

10 May 2022

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Macquarie Group Ltd

Finance

BUY

MQG A\$182.00 **TARGET PRICE A\$223.40**

Non-operating holding company for consolidated entity - financial services provider of banking, financial, advisory, investment and funds management services.

Company Data

Number of shares	383.6 M
Market Capitalisation	\$71,703.7M
Free float (%)	99.1
12-month high/low	\$215.73/\$149.97
Average Daily Turnover (\$m)	179.2
% S&P/ASX200	3.369%
DDM Ranking	244
% All Ordinaries	2.628%

GICS Industry Group Diversified Financials

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end March	2022A	2023F	2024F	2025F
Revenue (\$M)	17,324.0	16,196.8	16,731.0	17,707.3
Reported NPAT (\$M)	4,706.0	4,219.6	4,460.1	4,642.4
Adjusted NPAT (\$M)	4,706.0	4,436.3	4,725.0	5,223.0
Reported EPS (¢)	1,271.7	1,051.9	1,126.0	1,023.2
Adjusted EPS (¢ - FD)	1,230.6	1,073.8	1,128.4	1,276.5
Adjusted EPS growth (%)	46.0	-7.3	5.1	13.1
Adjusted P/E (x)	15.2	17.4	16.6	14.6
Dividend (¢/sh)	622.0	642.8	665.3	756.0
Gross yield (%)	3.9	4.0	4.2	4.7
Net yield (%)	3.3	3.4	3.6	4.0

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

FY 2022 Annual Report

On 6th May 2022, Macquarie Group Ltd (MQG) announced its FY 2022 Annual Report with the following highlights:

Financial Highlights:

- FY22 net profit of \$A4,706 million, up 56% on FY21;
- 2H22 net profit of \$A2,663 million, up 30% on 1H22, up 31% on 2H21;
- International income 75% of total income in FY22;
- Assets under management of \$A774.8 billion at 31 March 2022, up 37% from 31 March 2021;
- Financial position comfortably exceeds regulatory minimum requirements:
 - Group capital surplus of \$A10.7 billion;
 - Bank CET1 Level 2 ratio 11.5% (Harmonised: 14.6%); Leverage ratio 5.0% (Harmonised: 5.6%); LCR 175%, NSFR 121%.
- Return on equity 18.7%, compared with 14.3% in FY21;
- Final ordinary dividend of \$A3.50 per share (40% franked), FY22 ordinary dividend of \$A6.22 per share (40% franked), representing a 2H22 payout ratio of 50% and FY22 payout ratio of 50%.

Outlook:

- MQG continues to maintain a cautious stance, with a conservative approach to capital, funding and liquidity that it claims positions it well to respond to the current environment;
- The range of factors that may influence its short-term outlook include:
 - Market conditions including significant volatility events, global inflation and interest rates, and the impact of geopolitical events;
 - Potential tax or regulatory changes and tax uncertainties
 - Completion of period-end reviews and the completion rate of transactions;
 - The geographic composition of income and the impact of foreign exchange.

MD and CEO of MQG Ms Wikramanayake said "While many of the regions and markets in which Macquarie operates saw heightened levels of volatility this year, our longstanding strategy to address key areas of unmet need in the community is unchanged. Over time, this has seen us build deep and differentiated franchises in each of our areas of activity, all of which delivered sound outcomes and strong performance in FY22.

Macquarie remains well-positioned to deliver superior performance in the medium term. This is due to our deep expertise in major markets; strength in business and geographic diversity and ability to adapt the portfolio mix to changing market conditions; an ongoing program to identify cost saving initiatives and efficiency; a strong and conservative balance sheet; and a proven risk management framework and culture."

Earnings changes

MQG has reported NPAT for the year of \$4.71B, up 56% on FY21. This compares with market expectations of \$4.59B. Hence, we don't expect any significant earnings revisions for FY22 or for future years.

Valuation

We are updating our 12-month target price from \$212.51 to \$223.40 and updating our recommendation from HOLD to BUY. The price target is underpinned by our valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over thirty (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

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.

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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.

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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.

Barclay Pearce Capital Recommendation Proportions

Buy	40.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.4%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.9%	(0.0% of stocks with recommendations are Barclay Pearce clients)