

9 February 2022

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## Suncorp Group Ltd

### Insurance

### HOLD

### SUN A\$12.03 TARGET PRICE A\$12.05

Suncorp's Principal Activity is the provision of insurance, banking and wealth products and services to the retail, corporate and commercial sectors in Australia and New Zealand.

#### Company Data

Number of shares	1262.60M
Market Capitalisation	\$14,393.7M
Free float (%)	99.8
12-month high/low	\$12.94/\$9.73
Average Daily Turnover (\$m)	35.452472
% S&P/ASX200	0.679
DDM Ranking	213
% All Ordinaries	0.587
GICS Industry Group	Insurance

Source: FactSet, Barclay Pearce Capital

#### Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	9,003.0	9,852.1	10,232.6	10,561.1
EBITDA (\$M)	1,552.5	1,316.2	1,645.1	1,723.1
Reported NPAT (\$M)	1,033.0	900.8	1,117.2	1,187.2
Adjusted NPAT (\$M)	1,093.0	887.8	1,116.2	1,162.9
Reported EPS (c)	77.0	67.3	83.7	89.0
Adjusted EPS (c - FD)	79.2	67.9	85.8	90.4
Adjusted EPS growth (%)	40.7	-14.3	26.4	5.4
Adjusted P/E (x)	14.4	16.8	13.3	12.6
Dividend (c/sh)	73.8	53.6	68.5	72.1
Gross yield (%)	9.2	6.7	8.6	9.0
Net yield (%)	6.5	4.7	6.0	6.3
ROIC (%)	1.9	1.9	2.1	2.8

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

## HY22 Results Announcement

On 8th February 2022, Suncorp Group Ltd (SUN) released its HY22 Results Announcement with the following highlights:

#### Financial Results:

- Group net profit after tax was down 20.8% to \$388 million and cash earnings of \$361 million decreased by 29.1% as the Group responded to 19 separate weather events and more than 50,000 natural hazard claims during the half;
- This resulted in natural hazard claims costs of \$695 million - \$205 million more than expected for the first half of the financial year.
- Profit in the Bank increased to \$200 million and accounted for 55% of Group cash earnings for the half, demonstrating the benefit of having diversified sources of profit;
- Insurance Australia Gross Written Premium (GWP) growth of 7.5% (excluding portfolio exits) was driven by a continued focus on revitalising growth, including the launch of new product features and continued refinement of digital customer experiences;
- Bank home lending grew by 2.7% in the half (5.3% annualised);
- This reflects credit assessment efficiency, consistent competitive offerings and improved customer and broker experiences;
- Customer deposits grew by 7.8% over the half to \$44.8 billion, driven by at-call transaction accounts;
- Net Interest Margin decreased 12 bps from 2H21 to 1.97%;
- New Zealand GWP grew 14.0%, with strong growth across all consumer and commercial lines, partly offset by higher natural hazard costs, working claims and lower investment returns;
- The net impact of investment markets on the result was \$61 million;
- This was down significantly with volatility across yields, breakeven inflation, credit spreads and equity markets across the year;
- The Group's underlying ITR increased to 8.0% (excluding COVID-19 impacts) in 1H22, which represents strong progress towards the target of 10.0-12.0% in FY23;
- The increase in this key underlying performance metric was driven by the Consumer portfolio, reflecting the benefits of rate increases and improvements from working claims driven by lower frequency and Best in Class Claims; and
- Group operating expenses were \$1.4 billion, up \$42 million on pcp, largely due to the temporary increase in spending on strategic initiatives, and higher growth-related costs with increased commissions and marketing.

CEO, Steve Johnston said: "While we have been challenged by the La Niña climate pattern and the operational impacts of COVID-19, we continue to deliver against our strategic priorities and have good momentum as we move into the second half of FY22. Despite the many challenges of COVID-19 our teams have mobilised quickly to get our customers back on their feet. GWP growth in Australia and New Zealand is a standout, and the Group's underlying ITR increase to 8.0% shows we are delivering. Across all three businesses we are growing, becoming more efficient and improving how we serve our customers."

#### Earnings changes

SUN has reported NPAT for HY22 of A\$388m which is 20.8% below last year's same period. This compares to market expectations of -33%. However, the CEO's comments are much more upbeat. Hence, we don't expect any significant earnings revisions for FY22 and future periods.

#### Valuation

We are updating our 12-month target price from \$12.47 to \$12.05 and retaining our HOLD recommendation. 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 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.

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**Barclay Pearce Capital Recommendation Proportions**

Buy	38.2%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.2%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	38.6%	( 0.0% of stocks with recommendations are Barclay Pearce clients)