

9 February 2021

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Challenger Limited

Diversified Financials

HOLD

CGF A\$6.60 **TARGET PRICE A\$6.63**

CGF's Principal Activity is the provision of investment management activities including Funds Management business and provision of annuities and retirement income solutions in Australia through the Life segment.

Company Data

Number of shares	675.6M
Market Capitalisation	\$4,877.9M
Free float (%)	84.5
12-month high/low	\$10.38/\$2.97
Average Daily Turnover (\$m)	15.3
% S&P/ASX200	0.25
DDM Ranking	117
% All Ordinaries	0.22

GICS Industry Group Diversified Financials

Source: FactSet, Barclay Pearce Capital

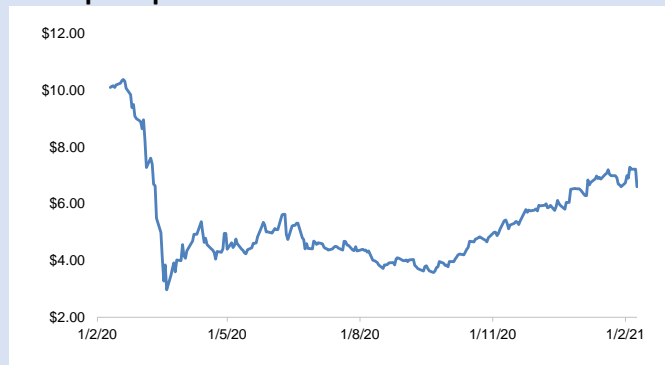
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	797.4	635.6	730.0	776.2
EBITDA (\$M)	513.0	391.6	461.8	501.8
Reported NPAT (\$M)	-416.0	301.4	314.9	343.4
Adjusted NPAT (\$M)	343.7	274.8	320.0	345.0
Reported EPS (c)	-68.4	43.6	43.8	47.8
Adjusted EPS (c - FD)	46.9	36.9	42.2	46.1
Adjusted EPS growth (%)	-16.3	-21.3	14.4	9.2
Adjusted P/E (x)	15.4	19.6	17.1	15.7
Dividend (c/sh)	17.5	19.1	22.7	25.4
Gross yield (%)	2.4	2.9	3.3	3.7
Net yield (%)	2.4	2.9	3.3	3.7
ROIC (%)	9.1	8.3	8.6	9.1

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

1HY21 Result Announcement

On 9th February, Challenger Ltd (CGF) announced their results for the first half of fiscal 2021 with the following highlights:

- Strong growth and diversification providing business momentum: life book growth 4.7% in 1H21, funds Management net inflows \$6.4 billion in 1H21, group assets under management up 13% to \$96 billion in 1H21, bank acquisition to drive medium-term growth;
- Performance in line with expectations: normalised net profit before tax (NPBT) \$196 million reflects progressive deployment of excess liquidity, on-track for full year normalised NPBT guidance, statutory net profit after tax \$223 million with positive investment experience;
- Strongly capitalised: Challenger Life Company Limited excess capital above top end of target range, dividend 9.5 cents per share fully franked.

MD and CEO Richard Howes said the outcomes were in line with expectations and Challenger was on-track to deliver a full year normalised profit before tax within its guidance range of between \$390 million and \$440 million.

Mr Howes said: "Our strategy of diversifying revenue is working with strong book growth in our Life business and industry leading organic flows in Funds Management. We remain strongly capitalised with prudent portfolio settings which are appropriate given our growing customer franchise. The investment portfolio is in good shape, with no significant credit defaults and stable property valuations during the half year. We are gradually deploying our excess cash and liquidity to enhance future returns. The Board has declared a dividend of 9.5 cents per share reflecting confidence in our future business performance and in the strength of our capital position.

Our Funds Management business is the fourth largest and fastest growing active manager in the country. Fidante net inflows near tripled to \$5.8 billion in the half, supported by very strong institutional flows and retail flows, which were up 32% compared to the previous corresponding period.

We continue to be the number one provider of secure retirement income streams in Australia and have benefited from our strategy of diversifying into institutional and overseas markets. We have reported record long-term annuity sales during the half, which underpin future book growth. We have also seen stabilisation in the adviser market and deepened our relationships with independent financial advisers.

The federal government's Retirement Income Review, released in December 2020, highlights the importance of finding better solutions for retirement. The focus on retirement solutions reinforces the importance of the role that we play in the sector. Challenger enters the second half of the 2021 financial year in good shape, having withstood industry and COVID-19 related disruption of recent years. Our strong performance in funds management, building momentum in annuities, and new opportunities in banking mean Challenger is well placed to achieve our vision of providing customers with financial security for retirement."

Outlook

- Challenger expects normalised net profit before tax in FY21 in the range of \$390 million to \$440 million.
- Earnings are expected to be weighted to the second half reflecting the gradual deployment of Life's excess cash and liquid investments over the year.

Earnings changes

CGF reported H1FY21 NPAT of \$136.8m versus market expectations of \$138.0m. Also, for FY21, CGF expects normalised profit before tax within a guidance range of \$390 million and \$440 million. However, the market was pricing in a much steeper recovery for CGF than this guidance. Hence, we expect negative earnings revisions of 10% for FY21 and 5% for future periods.

Valuation

We are initiating on CGF with a 12-month price target of \$6.63 and a HOLD recommendation. The price target is underpinned by our Valuation.

This Research Report has been prepared by Russell Wright ("Mr Wright") in his capacity as a Corporate Authorised Representative (CAR: 422117) and issued (in Australia) by Barclay Pearce Capital Pty Ltd (ACN 634 843 735) (AFS Licence No. 503 261) ("Barclay Pearce Capital") and remains the property of Barclay Pearce Capital Pty Ltd. No material contained in this Research may be reproduced or distributed, except as allowed by the Copyright Act, without the prior written approval of Barclay Pearce Capital. This Research Report is subject to the disclosures and restrictions set out below.

Analyst Certification

The research analyst(s) identified on the cover of this report individually certify that in respect of each security or issuer that the research analyst covers that: this report accurately reflects his or her personal views about any and all of the subject issuer(s) or securities; and no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by the research analyst(s) in this report.

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.

General Disclosure

Barclay Pearce Capital and its associates (as defined in Chapter 1 of the Corporations Act 2001), officers, directors, employees and agents, from time to time, may own or have positions in securities of the company(ies) covered in this report and may trade in the securities mentioned either as principal or agent or may be materially interested in such securities.

Barclay Pearce Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Barclay Pearce Capital provides research on all ASX200 stocks as well as on other sectors (i.e. artificial intelligence, crypto currencies, food, healthcare, marijuana, mining, payment platforms and technologies) and/or entities which Barclay Pearce Capital considers to be of interest to both Barclay Pearce Capital's clients and the broader financial markets.

Disclaimer & Warning

This report may contain general advice or recommendations which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. This report does not purport to contain all the information that a prospective investor may require. Before making an investment or trading decision, the recipient must consider market developments subsequent to the date of this document, and whether the advice is appropriate in light of his or her financial circumstances or seek further advice on its appropriateness or should form his/her own independent view given the person's investment objectives, financial situation and particular needs regarding any securities or Financial Products mentioned herein. Information in this document has been obtained from sources believed to be true but neither Barclay Pearce Capital nor its associates make any recommendation or warranty concerning the Financial Products or the accuracy, or reliability or completeness of the information or the performance of the companies referred to in this document. Past performance is not indicative of future performance. This document is not an offer, invitation, solicitation or recommendation with respect to the subscription for, purchase or sale of any Financial Product, and neither this document or anything in it shall form the basis of any contract or commitment. Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by Barclay Pearce Capital, its associates, officers, directors, employees and agents. The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

Analysts' Compensation: The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of the analyst(s) research, client evaluation feedback, independent survey rankings and overall firm revenues, which include revenues from, among other business units and corporate finance.

Other International Investors: International investors outside the US, UK, UAE or Canada are encouraged to contact their local regulatory authorities to determine whether any restrictions apply to their ability to purchase this investment and should seek their own advice

Recipient Representations/Warranties: By accepting this report, the recipient represents and warrants that he or she is entitled to receive such report in accordance with the restrictions set out in this document and agrees to be bound by the limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.

Meanings of Barclay Pearce Capital Stock Ratings

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 2021

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Conflicts of Interest

Barclay Pearce Capital does not have any material interests in the financial product discussed in this Research Report nor will it receive any benefits in relation to the publication of this Research Report. Barclay Pearce Capital manages all Conflicts of Interest in accordance with its Conflicts of Interest Policy. Please contact us if you require any further information.

Barclay Pearce Capital Recommendation Proportions

Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)