, higher impairments, development expense.** MacCap's result was quite weak this half. Macquarie attributed this to lower fee revenue due to lower DCM income, higher impairments (Asian investment), and development expense in Green Energy. We believe Macquarie's inferior DCM performance vs US IB peers largely relates to it different product lines (Macquarie geared to more high yield vs US IBs more prime issuers).

- **MIM net outflows mainly in lower margin products.** MIM net flows were -$23.1bn for the half (-6% of opening balance AUM in MIM). Net outflows largely reflected contractual fixed income insurance assets and other short-term fixed income allocations. We believe these are low margin products; base fee growth in MIM of 7% hoh despite flat AUM is evidence of this. Fixed income % of total AUM declined to 55% from 57% a year ago, and 80% of MIM funds are outperforming their 3 & 5 year benchmarks.
- **Hurdle rates unaffected by low rates.** Macquarie said during the Q&A portion of the conference call that it would not lower its hurdle rates in response to the lower interest rate environment (a reference to ANZ yesterday reducing its cost of equity hurdle rate to 8.5%).
- **IT investment aimed at cost efficiencies.** BFS CEO Greg Ward said that the bank's IT investment is expected to drive further cost efficiencies. It has recently turned on a new origination engine that is expected to lower employment costs in the future.
- **Tax rate set to rise in 2H**. Despite a low 1H20 effective tax rate of 20%, Macquarie retained its full year tax guidance for the effective rate to be broadly in line yoy. This would suggest a 2H tax rate of ~24%. Macquarie CFO Alex Harvey suggested the lower tax rate in the half was due to the geographic composition and nature of the earnings.

Macquarie (MQG) : Financial Summary

Profit & Loss (A$m)	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Net interest income	762	790	829	1,760	1,619	1,724	1,848
Net fee & commission income	2,865	2,874	3,033	5,526	5,907	6,141	6,345
Trading income	1,560	1,627	1,546	2,791	3,173	3,065	3,273
Other income	1,737	1,029	1,103	2,677	2,132	2,238	2,374
Operating income	**6,924**	**6,320**	**6,511**	**12,754**	**12,831**	**13,167**	**13,840**
Operating expenses	-4,762	-4,480	-4,452	-8,887	-8,932	-9,117	-9,472
Pre tax earnings	**2,162**	**1,840**	**2,059**	**3,867**	**3,899**	**4,050**	**4,368**
Taxation	-505	-376	-474	-879	-850	-882	-952
Minority Interest and Pref Dist'ns	15	-7	-7	-6	-14	-14	-14
Cash Earnings	**1,672**	**1,457**	**1,578**	**2,982**	**3,035**	**3,154**	**3,402**
Growth (hoh/yoy)	27.6%	-12.9%	8.3%	16.6%	1.8%	3.9%	7.9%

Key Metrics	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Diluted cash EPS (cps)	484	420	438	864	859	876	943
Growth (pcp)	26.2%	9.5%	-9.4%	16.2%	-0.5%	2.0%	7.6%
DPS (cps)	360	250	345	575	595	610	655
Growth (pcp)	12.5%	16.3%	-4.2%	9.5%	3.5%	2.5%	7.4%
ROE							
Cash payout ratio	73%	61%	77%	66%	69%	69%	68%
Compensation ratio	37%	41%	39%	38%	40%	39%	39%
Cost to income ratio	69%	71%	68%	70%	70%	69%	68%
JAWs	3.3%	-2.8%	3.6%	-2.4%	0.1%	0.5%	1.2%
Effective Tax Rate	23%	20%	23%	23%	22%	22%	22%

Divisional Profit & Loss (A$m)	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Macquarie Asset Management (MAM)	1,023	1,124	1,068	1,874	2,192	1,993	1,898
Banking and Financial Services (BFS)	378	385	407	756	792	907	1,028
Annuity-style businesses	**1,401**	**1,509**	**1,475**	**2,630**	**2,984**	**2,900**	**2,926**
Growth (hoh/yoy)	14.0%	7.7%	-2.3%	14.5%	13.5%	-2.8%	0.9%
Commodities & Global Markets (CGM)	880	1,138	993	1,745	2,131	1,859	2,023
Macquarie Capital	1,242	222	488	1,761	710	1,024	1,050
Markets-facing businesses	**2,122**	**1,360**	**1,481**	**3,506**	**2,841**	**2,883**	**3,073**
Growth (hoh/yoy)	53.3%	-35.9%	8.9%	115.0%	-19.0%	1.5%	6.6%
Corporate & Tax	-1,851	-1,412	-1,377	-3,154	-2,789	-2,629	-2,597

FTE Metrics	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Full time equivalent employees (FTEs)(spot)	15,602	15,704	15,861	15,602	15,861	16,180	16,505
Revenue / Av Headcount (A$k)	308.2	271.0	261.5	576.8	531.5	515.6	526.9
Expense / Av Headcount (A$k)	211.9	192.1	178.8	401.9	370.0	357.0	360.6

Growth Rates (vs pcp for half years)	2H19	1H20E	2H20E	FY19	FY20E	FY21E	FY22E
Operating revenue	25.4%	8.4%	-6.0%	16.8%	0.6%	2.6%	5.1%
Operating expenses	26.5%	8.6%	-6.5%	19.2%	0.5%	2.1%	3.9%
Pre tax profit	22.8%	7.9%	-4.8%	11.6%	0.8%	3.9%	7.9%
Cash NPAT	27.7%	11.2%	-5.6%	16.6%	1.8%	3.9%	7.9%
Diluted cash EPS	26.2%	9.5%	-9.4%	16.2%	-0.5%	2.0%	7.6%

Investment Thesis, Valuation and Risks

Macquarie Group *(Accumulate; Price Target: $136.00)*

Investment Thesis

We believe Macquarie is well positioned within the global investment banking and diversified financials space, supported by its market positioning in key niches (commodities, infrastructure, and Green Energy) and strong attention to risk management. While we expect the contribution to revenue from volatile income streams (performance fees and gains on sale) will normalise over FY20, on a medium-term view we expect its ongoing investment (including in renewables, technology and infrastructure sectors) will be a positive earnings driver, with current asset values likely having benefited from the lower bond yield environment. Given these factors, we rate Macquarie at Accumulate.

Valuation

Our Jun-20 PT of $136 is premised on our sum-of-the-parts valuation methodology, which separately values Macquarie's business units. The P/E applied to each unit has been adjusted to match Macquarie's March year-end.

(A$m)	Divisional profit		Fully allocated NPAT	PE	Valuation
	FY19	FY20E	FY20E	FY20E	
Macquarie Asset Management	1,874	2,192	1,222	17.3	21,186
Banking and Financial Services	756	792	586	14.2	8,309
Macquarie Capital	1,761	710	135	11.5	1,551
Commodities and Global Markets	1,745	2,131	1,092	11.5	12,563
Corporate & Other	-3,154	-2,789	0	-	0
Divisional Valuation	2,982	3,035	3,035	14.4	43,609
Surplus Capital					0
MQG ($m)					**43,609**
Shares outstanding (m)					332
[illegible]					[illegible]
MGG TP (Jun 20)					136

Source: Company data, Ord Minnett estimates

Risks to Rating and Price Target

Downside risks to our share price target include market dislocation, which could impact client activity, drive impairment losses and reduce the ability for the group to realise gains on sale of its investments.

Macquarie Group: Financial Summary

$ in millions, year end Mar

Income Statement	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	**1,986**	**1,760**	**1,619**	**1,724**	**1,848**
Non-lending Fees & Commissions	3,038	3,407	3,640	3,740	3,839
Trading Income	1,957	2,791	3,173	3,065	3,273
Non-interest Income	**8,997**	**11,226**	**11,266**	**11,559**	**12,136**
% Change Y/Y	*6.5%*	*24.8%*	*0.4%*	*2.6%*	*5.0%*
Total Operating Revenues	**10,983**	**12,986**	**12,885**	**13,282**	**13,984**
Total Non Interest Expense	(7,456)	(8,887)	(8,932)	(9,117)	(9,472)
Pre-provision Operating Profit	**3,527**	**4,099**	**3,953**	**4,165**	**4,512**
Loan Loss Provisions	(63)	(232)	(54)	(115)	(144)
Pre Tax Result (Reported)	**3,464**	**3,867**	**3,899**	**4,050**	**4,368**
Adjusted Pre Tax Result	**3,464**	**3,867**	**3,899**	**4,050**	**4,368**
Tax (charge)	(883)	(879)	(850)	(882)	(952)
o/w Tax on Exceptional Items				-	-
o/w Tax on Normal Items	(883)	(879)	(850)	(882)	(952)
Minorities	(24)	(6)	(14)	(14)	(14)
Preference Dividends	0	0	0	0	0
Net Income (Reported)	**2,557**	**2,982**	**3,035**	**3,154**	**3,402**
Normalised NPAT	**2,557**	**2,982**	**3,035**	**3,154**	**3,402**
EFPOWA	351	351	366	372	372
Reported EPS ($)	7.28	8.49	8.30	8.48	9.14
Normalised EPS ($)	7.43	8.64	8.59	8.76	9.43
% Change Y/Y	*15.2%*	*16.2%*	*(0.5%)*	*2.0%*	*7.6%*

Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
Total Assets	191,325	203,182	225,070	236,168	246,609
Shareholders' equity	16,357	17,761	20,310	21,337	22,507
Risk Weighted Assets	91,730	77,517	92,360	100,985	109,153
% YoY change	1.9%	(15.5%)	19.1%	9.3%	8.1%
Impaired Assets	671	2,292	2,426	2,352	2,412

Average Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E
Other Assets	77,944	94,283	106,636	109,859	113,179
Total Assets	**187,101**	**197,254**	**214,126**	**230,619**	**241,388**
Interest bearing Liabilities	127,089	127,078	133,986	143,614	151,975
Other Liabilities	-	-	-	-	-
Total Liabilities	**169,376**	**178,982**	**194,442**	**209,100**	**218,771**
Ordinary Shareholders Funds	15,220	16,567	18,114	19,111	20,235
Total Shareholders Equity	**15,709**	**17,056**	**18,603**	**19,600**	**20,724**
Free Float	**63,341**	**74,623**	**86,321**	**89,406**	**92,719**

Valuation Summary	$m	ps
Current mkt capitalisation	47,621.11	134.38
Price Target		**136.00**
Capital growth to price target		**1.2%**

Per Share Data	FY18	FY19	FY20E	FY21E	FY22E
DPS ($)	5.25	5.75	5.95	6.10	6.55
% Change Y/Y	*11.7%*	*9.5%*	*3.5%*	*2.5%*	*7.4%*
Dividend Yield	3.9%	4.3%	4.4%	4.5%	4.9%
Franking	45.0%	45.0%	42.5%	45.0%	45.0%
Payout Ratio	72.1%	67.7%	71.7%	72.0%	71.6%
NTA per share	43.07	47.83	50.33	53.14	0.00

Return Ratios	FY18	FY19	FY20E	FY21E	FY22E
ROA	1.4%	1.5%	1.5%	1.4%	1.5%
ROE	16.4%	17.8%	16.5%	15.7%	16.0%

Revenues	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Margin	1.8%	1.6%	1.4%	1.4%	1.4%
Non-IR / Average Assets	4.8%	5.7%	5.3%	5.0%	5.0%
NII / Total Revenues	18.1%	13.6%	12.6%	13.0%	13.2%
Trading / Total Revenues	17.8%	21.5%	24.6%	23.1%	23.4%
FX Income / Total Revenues	-	-	-	-	-

Cost Ratios	FY18	FY19	FY20E	FY21E	FY22E
Cost / Income	67.9%	68.4%	69.3%	68.6%	67.7%
Cost / Assets	4.0%	4.5%	4.2%	4.0%	3.9%
Staff Numbers				-	-

Balance Sheet Gearing	FY18	FY19	FY20E	FY21E	FY22E
Deposit/Loan	70.7%	68.8%	70.2%	68.7%	68.7%
Loan/Assets	-	-	-	-	-
Customer Deposits / Total Assets	28.4%	26.5%	27.4%	27.4%	28.1%
LT Debt / Liabilities	**32.2%**	**29.6%**	**27.8%**	**28.7%**	**29.0%**

Asset Quality	FY18	FY19	FY20E	FY21E	FY22E
Average IEA/ Total Asset	100.0%	100.0%	100.0%	100.0%	100.0%
Loan Loss Provisions / Loans	-	-	-	-	-
NPLs / Loans	0.9%	2.9%	2.7%	2.4%	2.4%
LLP / RWA	(0.1%)	(0.3%)	(0.1%)	(0.1%)	(0.1%)
Loan Loss Reserves / NPLs	75.0%	36.7%	27.0%	27.0%	27.0%
Total Tier 1	12.8%	13.5%	13.4%	13.3%	13.4%

Source: Company reports and Ord Minnett estimates.

Please contact your Ord Minnett Adviser for further information on our document.

Guide to Ord Minnett Recommendations

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.

Ord Minnett Offices

Adelaide
Level 5
100 Pirie Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Brisbane
Level 31
10 Eagle Street
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Buderim
Sunshine Coast
1/99 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Canberra
101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Gold Coast
Level 7, 50 Appel Street
Surfers Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5557 3377

Mackay
45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888
Fax: (07) 4969 4800

Melbourne
Level 7
161 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Newcastle
426 King Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Head Office
Sydney
Level 8, NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311
www.ords.com.au

International
Hong Kong
1801 Ruttonjee House
11 Duddell Street
Central, Hong Kong
Tel: +852 2912 8980
Fax: +852 2813 7212
www.ords.com.hk