

14 October 2020

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Bank of Queensland (BOQ)

Banking

BUY

BOQ A\$6.50
TARGET PRICE A\$7.17

Bank of Queensland Limited is an Australian-based regional bank. The company's operating segments include retail banking, BOQ business and other. The retail banking solutions to customers are managed through its Owner Managed and Corporate branch network, third party intermediaries' and Virgin Money distribution channels. BOQ Business includes the BOQ branded commercial lending activity, BOQ Finance and BOQ Specialist businesses. The BOQ business

Company Data

Number of shares	454.3M
Market Capitalisation	\$2907.7M
Free float (%)	99.6
12-month high/low	\$9.76/\$4.51
Average Daily Turnover (\$m)	32.8416
% S&P/ASX200	0.17%
DDM Ranking	173
% All Ordinaries	NA
GICS Industry Group	Banks

Source: FactSet, Barclay Pearce Capital

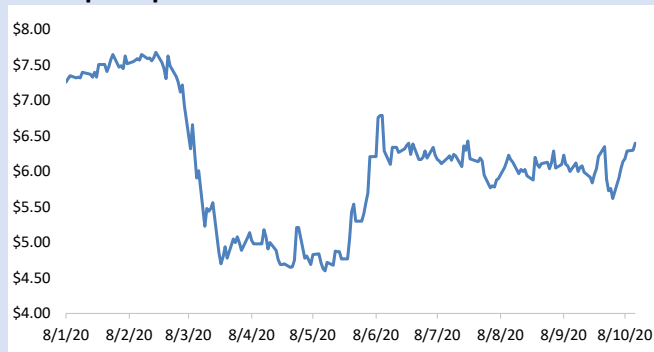
Earnings Summary (AUD)

Year end August	2020A	2021F	2022F	2023F
Revenue (\$M)	1,096.0	1,112.1	1,117.1	1,113.7
Reported NPAT (\$M)	115.0	201.3	241.3	261.0
Adjusted NPAT (\$M)	225.0	222.7	276.4	256.9
Reported EPS (c)	25.1	43.9	48.9	51.9
Adjusted EPS (c - FD)	26.2	48.7	56.1	56.2
Adjusted EPS growth (%)	-64.6	85.8	15.2	0.2
Adjusted P/E (x)	24.4	13.1	11.4	11.4
Dividend (c/sh)	12.0	30.3	38.1	38.0
Gross yield (%)	2.7	6.8	8.5	8.5
Net yield (%)	1.9	4.7	5.9	5.9

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

Updated FY21 Outlook

On 14 October 2020 Bank of Queensland (BOQ) announced their FY20 results with the following highlights:

- Lower statutory profit of \$115m, which reflects the challenging environment and year of transition;
- Well provisioned for potential COVID-19 impacts, with \$133m collective provision overlay taken for anticipated lifetime losses;
- Capital strength to support business growth and broader economic recovery, with CET1 (Common Equity Tier 1) of 9.78%;
- Dividend of 12cps, in line with revised APRA guidance - Represents 6 cents from first half profits and 6 cents from second half profits;
- Strong liquidity with Liquidity Coverage Ratio at 164% and Net Stable Funding Ratio at 119%, well above regulatory targets;
- Term Funding Facility at 25bps, providing capacity for lending to businesses;
- In looking at the divisional achievements:
 - **Retail Bank:** Net Interest Income increased by 1% through home loan growth and improved margins;
 - Consumer NPS ranked 3rd (Up from 5th FY19) Mortgage NPS ranked 5th (Up from 11th from FY19);
 - 95% of Oms on new franchise agreement;
 - **BOQ Business:** Net Interest Income increased 3% due to good growth and margin management; and
 - Continued focus on niche segments delivering good growth with all business lines outperforming system.

Outlook

- Less likelihood of downside scenarios on unemployment and house prices given Government stimulus – uncertainty until vaccine developed;
- Remain committed to transformation strategy and capital investment of \$100M;
- Expecting broadly neutral jaws:
 - Above system growth in lending;
 - Margin managed to within 2-4bps decline; and
- Prudent collective provision COVID-19 overlay taken in FY20 for anticipated lifetime losses;
- Continuation of strong balance sheet with CET1 ratio remaining above top end of target range; and
- Return to sustainable profitable growth, supporting returns to shareholders and dividends.

On 20 September 2020, BOQ announced items impacting these results, with the following:

- Loan impairment expense would be \$175m (Pre-tax);
- This includes COVID-19 related collective provisions expense of \$133m which is based on updated RBA economic data, analysis of customers on banking relief program and likelihood of recovery; and
- Expense of \$11M resulting from a review of historical employee pay and entitlements will be included.

Earnings changes

Reported NPAT and adjusted NPAT were below market expectations. In addition, announced dividends were at 12cps, which was also below the 14cps forecast. However, at this stage we do not expect any significant earnings revisions for future periods.

We initiate on BOQ with a 12-month price target to \$7.17 and a BUY recommendation. The price target is underpinned by our DDM Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

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