

Analyst

TS Lim 612 8224 2810

Authorisation

Chris Savage 612 8224 2835

Commonwealth Bank (CBA)

See the sunshine, feel the moonshine

Recommendation
Buy (Hold)

Price
\$108.17
Target (12 months)
\$118.00 (previously \$105.00)

GICS Sector
Banks
Expected Return

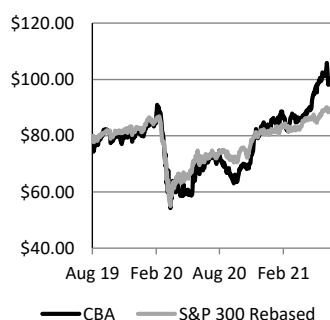
Capital growth	9.1%
Dividend yield	3.5%
Total expected return	12.6%

Company Data & Ratios

Enterprise value	n/m
Market cap	\$191,904m
Issued capital	1,774m
Free float	100%
Avg. daily val. (52wk)	\$253.5m
12 month price range	\$62.64 - \$109.03

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	99.49	92.94	71.71
Absolute (%)	7.11	14.65	48.60
Rel market (%)	4.06	7.54	22.82

Absolute Price


SOURCE: IRESS

FY21: \$8.65bn cash NPAT, 200cps final dividend

The bank's FY21 results are as follows: (1) statutory NPAT \$8.84bn (BP \$9.52bn); (2) cash NPAT (including discontinued operations and one-offs) \$8.80bn (BP \$8.51bn); (3) cash EPS (including discontinued operations and one-offs) 497¢ (BP 480¢); (4) cash NPAT (continuing operations) \$8.65bn (BP \$8.51bn); (5) cash EPS (continuing operations) 489¢ (BP 480¢); (6) final dividend 200¢ (BP 184¢) fully franked (payout ratio 72% in FY21, 73% in FY20); (7) ROE (continuing operations) 11.5% (BP 11.4%); (8) NIM (continuing operations) 2.03% (BP 2.02%); (9) loan impairment expense (LIE) \$0.55bn/7bp GLA (BP \$2.52bn/33bp); and (10) CET1 ratio 13.1% (BP 12.8%).

CBA's \$8.65bn cash NPAT (continuing operations) was 20% pcp higher mainly due to the recovery from COVID-19. This has been another solid result despite the expected pandemic impacts and ongoing lingering uncertainty in operating conditions. Again (and also looking past the pandemic noise), there were more positives, i.e. strong core volume growth, overall net interest income, other income, asset quality, capital, funding and liquidity – than negatives, i.e. NIM and operating expenses (perhaps for now) – in the result. Things appear to be settling down with metrics now closer between the two most recent halves (i.e. magnitude of operating income and loan impairment expense).

Price target upgraded to \$118.00, back to Buy

The main changes to our cash NPAT (continuing) projections relate to higher non-interest income (mainly higher card fees, fee waivers and removal of wealth contributions) as well as a still lower LIE charge in FY22 and beyond. Given these, cash NPAT is now 2% higher in FY22, FY23 and FY24. We have also matched the statutory and cash dividend payout ratios as follows: FY22 75%; FY23 75%; and FY24 75%. As a result, we have increased the valuation and price target by \$13.00 to \$118.00 per share and this includes adding the value impact of higher excess CET1 capital. CBA's target share price has done well in the past three months and up by more than 25% in absolute terms. The rating is now back to a Buy.

Earnings Forecast

Year end 30 June	2021	2022e	2023e	2024e
NPAT (reported) (A\$m)	8,843	10,083	10,339	10,678
NPAT (cash, continuing) (A\$m)	8,653	9,485	9,741	10,080
EPS (cash, continuing) (A¢)	489	543	567	587
EPS (cash) growth (%)	20%	11%	4%	3%
PER (x)	22.1	19.9	19.1	18.4
P/Book (x)	2.4	2.5	2.4	2.3
P/NTA (x)	2.7	2.8	2.6	2.5
Dividend (A¢)	350	406	427	442
Yield (%)	3.2%	3.8%	3.9%	4.1%
ROE (continuing) (%)	11.5%	12.5%	12.6%	12.5%
NIM (continuing) (%)	2.03%	2.01%	2.00%	2.01%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

See the sunshine, feel the moonshine

FY21: \$8.65bn cash NPAT, 200cps final dividend

CBA's FY21 results are:

1. Statutory NPAT \$8.84bn (BP \$9.52bn);
2. Cash NPAT (including discontinued operations and one-offs) \$8.80bn (BP \$8.51bn);
3. Cash EPS (including discontinued operations and one-offs) 497¢ (BP 480¢);
4. Cash NPAT (continuing operations) \$8.65bn (BP \$8.51bn);
5. Cash EPS (continuing operations) 489¢ (BP 480¢);
6. Final dividend 200¢ (BP 184¢) fully franked (payout ratio 72% in FY21, 73% in FY20);
7. ROE (continuing operations) 11.5% (BP 11.4%);
8. NIM (continuing operations) 2.03% (BP 2.02%);
9. Loan impairment expense (LIE) \$0.55bn/7bp GLA (BP \$2.52bn/33bp); and
10. CET1 ratio 13.1% (BP 12.8%).

CBA's \$8.65bn cash NPAT (continuing operations) was 20% pcpc higher mainly due to the recovery from COVID-19. This has been another solid result despite the expected pandemic impacts and ongoing lingering uncertainty in operating conditions. Again (and also looking past the pandemic noise), there were more positives, i.e. strong core volume growth, overall net interest income, other income, asset quality, capital, funding and liquidity – than negatives, i.e. NIM and operating expenses (perhaps for now) – in the result. Things appear to be settling down with metrics now closer between the two most recent halves (i.e. magnitude of operating income and loan impairment expense).

Table 1 – 1H21 vs. 2H21

CBA Y/E 30 June (cash basis, continuing operations, \$m)		1H21	2H21	Movement 2H21 vs. 1H21
Operating income	As reported	11,961	12,195	2%
	Mortgage Broking consolidation & other	0	0	
	Operating income excluding notable items	11,961	12,195	2%
Operating expenses	As reported	5,591	5,768	3%
	Insurance recovery	0	0	
	Mortgage Broking consolidation	0	0	
	Customer remediation	0	0	
	Risk & compliance uplifts	0	0	
	Operating expense excluding customer remediation	5,591	5,768	3%
Loan impairment expense (LIE)		882	-328	n/m
Cash NPBT excluding notable items as reported		3,868	4,785	24%
Statutory NPAT as reported		4,869	5,312	9%

SOURCE: COMPANY DATA

Profit and Loss highlights

TOTAL OPERATING INCOME

Net interest income of \$18.83bn (~1% pcpc higher) was broadly in line with our expectations (with a 4bp lower NIM primarily driven by a low interest rate environment and higher liquidity, offset by favourable management actions and volumes in core footings – a key positive in FY21 that would underpin future growth prospects as operating conditions continue to normalise). Non-interest income of \$2.59bn (~4% pcpc higher) was also higher

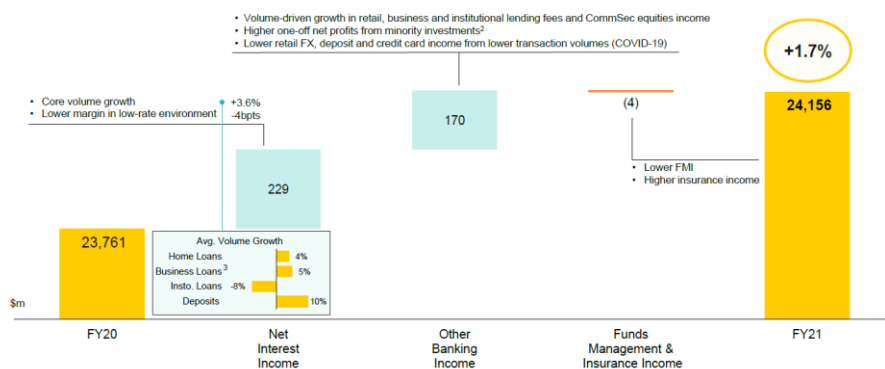
and largely benefited from higher commissions (higher equities income from higher trading), higher institutional lending (commitments up, line fees up and volume growth).

2H21 NIM of 2.04% was 3bp higher (vs. 3bp lower at the end of 1H21), largely due to the low interest rate environment (capital and liquidity drag, net deposit pricing and funding drag bp). All else being equal, CBA expects FY22 NIM to be 3bp lower possibly at around 2.00-2.01% given ongoing cash rate headwinds, price competition and higher liquidity.

Figure 1 – Operating income 1

Operating income¹

Strong core volume growth & higher CommSec income, partly offset by lower margin & COVID-19 impacts



1. Presented on a continuing operations basis. 2. Primarily relating to minority investment in Bank of Hangzhou. 3. Includes NZ and other Business Loans.

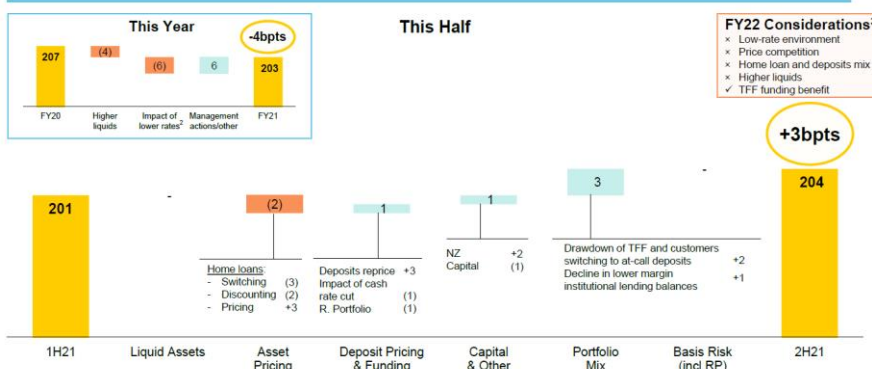
28

SOURCE: COMPANY DATA

Figure 2 – Operating income 2

Group margin¹

Up 3bpts this half (mix, NZ) but lower over 12 months - ongoing pressures from low interest rates, competition



1. Presented on a continuing operations basis. 2. Impact of the RBA's cash rate cuts in July and October 2019 and March and November 2020 on Group NIM, including the deposits where the lower cash rate was not passed onto customers, prior to additional deposits repricing, lower replicating portfolio and equity hedge benefits, and flow through of announced asset repricing. 3. Refer to slide 64 for further information on key sensitivities.

29

SOURCE: COMPANY DATA

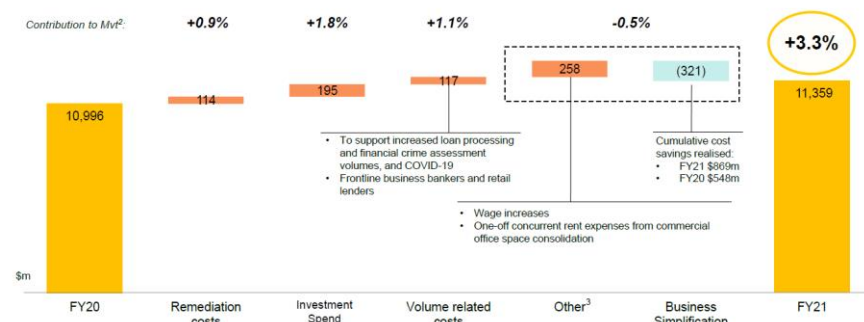
OPERATING EXPENSES

Operating expenses remain a key positive for the bank excluding remediation costs, up by only 2% pcp. This is again due to ongoing discipline in keeping "Jaws" at 4% in 2H21 vs. -8% in 1H21.

Figure 3 – Operating expenses

Operating expenses¹

Up 2.4% (ex remediation), driven by investment in the franchise and higher volumes



1. Presented on a continuing operations basis. 2. Growth rate percentages represent growth on FY20 cost base. 3. Excludes remediation, investment spend and volume related costs.

30

SOURCE: COMPANY DATA

LOAN IMPAIRMENT EXPENSE

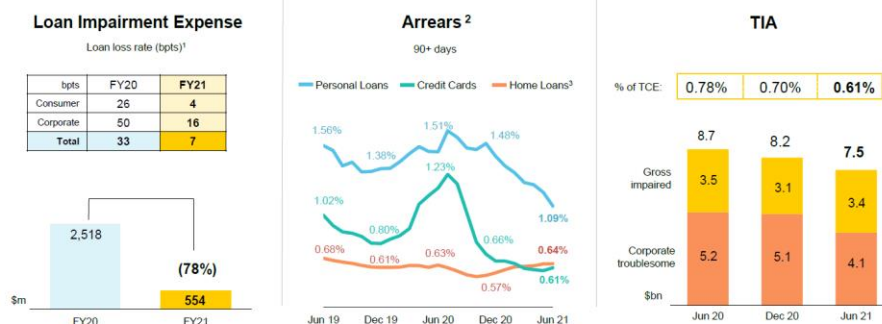
Credit card arrears were lower on a pcg basis (no surprises here), likewise personal and home loan arrears due to the completion of ongoing loan deferrals (improved credit conditions).

Asset quality also remains in good shape (LIE of \$0.55bn/7bp GLA was below our expectations) with improved economic conditions, while Troublesome and Impaired Assets fell by \$0.70bn due to a range of refinancing, exposure reduction and rehabilitation activities.

Figure 4 – Loan impairment expense

Credit risk

Leading indicators reflect improved economic conditions, though uncertainty remains



1. Loan Impairment Expense as a percentage of average Gross Loans and Acceptances (GLAA) (bpts). 2. Group consumer arrears including New Zealand. APRA's prudential relief for customers on eligible COVID-19 loan repayment deferral arrangements has effectively 'stopped the clock' on home loan and personal loan arrears. 3. Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.

31

SOURCE: COMPANY DATA

OTHER ITEMS

The quality of the bank's funding, liquidity and capital measures continue to be strong. The loan book is now 73% deposit funded (almost unchanged at 74% at the end of FY20). NSFR has improved to 129% while the LCR has decreased to 129% mainly due to reversal in Committed Liquidity Facility.

More importantly, Level 2 CET1 ratio was higher at 13.1% (19.4% International) since the end of 1H21, boosted by strong organic capital generation. While this is already ahead of APRA's "unquestionably strong" requirement of 10.5%, there would be a further boost of 39-49bp from announced divestments to bring this to a sector leading 13.49-13.59%.

Like it or not, COVID-19 is seen as a good thing for CBA. The bank has now bounced back from its lows and is on its way back to its usual top line growth potential. Combined with effective cost management, strong prudential measures and IT leadership, CBA should be able to ride out the COVID-19 storm and emerge fundamentally stronger once the pandemic has ended and when interest rates begin to rise once again.

SIX MONTHLY TRENDS AND VARIANCE ANALYSIS

The bank's six monthly trends and variance analysis are found below.

Table 2 – Variance analysis				
Commonwealth Bank Y/E 30 June (\$m)	FY21	BP	Variance	Comments
Profit & Loss (continuing)				
Net interest income	18,839	19,113	-1%	Broadly in line with expectations
Other income	5,317	5,207	2%	Broadly in line with expectations
Total operating income	24,156	24,321	-1%	Broadly in line with expectations
Operating expenses	-11,359	-11,011	-3%	Broadly in line with expectations
Loan impairment expense	-554	-1,220	120%	Better outcome reflects our initial conservatism
Net profit before income tax	12,243	12,089	1%	Broadly in line with expectations
Corporate tax expense	-3,590	-3,578	0%	Broadly in line with expectations
Minority interests	0	0	n/m	
Investment experience	0	0	n/m	
NPAT (cash basis inc. discount'd)	8,653	8,511	2%	Broadly in line with expectations
NPAT (cash basis, continuing)	8,653	8,511	2%	Broadly in line with expectations
DPS (cps)	350	334	5%	Positive outcome based on higher payout ratio
EPS (cash basis inc. discount'd) (c)	489	480	2%	Broadly in line with expectations
EPS (cash basis, continuing) (c)	489	480	2%	Broadly in line with expectations
NIM	2.03%	2.02%	0.01%	Broadly in line with expectations
ROE	11.5%	11.4%	0.1%	Broadly in line with expectations
Underlying earnings (ex-BDD)	12,797	13,309	-3.8%	Variance largely due to lower non-interest income
Total BDD charge as % of GLA	0.07%	0.15%	0.09%	Better outcome reflects our initial conservatism
Effective tax rate	29%	30%	0%	Broadly in line with expectations

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – Six-month trends

Group KPIs	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21
Growth in NIE	7%	8%	3%	4%	6%	3%	-1%	0%	2%	2%	0%	2%
Growth in total income	6%	4%	4%	1%	-1%	-1%	-2%	-9%	-3%	5%	-1%	4%
Growth in operating expenses	6%	3%	5%	-1%	0%	8%	-3%	0%	-2%	5%	7%	0%
Growth in PBT before BDD	6%	6%	3%	4%	-2%	-7%	-1%	-16%	-4%	6%	-7%	8%
Growth in loans	8%	8%	6%	5%	4%	2%	2%	1%	1%	3%	4%	6%
Growth in deposits	8%	7%	7%	6%	0%	-2%	6%	5%	3%	11%	13%	8%
NIM	2.15%	2.14%	2.10%	2.10%	2.16%	2.14%	2.10%	2.08%	2.11%	2.04%	2.01%	2.04%
Cost ratio	42%	43%	43%	41%	43%	45%	43%	50%	43%	49%	47%	47%
Cost / average assets	1.17%	1.14%	1.15%	1.06%	1.13%	1.14%	1.08%	1.13%	1.06%	1.16%	1.08%	1.07%
Tier 1 capital ratio	12.2%	12.3%	11.5%	12.1%	12.4%	12.3%	12.9%	12.7%	14.1%	13.9%	15.0%	15.7%
Loan impairment expense / GLA	0.17%	0.20%	0.17%	0.14%	0.16%	0.13%	0.15%	0.17%	0.17%	0.48%	0.22%	-0.08%
Total provisions + GRCL / GLA	0.56%	0.54%	0.54%	0.51%	0.51%	0.49%	0.63%	0.64%	0.66%	0.82%	0.86%	0.76%
ROE	17.3%	15.8%	15.8%	15.7%	14.2%	13.1%	13.8%	10.4%	12.3%	8.1%	10.5%	12.5%
ROA	1.08%	1.01%	1.01%	1.00%	0.95%	0.89%	0.96%	0.72%	0.89%	0.58%	0.75%	0.89%

RBS	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21
Market share												
- Home loans	12.0%	12.2%	12.3%	12.3%	12.9%	12.8%	12.4%	12.6%	13.4%	13.5%	13.8%	14.2%
- Consumer loans	0.7%	0.7%	0.7%	0.6%	0.9%	0.9%	0.5%	0.5%	0.6%	0.5%	0.5%	0.4%
- Deposits	12.3%	11.1%	11.2%	10.7%	11.8%	11.6%	10.3%	10.2%	11.1%	10.6%	10.4%	10.4%
NIM	2.89%	2.91%	2.90%	2.91%	2.77%	2.71%	2.57%	2.53%	2.65%	2.62%	2.60%	2.59%
Other income / footings	0.17%	0.15%	0.17%	0.17%	0.15%	0.13%	0.13%	0.13%	0.12%	0.10%	0.09%	0.09%
Operating expense / footings	0.31%	0.29%	0.29%	0.29%	0.32%	0.31%	0.32%	0.34%	0.32%	0.31%	0.30%	0.29%
Cost ratio	32%	32%	31%	31%	35%	36%	38%	42%	38%	39%	39%	38%
Impairment expense / loans	0.10%	0.11%	0.10%	0.10%	0.09%	0.08%	0.08%	0.10%	0.07%	0.19%	0.07%	-0.04%
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%

BB / IB&M	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21
Market share												
- Loans	8.3%	8.3%	8.4%	8.4%	10.1%	9.8%	10.2%	9.8%	9.3%	9.3%	9.2%	9.2%
- Other IEA	1.2%	1.1%	1.1%	1.2%	1.1%	1.0%	1.1%	1.3%	1.6%	1.6%	1.8%	1.4%
- IBL	10.2%	10.3%	10.3%	10.6%	12.1%	11.9%	13.0%	12.8%	12.3%	12.4%	12.1%	12.1%
NIM	2.03%	1.97%	1.92%	1.94%	2.15%	2.20%	2.27%	2.34%	2.19%	2.53%	2.07%	2.15%
Other income / footings	0.23%	0.22%	0.25%	0.22%	0.24%	0.22%	0.21%	0.18%	0.20%	0.17%	0.20%	0.17%
Operating expense / footings	0.28%	0.27%	0.27%	0.26%	0.28%	0.30%	0.27%	0.29%	0.27%	0.26%	0.25%	0.27%
Cost ratio	38%	39%	37%	38%	34%	37%	35%	40%	37%	35%	37%	43%
Impairment expense / AIEA	0.09%	0.09%	0.04%	0.01%	0.07%	0.04%	0.07%	0.06%	0.09%	0.26%	0.14%	-0.04%
Effective tax rate	26%	29%	27%	28%	28%	28%	28%	28%	29%	23%	29%	29%

Wealth	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21
Growth in FUA	3%	0%	0%	6%	-57%	-58%	-	-	-	-	-	-
Funds management return	0.29%	0.28%	0.27%	0.27%	0.30%	0.29%	-	-	-	-	-	-
Growth in insurance income	20%	-25%	-67%	-92%	-100%	-100%	-	-	-	-	-	-
Volume expenses / TOI	24%	27%	32%	37%	0%	0%	-	-	-	-	-	-
Growth in operating expenses	2%	-9%	-23%	-41%	-36%	-29%	-	-	-	-	-	-
Effective tax rate	28%	21%	26%	24%	29%	30%	-	-	-	-	-	-

New Zealand	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21
NIM	2.35%	2.20%	2.09%	2.04%	2.20%	2.27%	2.23%	2.23%	2.15%	2.09%	2.02%	2.20%
Other income / footings	0.12%	0.12%	0.13%	0.13%	0.14%	0.13%	0.14%	0.13%	0.14%	0.11%	0.12%	0.11%
Operating expense / footings	0.34%	0.33%	0.26%	0.26%	0.27%	0.28%	0.27%	0.28%	0.28%	0.31%	0.27%	0.31%
Cost ratio	39%	41%	37%	38%	37%	38%	36%	37%	37%	45%	39%	41%
Impairment expense / AIEA	0.05%	0.11%	0.06%	0.02%	0.03%	0.06%	0.05%	0.07%	0.02%	0.28%	0.03%	-0.03%
Effective tax rate	27%	26%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Price target upgraded to \$118.00, back to Buy

The main changes to our cash NPAT (continuing) projections relate to higher non-interest income (mainly higher card fees, fee waivers and removal of wealth contributions) as well as a still lower LIE charge in FY22 and beyond. Given these, cash NPAT is now 2% higher in FY22, FY23 and FY24. We have also matched the statutory and cash dividend payout ratios as follows: FY22 75%; FY23 75%; and FY24 75%. As a result, we have increased the valuation and price target by \$13.00 to \$118.00 per share and this includes adding the value impact of higher excess CET1 capital. CBA's target share price has done well in the

past three months and up by more than 25% in absolute terms. The rating is now a Buy given a 12-month TSR of close to 15%.

Table 4 – Composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	192,277	\$108.38	25%	\$27.10
Dividend yield (sustainable)	205,795	\$116.00	25%	\$29.00
ROE (sustainable)	190,360	\$107.30	25%	\$26.82
Sum-of-Parts	197,056	\$111.07	25%	\$27.77
Surplus capital *	11,582	\$6.53		\$6.53
Total				\$117.22

* Less estimated capital deductions

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 5 – SOP valuation

SOP Valuation	FY22e NPAT	Pros. PE (times)	Value (\$m)	Per share
Retail Banking	4,997	20.0	99,937	\$56.33
B&PB / IB&M	3,682	20.0	73,647	\$41.51
Wealth Management	0	0.0	-	-
New Zealand	1,174	20.0	23,472	\$13.23
Other	-368	-	-	-
Total	9,485	20.8	197,056	\$111.07

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – Estimate changes

Commonwealth Bank Y/e June 30 (\$m)	FY21			FY22e			FY23e			FY24e		
	Actual	BP	Variance	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Profit & Loss (continuing)												
Net interest income	18,839	19,113	-1%	19,699	19,721	0%	19,968	20,063	0%	20,428	20,500	0%
Other income	5,317	5,207	2%	5,516	5,339	3%	5,636	5,460	3%	5,755	5,584	3%
Total operating income	24,156	24,321	-1%	25,215	25,060	1%	25,604	25,523	0%	26,184	26,084	0%
Operating expenses	-11,359	-11,011	-3%	-10,839	-10,714	-1%	-10,727	-10,598	-1%	-10,710	-10,573	-1%
Loan impairment expense	-554	-1,220	120%	-973	-970	0%	-1,109	-1,282	16%	-1,229	-1,516	23%
Net profit before income tax	12,243	12,089	1%	13,404	13,376	0%	13,767	13,643	1%	14,245	13,995	2%
Corporate tax expense	-3,590	-3,578	0%	-3,919	-3,970	1%	-4,026	-4,049	1%	-4,165	-4,153	0%
Investment experience	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
NPAT (cash basis)	8,653	8,511	2%	9,485	9,406	1%	9,741	9,594	2%	10,080	9,841	2%
DPS (cps)	350	334	5%	406	370	10%	427	376	14%	442	384	15%
EPS (cash basis) (cps)	489	480	2%	539	528	2%	567	535	6%	587	547	7%
Payout ratio	72%	70%	2%	75%	70%	5%	75%	70%	5%	75%	70%	5%
ROE	11.5%	11.4%	0.1%	12.3%	11.9%	0.4%	12.6%	11.4%	1.1%	12.5%	11.0%	1.6%
NIM	2.03%	2.02%	0.01%	2.01%	2.02%	-0.01%	2.00%	2.02%	-0.02%	2.01%	2.02%	-0.02%
Cost ratio	47%	45%	-2%	43%	43%	0%	42%	42%	0%	41%	41%	0%
Impairment expense as % of GLA	0.07%	0.15%	0.09%	0.12%	0.12%	0.00%	0.13%	0.15%	0.02%	0.14%	0.18%	0.04%
Effective tax rate	29%	30%	0%	29%	30%	0%	29%	30%	0%	29%	30%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Commonwealth Bank

Company description

CBA is Australia's leading integrated financial services organisation, providing banking and wealth management (funds management, superannuation, insurance and investment advice) products and services to over 10m customers. It currently occupies pole positions in home lending and retail deposits. The bank's strategic strengths of scale, brand and diversified mix is supported by an irreplaceable infrastructure consisting of over 1,100 branches, 3,800 Australia Post agencies and nearly 3,600 ATMs.

Investment strategy

CBA's strategy is built upon continuous service and sales improvement backed by IT and operational excellence, and a leadership position in retail banking. Incremental value add is expected to come from opportunities in the SME banking, ECM / DCM and wealth management space (particularly in advice, private banking and life risk where the market is 80% underinsured) and selective Asian expansion (East Asia and Singapore).

Valuation

The price target is based on a composite valuation of DCF, dividend yield, ROE and Sum-of-Parts weighted equally.

Table 7 – Composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	192,277	\$108.38	25%	\$27.10
Dividend yield (sustainable)	205,795	\$116.00	25%	\$29.00
ROE (sustainable)	190,360	\$107.30	25%	\$26.82
Sum-of-Parts	197,056	\$111.07	25%	\$27.77
Surplus capital *	11,582	\$6.53		\$6.53
Total				\$117.22

* Less estimated capital deductions

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 8 – SOP valuation

SOP Valuation	FY22e NPAT	Pros. PE (times)	Value (\$m)	Per share
Retail Banking	4,997	20.0	99,937	\$56.33
B&PB / IB&M	3,682	20.0	73,647	\$41.51
Wealth Management	0	0.0	-	-
New Zealand	1,174	20.0	23,472	\$13.23
Other	-368	-	-	-
Total	9,485	20.8	197,056	\$111.07

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SWOT analysis

Strengths

1. Retail and business banking (sales and service);
2. Strong management and execution capabilities;
3. Cost discipline;
4. Lower risk banking assets; and
5. IT capabilities.

Weaknesses

1. WA market although recovering slowly; and
2. Ongoing liquidity drag in a low rate environment that is a systemic issue.

Opportunities

1. Value add from ECM / DCM opportunities in capitalising on the bank's AA- rating and balance sheet strength;
2. Selected capital-light offshore e-banking opportunities; and
3. Leveraged to the strength of NSW and VIC economies.

Threats

1. Macroeconomic factors such as higher unemployment and slowing credit growth;
2. COVID-19 fallout;
3. Changes in regulatory environment;
4. Disruptors;
5. Negative fallout from Royal Commission and AML issues including offshore regulator civil actions and domestic class actions;
6. Bank re-regulation; and
7. Some sovereign risk – exposed to sometimes unstable governments in Asia.

Sensitivities**Table 9 – Sensitivities**

Y/e June 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	7.2%	7.2%	7.1%	6.9%	6.8%	6.7%	6.5%	6.4%	6.3%
- Price target upside	\$8.52	\$8.47	\$8.35	\$8.19	\$8.04	\$7.88	\$7.73	\$7.58	\$7.44
Group Loans +1%									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
- Price target upside	\$0.89	\$0.89	\$0.89	\$0.88	\$0.88	\$0.88	\$0.87	\$0.87	\$0.86
RBS loans +1%									
- NPAT upside (cash basis)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
- Price target upside	\$0.62	\$0.61	\$0.61	\$0.60	\$0.60	\$0.60	\$0.59	\$0.59	\$0.59
B&PB/IB&M loans +1%									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.46	\$0.45	\$0.45	\$0.46	\$0.46	\$0.46	\$0.45	\$0.45	\$0.44
NZ loans +1%									
- NPAT upside (cash basis)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	\$0.15	\$0.15	\$0.15	\$0.15	\$0.16	\$0.16	\$0.16	\$0.17	\$0.17
Other income +1%									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.48	\$0.48	\$0.47	\$0.46	\$0.45	\$0.45	\$0.44	\$0.43	\$0.42
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-\$0.08	-\$0.09	-\$0.10	-\$0.11	-\$0.11	-\$0.11	-\$0.11	-\$0.11	-\$0.10
Costs +1%									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%	-0.6%
- Price target upside	-\$0.94	-\$0.91	-\$0.88	-\$0.84	-\$0.80	-\$0.76	-\$0.73	-\$0.69	-\$0.66

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Commonwealth Bank

as at 11 August 2021

Recommendation

Buy

Price

\$108.17

Target (12 months)

\$118.00

Table 10 – Financial summary

Commonwealth Bank						Share Price (A\$)						108.17
As at						Market Cap (A\$M)						191,904
11-Aug-21												
PROFIT AND LOSS						VALUATION DATA						
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e June 30	2020	2021	2022e	2023e	2024e	
Net interest income	18,610	18,839	19,699	19,968	20,428	NPAT (cash basis) (\$m)	7,225	8,653	9,485	9,741	10,080	
Other banking income	4,837	5,007	5,226	5,337	5,452	NPAT (cash basis, continuing) (\$m)	7,225	8,653	9,485	9,741	10,080	
Total banking income	23,447	23,846	24,925	25,305	25,880	EPS (statutory basis) (cps)	418	499	577	602	621	
Funds management income	173	165	182	190	195	- Growth	-14%	20%	16%	4%	3%	
Insurance income	141	145	108	108	108	EPS (cash basis) (cps)	408	489	543	567	587	
Total operating income	23,761	24,156	25,215	25,604	26,184	- Growth	-17%	20%	11%	4%	3%	
Operating expenses	-10,996	-11,359	-10,839	-10,727	-10,710	EPS (cash basis, continuing) (cps)	408	489	543	567	587	
Loan impairment expense	-2,518	-554	-973	-1,109	-1,229	- Growth	-12%	20%	11%	4%	3%	
Net profit before income tax	10,247	12,243	13,404	13,767	14,245	P / E ratio (times)	26.5	22.1	19.9	19.1	18.4	
Corporate tax expense	-3,022	-3,590	-3,919	-4,026	-4,165	P / Book ratio (times)	2.7	2.4	2.5	2.4	2.3	
Minority interests	0	0	0	0	0	P / NTA ratio (times)	2.9	2.7	2.8	2.6	2.5	
Net profit after tax from discontinued operations	0	0	0	0	0	Net DPS (cps)	298	350	406	427	442	
Investment experience	0	0	0	0	0	Yield	2.8%	3.2%	3.8%	3.9%	4.1%	
NPAT (cash basis)	7,225	8,653	9,485	9,741	10,080	Franking	100%	100%	100%	100%	100%	
Adjustments	163	190	598	598	598	Payout (cash basis, target 70-80%)	73%	72%	75%	75%	75%	
NPAT (statutory basis)	7,388	8,843	10,083	10,339	10,678							
CASHFLOW						CAPITAL ADEQUACY						
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e June 30	2020	2021	2022e	2023e	2024e	
NPAT (cash basis)	7,225	8,653	9,485	9,741	10,080	Risk weighted assets (\$m)	454,948	450,680	463,784	477,450	491,711	
						Average risk weight	47%	45%	45%	45%	45%	
Increase in loans	-19,318	-42,955	-19,346	-19,926	-20,584	Tier 1 ratio	13.9%	15.7%	14.7%	14.9%	15.1%	
Increase in other assets	-1,264	20,609	-9,470	-10,174	-10,935	CET1 capital ratio	11.6%	13.1%	12.1%	12.3%	12.6%	
Capital expenditure	-3,219	318	-160	-165	-170	Total capital ratio	17.5%	19.8%	18.6%	18.7%	18.8%	
Investing cashflow	-23,801	-22,028	-28,975	-30,265	-31,688	Equity ratio	7.1%	7.2%	6.8%	6.9%	7.0%	
Increase in deposits & borrowings	68,568	53,814	22,038	22,699	23,380	DIVISIONAL						
Increase in other liabilities	-33,374	17,383	9,462	4,384	5,097	Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	
Ordinary equity raised	0	0	0	0	0	Retail Banking Services						
Other	-3,840	-1,946	-12,009	-6,560	-6,869	Net interest income	9,697	9,897	10,505	10,631	10,844	
Financing cashflow	31,354	69,251	19,491	20,524	21,608	Other income	1,510	1,347	1,423	1,457	1,492	
						Total banking income	11,207	11,244	11,928	12,088	12,336	
Net change in cash	14,778	55,876	0	0	0	Operating expenses	-4,335	-4,321	-4,271	-4,218	-4,161	
Cash at end of period	44,165	100,041	100,041	100,041	100,041	Loan impairment expense	-1,034	-134	-538	-640	-746	
BALANCE SHEET						Net profit before tax	5,838	6,789	7,119	7,230	7,429	
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Corporate tax expense	-1,743	-2,024	-2,122	-2,155	-2,215	
Cash and liquid assets	44,165	100,041	100,041	100,041	100,041	Cash net profit after tax	4,095	4,765	4,997	5,074	5,214	
Divisional gross loans	774,622	817,425	836,616	856,332	876,592	Home loans	400,921	429,420	438,008	446,769	455,704	
Provisions	-6,363	-6,211	-6,056	-5,846	-5,522	Consumer & other loans	14,001	13,188	13,452	13,721	13,995	
Divisional IEA	59,047	52,632	53,791	54,976	56,188	Deposits	246,031	255,502	263,167	271,062	279,194	
Other IEA & other loans	114,393	101,852	110,163	119,152	128,875	Deposits non bearing interest	33,882	45,267	46,625	48,024	49,464	
Intangibles	6,944	6,942	6,942	6,942	6,942							
PP&E	5,602	5,284	5,444	5,608	5,778	BB / IB&M						
Insurance assets	0	0	0	0	0	Net interest income	7,304	6,573	6,751	6,820	6,957	
Other assets	15,650	13,997	13,997	13,997	13,997	Other income	2,382	2,571	2,435	2,496	2,560	
Total assets	1,014,060	1,091,962	1,120,937	1,151,202	1,182,891	Total banking income	9,686	9,144	9,186	9,317	9,517	
						Operating expenses	-3,479	-3,632	-3,683	-3,704	-3,724	
Divisional deposits & borrowings	703,962	757,775	779,813	802,513	825,893	Loan impairment expense	-1,137	-329	-326	-333	-339	
Other borrowings	220,664	239,156	248,618	253,002	258,099	Net profit before tax	5,070	5,183	5,177	5,280	5,454	
Other liabilities	17,421	16,313	16,313	16,313	16,313	Corporate tax expense	-1,333	-1,503	-1,494	-1,524	-1,574	
Total liabilities	942,047	1,013,244	1,044,744	1,071,828	1,100,305	Cash net profit after tax	3,737	3,680	3,682	3,756	3,879	
Ordinary share capital	38,131	38,420	32,420	32,420	32,420	Loans	277,412	280,085	285,687	291,400	297,228	
Other equity instruments	0	0	0	0	0	Other IEA	48,147	42,022	42,862	43,720	44,594	
Reserves	2,666	3,249	3,249	3,249	3,249	IBL	288,136	298,431	307,384	316,605	326,104	
Retained profits	31,211	37,044	40,519	43,700	46,911	Deposits non bearing interest	58,407	74,191	76,417	78,709	81,071	
Minority interests	5	5	5	5	5							
Total shareholders' equity	72,013	78,718	76,193	79,374	82,585	Wealth Management						
						Funds management income	0	0	0	0	0	
Total sh. equity & liabs.	1,014,060	1,091,962	1,120,937	1,151,202	1,182,891	Insurance income	0	0	0	0	0	
WANOS - statutory (m)	1,769	1,771	1,746	1,719	1,719	Total operating income	0	0	0	0	0	
WANOS - cash (m)	1,769	1,771	1,746	1,719	1,719	Volume expenses	0	0	0	0	0	
						Operating expenses	0	0	0	0	0	
PROFITABILITY RATIOS						Net profit before tax	0	0	0	0	0	
Y/e June 30	2020	2021	2022e	2023e	2024e	Corporate tax expense	0	0	0	0	0	
Return on assets (continuing)	0.7%	0.8%	0.9%	0.9%	0.9%	Investment experience	0	0	0	0	0	
Return on equity (continuing)	10.2%	11.5%	12.5%	12.6%	12.5%	Cash net profit after tax	0	0	0	0	0	
Leverage ratio	6.3%	6.5%	6.1%	6.2%	6.3%	FUA	0	0	0	0	0	
Net interest margin (continuing)	2.07%	2.03%	2.01%	2.00%	2.01%	New Zealand						
Cost / income ratio	46%	47%	43%	42%	41%	Net interest income	1,934	2,117	2,245	2,319	2,430	
Cost / average assets	1.10%	1.06%	0.98%	0.94%	0.91%	Other income	375	424	426	442	458	
Growth in operating income	1%	2%	4%	2%	2%	Total banking income	2,309	2,541	2,671	2,760	2,888	
Growth in operating expenses	2%	3%	-5%	-1%	0%	Funds management income	136	140	156	164	169	
Jaws	-1%	-2%	9%	3%	2%	Insurance income	0	0	0	0	0	
						Total operating income	2,445	2,681	2,828	2,925	3,057	
ASSET QUALITY						Operating expenses	-1,032	-1,071	-1,085	-1,105	-1,125	
Y/e June 30	2020	2021	2022e	2023e	2024e	Loan impairment expense	-292	5	-109	-137	-143	
Loan impairment expense / GLA	0.33%	0.07%	0.12%	0.13%	0.14%	Net profit before tax	1,121	1,615	1,634	1,683	1,789	
Loan impairment expense / RWA	0.55%	0.12%	0.21%	0.23%	0.25%	Corporate tax expense	-312	-456	-460	-474	-504	
Total provisions (\$m)	6,363	6,211	6,056	5,846	5,522	Minority interests	0	0	0	0	0	
Total provisions / RWA	1.40%	1.38%	1.31%	1.22%	1.12%	Investment experience	0	0	0	0	0	
Indiv ass prov / gross imp assets	27%	26%	30%	30%	30%	Cash net profit after tax	809	1,159	1,174	1,209	1,285	
IBL / IEA	98%	103%	103%	103%	103%	Loans	82,288	94,732	99,469	104,442	109,664	
Total provisions + GRCL / GLA	0.82%	0.76%	0.72%	0.68%	0.63%	Other IEA	10,900	10,610	10,928	11,256	11,594	
						Deposits	57,879	61,219	63,056	64,948	66,896	
						Other IBL	19,626	23,165	23,165	23,165	23,165	
						Effective tax rate	29%	29%	29%	29%	29%	
						Payout (statutory)	71%	70%	70%	71%	71%	

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analyst			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Joseph House	Resources	613 9235 1624	jhouse
Brad Watson	Resources	618 9326 7672	bwatson
Associate			
Michael Ardrey	Associate Analyst	613 9235 8782	mardrey
Olivia Hagglund	Associate Analyst	612 8224 2813	ohagglund

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Prosperity Tower, 39 Queens Road
Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street
London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. **In Hong Kong**, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. **In the United States**, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Research Policies:

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

<https://www.bellpotter.com.au/research-independence-policy/>

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

T S Lim, authoring analyst, holds long positions in CBA, CBAPH and CBAPL.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.