

12 November 2020

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Macquarie Group Limited

Banks

BUY

MQG A\$133.75

TARGET PRICE A\$147.92

Macquarie Group Limited operates as a non-operating holding company. The firm engages in the provision of banking, financial, advisory, investment and funds management services. It operates through the following segments: Macquarie Asset Management (MAM), Banking and Financial Services (BFS), Commodities and Global Markets (CGM), Macquarie Capital and Corporate.

Company Data

Number of shares	361.5M
Market Capitalisation	\$47,881.2M
Free float (%)	99.3
12-month high/low	\$152.35/\$70.45
Average Daily Turnover (\$m)	115.2
% S&P/ASX200	2.81%
DDM Ranking	151
% All Ordinaries	2.42%
GICS Industry Group	Banks

Source: FactSet, Barclay Pearce Capital

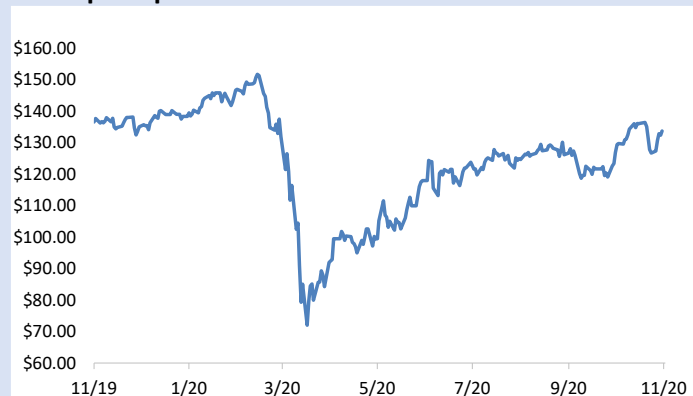
Earnings Summary (AUD)

Year end March	2020A	2021F	2022F	2023F
Revenue (\$M)	13,365.0	11,629.0	13,153.3	14,084.8
Reported NPAT (\$M)	2,731.0	2,211.6	2,949.9	3,371.7
Adjusted NPAT (\$M)	2,782.0	2,240.8	3,056.1	3,568.4
Reported EPS (c)	778.0	609.6	787.8	897.9
Adjusted EPS (c - FD)	764.5	610.5	808.2	909.0
Adjusted EPS growth (%)	-11.9	-20.1	32.4	12.5
Adjusted P/E (x)	17.3	21.7	16.4	14.6
Dividend (c/sh)	430.0	367.6	555.9	661.0
Gross yield (%)	3.9	3.3	5.0	5.9
Net yield (%)	3.2	2.7	4.2	4.9
ROIC (%)	-	-	-	-

Source: Barclay Pearce Capital

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

Share price performance



Source: FactSet, Barclay Pearce Capital

H1FY21 Financial Report

On 6 November 2020, Macquarie Group Limited (MQG) released their results for the half year ended 30 September 2020 with the following highlights:

- Net profit of \$A985 million, down 32% on 1H20 and down 23% on 2H20;
- Credit and other impairment charges of \$A447 million, up from \$A139 million in 1H20, primarily related to a deterioration in current and expected macroeconomic conditions due to the COVID-19 pandemic;
- Net operating income of \$A5,966, down 27% on 1H20 and down 23% on 2H20;
- International income 68% of total income in 1H21;
- Assets under management of \$A556.3 billion at 30 Sep 2020, down 7% from 31 March 2020
- Financial position comfortably exceeds regulatory minimum requirements:
 - Group capital surplus of \$A9.4 billion;
 - Bank CET1 ratio 13.5% (Harmonised: 16.8%);
 - Leverage ratio 5.9% (Harmonised: 6.5%);
 - Liquidity Coverage Ratio 176%; and
 - Net Stable Funding ratio 121%;
- Annualised return on equity of 9.5%, down from 14.5% in FY20; and
- Interim ordinary dividend of \$A1.35 per share (40% franked), representing a payout ratio of 50%.

Outlook

- Macquarie expects market conditions are likely to remain challenging, especially given the significant and unprecedented uncertainty caused by the worldwide impact of COVID-19 and the uncertain speed of the global economic recovery.
- It maintains that the extent to which these conditions will adversely impact its overall FY21 profitability is uncertain, making short-term forecasting extremely difficult.
- Hence, Macquarie states is currently unable to provide meaningful earnings guidance for FY21.

Managing Director and Chief Executive Officer Shemara Wikramanayake said: "While the economic impacts of the COVID-19 pandemic continue to be felt in the short term, 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 reported a 1H21 net profit of \$A985 million, which is 32% and 23% lower than 1H20 and 1H21 net profit, respectively. This result is 2.3% higher than the market's expected 1H21 net profit of \$963 million. Also, since management has not provided earnings guidance for the remainder of FY21, we do not expect any significant earnings revisions.

We revise our 12-month price target for MQG upwards from \$138/sh to \$147/sh and retain our BUY 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 (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.

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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.

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