

Commonwealth Bank of Australia

Banks

UNDERPERFORM

CBA A\$94.30 **TARGET PRICE A\$79.92**

CBA's Principal Activity is the providing of integrated financial services, providing retail, business and institutional banking, funds management, superannuation, life insurance, general insurance, broking services and finance company activities.

Company Data

Number of shares	1,706.4M
Market Capitalisation	\$160,912.7M
Free float (%)	99.7
12-month high/low	\$110.13/\$81.56
Average Daily Turnover (\$m)	296.264838
% S&P/ASX200	7.507%
DDM Ranking	384
% All Ordinaries	6.498
GICS Industry Group	Banks

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	24,156.0	25,397.4	26,247.5	27,174.9
Reported NPAT (\$M)	10,181.0	10,097.7	9,509.2	9,890.8
Adjusted NPAT (\$M)	8,843.0	9,397.2	9,465.5	9,953.6
Reported EPS (¢)	539.7	555.0	554.0	573.3
Adjusted EPS (¢ - FD)	470.6	516.8	540.9	569.7
Adjusted EPS growth (%)	15.8	4.8	4.9	5.6
Adjusted P/E (x)	20.0	20.1	19.2	18.3
Dividend (¢/sh)	350.0	398.9	418.6	437.2
Gross yield (%)	5.3	6.0	6.3	6.6
Net yield (%)	3.7	4.2	4.4	4.6

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

1H FY22 Results

On 9th February 2022, Commonwealth Bank of Australia (CBA) announced its 1H FY22 Results with the following highlights:

Key Financials:

- Statutory NPAT was \$4,741m, up 26%;
- Cash NPAT of \$4,746m was 23% higher due to system growth in all core markets, lower collective provisions from an improvement in economic outlook and a reduction in remediation expense;
- Operating income was \$12,205m up 2%, driven by continued core volume growth and improved volume driven fee income, partly offset by reduced net interest margin;
- Net interest margin was 1.92% down by 14bpts. Excluding the impact from increased lower yielding liquid assets, margin reduced by 5bpts mainly driven by switching to fixed rate home loans, the impact of rising swap rates and continued pressure from home loan competition;
- Operating expenses were flat at \$5,588m, driven by increased staff cost to support higher volumes and delivery of strategic investment initiatives, offset by lower occupancy, IT and radiation cost;
- Loan impairment expense decreased by \$957m to a benefit of \$75m reflecting an improved economic outlook. Loan loss provisions remain significantly higher than the expected losses under the central economic scenario;
- Deposit funding of 73%, as the Group maintained a significant portion of its funding requirements from customer deposits;
- Interim dividend of \$1.75 per share, fully franked.
- Capital management in 2021 included a \$6bn off-market share buy-back and continued neutralisation of the DRP;
- CBA now intends to undertake further capital management via an on-market buy-back of up to \$2bn;
- The buy-back is expected to reduce the CET1 capital ratio by approximately 42 basis points (Dec 21 pro-forma CET1 of 11.4%); and
- CBA expects to commence the buy-back after the completion of the on-market share purchase associated with neutralising the impact of 1H22 DRP.

Outlook:

CEO, Matt Comyn, said: *We expect the Australian economy to have a strong year in 2022 despite early challenges from the Omicron strain of COVID-19. Both the unemployment rate and the underemployment rate are at the lowest since 2008, with high participation rates. Australian households have accumulated savings and stronger wage growth is expected. An increase in demand for goods relative to services, supply-chain constraints and tightening labor markets will likely lead to a further increase in the rate of inflation.*

Earnings changes

CBA's H1 FY22 NPAT of \$4,746 compares to market expectations of \$4,394m. Hence, we expect positive earnings revisions of 5% for FY22 and future periods.

Valuation

We are updating our 12-month target price from \$74.11 to \$79.92 and retaining our UNDERPERFORM recommendation. The price target is underpinned by our valuation.

9 February 2022

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Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 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.

Conflicts of Interest

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

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.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

9 February 2022

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Valuation Methodology

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Barclay Pearce Capital Recommendation Proportions

Buy	37.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	32.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	31.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)