

2 November 2020

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

Westpac Bank Corporation (WBC)

Banks

Hold

WBC A\$17.71

TARGET PRICE A\$18.79

Westpac is Australia's first bank and oldest company, one of four major banking organisations in Australia and one of the largest banks in New Zealand. Westpac provides a broad range of consumer, business and institutional banking and wealth management services through a portfolio of financial services brands and businesses.

Company Data

Number of shares	3611.7M
Market Capitalisation	\$ 64,685.3M
Free float (%)	100.0
12-month high/low	\$18.15/\$17.56
Average Daily Turnover (\$m)	177.93
% S&P/ASX200	3.93%
DDM Ranking	193
% All Ordinaries	N/A
GICS Industry Group	Banks

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	20,183.0	20,728.6	20,863.7	20,241.5
Reported NPAT (\$M)	2,290.0	5,352.6	6,394.0	7,101.5
Adjusted NPAT (\$M)	2,608.0	4,737.6	5,868.6	6,223.0
Adjusted EPS (¢ - FD)	72.5	149.1	174.3	176.4
Adjusted EPS growth (%)	(0.7)	60.0	16.9	1.2
Adjusted P/E (x)	11.1	12.0	10.3	10.2
Dividend (¢/sh)	31.0	78.3	111.7	129.3
Gross yield (%)	2.5	6.2	8.9	10.3
Net yield (%)	1.7	4.4	6.2	7.2

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

Announces FY20 Full Year Results

On 2 November 2020 Westpac Bank Corp (ASX:WBC) announces its FY20 Full Year Results with the following highlights:

Financial Result Snapshot:

- Statutory net profit \$2,290m, down 66%;
- Cash earnings \$2,608m, down 62%;
- Cash EPS 72.5c, down 63%;
- NIM 2.08%, down 4 bps;
- ROE 3.83%;
- CET1 capital ratio 11.13%;
- Fully franked final dividend, 31cps;

Covid-19 Deferral Support:

- \$16.6bn in Australian home loans in deferral (41,000 mortgage accounts) Reduced from \$54.7bn provided (146,000 mortgage accounts);
- \$1.0bn in Australian small business loans in deferral (4,300 small business customers) Reduced from \$10.1bn provided (32,900 small business customers);

Divisional Performance:

- **Consumer:** Cash earnings were 12%. Mortgage lending was down 2%, while deposits increased 6%;
- **Business:** Cash earnings were 62% lower, deposits were 7% higher with a 33% rise in transaction balances and 20% increase in savings and online balances;
- **Westpac Institutional Bank:** Cash earnings were 64% lower primarily driven by higher impairment charges and a 26% decline in core earnings;
- **Westpac New Zealand (NZ\$):** Cash earnings were 38% lower primarily driven by higher impairment charges;
- **Specialist Businesses:** The division recorded a cash earnings loss of \$506 million compared to a profit of \$712 million in Full Year 2019, and;

Outlook:

WBC's CEO, Mr King said: "COVID-19 was a once in a 100-year health and economic crisis and the near-term economic outlook would remain uncertain... while Westpac expected economic growth to improve through 2021 and 2022, unemployment would remain elevated for some time"

"We remain in an uncertain economic environment; however, the recent budget has provided significant stimulus to businesses and households. Our economists expect at least half the personal tax cuts will be spent and businesses will respond to the generous depreciation allowances."

Earnings changes

WBC's cash profit of \$2,608M, which is down 62% on pcp, is essentially in line with market expectations of \$2.62b. Hence, we do not expect any significant earnings revisions.

We are initiating on WBC with a 12-month price target of \$18.79 and a HOLD recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. 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 2020 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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Hold – Describes stocks that are neither a buy nor underperform.

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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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Buy	40.7%	(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	16.3%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	42.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
