

9 May 2022

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Westpac Banking Corporation

Finance

HOLD

WBC A\$24.60
TARGET PRICE A\$25.68

Westpac Banking Corporation is a banking organization. The Company provides a range of banking and financial services including consumer, business and institutional banking and wealth management services. Its operations consist of various divisions including Consumer, Business, Westpac Institutional Bank (WIB), Westpac New Zealand and Specialist Businesses. Consumer division provides sale and service to consumer customers in Australia.

Company Data

Number of shares	3,501.1M
Market Capitalisation	\$83,431.9M
Free float (%)	100.0
12-month high/low	\$26.94/\$20.16
Average Daily Turnover (\$m)	167.918102
% S&P/ASX200	3.921%
DDM Ranking	215
% All Ordinaries	3.361%
GICS Industry Group	Diversified Banks

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end September	2021A	2022F	2023F	2024F
Revenue (\$M)	21,038.0	19,104.4	19,974.3	20,881.2
Reported NPAT (\$M)	5,458.0	5,212.1	6,577.1	7,459.7
Adjusted NPAT (\$M)	5,352.0	5,596.5	6,573.8	7,431.6
Reported EPS (¢)	149.4	142.1	181.9	204.2
Adjusted EPS (¢ - FD)	146.3	152.9	182.1	206.5
Adjusted EPS growth (%)	100.4	4.5	19.1	13.4
Adjusted P/E (x)	16.8	16.1	13.5	11.9
Dividend (¢/sh)	118.0	121.1	131.5	148.3
Gross yield (%)	6.9	7.0	7.6	8.6
Net yield (%)	4.8	4.9	5.3	6.0

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

FY22 First Half Year Results

On 9th May 2022 Westpac Bank Corporation (WBC) announced its FY22 First Half Year Results with the following highlights:

- Statutory net profit \$3,280m, down 5% on H1FY21;
- Cash earnings \$3,095m, down 12% on H1FY21;
- Cash EPS 85.4 cents, down 12 on H1FY21;
- Revenue down 8% on H1FY21;
- Costs down 10% on H1FY21;
- ROE 8.7%, CET1 ratio 11.3%;
- Fully franked interim dividend 61 cents per share.

Divisional Performance:

- **Consumer:** Cash earnings were 15% lower than 1H21, mainly from lower net interest margin and reduced credit impairment benefits. Mortgages increased 3%;
- **Business:** Cash earnings were 55% lower mainly due to a \$265 million turnaround in impairment charges (from a benefit to a charge) and lower margins;
- **Westpac Institutional Bank:** Cash earnings were 3% higher than 1H21. The division had a stronger operational performance with lending up 17%, expenses down 19% and a better markets performance;
- **Westpac New Zealand (NZ\$):** Cash earnings increased \$52m or 9% supported by the profit on the sale of Westpac NZ Life. Excluding notable items, cash earnings decreased 15% mostly from a lower impairment benefit. Loans increased 4% while deposits increased 6%;
- **Specialist Businesses:** Cash earnings for 1H22 were \$15m higher than 1H21. Excluding notable items 1H22 was \$168 million or 41% lower.

Outlook:

- WBC CEO, Peter King, believes that *“Consumer spending may be tempered by higher prices and higher interest rates. However, the positives of strong household and business balance sheets, combined with the continued reopening of international borders and local economies, will likely increase economic activity.”*
- *“We expect the Australian economy to expand by 4.5% in 2022 but slow to 2.5% in 2023. Credit growth is forecast to be a strong 5.7% in 2022 slowing to 4.3% in 2023.”*
- *“Demand for housing has already shown some signs of easing and rising interest rates are expected to contribute to a moderation in house prices next year.”*
- *“As the economy moves into the rising rate cycle, it’s important to remember that rates are moving from a very low base and we already assess loan applications on higher rates, consistent with regulatory requirements”*

Earnings changes

For 1HF22, WBC reported cash NPAT of \$3.095b compared to market expectations of \$2.95b. Hence, we expect positive earnings revisions of 3% for FY22 and future periods.

Valuation

We are updating our 12-month target price from \$18.79 to \$25.68 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 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.

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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

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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)