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Commonwealth Bank (CBA)

Forest for the trees

Recommendation
Buy (unchanged)
Price
$98.99
Target (12 months)
$111.00 (previously $118.00)

GICS Sector

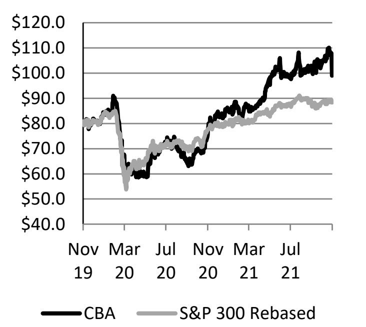
Banks

Expected Return	
Capital growth	12.1%
Dividend yield	3.8%
Total expected return	15.9%
Company Data & Ratios	
Enterprise value	n/m
Market cap	$168,916m
Issued capital	1,706m
Free float	100%
Avg. daily val. (52wk)	$279.5m
12 month price range	$74.60 - $110.19

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	101.91	105.88	73.07
Absolute (%)	-2.87	-6.51	35.47
Rel market (%)	-3.79	-3.92	19.95

Absolute Price



SOURCE: IRESS

1Q22: ~$2.20bn unaudited cash NPAT (BP $2.36bn)

CBA's 1Q22 result components are: 1) unaudited statutory NPAT ~$2.30bn (BP $2.51bn); 2) unaudited cash NPAT ~$2.20bn (BP $2.36bn); 3) operating income down 1% but flat excluding AHL with above system growth offsetting margin pressure and lower non-interest income; 4) operating expenses down 1% – lower remediation costs more than offset higher staff expenses; 5) credit quality stable and reverting back to normal – loan impairment expense $0.10bn or 5bp GLA (BP $0.24bn); 6) credit provisions unchanged; 7) strong balance sheet – 74% customer deposit funding ratio, 131% NSFR and 132% LCR; and 8) Level 2 CET1 capital 12.5% (BP 12.0%) – net of final dividend and buyback, the ratio would be 11.2% (but climbing back to 11.6-11.7% with announced asset sales).

Operating income was disappointingly and 1% lower with 1% higher net interest income more than offset by much lower non-interest income. On the other hand, growth was ahead of system in core markets at $17.0bn but this was offset by lower NIM. Non-interest income was also 8% lower due to the removal of AHL among other things (excluding these, it was better and flat overall). Finally, operating expense was down by 1% and driven by lower remediation costs (but was only 3% higher mainly due to staff expenses plus 1.5 additional working days). Overall, cash NPAT of around $2.2bn was still higher than for the same period last year – a plus in a way.

Price target a more realistic $111.00 but maintain Buy rating

Given its lower quarterly performance, CBA's cash NPAT is reduced by 3% across the forecast horizon. This is mainly due to lower NII (-1%) and other income (-2%) but flat in total excluding the AHL divestment (above system growth that offset margin pressures and lower other income), slightly lower operating expenses (+1% based on lower remediation costs) and just a minor change in loan impairment expense in FY22 of -33% (i.e. a lower expense). The price target is however lowered by 6% to $111.00 (previously $118.00) after also considering added dividend and ROE risks. Based on a 12-month TSR of greater than 15%, CBA is still regarded as a Buy.

Earnings Forecast

Year end 30 June	2021	2022e	2023e	2024e
NPAT (reported) (A$m)	8,843	9,854	10,003	10,335
NPAT (cash, continuing) (A$m)	8,653	9,256	9,405	9,737
EPS (cash, continuing) (A¢)	489	532	551	571
EPS (cash) growth (%)	20%	9%	4%	4%
PER (x)	20.3	18.6	18.0	17.3
P/Book (x)	2.1	2.2	2.1	2.1
P/NTA (x)	2.4	2.4	2.3	2.2
Dividend (A¢)	350	394	415	430
Yield (%)	3.5%	4.0%	4.2%	4.3%
ROE (continuing) (%)	11.5%	12.2%	12.2%	12.1%
NIM (continuing) (%)	2.03%	1.99%	1.97%	1.98%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Forest for the trees

1Q22: ~$2.20bn unaudited cash NPAT (BP $2.36bn)

For the quarter ended 30 September 2021, all financial comparisons are to the average of the two quarters of the second half of FY21 unless noted otherwise.

CBA's 1Q22 result components are:

1. Unaudited statutory NPAT ~$2.30bn (BP $2.51bn);
2. Unaudited cash NPAT ~$2.20bn (BP $2.36bn);
3. Operating income down 1% but flat excluding AHL with above system growth offsetting margin pressure and lower non-interest income;
4. Operating expenses down 1% – lower remediation costs more than offset higher staff expenses;
5. Credit quality stable and reverting back to normal – loan impairment expense $0.10bn or 5bp GLA (BP $0.24bn);
6. Credit provisions unchanged;
7. Strong balance sheet – 74% customer deposit funding ratio, 131% NSFR and 132% LCR; and
8. Level 2 CET1 capital 12.5% (BP 12.0%) – net of final dividend and buyback, the ratio would be 11.2% (but climbing back to 11.6-11.7% with announced asset sales).

CBA's performance reflected above-system growth in the core markets, sound credit quality and balance sheet strength. The $6.0bn off-market share buyback in October 2021 was oversubscribed and the bank returned $12.0bn to shareholders in the last 12 months. The bank also released the final report on the remedial action plan with all milestones completed and all recommendations now closed.

Operating income was 1% lower with 1% higher net interest income (NII) offset by much lower non-interest income. On the other hand, growth was ahead of system in core markets at $17.0bn (including home lending $10.1bn driven by proprietary funding and fixed rate loans, strong business lending +13% pcp and with stable margins, >$20.0bn in household deposits plus 1.5 additional working days) but this was offset by lower NIM (mainly due to higher liquid assets, home loan competition, switching to lower margin fixed rate loans and the overall impact of low interest rates in general; we had a decline of 3bp but have now adjusted this from 2.01% to 1.97-1.98%).

Non-interest income was 8% lower due to the removal of AHL, the reversal of minority gains and reduced retail lending fees and commissions linked to COVID-19. Excluding these, it was around flat and thus also acceptable.

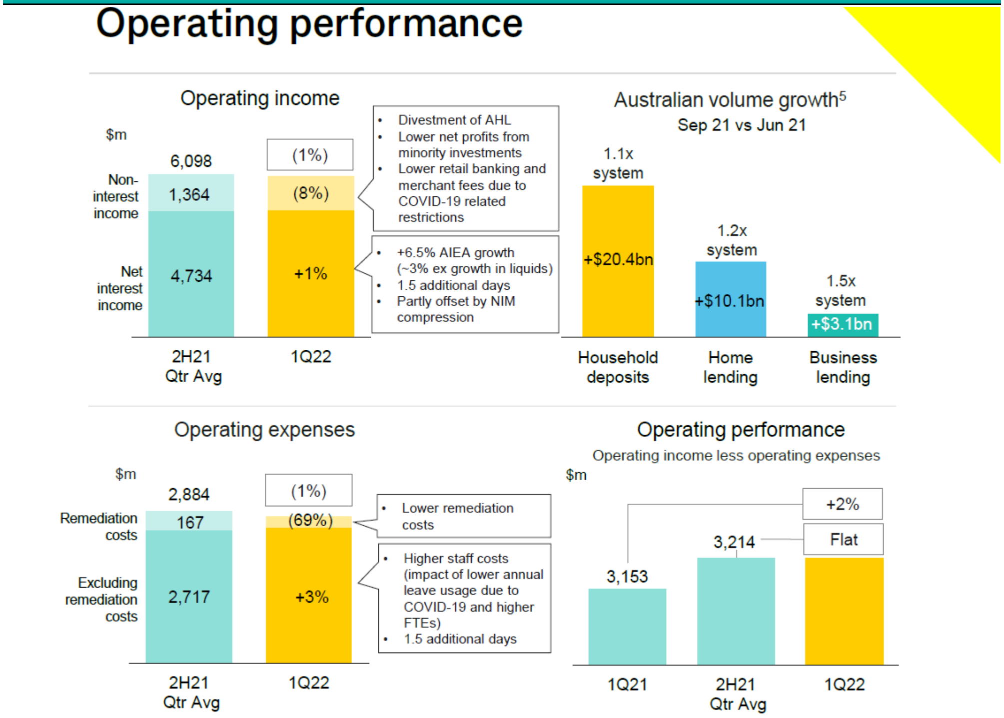
Finally, operating expense was down by 1% and driven by lower remediation costs. Excluding these, it was 3% higher mainly due to staff expenses (i.e. lower annual leave taken from COVID-19 and staff needed to cope with higher volumes and other strategic priorities) plus 1.5 additional working days. Overall, cash NPAT of around $2.2bn was still higher than for the same period last year.

Table 1 – 1Q22

CBA Y/E 30 June (cash basis, continuing operations, $m)		2H21	2H21 quarterly average	1Q22	Movement 1Q22 vs. 2H21 quarterly average
Operating income	As reported	12,195	6,098	6,037	-1.0%
	Mortgage Broking consolidation & other	0	0		
	Operating income excluding notable items	12,195	6,098	6,098	0.0%
Operating expenses	As reported	5,768	2,884	2,855	-1.0%
	Insurance recovery	0	0		
	Mortgage Broking consolidation	0	0		
	Customer remediation	-333	-167		
	Risk & compliance uplifts	0	0		
	Operating expense excluding customer remediation	5,435	2,718	2,799	3.0%
Loan impairment expense (LIE)		-328	-164	103	n/m
Cash NPBT excluding notable items as reported		7,088	3,544	3,195	-
Cash NPAT as reported		**4,785**	**2,393**	**2,200**	**-**
Statutory NPAT as reported		**5,084**	**2,542**	**2,300**	**-**

SOURCE: COMPANY DATA

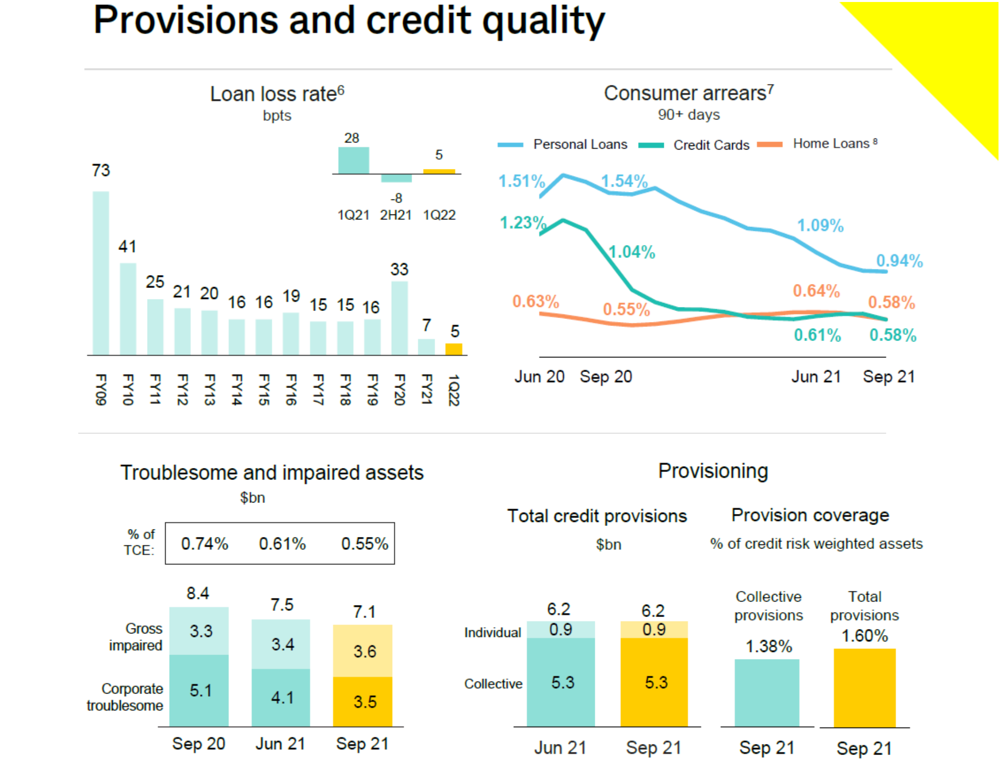
Figure 1 – Operational performance



SOURCE: COMPANY DATA

The loan impairment expense was $105m, still short of the $204m as predicted. This was mainly due to broadly unchanged credit provisions ($6.2bn) with lower consumer (unsecured arrears linked to reduced spending among other things) and lower home loan arrears (including the impact of new temporary loan repayment deferral arrangements). Be that as it may, the bank still considers a modest uptick in arrears as the NSW and VIC economies reopen. Finally, TIA were also lower at $7.1bn or 0.55% TCE.

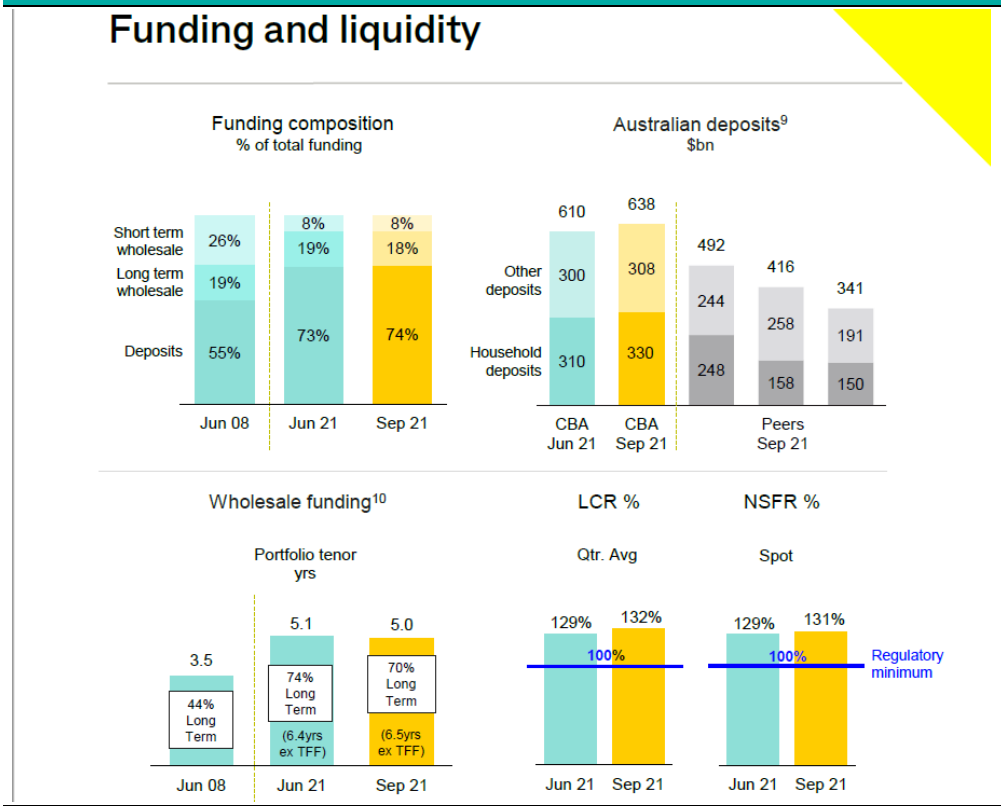
Figure 2 – Credit quality



SOURCE: COMPANY DATA

Balance sheet strength was maintained with strong funding. Both the NSFR and LCR were in good shape, likewise from a wholesale funding perspective with 70% long term and a weighted average tenor of 5 years.

Figure 3 – Balance sheet strength

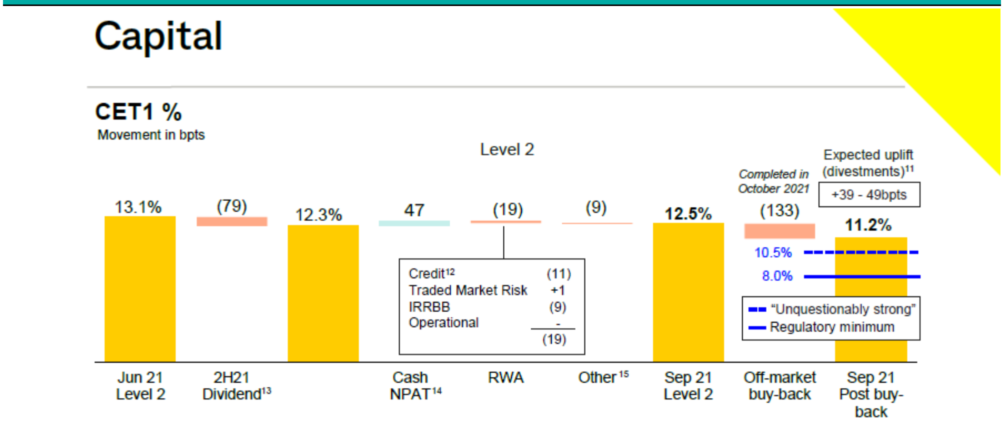


SOURCE: COMPANY DATA

Level 2 CET1 ratio was 12.5% at the end of 1Q22, up by 19bp net of the final dividend payment of 79bp. In origination terms and other than the final dividend, cash NPAT of +47bp was offset by RWA movement (-19bp made up of credit and IRRBB offset by traded market risk) and other regulatory adjustments (-9bp). Following the $6.0bn buyback, Level 2 CET1 ratio would now be 11.2%. The bank will still target a full year payout ratio of 70-80% of cash NPAT, likewise an interim figure of around 70%.

Net of previously announced divestments to do with Colonial First State (sale of 55% to be completed at the end of calendar year 2021) and CommInsure General Insurance (divestment to be completed the second half of calendar year 2022), this will add 39-49bp and bring the total Level 2 CET1 ratio to 11.59-11.69%.

Figure 4 – Capital



SOURCE: COMPANY DATA

Price target $111.00, maintain Buy rating

Given its lower quarterly performance, CBA's cash NPAT is reduced by 3% across the forecast horizon. This is mainly due to lower NII (-1%) and other income (-2%) but flat in total excluding the AHL divestment (above system growth that offset margin pressures and lower other income), slightly lower operating expenses (+1% based on lower remediation costs) and just a minor change in loan impairment expense in FY22 of -33% (i.e. a lower expense).

The price target is however lowered by 6% to $111.00 (previously $118.00) after also considering added dividend and ROE risks. Based on a 12-month TSR of greater than 15%, CBA is still regarded as a Buy.

Table 2 – Estimate changes

Commonwealth Bank	FY22e			FY23e			FY24e			FY25e		
Y/e June 30 ($m)	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Profit & Loss (continuing)												
Net interest income	19,453	19,699	-1%	19,669	19,968	-1%	20,123	20,428	-1%	20,590	20,901	-1%
Other income	5,265	5,516	-5%	5,533	5,636	-2%	5,650	5,755	-2%	5,770	5,879	-2%
Total operating income	**24,718**	**25,215**	**-2%**	**25,202**	**25,604**	**-2%**	**25,773**	**26,184**	**-2%**	**26,360**	**26,779**	**-2%**
Operating expenses	-10,914	-10,839	-1%	-10,805	-10,727	-1%	-10,789	-10,710	-1%	-10,691	-10,610	-1%
Loan impairment expense	-729	-973	33%	-1,109	-1,109	0%	-1,229	-1,229	0%	-1,352	-1,352	0%
Net profit before income tax	**13,075**	**13,404**	**-2%**	**13,288**	**13,767**	**-3%**	**13,756**	**14,245**	**-3%**	**14,317**	**14,817**	**-3%**
Corporate tax expense	-3,819	-3,919	3%	-3,883	-4,026	4%	-4,019	-4,165	4%	-4,182	-4,331	4%
Investment experience	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
NPAT (cash basis)	**9,256**	**9,485**	**-2%**	**9,405**	**9,741**	**-3%**	**9,737**	**10,080**	**-3%**	**10,135**	**10,486**	**-3%**
DPS (cps)	**394**	**406**	**-3%**	**415**	**427**	**-3%**	**430**	**442**	**-3%**	**445**	**457**	**-3%**
EPS (cash basis) (cps)	532	544	-2%	551	569	-3%	571	588	-3%	594	612	-3%
Payout ratio	74%	75%	-1%	75%	75%	0%	75%	75%	0%	75%	75%	0%
ROE	12.2%	12.5%	-0.3%	12.2%	12.6%	-0.4%	12.1%	12.5%	-0.4%	12.1%	12.5%	-0.4%
NIM	1.99%	2.01%	-0.03%	1.97%	2.00%	-0.03%	1.98%	2.01%	-0.03%	1.98%	2.01%	-0.03%
Cost ratio	44%	43%	-1%	43%	42%	-1%	42%	41%	-1%	41%	40%	-1%
Impairment expense as % of GLA	0.09%	0.12%	0.03%	0.13%	0.13%	0.00%	0.14%	0.14%	0.00%	0.15%	0.15%	0.00%
Effective tax rate	29%	29%	0%	29%	29%	0%	29%	29%	0%	29%	29%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF	173,837	$101.87	25%	$25.47
Dividend yield (sustainable)	202,329	$118.57	25%	$29.64
ROE (sustainable)	182,135	$106.74	25%	$26.68
Sum-of-Parts	173,610	$101.74	25%	$25.44
Surplus capital *	5,287	$3.10		$3.10
Total				**$110.33**

* Less estimated capital deductions

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 4 – SOP valuation

SOP Valuation	FY23e NPAT	Pros. PE (times)	Value ($m)	Per share
Retail Banking	4,712	17.5	82,458	$48.32
B&PB / IB&M	3,803	18.5	70,353	$41.23
Wealth Management	0	0.0	-	-
New Zealand	1,189	17.5	20,799	$12.19
Other	-298	-	-	-
Total	**9,405**	**18.5**	**173,610**	**$101.74**

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 5 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF	173,837	$101.87	25%	$25.47
Dividend yield (sustainable)	202,329	$118.57	25%	$29.64
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SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – SOP valuation

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B&PB / IB&M	3,803	18.5	70,353	$41.23
Wealth Management	0	0.0	-	-
New Zealand	1,189	17.5	20,799	$12.19
Other	-298	-	-	-
Total	**9,405**	**18.5**	**173,610**	**$101.74**

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 offshore regulator civil actions and domestic class actions;
6. Bank re-regulation; and
7. Some sovereign risk.

Sensitivities

Table 7 – Sensitivities

Y/e June 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	7.4%	7.4%	7.3%	7.2%	7.0%	6.9%	6.8%	6.6%	6.5%
- Price target upside	$8.21	$8.25	$8.13	$7.97	$7.82	$7.66	$7.51	$7.36	$7.22
Group Loans +1%									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%
- Price target upside	$0.84	$0.84	$0.84	$0.83	$0.83	$0.83	$0.82	$0.82	$0.81
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	$0.55	$0.56	$0.55	$0.55	$0.54	$0.54	$0.54	$0.54	$0.54
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	$0.45	$0.45	$0.45	$0.44	$0.44	$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	$0.14	$0.14	$0.14	$0.15	$0.15	$0.15	$0.16	$0.16	$0.16
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	$0.44	$0.46	$0.45	$0.44	$0.43	$0.43	$0.42	$0.41	$0.40
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	-$0.06	-$0.09	-$0.10	-$0.10	-$0.11	-$0.11	-$0.11	-$0.10	-$0.10
Costs +1%									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.7%	-0.6%	-0.6%	-0.6%
- Price target upside	-$0.92	-$0.89	-$0.86	-$0.82	-$0.78	-$0.75	-$0.71	-$0.68	-$0.65

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Commonwealth Bank
as at 17 November 2021

Recommendation	Buy
Price	$98.99
Target (12 months)	$111.00

Table 8 – Financial summary

Commonwealth Bank		Share Price (A$)	98.99
As at	17-Nov-21	Market Cap (A$M)	168,916

PROFIT AND LOSS

Y/e June 30 ($m)	2020	2021	2022e	2023e	2024e
Net interest income	18,610	18,839	19,453	19,669	20,123
Other banking income	4,837	5,007	4,975	5,235	5,347
Total banking income	**23,447**	**23,846**	**24,428**	**24,904**	**25,470**
Funds management income	173	165	182	190	195
Insurance income	141	145	108	108	108
Total operating income	**23,761**	**24,156**	**24,718**	**25,202**	**25,773**
Operating expenses	-10,996	-11,359	-10,914	-10,805	-10,789
Loan impairment expense	-2,518	-554	-729	-1,109	-1,229
Net profit before income tax	**10,247**	**12,243**	**13,075**	**13,288**	**13,756**
Corporate tax expense	-3,022	-3,590	-3,819	-3,883	-4,019
Minority interests	0	0	0	0	0
Net profit after tax from discontinued operations	0	0	0	0	0
Investment experience	0	0	0	0	0
NPAT (cash basis)	**7,225**	**8,653**	**9,256**	**9,405**	**9,737**
Adjustments	163	190	598	598	598
NPAT (statutory basis)	**7,388**	**8,843**	**9,854**	**10,003**	**10,335**

CASHFLOW

Y/e June 30 ($m)	2020	2021	2022e	2023e	2024e
NPAT (cash basis)	7,225	8,653	9,256	9,405	9,737
Increase in loans	-19,318	-42,955	-19,346	-19,713	-20,356
Increase in other assets	-1,264	20,609	-9,470	-10,174	-10,935
Capital expenditure	-3,219	318	-160	-165	-170
Investing cashflow	**-23,801**	**-22,028**	**-28,975**	**-30,052**	**-31,460**
Increase in deposits & borrowings	68,568	53,814	22,038	22,699	23,380
Increase in other liabilities	-33,374	17,383	9,567	4,252	4,955
Ordinary equity raised	0	0	0	0	0
Other	-3,840	-1,946	-11,885	-6,304	-6,612
Financing cashflow	**31,354**	**69,251**	**19,720**	**20,647**	**21,724**
Net change in cash	14,778	55,876	0	0	0
Cash at end of period	**44,165**	**100,041**	**100,041**	**100,041**	**100,041**

BALANCE SHEET

Y/e June 30 ($m)	2020	2021	2022e	2023e	2024e
Cash and liquid assets	44,165	100,041	100,041	100,041	100,041
Divisional gross loans	774,622	817,425	836,616	856,332	876,592
Provisions	-6,363	-6,211	-6,056	-6,059	-5,963
Divisional IEA	59,047	52,632	53,791	54,976	56,188
Other IEA & other loans	114,393	101,852	110,163	119,152	128,875
Intangibles	6,944	6,942	6,942	6,942	6,942
PP&E	5,602	5,284	5,444	5,608	5,778
Insurance assets	0	0	0	0	0
Other assets	15,650	13,997	13,997	13,997	13,997
Total assets	**1,014,060**	**1,091,962**	**1,120,937**	**1,150,989**	**1,182,449**
Divisional deposits & borrowings	703,962	757,775	779,813	802,513	825,893
Other borrowings	220,664	239,156	248,723	252,974	257,929
Other liabilities	17,421	16,313	16,313	16,313	16,313
Total liabilities	**942,047**	**1,013,244**	**1,044,849**	**1,071,800**	**1,100,135**
Ordinary share capital	38,131	38,420	32,420	32,420	32,420
Other equity instruments	0	0	0	0	0
Reserves	2,666	3,249	3,249	3,249	3,249
Retained profits	31,211	37,044	40,414	43,515	46,640
Minority interests	5	5	5	5	5
Total shareholders' equity	**72,013**	**78,718**	**76,088**	**79,189**	**82,314**
Total sh. equity & liabs.	**1,014,060**	**1,091,962**	**1,120,937**	**1,150,989**	**1,182,449**
WANOS - statutory (m)	**1,769**	**1,771**	**1,740**	**1,706**	**1,706**
WANOS - cash (m)	**1,769**	**1,771**	**1,740**	**1,706**	**1,706**

PROFITABILITY RATIOS

Y/e June 30	2020	2021	2022e	2023e	2024e
Return on assets (continuing)	0.7%	0.8%	0.8%	0.8%	0.8%
Return on equity (continuing)	**10.2%**	**11.5%**	**12.2%**	**12.2%**	**12.1%**
Leverage ratio	6.3%	6.5%	5.8%	6.0%	6.3%
Net interest margin (continuing)	**2.07%**	**2.03%**	**1.99%**	**1.97%**	**1.98%**
Cost / income ratio	46%	47%	44%	43%	42%
Cost / average assets	1.10%	1.06%	0.98%	0.95%	0.92%
Growth in operating income	1%	2%	2%	2%	2%
Growth in operating expenses	2%	3%	-4%	-1%	0%
Jaws	**-1%**	**-2%**	**6%**	**3%**	**2%**

ASSET QUALITY

Y/e June 30	2020	2021	2022e	2023e	2024e
Loan impairment expense / GLA	**0.33%**	**0.07%**	**0.09%**	**0.13%**	**0.14%**
Loan impairment expense / RWA	0.55%	0.12%	0.16%	0.22%	0.23%
Total provisions ($m)	**6,363**	**6,211**	**6,056**	**6,059**	**5,963**
Total provisions / RWA	1.40%	1.38%	1.31%	1.21%	1.10%
Indiv ass prov / gross imp assets	27%	26%	30%	30%	30%
IBL / IEA	98%	103%	103%	103%	103%
Total provisions + GRCL / GLA	**0.82%**	**0.76%**	**0.72%**	**0.71%**	**0.68%**

VALUATION DATA

Y/e June 30	2020	2021	2022e	2023e	2024e
NPAT (cash basis) ($m)	7,225	8,653	9,256	9,405	9,737
NPAT (cash basis, continuing) ($m)	**7,225**	**8,653**	**9,256**	**9,405**	**9,737**
EPS (statutory basis) (cps)	418	499	566	586	606
- Growth	-14%	20%	13%	4%	3%
EPS (cash basis) (cps)	408	489	532	551	571
- Growth	-17%	20%	9%	4%	4%
EPS (cash basis, continuing) (cps)	**408**	**489**	**532**	**551**	**571**
- Growth	**-12%**	**20%**	**9%**	**4%**	**4%**
P / E ratio (times)	24.2	20.3	18.6	18.0	17.3
P / Book ratio (times)	2.3	2.1	2.2	2.1	2.1
P / NTA ratio (times)	2.6	2.4	2.4	2.3	2.2
Net DPS (cps)	298	350	394	415	430
Yield	3.0%	3.5%	4.0%	4.2%	4.3%
Franking	100%	100%	100%	100%	100%
Payout (cash basis, target 70-80%)	**73%**	**72%**	**74%**	**75%**	**75%**

CAPITAL ADEQUACY

Y/e June 30	2020	2021	2022e	2023e	2024e
Risk weighted assets ($m)	454,948	450,680	463,784	498,781	540,715
Average risk weight	47%	45%	45%	48%	50%
Tier 1 ratio	**13.9%**	**15.7%**	**14.0%**	**13.8%**	**13.7%**
CET1 capital ratio	**11.6%**	**13.1%**	**11.4%**	**11.4%**	**11.4%**
Total capital ratio	17.5%	19.8%	18.0%	17.5%	17.1%
Equity ratio	7.1%	7.2%	6.8%	6.9%	7.0%

DIVISIONAL

Y/e June 30 ($m)	2020	2021	2022e	2023e	2024e
Retail Banking Services					
Net interest income	9,697	9,897	10,258	10,254	10,459
Other income	1,510	1,347	1,211	1,395	1,428
Total banking income	**11,207**	**11,244**	**11,469**	**11,649**	**11,888**
Operating expenses	-4,335	-4,321	-4,346	-4,296	-4,241
Loan impairment expense	-1,034	-134	-538	-640	-746
Net profit before tax	**5,838**	**6,789**	**6,585**	**6,713**	**6,901**
Corporate tax expense	-1,743	-2,024	-1,963	-2,001	-2,057
Cash net profit after tax	**4,095**	**4,765**	**4,622**	**4,712**	**4,844**
Home loans	400,921	429,420	438,008	446,769	455,704
Consumer & other loans	14,001	13,188	13,452	13,721	13,995
Deposits	246,031	255,502	263,167	271,062	279,194
Deposits non bearing interest	33,882	45,267	46,625	48,024	49,464
BB / IB&M					
Net interest income	7,304	6,573	6,751	6,886	7,024
Other income	2,382	2,571	2,435	2,496	2,560
Total banking income	**9,686**	**9,144**	**9,186**	**9,383**	**9,584**
Operating expenses	-3,479	-3,632	-3,683	-3,704	-3,724
Loan impairment expense	-1,137	-329	-82	-333	-339
Net profit before tax	**5,070**	**5,183**	**5,421**	**5,346**	**5,521**
Corporate tax expense	-1,333	-1,503	-1,565	-1,543	-1,594
Cash net profit after tax	**3,737**	**3,680**	**3,856**	**3,803**	**3,927**
Loans	277,412	280,085	285,687	291,400	297,228
Other IEA	48,147	42,022	42,862	43,720	44,594
IBL	288,136	298,431	307,384	316,605	326,104
Deposits non bearing interest	58,407	74,191	76,417	78,709	81,071
Wealth Management					
Funds management income	0	0	0	0	0
Insurance income	0	0	0	0	0
Total operating income	**0**	**0**	**0**	**0**	**0**
Volume expenses	0	0	0	0	0
Operating expenses	0	0	0	0	0
Net profit before tax	**0**	**0**	**0**	**0**	**0**
Corporate tax expense	0	0	0	0	0
Investment experience	0	0	0	0	0
Cash net profit after tax	**0**	**0**	**0**	**0**	**0**
FUA	0	0	0	0	0
New Zealand					
Net interest income	1,934	2,117	2,245	2,330	2,442
Other income	375	424	388	402	417
Total banking income	**2,309**	**2,541**	**2,633**	**2,732**	**2,858**
Funds management income	136	140	156	164	169
Insurance income	0	0	0	0	0
Total operating income	**2,445**	**2,681**	**2,789**	**2,896**	**3,027**
Operating expenses	-1,032	-1,071	-1,085	-1,105	-1,125
Loan impairment expense	-292	5	-109	-137	-143
Net profit before tax	**1,121**	**1,615**	**1,595**	**1,655**	**1,760**
Corporate tax expense	-312	-456	-449	-466	-496
Minority interests	0	0	0	0	0
Investment experience	0	0	0	0	0
Cash net profit after tax	**809**	**1,159**	**1,146**	**1,189**	**1,264**
Loans	82,288	94,732	99,469	104,442	109,664
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.

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