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Bank Note$

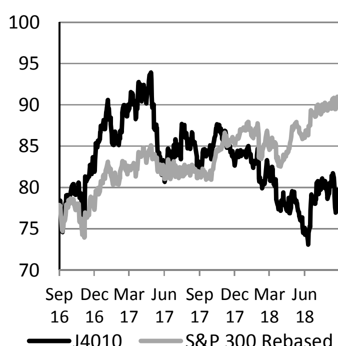
Ignorance is the parent of fear

Stock	Price	Target	Rating
ANZ	$28.40	$31.60	Buy
CBA	$70.51	$80.00	Buy
NAB	$27.87	$29.30	Hold
WBC	$27.80	$31.20	Buy
ABA	$5.85	$6.20	Buy
BEN	$10.74	$11.65	Hold
BOQ	$11.10	$11.30	Hold
MYS	$4.81	$5.55	Buy

ASX200 Banks (J4010) Price Performance

	(1m)	(3m)	(12m)
Price (A$)	80.46	76.38	82.69
Absolute (%)	-2.37	2.84	-5.01
Rel market (%)	-2.85	-1.94	-16.41

Absolute Price



SOURCE: IRESS

Major banks' yield story intact

We believe major bank dividends are sustainable. This is despite a challenging operating environment that we feel is being reasonably managed to grow profitably at a steady rate and lower overall earnings volatility. The steps have included strengthening the balance sheet, focusing on the more profitable retail and business banking lines, offsetting higher funding costs through lending rate rises (as always, unofficially implementing monetary policy on behalf of the RBA!), further reducing the cost base and taking actions to remediate issues raised by the banking inquiry. This optimism is also based on the understanding that loan impairment expenses (LIE) – being the key driver behind banks' significant dividend intentions – should not increase to levels experienced in past crises due to de-risking efforts to date [i.e. away from unsecured personal lending (193bp GLA) and real estate construction (114bp GLA), and towards mortgages (3bp GLA)] and expectations of a stable economy.

To put this into perspective, bank sector dividends have gone backwards only on three occasions in the last 39 years and these followed: (1) the 1987 crash (15% reduction, BDD charges exceeded 50bp); (2) the early-1990s recession (35% reduction, BDD charges increased to 267%); and (3) the GFC (23% reduction, BDD charges reached 42bp). The reasons were largely due to poor assessment of commercial lending risks and unique economic events such as external liquidity shocks and a combination of high inflation and high interest and unemployment rates. This is unlike today's economic setting and more conservative lending practices. The banks have also improved their capital, funding and liquidity positions since the GFC and these should further enhance the sustainability of their dividends. Finally, major bank dividends remain highly attractive relative to term deposit and cash account rates (on average by as much as 6.5% and 8.0% respectively).

Major bank preferences: WBC and ANZ

Our preferred major banks are WBC (lower earnings volatility, conservative credit risk management and strong overall balance sheet – P/T $31.20, Buy) and ANZ (strong capital management flexibility to either expand lending volumes or return surplus capital to shareholders via share buybacks – P/T $31.60, Buy).

Table 1 – Financial summary

	Mkt Cap	Price / Book (x)		PE (x)		Yield		ROE		EPS growth		Price	Last	
	($bn)	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	target	price	Rating
MAJORS														
ANZ	81.6	1.2	1.2	12.0	11.5	5.8%	6.0%	11%	11%	1%	4%	$31.60	$28.40	Buy
CBA	124.1	1.8	1.7	12.5	12.0	6.3%	6.4%	15%	15%	7%	4%	$80.00	$70.51	Buy
NAB	76.2	1.4	1.3	11.2	10.8	7.1%	7.1%	14%	14%	14%	4%	$29.30	$27.87	Hold
WBC	95.5	1.4	1.3	11.2	10.9	6.8%	7.0%	13%	13%	3%	3%	$31.20	$27.80	Buy
REGIONALS														
ABA	0.2	1.0	1.0	13.1	12.2	6.1%	6.5%	8%	8%	9%	7%	$6.20	$5.85	Buy
BEN	5.2	0.9	0.9	11.5	11.2	6.7%	6.9%	8%	8%	1%	2%	$11.65	$10.74	Hold
BOQ	4.4	1.1	1.0	12.0	11.6	6.8%	6.9%	10%	10%	1%	3%	$11.30	$11.10	Hold
MYS	0.4	1.3	1.3	12.3	11.6	6.4%	6.8%	10%	11%	2%	6%	$5.55	$4.81	Buy

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

DISCLAIMER: THIS REPORT MUST BE READ WITH THE DISCLAIMER ON PAGE 12 THAT FORMS PART OF IT.
DISCLOSURE: BELL POTTER ACTED AS CO-MANAGER IN THE FOLLOWING TRANSACTIONS AND RECEIVED FEES FOR THE SERVICES: WBC CAPITAL NOTES 5 OFFER (FEBRUARY 2018); AND MQG CAPITAL NOTES 3 OFFER (MAY 2018).

Ignorance is the parent of fear

Major banks' yield story intact

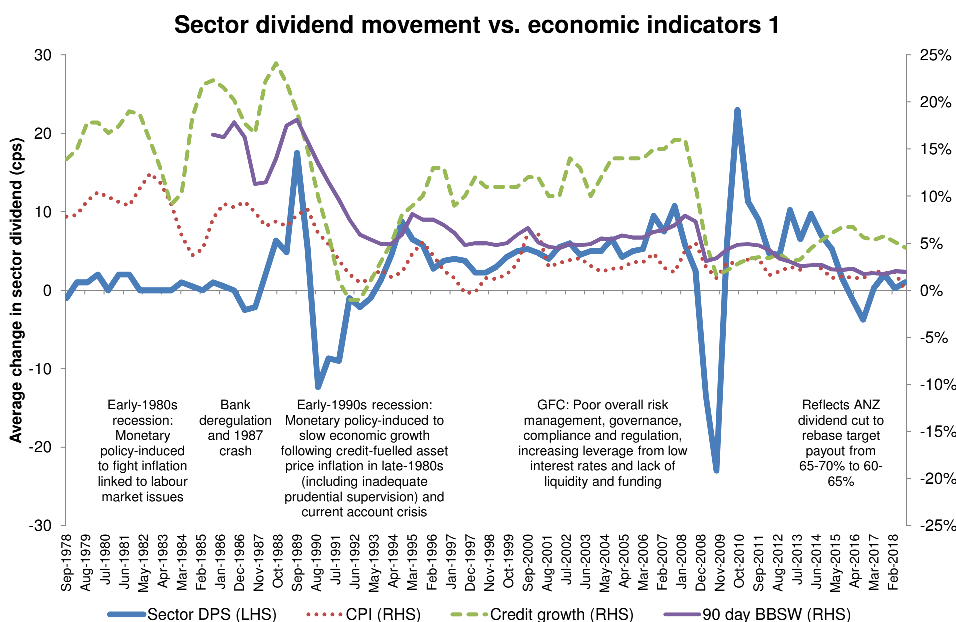
We believe major bank dividends are sustainable. This is despite a challenging operating environment that we feel is being reasonably managed to grow profitably (i.e. at a steady rate and without indiscriminately chasing market share) and lower overall earnings volatility as well. The steps have included strengthening the balance sheet (capital, liquidity and funding), going back to basics with a focus on the more profitable retail and business banking lines, containing higher wholesale funding costs through lending rate rises (as always, unofficially implementing monetary policy on behalf of the RBA!), further reducing the cost base and taking actions to remediate issues raised by the banking inquiry.

This optimism is also based on the understanding that loan impairment expenses (LIE) – being the key driver behind banks' significant dividend intentions as we will see below – should not increase to levels experienced in past crises due to de-risking efforts to date [i.e. away from unsecured personal lending (193bp GLA) and real estate construction (114bp GLA), and towards mortgages (3bp GLA)] and expectations of a stable economy.

To put this into perspective, major bank dividends have only gone backwards three times in the last 39 years. These followed the 1987 stock market crash, the early-1990s recession and the aftermath of the Global Financial Crisis (GFC). The dividend impact following the 1987 crash was muted relative to the following two crises.

We also note that dividends were almost unchanged during the early-1980s recession given an average LIE of 30bp GLA (coincidentally at the upper end of the current through-the-cycle range of 20-30bp) vs. 190bp in the early-1990s vs. 40bp after the GFC. This was despite higher inflation and higher credit growth and was probably attributable to better lending practices prior to bank sector deregulation in 1984 – also noting that CBA was still in government hands at that time and was informally the lender of last resort.

Figure 1 – Sector dividend movement vs. CPI, credit growth and 90 day BBSW



SOURCE: RBA, COMPANY DATA, BELL POTTER SECURITIES ESTIMATES

Figures 1 and 2 illustrate the average changes in major bank dividends (as a proxy for bank sector dividends) against key economic indicators since 1978 (with 90 day BBSW as a better indicator than the cash rate). The cumulative negative dividend movements were as follows: -5cps in 1987 (-15%); -34cps between September 1990 and March 1993; and -37cps in 2009 (exceeds the early-1990s decline but comes off a much higher base).

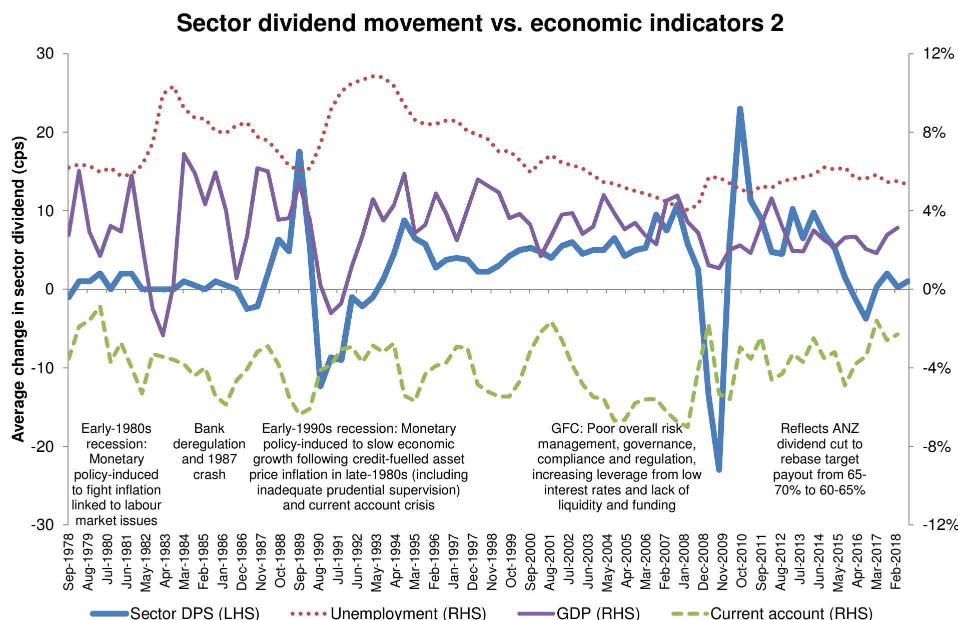
Dividends were reduced by ~15% in 1987 as the LIE increased to above 50bp given lower asset values. This followed higher credit growth after the crash as companies increasingly borrowed just to maintain their daily operations and the banks were not on top of the unfolding risk situation (as there was no liquidity issue at the time).

On the other hand, the ~35% dividend decline in the early-1990s was mainly due to the recession. In addition to a current account crisis (fall in terms of trade, A$ depreciation and rise in foreign debt), monetary policy to slow credit-fuelled asset price inflation in 1988-1990 resulted in higher interest rates (highest since the depression) and lower commercial property values (impacting credit quality in ANZ, NAB, WBC, the various state banks including State Bank Victoria (SBV)/Tricontinental, while retail-oriented CBA with its excellent oversight at the time was largely unaffected and ended up acquiring SBV under extremely favourable terms).

The early-1990s was also a time of high unemployment (+4.7% to 10.8%) with the bulk of job losses taking place in VIC (+6.8% to 11.4%). Manufacturing was particularly hit hard in VIC with the removal of import quotas and tariffs, and the change to the Kennett government also resulted in further cost-cutting and higher public sector unemployment (again impacting the Melbourne-based banks such as SBV).

Exacerbating these problems were also the unintended after effects of bank sector deregulation, with little understanding of loan risk pricing and poor corporate governance and oversight including the absence of an effective regulatory authority. As a result, compounded annualised credit growth in the 1985-1989 period exceeded 20% – underpinned by unfettered lending against increasingly-over-priced commercial property and intense competition among the incumbent retail banks, finance companies (some of which were also owned by the banks), merchant banks and 16 new foreign banks.

Figure 2 – Sector dividend movement vs. unemployment, GDP and current account



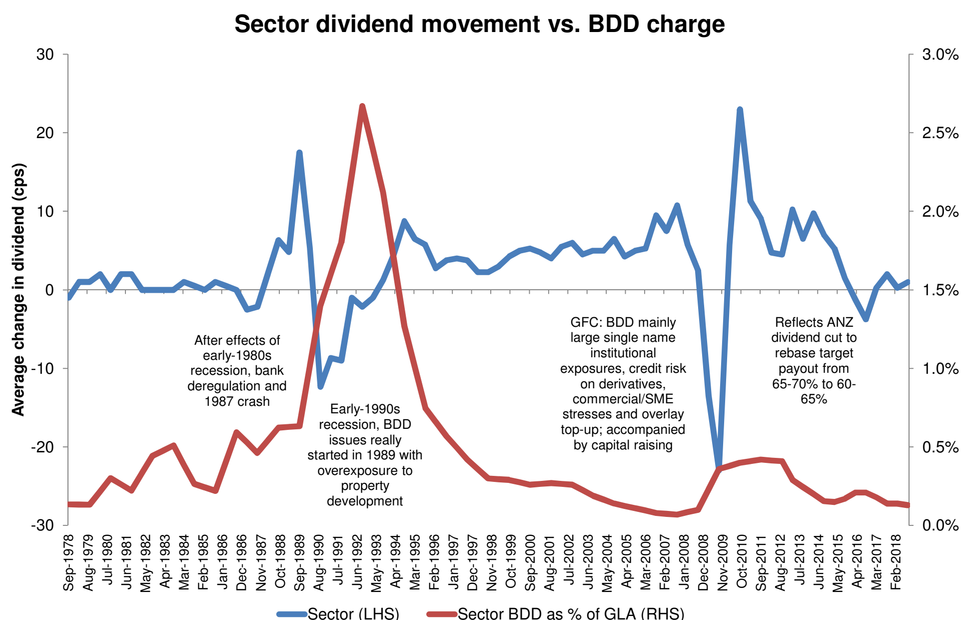
SOURCE: RBA, COMPANY DATA, BELL POTTER SECURITIES ESTIMATES

These in turn led to unsustainably high balance sheet leverage and funding mismatches that did not fare too well when monetary policy began to tighten.

In comparison, dividends were reduced by ~23% (larger than the early-1990s in absolute terms) following the GFC as a result of rising LIE (a high of 42bp – this time arising from little appreciation of risks in large highly-leveraged single name institutional exposures and credit derivatives (e.g. CDS, CDO and CLO) and subsequent increased overlays. However, this was still much lower relative to the 267bp peak in September 1992, following chart) and in response to subsequent recapitalisation to boost capital adequacy. In the case of CBA and WBC, the recapitalisations were also due to the respective acquisitions of BankWest and SGB (that resulted in higher cost synergies and hence higher dividends). We also note that prior to the GFC, the current account deficit was also at record levels.

Following the GFC, ANZ was the only major to reduce dividends. This was driven by higher LIE in its institutional lending book (being the main differentiator relative to the other majors) and a rebasing of its target dividend payout ratio from 65-70% to a more sustainable 60-65% (that would also account for potential P&L ramifications of a shrinking balance sheet through divestments and asset run-offs).

Figure 3 – Sector dividend movement vs. BDD charge



SOURCE: RBA, COMPANY DATA, BELL POTTER SECURITIES ESTIMATES

Speaking of divestments, concerns linger over CBA's dividend intentions once its wealth management and mortgage broking businesses are demerged. Pro-forma data suggests the demerged entity contributed $568m to 2018 Group cash NPAT for continuing operations and excluding one-off items (6%), and the respective cash payout ratios are as follows: Including discontinued operations 80%; and excluding discontinued operations 82%. Excluding discontinued and demerged operations would result in a payout ratio of ~87% (based on $8,665m pro-forma cash NPAT), probably too high to be sustainable according to the market.

Conversely, CBA's notional dividend in 2018 would have to be 8% lower at $3.95 per share for the bank to meet its 80% target payout ratio on a continuing basis. While a nightmare outcome for shareholders, we believe this can be avoided in two ways. The first is to rely on NAB's reasoning following the demerger of CYBG – in that a higher payout is unavoidable to start with but this would normalise towards the target range based on

subsequent earnings growth. The second is to then go hard on cost management and target a not unreasonable 40% cost-to-income ratio (CIR) through in-house efficiencies – that would also be more manageable as CBA's focus returns to the core retail, business and SME segments.

The table below illustrates the various CIR scenarios. A 40% CIR would result in a notional ongoing payout ratio of 82% while a CIR below 40% would further bring this back to 80%. Note also these outcomes are before the impact of DRP (which we think will continue as per current practice) and exclude the strong probability of even higher dividends payable by the demerged wealth management and mortgage broking entity (given their relatively higher capital efficiencies).

Table 2 – CBA post-demerger pro-forma financials (various scenarios)

CBA Y/E 30 June ($m)	Actual 2018	Pro-forma Demerged entity	(Base) 2018 ex-demerged entity	(1) 2018 ex-demerged entity & 42% CIR	(2) 2018 ex-demerged entity & 41% CIR	(3) 2018 ex-demerged entity & 40% CIR	(4) 2018 ex-demerged entity & 39% CIR
Profit & Loss (continuing)							
Net interest income	18,341	243	18,098	18,098	18,098	18,098	18,098
Other income	7,566	1,803	5,763	5,763	5,763	5,763	5,763
Total operating income	**25,907**	**2,046**	**23,861**	**23,861**	**23,861**	**23,861**	**23,861**
Operating expenses	-11,599	-1,310	-10,289	-10,022	-9,783	-9,544	-9,306
Loan impairment expense	-1,079	0	-1,079	-1,079	-1,079	-1,079	-1,079
Net profit before income tax	**13,229**	**736**	**12,493**	**12,760**	**12,999**	**13,238**	**13,476**
Corporate tax expense	-3,994	-181	-3,748	-3,828	-3,900	-3,971	-4,043
Minority interests	-19	0	-19	-19	-19	-19	-19
Investment experience	17	13	4	4	4	4	4
NPAT (cash basis)	**9,233**	**568**	**8,730**	**8,917**	**9,084**	**9,251**	**9,418**
Cost ratio	**45%**	**64%**	**43%**	**42%**	**41%**	**40%**	**39%**
Dividend per share	$4.31		$4.31	$4.31	$4.31	$4.31	$4.31
Dividend payment	7,570		7,570	7,570	7,570	7,570	7,570
Implied share base (m)	1,756		1,756	1,756	1,756	1,756	1,756
Payout	**82%**		**87%**	**85%**	**83%**	**82%**	**80%**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

In summary, the material dividend reductions in the three occasions as discussed above are largely the result of a series of events in extraordinary times. These include poor credit risk management (in terms of lending that the banks have no understanding of), external liquidity shocks, high inflation and credit growth rates in an overheating economy (to start off with, leading to monetary policy tightening that would have adverse consequences for credit quality and banks that are heavily dependent on wholesale funding), high current account deficits and significantly higher unemployment rates.

Table 3 on the next page also suggests a stable outlook ahead for the economy and this should underpin the banks' ability to continue paying dividends. We note that Australia has a history of persistent current account deficits although the trend has been relatively stable in recent times (with expectations of this being in the -2 to -3% of GDP range vs. -5% to -7% of GDP in the past crises) and policymakers tend not to get too worried and intervene in this area[1].

[1] Current account deficits: The Australian debate. Rochelle Belkar, Lynne Cockerell and Christopher Kent. RBA research discussion paper, March 2007.

Table 3 – Then and now

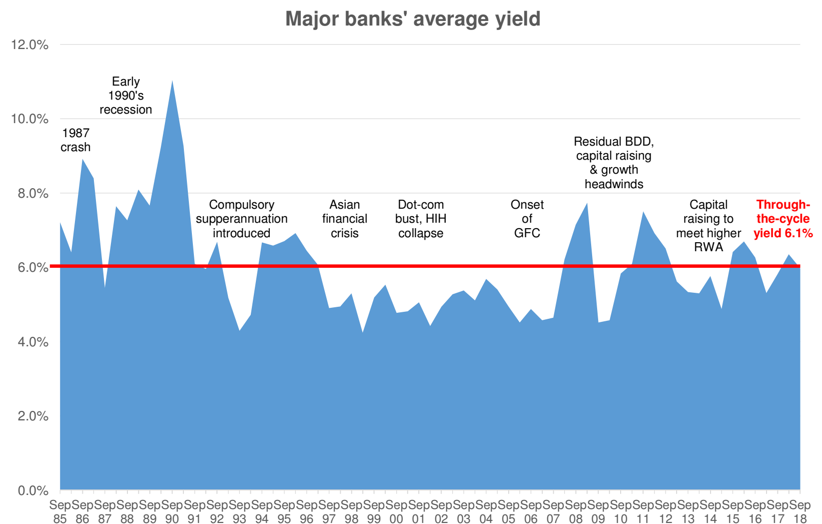
	Cash rate	CPI	Credit growth	Current account as % of GDP	GDP	Unemployment
Early-1980s recession	20.1%	12.4%	19.0%	-5.3%	5.8%	10.3%
1987 crash	17.8%	9.4%	17.7%	-4.7%	6.2%	8.5%
Early-1990s recession	15.0%	8.6%	15.0%	-6.1%	3.5%	10.8%
GFC	7.0%	5.0%	16.0%	-7.0%	4.8%	5.7%
Latest (4 Sep 2018)	1.5%	2.1%	4.6%	-2.9%	3.4%	5.3%
RBA forecasts (2019 & 2020)	Rate rise some way off	Slightly higher	Moderating	At current levels	Bit above 3.0%	Gradual decline to ~5.0%
Consensus forecasts (2019)	1.5-1.85%	2.1-2.2%	-	-2.4%	2.8-2.9%	5.2-5.4%

SOURCE: ABS, CBA, BLOOMBERG, RBA AND BELL POTTER SECURITIES ESTIMATES

Looking ahead, the following charts highlight trends in major bank dividend payments since 1985. The through-the-cycle yield (i.e. since 1985) has averaged around 6% and is now the same as the yield in the past 6-12 months.

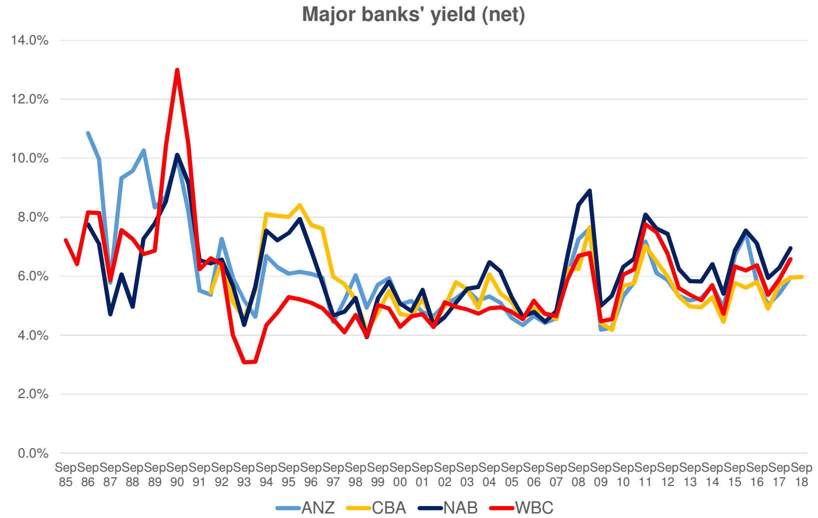
Inclusive of the benefit from franking, these yields continue to be highly attractive relative to bank term deposit – by as much as 6.5% – and average cash account rates – by as much as 8.0% (Figures 8-9 on the next page).

Figure 4 – Majors' average yield is where it should be…



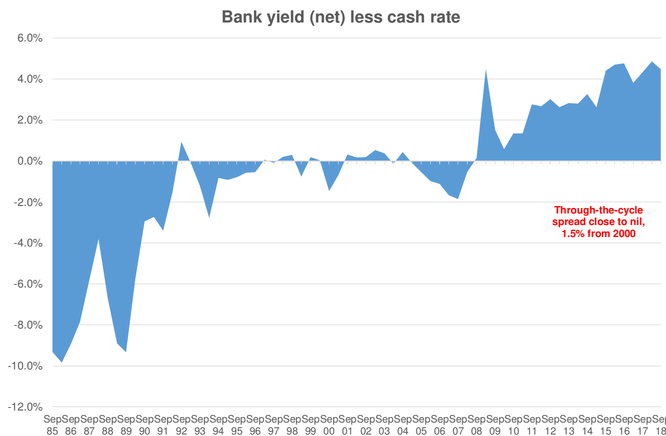
SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 – …trending towards 6% on a net basis



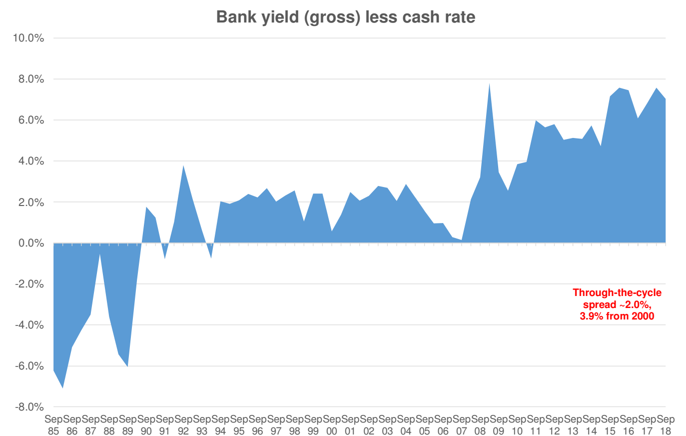
SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 6 – Major banks' yield still attractive…



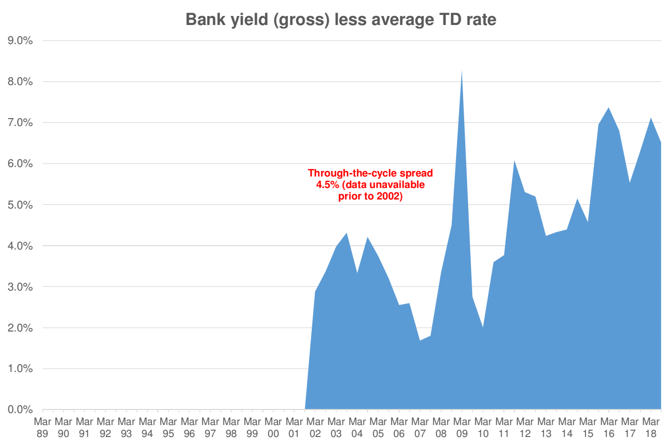
SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 7 – …and more so after franking benefit included…



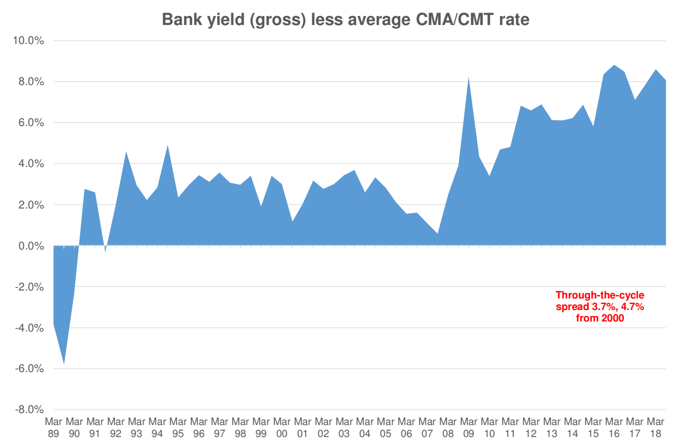
SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 8 – …and even more so relative to TD…



SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 9 – …and CMA/CMT rates



SOURCE: IRESS, COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Financial summary

Table 4 – Financial summary

	Mkt Cap ($bn)	Price / Book (x)		PE (x)		Yield		ROE		EPS growth		Price target	Last price	Rating	12-mth TSR
		2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e				
MAJORS															
ANZ	81.6	1.2	1.2	12.0	11.5	5.8%	6.0%	11%	11%	1%	4%	$31.60	$28.40	Buy	17%
CBA	124.1	1.8	1.7	12.5	12.0	6.3%	6.4%	15%	15%	7%	4%	$80.00	$70.51	Buy	20%
NAB	76.2	1.4	1.3	11.2	10.8	7.1%	7.1%	14%	14%	14%	4%	$29.30	$27.87	Hold	12%
WBC	95.5	1.4	1.3	11.2	10.9	6.8%	7.0%	13%	13%	3%	3%	$31.20	$27.80	Buy	19%
REGIONALS															
ABA	0.2	1.0	1.0	13.1	12.2	6.1%	6.5%	8%	8%	9%	7%	$6.20	$5.85	Buy	12%
BEN	5.2	0.9	0.9	11.5	11.2	6.7%	6.9%	8%	8%	1%	2%	$11.65	$10.74	Hold	15%
BOQ	4.4	1.1	1.0	12.0	11.6	6.8%	6.9%	10%	10%	1%	3%	$11.30	$11.10	Hold	9%
MYS	0.4	1.3	1.3	12.3	11.6	6.4%	6.8%	10%	11%	2%	6%	$5.55	$4.81	Buy	22%
DIVERSIFIEDS															
MQG	41.8	2.2	2.1	15.4	14.4	4.4%	4.7%	16%	17%	5%	7%	$132.50	$122.68	Buy	12%
SUN	19.3	1.5	1.5	15.0	14.4	5.4%	5.5%	10%	10%	17%	4%	$16.50	$14.89	Buy	16%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Cheat Sheet

Table 5 – Bank Cheat Sheet 1 (S&P 100)

		ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
1	**EaD ($bn)**								
	Home	377	572	383	551	44	42	30	42
	Other retail	61	31	12	37	0	3	14	17
	Agriculture, forestry & fishing	35	22	43	20	4	6	0	0
	Oil & gas	8	8	7	3	0	0	0	1
	Mining	6	5	4	4	0	0	0	2
	Mining services	1	1	1	1	0	0	0	0
	Other commercial	442	384	576	407	19	11	4	95
	Total	930	1,022	1,027	1,024	68	62	48	157
	2019e growth (BP)	4%	5%	6%	5%	8%	5%	4%	-
	2020e growth (BP)	5%	5%	6%	5%	6%	5%	4%	-
	Domestic market share (APRA)								
	Home - owner occupied	16%	27%	14%	24%	3%	2%	2%	2%
	Home - investor	15%	24%	19%	27%	2%	2%	2%	2%
	Credit card	18%	27%	14%	23%	0%	1%	0%	2%
	Other consumer	12%	28%	28%	13%	0%	4%	0%	5%
	Wholesale lending (non-financials)	14%	18%	21%	18%	2%	2%	1%	1%
	Mortgage lending by State								
	NSW / ACT	32%	34%	39%	41%	28%	22%	25%	-
	VIC	32%	26%	31%	26%	11%	38%	16%	-
	QLD	16%	18%	16%	17%	49%	15%	45%	-
	WA	13%	16%	9%	9%	7%	12%	10%	-
	SA / other	7%	6%	5%	7%	5%	13%	4%	-
	Total	100%	100%	100%	100%	100%	100%	100%	-
2	**Group funding (ex-SHE)**								
	Customer deposits as % of funding - Term	26%	34%	22%	22%	30%	38%	35%	-
	Customer deposits as % of funding - Other	38%	34%	35%	46%	33%	36%	30%	-
	Other as % of funding	36%	32%	42%	33%	37%	27%	35%	-
	Total	100%	100%	100%	100%	100%	100%	100%	-
	Customer deposits as % of gross loans	81%	76%	71%	71%	66%	82%	68%	-
	Net interest margin	1.93%	2.15%	1.87%	2.17%	1.84%	1.98%	1.97%	-
	NSFR	115%	112%	113%	112%	112%	109%	111%	112%
	Wholesale funding <12 month maturity	10%	14%	19%	13%	12%	13%	14%	-
	2019e w'sale funding requirement ($bn)	23	25	26	28	-	1	1	-
	Liquidity Coverage Ratio	134%	131%	132%	127%	126%	126%	128%	155%
	Domestic market share - deposits (APRA)	15%	24%	17%	21%	2%	2%	2%	2%
3	**Asset quality**								
	Bad debt charge as % of GLA	0.15%	0.15%	0.13%	0.11%	0.05%	0.11%	0.10%	-
	Provisions as % of GLA	0.60%	0.49%	0.64%	0.45%	0.43%	0.50%	0.62%	-
	90 days past due as % of GLA	0.51%	0.37%	0.43%	0.54%	0.92%	0.75%	0.53%	-
	Commercial property exposure	4.0%	6.2%	7.8%	6.5%	4.2%	1.8%	<1.0%	-
	Texas Ratio	8.0%	8.3%	7.2%	8.1%	15.7%	13.5%	10.1%	3.4%
	Institutional loans by risk grade (estimate)								
	AAA to BBB- (investment grade)	78%	68%	76%	60%	-	-	-	-
	Other	22%	32%	24%	40%	-	-	-	-
	Total	100%	100%	100%	100%	-	-	-	-
4	**EaD by industry ($bn)**								
	Agriculture, F&F & mining	50	35	56	28	4	6	-	-
	Construction & property related	66	74	87	78	3	1	-	-
	Entertainment, leisure & tourism	16	6	9	11	1	0	-	-
	Financial	49	41	69	73	2	0	-	-
	Manufacturing	41	15	19	28	0	0	-	-
	Retail	411	603	395	595	45	45	-	-
	Services	13	12	20	23	0	4	-	-
	Sovereign	66	87	82	76	4	0	-	-
	Trade	44	22	30	35	0	1	-	-
	Transport & storage	19	20	21	18	0	0	-	-
	Other	156	106	238	58	9	3	-	-
	Total	930	1,022	1,027	1,024	68	62	48	157
	Agriculture, F&F & mining	5%	3%	5%	3%	6%	10%	-	-
	Construction & property related	7%	7%	8%	8%	4%	2%	-	-
	Entertainment, leisure & tourism	2%	1%	1%	1%	2%	1%	-	-
	Financial	5%	4%	7%	7%	2%	1%	-	-
	Manufacturing	4%	1%	2%	3%	0%	0%	-	-
	Retail	44%	59%	38%	58%	66%	73%	-	-
	Services	1%	1%	2%	2%	0%	7%	-	-
	Sovereign	7%	8%	8%	7%	6%	0%	-	-
	Trade	5%	2%	3%	3%	0%	1%	-	-
	Transport & storage	2%	2%	2%	2%	0%	0%	-	-
	Other	17%	10%	23%	6%	14%	5%	-	-
	Total	100%	100%	100%	100%	100%	100%	100%	100%
5	**EaD by portfolio ($bn)**								
	Retail	411	603	395	595	45	45	44	59
	Corporate	138	188	331	197	7	0	0	49
	Business / SME	266	104	150	87	11	16	0	39
	Financial	49	41	69	69	2	0	1	8
	Sovereign	66	87	82	76	4	0	3	2
	Total	930	1,022	1,027	1,024	68	62	48	157
	Retail	44%	59%	38%	58%	66%	73%	91%	38%
	Corporate	15%	18%	32%	19%	10%	0%	0%	31%
	Business / SME	29%	10%	15%	9%	16%	27%	0%	25%
	Financial	5%	4%	7%	7%	2%	1%	3%	5%
	Sovereign	7%	8%	8%	7%	6%	0%	6%	1%
	Total	100%	100%	100%	100%	100%	100%	100%	100%
6	**NPAT by segment**								
	Retail banking	53%	56%	20%	46%	12%	48%	41%	11%
	Wholesale banking	43%	36%	76%	44%	7%	47%	59%	56%
	Wealth	1%	6%	4%	10%	10%	5%	0%	33%
	Other	3%	1%	0%	1%	71%	0%	0%	0%
	Total	100%	100%	100%	100%	100%	100%	100%	100%
7	**NPAT by geography**								
	Australia	76%	88%	86%	90%	88%	100%	100%	33%
	New Zealand	21%	11%	14%	10%	12%	0%	0%	0%
	Other	3%	1%	0%	0%	0%	0%	0%	67%
	Total	100%	100%	100%	100%	100%	100%	100%	100%
	Bank group cost-to-income ratio	45%	45%	44%	42%	55%	57%	47%	68%
8	**Capital management (last reported)**								
	APRA leverage ratio (>4%) (Tier 1 / EaD)	5.3%	5.5%	5.3%	5.6%	5.2%	6.8%	7.0%	5.6%
	APRA CET1 (>10.5% MTB, >8.5% others)	11.1%	10.1%	9.7%	10.4%	9.1%	8.6%	9.4%	10.3%
	Tier 1	13.0%	12.3%	11.9%	12.6%	10.8%	11.0%	11.6%	12.8%
	International CET1	16.3%	15.5%	14.6%	16.0%	-	-	-	12.8%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – Bank Cheat Sheet 2 (S&P 100)

		ANZ	CBA	NAB	WBC	SUN	BEN	BOQ	MQG
9	**Pricing**								
	Shareprice	$28.40	$70.51	$27.87	$27.80	$14.89	$10.74	$11.10	$122.68
	Price target	$31.60	$80.00	$29.30	$31.20	$16.50	$11.65	$11.30	$132.50
	Target PB								
	- 2019e	1.4	2.0	1.5	1.6	1.7	1.0	1.1	2.4
	- 2020e	1.3	1.9	1.4	1.5	1.6	1.0	1.1	2.2
	Target PE								
	- 2019e	13.3	14.2	11.8	12.6	16.6	12.5	12.3	16.6
	- 2020e	12.8	13.7	11.4	12.2	15.9	12.2	11.9	15.6
	Target yield								
	- 2019e	5.2%	5.5%	6.7%	6.1%	4.8%	6.2%	6.7%	4.1%
	- 2020e	5.4%	5.6%	6.7%	6.2%	5.0%	6.4%	6.8%	4.4%
	Expected return	17.0%	19.7%	12.2%	19.0%	16.2%	15.2%	9.4%	12.4%
	BP recommendation	Buy	Buy	Hold	Buy	Buy	Hold	Hold	Buy
	S&P long term Issuer Credit Rating (ICR)	AA-	AA-	AA-	AA-	A+	BBB+	BBB+	BBB (Bank A)
	Moody's long term Issuer Credit Rating (ICR)	Aa3	Aa3	Aa3	Aa3	A1	A3	A3	A3 (Bank A2)
	Market capitalisation ($bn)	82	124	76	95	19	5	4	42
	TSR								
	1 week	-3%	-1%	-2%	-3%	-4%	-5%	-3%	-5%
	1 month	-3%	-3%	-1%	-6%	-2%	-3%	3%	0%
	3 months	7%	5%	6%	1%	9%	8%	10%	9%
	1 year	4%	2%	-1%	-4%	24%	1%	-7%	55%
	BP estimates								
	PB 2017 (x)	1.4	1.9	1.5	1.6	1.4	1.0	1.2	2.4
	PB 2018 (x)	1.3	1.8	1.4	1.5	1.4	0.9	1.1	2.3
	PB 2019e (x)	1.2	1.8	1.4	1.4	1.5	0.9	1.1	2.2
	PB 2020e (x)	1.2	1.7	1.3	1.3	1.5	0.9	1.0	2.1
	ROE 2017	12%	16%	14%	14%	8%	8%	10%	15%
	ROE 2018	12%	14%	12%	13%	8%	8%	10%	17%
	ROE 2019e	11%	15%	14%	13%	10%	8%	10%	16%
	ROE 2020e	11%	15%	14%	13%	10%	8%	10%	17%
	NIM 2017	1.99%	2.10%	1.85%	2.09%	1.82%	1.86%	1.87%	-
	NIM 2018	1.91%	2.15%	1.86%	2.13%	1.84%	1.98%	1.96%	-
	NIM 2019e	1.87%	2.14%	1.85%	2.12%	1.82%	1.97%	1.95%	-
	NIM 2020e	1.87%	2.14%	1.83%	2.11%	1.81%	1.96%	1.94%	-
	PE 2017 (x)	12.2	12.5	11.2	11.6	16.7	12.1	11.4	18.7
	PE 2018 (x)	12.0	13.3	12.8	11.6	17.5	11.7	12.2	16.2
	PE 2019e (x)	12.0	12.5	11.2	11.2	15.0	11.5	12.0	15.4
	PE 2020e (x)	11.5	12.0	10.8	10.9	14.4	11.2	11.6	14.4
	EPS 2017 (cps)	233	563	249	240	89	89	98	658
	EPS 2018 (cps)	236	529	217	240	85	92	91	758
	EPS 2019e (cps)	238	565	248	248	99	93	92	799
	EPS 2020e (cps)	247	586	258	256	104	96	95	852
	EPS growth 2017	15%	1%	2%	2%	5%	1%	2%	6%
	EPS growth 2018	2%	-6%	-13%	0%	-5%	4%	-7%	15%
	EPS growth 2019e	1%	7%	14%	3%	17%	1%	1%	5%
	EPS growth 2020e	4%	4%	4%	3%	4%	2%	3%	7%
	DPS 2017 (cps)	160	429	198	188	73	68	84	470
	DPS 2018 (cps)	161	431	198	188	81	70	84	525
	DPS 2019e (cps)	165	441	198	190	80	72	76	543
	DPS 2020e (cps)	171	451	198	194	82	74	77	579
	Yield 2017	5.6%	6.1%	7.1%	6.8%	4.9%	6.3%	7.6%	3.8%
	Yield 2018	5.7%	6.1%	7.1%	6.8%	5.4%	6.5%	7.6%	4.3%
	Yield 2019e	5.8%	6.3%	7.1%	6.8%	5.4%	6.7%	6.8%	4.4%
	Yield 2020e	6.0%	6.4%	7.1%	7.0%	5.5%	6.9%	6.9%	4.7%
	Payout 2017	69%	75%	79%	78%	82%	77%	87%	71%
	Payout 2018	68%	80%	91%	78%	86%	76%	93%	69%
	Payout 2019e	69%	78%	80%	76%	76%	77%	83%	68%
	Payout 2020e	69%	77%	77%	76%	79%	77%	81%	68%
	BDD as % of GLA 2013	0.25%	0.19%	0.38%	0.16%	1.87%	0.14%	0.32%	-
	BDD as % of GLA 2014	0.19%	0.16%	0.15%	0.11%	0.27%	0.15%	0.22%	-
	BDD as % of GLA 2015	0.19%	0.15%	0.14%	0.12%	0.11%	0.12%	0.18%	-
	BDD as % of GLA 2016	0.33%	0.18%	0.15%	0.17%	0.03%	0.08%	0.16%	-
	BDD as % of GLA 2017	0.21%	0.15%	0.14%	0.13%	0.01%	0.12%	0.11%	-
	BDD as % of GLA 2018	0.13%	0.15%	0.13%	0.12%	0.05%	0.11%	0.10%	-
	BDD as % of GLA 2019e	0.14%	0.13%	0.15%	0.13%	0.06%	0.10%	0.11%	-
	BDD as % of GLA 2020e	0.16%	0.15%	0.16%	0.14%	0.08%	0.11%	0.12%	
	Provisions + GRCL as % of RWA 2013	1.3%	1.4%	1.3%	1.3%	1.4%	0.9%	1.8%	-
	Provisions + GRCL as % of RWA 2014	1.1%	1.2%	1.0%	1.1%	1.2%	0.9%	1.4%	-
	Provisions + GRCL as % of RWA 2015	1.0%	1.0%	1.0%	0.9%	1.2%	0.9%	1.3%	-
	Provisions + GRCL as % of RWA 2016	1.0%	1.0%	0.9%	0.9%	0.8%	1.0%	1.2%	-
	Provisions + GRCL as % of RWA 2017	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	1.1%	-
	Provisions + GRCL as % of RWA 2018	0.9%	0.8%	0.9%	1.1%	0.7%	0.8%	1.0%	-
	Provisions + GRCL as % of RWA 2019e	0.9%	1.0%	0.9%	1.1%	0.7%	1.1%	0.9%	-
	Provisions + GRCL as % of RWA 2020e	0.9%	1.0%	0.9%	1.1%	0.7%	1.1%	0.9%	
10	**Strategy**								
		Differentiated strategy, focusing on improving institutional and Group returns and increasing core domestic banking footprint	IT leadership underpinning core retail bank in Australia & NZ	Business (agribusiness) and retail banking focus	Large regional (similar to WFC) with multi-brand approach and skills in business banking and wealth	More of a GI now with smaller banking component; lately pursuing front end opportunities	Strong retail funding base to provide platform for growth in SME and wealth	Strong retail funding base to support growth in WA and VIC; well capitalised and provisioned	Moving towards annuity-style earnings; leveraged to global growth through asset management and infrastructure
11	**Value proposition**								
		Offshore derisking largely complete; push on domestic retail and business banking to further lift ROE; return of surplus capital	Wealth demerger, focus on higher ROE core retail and business banking	Bridge ROE gap with peers; focus on business, SME and retail banking	Significant improvements in core retail banking efficiency and productivity	Surplus capital and BIP cost savings; riding on rate hardening cycle	Value add is to buy SUN's Core Bank or regional QLD players such as ABA or MYS	Focused on higher margin leasing and specialty finance businesses; credit systems top notch	Best growth outlook based on infrastructure leverage; return of surplus capital

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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TS Lim, authoring analyst, holds long positions in ABA, ANZ, BOQ, CBA, CBAPC, MQG and SUN.

Chris Savage, authorising analyst, holds a long position in CBA.

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