

## ANALYST

Hayden Nicholson

## AUTHORISATION

Joseph House

RECOMMENDATION (unchanged)

**BUY**

\*See key risks on Page 2.

PRICE

**A\$16.90**

TARGET (12 MONTHS)

**A\$25.00** (prev. A\$30.00)**Expected return**

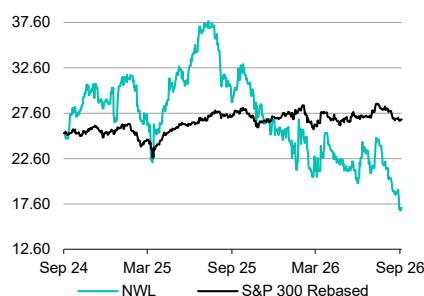
|                       |              |
|-----------------------|--------------|
| Capital growth        | <b>47.9%</b> |
| Dividend yield        | <b>3.1%</b>  |
| Total expected return | <b>51.0%</b> |

**Sector****Financial Services****Capital structure & trading data**

|                        |                       |
|------------------------|-----------------------|
| Enterprise value       | <b>A\$4,068m</b>      |
| Market cap             | <b>A\$4,147m</b>      |
| Issued capital         | <b>246m</b>           |
| Free float             | <b>58%</b>            |
| Avg. daily val. (52wk) | <b>A\$18.7m</b>       |
| 12 month price range   | <b>A\$16.66-33.62</b> |

**Price performance**

|                | (1m)  | (3m)  | (12m) |
|----------------|-------|-------|-------|
| Price (A\$)    | 21.45 | 20.56 | 29.39 |
| Absolute (%)   | -21.2 | -17.8 | -42.5 |
| Rel market (%) | -17.8 | -17.9 | -41.6 |

**Share price (A\$/sh) vs. XKO**

Source: IRESS

# NETWEALTH (NWL)

## Looking back

### Mark-to-markets and 1Q preview

We update our model to reflect equity market movements and comment on net flow expectations. Consensus forecasts appear too high, implying the upper end of the \$18-20bn guided range is achieved over the last 6 weeks of 1Q. This compares to \$14bn run rate over the first 7 weeks. Equity markets have also weakened since the trading update, with September the second worst performing month this year behind March. The local share market declined by -4%. We make no EPS changes, having already factored in the negative mark-to-market impact of the drawdown.

**Market movements:** Australian equities peaked early August and pared back gains. The S&P/ASX 200 was up +3.2% between 30 June and 21 August then fell by -3.9% to close the September quarter down -0.8%. The sell off was gradual but hit hardest the week beginning 7 September. In the US the broader S&P500 finished the quarter up +2.3%. The NASDAQ100 rallied +3.5% from 21 August and fully recovered from its -10% drawdown in July, while the Dow Jones fell -3.6% over the same period to close the quarter down -1.9%. The MSCI World dropped -1.2% from 21 August with the biggest regional drag being Europe which fell -2.5%. Early US gains carried the quarter while Europe largely cancelled itself out. The MSCI World finished up +1.7%. Other major countries saw modest declines in September across Canada, Germany, Hong Kong and Japan. Local and global bond indices also worsened low single digits over the quarter. We have modelled average returns, pencilling in +\$0.8bn based on +0.6% of positive returns. The gap to consensus is -\$1.2bn on market movements.

**Net inflows:** Guidance stands between \$18-20bn. This is subject to sentiment and the economic and regulatory environment. Our 1Q net inflow forecast is \$3.2bn vs. \$3.5bn consensus. NWL reported \$1.4bn of net inflows between 30 June and 21 August with a one-off institutional outflow worth \$0.6bn. That equates to a \$1.2bn monthly run rate. Our estimate assumes a \$1.4bn exit rate vs. \$1.7bn consensus. Flows have been running around that range already before MS Wealth contribution.

### Investment thesis: Buy, TP \$25.00 (prev. \$30.00)

Maintain Buy. Given interest rates, we have moved our valuation multiple to 2022-23 levels with a class action provision. Our flow expectations are below FY27 guidance. NWL has operated in similar environments, with large withdrawals and clients moving off platform. FY23 flows landed -10% below the guidance and growth was restored in 12mths. Our \$17.9bn matches this experience. So far, we are 6mths into the cycle.

### Earnings estimates

| Year ending 30 June    | 2026  | 2027e  | 2028e | 2029e |
|------------------------|-------|--------|-------|-------|
| Sales (A\$m)           | 391.1 | 447.7  | 523.5 | 605.6 |
| EBITDA (A\$m)          | 195.0 | 207.6  | 254.1 | 300.4 |
| NPAT (reported) (A\$m) | 60.7  | 137.2  | 168.0 | 199.2 |
| NPAT (adjusted) (A\$m) | 143.7 | 137.2  | 168.0 | 199.2 |
| EPS (adjusted) (A¢ps)  | 58.5  | 55.8   | 68.3  | 81.0  |
| EPS growth (%)         | 23.1% | (4.7%) | 22.4% | 18.6% |
| P/E (x)                | 28.8  | 30.2   | 24.7  | 20.8  |
| FCF Yield (%)          | 1.1%  | 2.6%   | 3.9%  | 4.7%  |
| EV/EBITDA (x)          | 20.9  | 19.6   | 16.0  | 13.6  |
| Dividend (A¢ps)        | 42.0  | 52.0   | 60.0  | 70.0  |
| Yield (%)              | 2.5%  | 3.1%   | 3.6%  | 4.1%  |
| Franking (%)           | 100%  | 100%   | 100%  | 100%  |

Source: Bell Potter Securities estimates

# Netwealth (NWL)

## BUSINESS OVERVIEW

Netwealth provides financial intermediaries the tools to deliver innovative investment, trading and reporting solutions to clients both inside and outside of superannuation. Its capabilities cover a broad range of asset classes, including domestic and international securities, managed funds, managed accounts, cash, bonds and term deposits. The platform holds more than \$135bn in Funds under Administration (FUA) and is used by over 4,000 financial advisers.

## VALUATION METHOD

Our A\$25.00/sh 12-month target price is based on a blended (50-50) DCF (10.0% WACC; 6.0% TGR) and enterprise value multiples. Our 26x target multiple at EBITDA reflects 2022-2023 trading levels. The period was marked with a similar backdrop of inflation, interest rate hikes, and margin compression. NWL has continued to capture market share and expand into new segments, including brokers and superannuation. FY27 net inflows are guided to +\$18-20bn pa vs. \$15bn delivered in FY25-26.

## RISKS

Risks to an investment in NWL include but are not limited to:

**Compliance risk:** Business undertakings are governed by a range of policies, legislation, regulation and standards. This is a complex and fluid environment that has resulted in an increased operational burden on financial service companies. For example, NWL may fail to properly develop and implement compliance practices, manage related complaints or adapt to regulatory changes. Failing to adequately detect and prevent potential compliance breaches could result in fines and penalties, the revocation of AFSL and RSE licenses or increased regulator involvement in NWL's operations.

**Litigation risk:** Businesses operating in the financial services industry face the possibility of legal action, instigated by regulators and plaintiffs through representative proceedings or class actions. Disputes arising from the ordinary course of business may negatively affect the financial performance or reputation of NWL.

**Economic risk:** A deterioration in market conditions may influence the levels of investment made by financial intermediaries and underlying investor clients. Heightened or extended periods of uncertainty or market volatility could reduce NWL's FUMA and have a negative impact on the financial position and performance.

**Personnel risk:** Individuals within NWL have extensive experience in the financial services industry and wrap-based solutions. Directors and executive management team also have long-standing relationships with other individuals and institutions. This is conducive to the company's innovative and collaborative mindset. Loss of key personnel may impact NWL's ability to operate its business effectively.

**Competition risk:** NWL operates in a highly competitive and commoditised market, where providers are separated by their high levels of service and perceived utility. Competitors may invest at an accelerated rate to provide superior technology, engage in aggressive marketing, undertake consolidation activities or adopt pricing strategies to gain scale and improve their market positioning. Incumbent providers are predominantly large businesses with significant financial budgets. NWL may further be exposed to new entrants that could erode the viability of its proprietary technology systems. Failing to remain competitive may result in loss of market share or revenue.

**Growth approach risk:** There is a risk that expected revenues may not meet targets while expenses increase disproportionately. NWL is required to introduce and develop innovative software and technology products (on a continuing basis) while maintaining high standards of customer service. NWL may be unable to maintain scalability of the investment platform while suffering from margin fee compression or revenue mix shift. Reduced cash holdings in customer accounts, an inability to identify new revenue opportunities or a change in the preference for products and services provided by NWL could alter its unit economics.

**Cyber security risk:** Technology and systems developed by NWL may be prone to cyber security incidents or an attempt to fraudulently access customer accounts and personal information. Any breach could result in the loss, theft or corruption of data. These events would negatively impact NWL's reputation, operations or financial performance.

**IT provision risk:** NWL and its clients are dependent on the effective and uninterrupted performance, reliability and availability of the platform, its software, third party data centres and communication systems. NWL may be exposed to damage or interruption from system failures, telecommunication provider failures, inadequate system maintenance, damage to the physical infrastructure associated with the network, disasters from natural or human causes, or other unforeseen events that may cause downtime. These events may lead to This could adversely impact NWL's operations, financial performance and position.

RECOMMENDATION (unchanged)

PRICE

TARGET (12 MONTHS)

**Buy****A\$16.90****A\$25.00** (prev. A\$30.00)

Table 1: Financial summary

|                             |         |        |         |         |         |         |                               |                                                                 |         |         |         |         |         |
|-----------------------------|---------|--------|---------|---------|---------|---------|-------------------------------|-----------------------------------------------------------------|---------|---------|---------|---------|---------|
| Date                        | 1/10/26 |        |         |         |         |         | Bell Potter Securities        |                                                                 |         |         |         |         |         |
| Price                       | A\$/sh  | 16.90  |         |         |         |         |                               | Hayden Nicholson (hnicolson@bellpotter.com.au, +61 3 9235 1757) |         |         |         |         |         |
| Target price                | A\$/sh  | 25.00  |         |         |         |         |                               |                                                                 |         |         |         |         |         |
| PROFIT AND LOSS             |         |        |         |         |         |         | FINANCIAL RATIOS              |                                                                 |         |         |         |         |         |
| Year ending 30 June         | Unit    | FY25a  | FY26a   | FY27e   | FY28e   | FY29e   | Year ending 30 June           | Unit                                                            | FY25a   | FY26a   | FY27e   | FY28e   | FY29e   |
| Revenue                     | A\$m    | 324.4  | 391.1   | 447.7   | 523.5   | 605.6   | VALUATION                     |                                                                 |         |         |         |         |         |
| ... % Change                | %       | 27%    | 21%     | 14%     | 17%     | 16%     | EPS (adjusted)                | Ac/sh                                                           | 47.7    | 58.6    | 55.9    | 68.4    | 81.1    |
| UEBITDA                     | A\$m    | 165.2  | 195.0   | 207.6   | 254.1   | 300.4   | EPS growth                    | %                                                               | 39%     | 23%     | -5%     | 22%     | 19%     |
| ... % Change                | %       | 29%    | 18%     | 6%      | 22%     | 18%     | PER                           | x                                                               | 35.5x   | 28.8x   | 30.2x   | 24.7x   | 20.8x   |
| Share-based payments        | A\$m    | (1.8)  | (2.1)   | (2.1)   | (2.6)   | (3.0)   | DPS                           | Ac/sh                                                           | 38.5    | 42.0    | 52.0    | 60.0    | 70.0    |
| Depreciation & amortisation | A\$m    | (5.8)  | (8.1)   | (9.2)   | (11.2)  | (12.5)  | Yield                         | %                                                               | 2%      | 2%      | 3%      | 4%      | 4%      |
| EBIT                        | A\$m    | 157.7  | 184.8   | 196.3   | 240.3   | 285.0   | Franking                      | %                                                               | 100%    | 100%    | 100%    | 100%    | 100%    |
| Net interest expense        | A\$m    | (0.6)  | (0.5)   | (0.4)   | (0.4)   | (0.4)   | FCF                           | Ac/sh                                                           | 35.0    | 18.0    | 43.2    | 65.6    | 79.0    |
| PBT                         | A\$m    | 157.1  | 184.3   | 195.9   | 239.9   | 284.6   | FCF yield                     | %                                                               | 2%      | 1%      | 3%      | 4%      | 5%      |
| Tax expense                 | A\$m    | (40.6) | (40.6)  | (58.8)  | (72.0)  | (85.4)  | EV/Sales                      | x                                                               | 12.5x   | 10.4x   | 9.1x    | 7.8x    | 6.7x    |
| Underlying NPAT             | A\$m    | 116.5  | 143.7   | 137.2   | 168.0   | 199.2   | EV/EBITDA                     | x                                                               | 24.6x   | 20.9x   | 19.6x   | 16.0x   | 13.6x   |
| Abs. & extras               | A\$m    | -      | (83.0)  | -       | -       | -       | LIQUIDITY & LEVERAGE          |                                                                 |         |         |         |         |         |
| Reported NPAT               | A\$m    | 116.5  | 60.7    | 137.2   | 168.0   | 199.2   | Net debt / (cash)             | A\$m                                                            | (148.5) | (91.1)  | (86.8)  | (110.4) | (144.9) |
| CASH FLOW STATEMENT         |         |        |         |         |         |         | Net debt / Equity             | %                                                               | -75%    | -56%    | -46%    | -50%    | -56%    |
| Year ending 30 June         | Unit    | FY25a  | FY26a   | FY27e   | FY28e   | FY29e   | Net debt / Net debt + Equity  | %                                                               | -293%   | -129%   | -85%    | -102%   | -127%   |
| OPERATING CASH FLOW         |         |        |         |         |         |         | Net debt / EBITDA             | x                                                               | -0.9x   | -0.5x   | -0.4x   | -0.4x   | -0.5x   |
| EBITDA                      | A\$m    | 163.5  | 192.9   | 205.5   | 251.5   | 297.4   | EBITDA / net interest expense | x                                                               | -274.9x | -372.8x | -537.2x | -657.4x | -777.3x |
| Change in working capital   | A\$m    | 4.9    | 2.0     | (8.6)   | (2.9)   | (2.7)   | PROFITABILITY RATIOS          |                                                                 |         |         |         |         |         |
| Change in provisions        | A\$m    | 1.7    | 1.9     | 3.0     | 2.5     | 2.7     | EBITDA margin                 | %                                                               | 51%     | 50%     | 46%     | 49%     | 50%     |
| Net interest                | A\$m    | (0.6)  | (0.5)   | (0.4)   | (0.4)   | (0.4)   | EBIT margin                   | %                                                               | 49%     | 47%     | 44%     | 46%     | 47%     |
| Tax                         | A\$m    | (40.8) | (30.0)  | (58.8)  | (72.0)  | (85.4)  | OCF realisation               | %                                                               | 102%    | 38%     | 95%     | 99%     | 99%     |
| Other                       | A\$m    | (3.7)  | (108.7) | (1.6)   | (1.6)   | (1.6)   | FCF realisation               | %                                                               | 73%     | 31%     | 77%     | 96%     | 97%     |
| Operating cashflow          | A\$m    | 125.0  | 57.6    | 139.1   | 177.1   | 210.1   | Return on equity              | %                                                               | 68%     | 80%     | 78%     | 82%     | 83%     |
| INVESTING CASHFLOW          |         |        |         |         |         |         | Return on assets              | %                                                               | 52%     | 54%     | 49%     | 60%     | 66%     |
| Purchase of P,P&E           | A\$m    | (1.6)  | (1.7)   | (1.0)   | (1.0)   | (1.0)   | Return on invested capital    | %                                                               | 461%    | 586%    | 495%    | 274%    | 256%    |
| Purchase of intangibles     | A\$m    | (6.3)  | (11.8)  | (17.0)  | (15.0)  | (15.0)  | SEGMENT ASSUMPTIONS           |                                                                 |         |         |         |         |         |
| Disposals                   | A\$m    | 0.1    | 0.8     | -       | -       | -       | Year ending 30 June           | Unit                                                            | FY25a   | FY26a   | FY27e   | FY28e   | FY29e   |
| Acquisitions                | A\$m    | (7.7)  | -       | (15.0)  | -       | -       | Platform                      | A\$m                                                            | 316.4   | 382.9   | 438.8   | 513.0   | 593.2   |
| Other                       | A\$m    | (24.0) | (0.8)   | -       | -       | -       | Corporate                     | A\$m                                                            | 8.0     | 8.2     | 8.9     | 10.5    | 12.4    |
| Investing cashflow          | A\$m    | (39.5) | (13.5)  | (33.0)  | (16.0)  | (16.0)  | Paradino                      | A\$m                                                            | -       | -       | 2.1     | 4.4     | 7.4     |
| Free cashflow               | A\$m    | 85.5   | 44.2    | 106.1   | 161.1   | 194.1   | Revenue                       | A\$m                                                            | 324.4   | 391.1   | 447.7   | 523.5   | 605.6   |
| FINANCING CASH FLOW         |         |        |         |         |         |         | FUA ASSUMPTIONS               |                                                                 |         |         |         |         |         |
| Equity issues               | A\$m    | 13.4   | 3.1     | 5.0     | -       | -       | Year ending 30 June           | Unit                                                            | FY25a   | FY26a   | FY27e   | FY28e   | FY29e   |
| Dividends paid              | A\$m    | (77.1) | (103.0) | (115.4) | (137.5) | (159.6) | FUA (Custody)                 | A\$m                                                            | 111,872 | 134,316 | 158,268 | 187,406 | 219,124 |
| Change in borrowings        | A\$m    | -      | 58.2    | (23.3)  | (35.0)  | -       | Average                       | A\$m                                                            | 99,692  | 122,990 | 145,296 | 172,726 | 203,145 |
| Other                       | A\$m    | -      | (1.6)   | -       | -       | -       | Net inflows                   | A\$m                                                            | 15,400  | 15,046  | 17,550  | 20,347  | 21,362  |
| Financing cashflow          | A\$m    | (63.7) | (43.3)  | (133.7) | (172.5) | (159.6) | HALF YEAR PROFIT AND LOSS     |                                                                 |         |         |         |         |         |
| Net change in cash          | A\$m    | 21.8   | 0.9     | (27.6)  | (11.4)  | 34.4    | Year ending 30 June           | Unit                                                            | 2H24a   | 1H25a   | 2H25a   | 1H26a   | 2H26a   |
| BALANCE SHEET               |         |        |         |         |         |         | Revenue                       | A\$m                                                            | 131.9   | 155.4   | 169.0   | 193.8   | 197.3   |
| Year ending 30 June         | Unit    | FY25a  | FY26a   | FY27e   | FY28e   | FY29e   | Operating costs               | A\$m                                                            | (64.5)  | (76.4)  | (82.8)  | (95.8)  | (100.3) |
| ASSETS                      |         |        |         |         |         |         | UEBITDA                       | A\$m                                                            | 67.4    | 79.0    | 86.2    | 98.0    | 97.0    |
| Cash                        | A\$m    | 148.5  | 149.4   | 121.8   | 110.4   | 144.9   | Share-based payments          | A\$m                                                            | (1.5)   | (1.0)   | (0.8)   | (1.2)   | (0.8)   |
| Receivables                 | A\$m    | 27.6   | 31.8    | 36.8    | 43.0    | 49.8    | Depreciation & amortisation   | A\$m                                                            | (2.0)   | (2.3)   | (3.5)   | (3.9)   | (4.2)   |
| P,P&E                       | A\$m    | 2.2    | 2.7     | 2.3     | 2.1     | 2.0     | EBIT                          | A\$m                                                            | 63.9    | 75.7    | 82.0    | 92.8    | 92.0    |
| Intangibles                 | A\$m    | 26.0   | 33.1    | 58.8    | 65.4    | 70.6    | Net interest expense          | A\$m                                                            | (0.3)   | (0.3)   | (0.3)   | (0.3)   | (0.3)   |
| Other                       | A\$m    | 41.0   | 48.9    | 48.9    | 48.9    | 48.9    | PBT                           | A\$m                                                            | 63.6    | 75.4    | 81.7    | 92.6    | 91.7    |
| Total assets                | A\$m    | 257.3  | 276.3   | 279.1   | 280.4   | 326.7   | Tax expense                   | A\$m                                                            | (19.5)  | (17.8)  | (22.8)  | (23.5)  | (17.1)  |
| LIABILITIES                 |         |        |         |         |         |         | Underlying NPAT               | A\$m                                                            | 44.1    | 57.6    | 58.9    | 69.0    | 74.7    |
| Payables                    | A\$m    | 24.4   | 30.6    | 27.0    | 30.3    | 34.3    | Abs. & extras                 | A\$m                                                            | (0.1)   | -       | -       | (71.2)  | (11.8)  |
| Provisions                  | A\$m    | 9.9    | 11.5    | 14.5    | 17.0    | 19.7    | Reported NPAT                 | A\$m                                                            | 44.0    | 57.6    | 58.9    | (2.2)   | 62.8    |
| Lease liabilities           | A\$m    | 2.0    | 0.6     | 0.6     | 0.6     | 0.6     |                               |                                                                 |         |         |         |         |         |
| Other                       | A\$m    | 7.6    | 0.2     | 0.2     | 0.2     | 0.2     |                               |                                                                 |         |         |         |         |         |
| Total liabilities           | A\$m    | 58.2   | 114.4   | 90.4    | 61.2    | 67.9    |                               |                                                                 |         |         |         |         |         |
| NET ASSETS                  |         |        |         |         |         |         |                               |                                                                 |         |         |         |         |         |
| Share capital               | A\$m    | 42.0   | 45.8    | 50.8    | 50.8    | 50.8    |                               |                                                                 |         |         |         |         |         |
| Reserves                    | A\$m    | 11.1   | 12.5    | 12.5    | 12.5    | 12.5    |                               |                                                                 |         |         |         |         |         |
| Retained earnings           | A\$m    | 146.0  | 103.6   | 125.4   | 155.9   | 195.4   |                               |                                                                 |         |         |         |         |         |
| Shareholder equity          | A\$m    | 199.1  | 161.9   | 188.7   | 219.1   | 258.7   |                               |                                                                 |         |         |         |         |         |
| Weighted average shares     | m       | 244.5  | 245.2   | 245.4   | 245.6   | 245.6   |                               |                                                                 |         |         |         |         |         |

Source: Bell Potter Securities estimates

**RECOMMENDATION  
STRUCTURE**

|             |                                                                                                                 |
|-------------|-----------------------------------------------------------------------------------------------------------------|
| <b>BUY</b>  | Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected. |
| <b>HOLD</b> | Expect total return between -5% and 15% on a 12 month view.                                                     |
| <b>SELL</b> | 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        | TITLE/SECTOR                      | PHONE         | @bellpotter.com.au |
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