

# Australian Banks

## H1 14 Results Preview in a Page

### ■ Share price strength sees the recommendations for WBC & NAB reduced —

We are downgrading our recommendations for WBC to a Neutral and NAB to a Sell with no change in our TPs. Over the past 3 months, the sector has continued to outperform the broader market, with WBC being the standout performer. NAB has performed more in line with the market; however, we are reducing to a Sell due to poor expected H1 revenue and underlying profit growth and continuing lackluster demand for business lending.

Craig Williams

+61-3-8643-9765

craig.williams@citi.com

### ■ Target CET 1 ratios back in focus —

It appears the implementation of recent D-SIBs legislation will likely result in target CET 1 around 9.00%-9.25%, rather than 8.50%-8.75% as previously estimated. The conglomerates treatment of non-recourse debt finance in the WM subsidiaries is also expected to be less favourable, although we are expecting grandfathering of existing arrangements

### ■ ANZ (01/05) Citi Cash NPAT \$3,568m, Basic EPS 129.7¢, DPS 79¢ —

The impact of the final dividend and 7% RWA growth in the Dec saw the CET1 fall to 7.9%. Will this capital position impact ANZ's asset gathering strategy as they aim to navigate new legislation?

### ■ WBC (05/05) Citi Cash NPAT \$3,728m, Basic EPS 119.5¢, DPS 90¢ - no special dividend —

WBC is the best positioned for revised capital target ranges as well as no impact from non-recourse debt in WM subsidiaries. However, capital target range uncertainty is likely to have special dividends on hold for now

### ■ NAB (08/05) Citi Cash NPAT \$3,103m, Basic EPS 127.6¢, DPS 96¢ —

We are expecting weak revenue and possibly negative jaws to offset continued impairment expense improvement. How will the new management team improve performance relative to peers against the backdrop of weak business lending demand?

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
ANZ Banking Grp	ANZ.AX	2	2	A\$31.00	A\$31.00	A\$2.50	A\$2.50
Commonwealth Bank	CBA.AX	1	1	A\$83.70	A\$83.70	A\$5.11	A\$5.11
NAB	NAB.AX	2	3	A\$34.00	A\$34.00	A\$2.61	A\$2.61
Westpac	WBC.AX	1	2	A\$35.75	A\$35.75	A\$2.39	A\$2.39

### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Australian Banks Valuation and Rating Summary

Citi Snapshot

Date: 28-Apr-14 6:07 PM

Price Performance & Valuation Statistics

	Rating	Current						% Absolute share price movement					DPS			Div yield		
		Price	Mkt Cap (\$bn)	12m Target	RAP valuation	% Tgt/Cur	12m ETR	1w	1m	3m	12m	YTD	FY13	FY14e	FY15e	FY13	FY14e	FY15e
ANZ	2	\$34.94	95.1	\$31.00	\$31.00	-11.3%	-6.4%	3.1%	6.5%	15.9%	16.9%	8.4%	\$1.64	\$1.72	\$1.77	4.7%	4.9%	5.1%
CBA	1	\$79.45	127.9	\$83.70	\$83.70	5.3%	10.3%	2.4%	3.0%	7.2%	12.2%	2.1%	\$3.64	\$3.90	\$4.10	4.6%	4.9%	5.2%
NAB	3	\$35.99	84.3	\$34.00	\$29.75	-5.5%	-0.1%	1.8%	1.9%	8.0%	10.3%	3.3%	\$1.90	\$1.96	\$2.00	5.3%	5.4%	5.6%
WBC	2	\$35.86	111.2	\$35.75	\$30.30	-0.3%	4.8%	2.6%	4.2%	16.5%	10.8%	10.7%	\$1.94	\$1.82	\$1.90	5.4%	5.1%	5.3%
BEN	2	\$11.57	4.8	\$11.00	na	-4.9%	0.4%	2.8%	4.0%	1.2%	10.6%	-1.5%	\$0.61	\$0.62	\$0.65	5.3%	5.4%	5.6%
BOQ	2	\$12.59	4.1	\$11.50	na	-8.7%	-3.5%	-2.8%	-0.8%	11.5%	29.3%	4.9%	\$0.58	\$0.65	\$0.70	4.6%	5.2%	5.6%
MQG	1	\$57.10	18.2	\$60.00	na	5.1%	9.7%	2.0%	-1.0%	5.1%	52.9%	3.9%	\$2.00	\$2.62	\$3.14	3.5%	4.6%	5.5%
		Index						% Absolute index movement										
Bank Sector		9200	446					2.4%	3.6%	11.4%	14.3%	5.9%	Major banks					
ASX 200		5536	1,468					1.5%	3.2%	7.0%	8.6%	3.4%						
ASX 200 Industrials		8504	1,168					1.6%	2.7%	7.4%	8.1%	3.9%						

	Earnings per share (cents)								PE ratios (x)				P/E rati			
	Basic "cash"				Regulatory Adjusted Profit (RAP)				"Cash"				"Cash"			
	FY12	FY13	FY14e	FY15e	FY12	FY13	FY14e	FY15e	FY13	FY14e	FY15e	FY13	FY14e	FY15e	FY14	FY14e
ANZ	219.8	239.6	256.1	267.8	180.5	248.0	248.3	252.5	14.6	13.6	13.0	14.1	14.1	13.8	1.03	1.06
growth		9.0%	6.9%	4.6%		37.4%	0.1%	1.7%								
CBA	449.4	482.2	524.0	549.1	424.1	520.9	539.5	536.0	16.5	15.2	14.5	15.3	14.7	14.8	1.14	1.11
growth		7.3%	8.7%	4.8%		22.8%	3.6%	-0.6%								
NAB	240.9	253.0	260.7	262.5	170.4	241.4	248.2	246.6	14.2	13.8	13.7	14.9	14.5	14.6	1.04	1.09
growth		5.0%	3.1%	0.7%		41.7%	2.8%	-0.7%								
WBC	215.9	228.9	244.7	252.9	216.7	218.8	242.5	235.4	15.7	14.7	14.2	16.4	14.8	15.2	1.11	1.12
growth		6.0%	6.9%	3.3%		1.0%	10.8%	-2.9%								
BEN	84.2	85.4	90.1	94.4		na			13.5	12.8	12.3		na		0.97	na
growth		1.4%	5.5%	4.8%												
BOQ	8.0	79.2	87.6	92.8		na			15.9	14.4	13.6		na		1.08	na
growth		894.5%	10.7%	5.9%												
MQG	222.6	266.1	377.2	448.3		na			21.5	15.1	12.7		na		1.14	na
growth		19.6%	41.7%	18.8%												
Avg majors									15.2	14.3	13.9	15.2	14.5	14.6	1.08	1.10



Note  
P/E rati vs ASX 200 Industrials (ex Fin)

Source: Company reports, Citi Research

## Company Focus

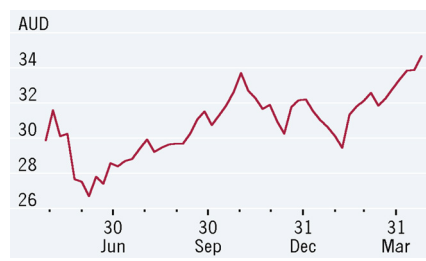
## Australia and New Zealand Banking Group Ltd (ANZ.AX) 1H 2014 Result

■ **Briefing details** — 10am AEST Thursday 1<sup>st</sup> May, Australia: 1800 558 698, international +61 2 9007 3187, conference ID 729163

<b>Neutral</b>	<b>2</b>
Price (28 Apr 14)	A\$34.94
Target price	A\$31.00
Expected share price return	-11.3%
Expected dividend yield	5.0%
<b>Expected total return</b>	<b>-6.3%</b>
Market Cap	A\$95,880M
	US\$88,933M

### Price Performance

(RIC: ANZ.AX, BB: ANZ AU)



ANZ.AU revisions (Y/E Sep)	2012A	2013A	2014E	2015E	2016E
Reported Profit (A\$m)	5,650.0	6,266.0	6,878.7	7,315.7	7,674.6
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core Net Profit (A\$m)	5,819.0	6,492.0	7,063.6	7,500.5	7,859.5
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core EPS (A¢)	211.4	232.2	249.8	259.2	267.6
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
EPS Growth (%)	1.8	9.8	7.6	3.8	3.2
PE Ratio (x)	16.5	15.0	14.0	13.5	13.1
DPS (A¢)	145.0	164.0	171.0	177.0	184.0
Dividend Yield (%)	4.1	4.7	4.9	5.1	5.3
Franking Rate (%)	100.0	100.0	100.0	100.0	100.0

Source: Company Reports and dataCentral, Citi Research.

Fiscal year end 30-Sep									% change pcp			
Profit & loss (A\$m)	2013	1H14E	2H14E	2014E	1H15E	2H15E	2015E	2016E	2013	2014E	2015E	2016E
<b>Net interest income</b>	<b>12,772</b>	<b>6,702</b>	<b>6,898</b>	<b>13,601</b>	<b>7,075</b>	<b>7,391</b>	<b>14,466</b>	<b>15,440</b>	<b>5.4%</b>	<b>6.5%</b>	<b>6.4%</b>	<b>6.7%</b>
Fees & commissions	744	392	413	805	424	434	858	913	6.7%	8.2%	6.6%	6.4%
Other fees & commissions	1,345	698	729	1,427	755	756	1,511	1,606	-1.8%	6.1%	5.9%	6.3%
Trading income	877	594	687	1,281	713	688	1,401	1,505	-35.6%	46.0%	9.4%	7.4%
Wealth management	869	473	494	967	511	526	1,037	1,113	-35.9%	11.2%	7.3%	7.4%
Other	1,771	722	580	1,302	688	763	1,451	1,490	85.6%	-26.5%	11.4%	2.7%
<b>Total non interest income</b>	<b>5,606</b>	<b>2,879</b>	<b>2,902</b>	<b>5,781</b>	<b>3,090</b>	<b>3,168</b>	<b>6,258</b>	<b>6,627</b>	<b>-2.3%</b>	<b>3.1%</b>	<b>8.2%</b>	<b>5.9%</b>
<b>Total revenue</b>	<b>18,378</b>	<b>9,582</b>	<b>9,801</b>	<b>19,382</b>	<b>10,165</b>	<b>10,559</b>	<b>20,724</b>	<b>22,067</b>	<b>3.0%</b>	<b>5.5%</b>	<b>6.9%</b>	<b>6.5%</b>
Salaries & staff expenses	-4,757	-2,399	-2,512	-4,911	-2,504	-2,617	-5,121	-5,330	0.2%	-3.2%	-4.3%	-4.1%
<b>Total operating expenses</b>	<b>-8,236</b>	<b>-4,150</b>	<b>-4,294</b>	<b>-8,444</b>	<b>-4,280</b>	<b>-4,474</b>	<b>-8,753</b>	<b>-9,096</b>	<b>3.3%</b>	<b>-2.5%</b>	<b>-3.7%</b>	<b>-3.9%</b>
<b>Core profit</b>	<b>10,142</b>	<b>5,432</b>	<b>5,506</b>	<b>10,938</b>	<b>5,886</b>	<b>6,085</b>	<b>11,971</b>	<b>12,971</b>	<b>8.7%</b>	<b>7.9%</b>	<b>9.4%</b>	<b>8.4%</b>
Bad debt charge	-1,197	-468	-633	-1,100	-723	-801	-1,524	-2,024	4.8%	8.1%	-38.5%	-32.8%
as a % of non-housing loans	0.58	0.42	0.54	0.48	0.60	0.64	0.62	0.76	-12.5%	-16.9%	28.2%	22.8%
as a % of total average loans	0.27	0.20	0.25	0.23	0.28	0.30	0.29	0.36	-11.6%	-15.2%	28.9%	24.1%
<b>Pre tax profit</b>	<b>8,945</b>	<b>4,964</b>	<b>4,874</b>	<b>9,838</b>	<b>5,162</b>	<b>5,284</b>	<b>10,447</b>	<b>10,947</b>	<b>10.8%</b>	<b>10.0%</b>	<b>6.2%</b>	<b>4.8%</b>
Tax	-2,437	-1,390	-1,365	-2,755	-1,445	-1,480	-2,925	-3,065	-9.0%	-13.0%	-6.2%	-4.8%
Tax rate (%)	27	28	28	28	28	28	28	28	-1.6%	2.8%	0.0%	0.0%
Minority interests	-10	-6	-7	-12	-6	-7	-12	-12	-66.7%	-20.0%	0%	0%
Exceptional items	0	0	0	0	0	0	0	0	na	na	na	na
Non-core items	-226	-92	-92	-185	-92	-92	-185	-185	-33.7%	18.2%	0%	0%
<b>Reported profit</b>	<b>6,272</b>	<b>3,476</b>	<b>3,410</b>	<b>6,887</b>	<b>3,619</b>	<b>3,706</b>	<b>7,325</b>	<b>7,685</b>	<b>10.8%</b>	<b>9.8%</b>	<b>6.4%</b>	<b>4.9%</b>
Preference dividends	-6	-4	-4	-8	-4	-5	-9	-11	45.5%	-32.7%	-16.4%	-14.1%
<b>Net profit attributable to s/h</b>	<b>6,266</b>	<b>3,473</b>	<b>3,406</b>	<b>6,879</b>	<b>3,615</b>	<b>3,701</b>	<b>7,316</b>	<b>7,675</b>	<b>10.9%</b>	<b>9.8%</b>	<b>6.4%</b>	<b>4.9%</b>
<b>Cash earnings (pre except/non-</b>	<b>6,492</b>	<b>3,565</b>	<b>3,498</b>	<b>7,064</b>	<b>3,707</b>	<b>3,793</b>	<b>7,501</b>	<b>7,859</b>	<b>11.6%</b>	<b>8.8%</b>	<b>6.2%</b>	<b>4.8%</b>
<b>Per share data</b>												
Basic cash EPS (¢)	239.6	129.6	126.3	255.9	132.8	134.7	267.5	275.3	9.0%	6.8%	4.5%	2.9%
Diluted cash EPS (¢)	232.2	126.4	123.4	249.8	129.1	130.5	259.2	267.6	9.8%	7.6%	3.8%	3.2%
PE (x)	15.0	13.8	14.2	14.0	13.5	13.4	13.5	13.1	-9.0%	-7.0%	-3.7%	-3.1%
DPS (¢)	164.0	79.0	92.0	171.0	81.0	96.0	177.0	184.0	13.1%	4.3%	3.5%	4.0%
Dividend yield (%)	4.7	4.5	5.3	4.9	4.6	5.5	5.1	5.3	13.1%	4.3%	3.5%	4.0%
Payout ratio (%) (basic cash)	68.4	61.0	72.8	66.8	61.0	71.3	66.2	66.8	3.8%	-2.4%	-1.0%	1.0%
NTA per share (\$)	13.48	14.05	14.49	14.49	15.11	15.58	15.58	16.67	10.3%	7.5%	7.5%	7.0%
Price to NTA (x)	2.59	2.49	2.41	2.41	2.31	2.24	2.24	2.10	-9.3%	-7.0%	-7.0%	-6.5%
Wtd avg diluted shares (m)	2,892	2,927	2,945	2,936	2,976	3,009	2,997	3,037	0.2%	1.5%	2.1%	1.3%
<b>Balance sheet (A\$b)</b>												
Total assets	703	728	762	762	789	820	820	880	9.5%	8.4%	7.6%	7.4%
RWA	339	364	371	371	384	396	396	423	13.0%	9.3%	6.7%	6.8%
Ave interest earning assets	575	616	636	626	659	688	674	724	9.9%	8.8%	7.6%	7.4%
Loans & advances	470	489	508	508	525	543	543	581	9.6%	8.0%	7.0%	7.0%
Non accrual loans (\$m)	3,751	3,188	2,710	2,710	2,304	1,958	1,958	2,077	-14.0%	-27.8%	-27.8%	6.1%
Ave interest bearing liabilities	528	563	581	572	602	630	616	662	9.2%	8.4%	7.6%	7.4%
Ave FUM (\$m)	na	na	na	na	na	na	na	na	na	na	na	na
Shareholders' funds (\$m)	45,615	47,397	48,900	48,900	51,010	52,677	52,677	56,600	10.7%	7.2%	7.7%	7.4%
<b>Capital adequacy (%)</b>												
Tier 1 ratio	10.4	10.0	10.5	10.5	10.6	10.8	10.8	10.9	-4.2%	1.0%	3.1%	0.8%
Core tier 1 ratio	8.5	8.2	8.6	8.6	8.7	8.9	8.9	9.1	-4.0%	1.5%	3.6%	2.3%
<b>Profit &amp; efficiency measures (%)</b>												
Spread	1.97	1.94	1.92	1.93	1.91	1.90	1.91	1.89	-2.5%	-2.2%	-1.3%	-0.8%
Margin	2.22	2.18	2.17	2.17	2.15	2.15	2.15	2.13	-4.1%	-2.1%	-1.2%	-0.7%
Return on assets	0.93	0.96	0.92	0.94	0.94	0.92	0.93	0.91	3.0%	1.3%	-1.1%	-2.3%
Return on equity	14.84	15.28	14.47	14.87	14.79	14.58	14.68	14.29	1.6%	0.2%	-1.3%	-2.6%
Cost to income	44.81	43.31	43.81	43.57	42.10	42.37	42.24	41.22	-6.1%	-2.8%	-3.0%	-2.4%
Cost to assets	1.22	1.15	1.15	1.15	1.11	1.11	1.11	1.08	-10.2%	-5.4%	-3.6%	-3.2%
Assets per employee (\$m)	14,796	15,317	16,036	16,036	16,699	17,525	17,525	19,125	11.2%	8.4%	9.3%	9.1%
Profit per employee (\$000)	130,881	73,091	71,687	144,778	76,282	78,723	155,200	165,448	14.1%	10.6%	7.2%	6.6%

## Company Focus

## National Australia Bank Ltd (NAB.AX) H1 2014 Result

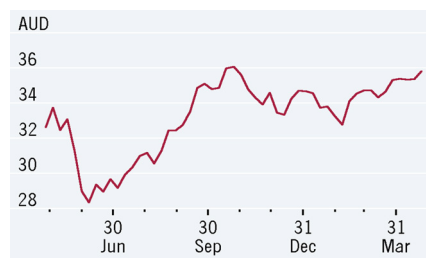
■ **Briefing details** — Thursday 8<sup>th</sup> May, Australia: 1800 801 925, international +61 2 8524 5042, Attendee Passcode 1579550

### ■ Rating Change

<b>Sell</b>	<b>3</b>
<i>from Neutral</i>	
Price (28 Apr 14)	A\$35.99
Target price	A\$34.00
Expected share price return	-5.5%
Expected dividend yield	5.4%
<b>Expected total return</b>	<b>-0.1%</b>
Market Cap	A\$84,712M
	US\$78,575M

### Price Performance

(RIC: NAB.AX, BB: NAB AU)



NAB.AU revisions (Y/E Sep)	2012A	2013A	2014E	2015E	2016E
Reported Profit (A\$m)	3,875.0	5,264.0	6,007.0	6,192.0	6,423.1
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core Net Profit (A\$m)	5,433.0	5,936.0	6,375.2	6,560.3	6,791.3
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core EPS (A¢)	238.8	250.6	261.2	262.9	267.1
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
EPS Growth (%)	-3.5	4.9	4.2	0.7	1.6
PE Ratio (x)	15.1	14.4	13.8	13.7	13.5
DPS (A¢)	180.0	190.0	196.0	200.0	200.0
Dividend Yield (%)	5.0	5.3	5.4	5.6	5.6
Franking Rate (%)	100.0	100.0	100.0	100.0	100.0

Source: Company Reports and dataCentral, Citi Research.

Fiscal year end 30-Sep									% change pcp			
Profit & loss (A\$m)	2013	1H14E	2H14E	2014E	1H15E	2H15E	2015E	2016E	2013	2014E	2015E	2016E
<b>Net interest income</b>	<b>13,407</b>	<b>6,765</b>	<b>6,916</b>	<b>13,681</b>	<b>7,043</b>	<b>7,216</b>	<b>14,259</b>	<b>15,009</b>	<b>0.8%</b>	<b>2.0%</b>	<b>4.2%</b>	<b>5.3%</b>
Fees & commissions	2,495	1,276	1,294	2,570	1,322	1,351	2,673	2,781	1.1%	3.0%	4.0%	4.1%
Other fees & commissions	0	0	0	0	0	0	0	0	na	na	na	na
Trading income	1,094	301	308	609	309	317	626	662	74.8%	-44.4%	2.8%	5.8%
Wealth management	1,335	770	799	1,569	821	844	1,665	1,759	-11.9%	17.5%	6.1%	5.6%
Other	249	238	315	553	288	297	586	623	-21.7%	nm	5.8%	6.4%
<b>Total non interest income</b>	<b>5,173</b>	<b>2,585</b>	<b>2,716</b>	<b>5,301</b>	<b>2,740</b>	<b>2,809</b>	<b>5,549</b>	<b>5,825</b>	<b>5.0%</b>	<b>2.5%</b>	<b>4.7%</b>	<b>5.0%</b>
<b>Total revenue</b>	<b>18,580</b>	<b>9,350</b>	<b>9,632</b>	<b>18,982</b>	<b>9,783</b>	<b>10,026</b>	<b>19,808</b>	<b>20,834</b>	<b>2.0%</b>	<b>2.2%</b>	<b>4.4%</b>	<b>5.2%</b>
Salaries & staff expenses	-3,982	-1,960	-2,094	-4,054	-2,027	-2,178	-4,205	-4,387	-1.7%	-1.8%	-3.7%	-4.3%
<b>Total operating expenses</b>	<b>-8,174</b>	<b>-4,225</b>	<b>-4,282</b>	<b>-8,506</b>	<b>-4,267</b>	<b>-4,491</b>	<b>-8,758</b>	<b>-9,025</b>	<b>-4.4%</b>	<b>-4.1%</b>	<b>-3.0%</b>	<b>-3.1%</b>
<b>Core profit</b>	<b>10,406</b>	<b>5,125</b>	<b>5,351</b>	<b>10,476</b>	<b>5,516</b>	<b>5,535</b>	<b>11,051</b>	<b>11,809</b>	<b>0.1%</b>	<b>0.7%</b>	<b>5.5%</b>	<b>6.9%</b>
Bad debt charge	-1,934	-677	-663	-1,340	-730	-912	-1,642	-2,077	26.0%	30.7%	-22.5%	-26.5%
as a % of non-housing loans	0.87	0.59	0.58	0.59	0.63	0.78	0.71	0.85	-25.6%	-32.3%	20.2%	20.9%
as a % of total average loans	0.39	0.26	0.25	0.26	0.27	0.33	0.30	0.36	-28.3%	-34.1%	17.6%	20.0%
<b>Pre tax profit</b>	<b>8,472</b>	<b>4,448</b>	<b>4,688</b>	<b>9,136</b>	<b>4,786</b>	<b>4,623</b>	<b>9,409</b>	<b>9,732</b>	<b>8.9%</b>	<b>7.8%</b>	<b>3.0%</b>	<b>3.4%</b>
Tax	-2,337	-1,245	-1,313	-2,558	-1,340	-1,294	-2,634	-2,725	-7.3%	-9.5%	-3.0%	-3.4%
Tax rate (%)	28	28	28	28	28	28	28	28	-1.5%	1.5%	0.0%	0.0%
Minority interests	-8	-3	-3	-6	-3	-3	-6	-6	nm	25.0%	0%	0%
Exceptional items	-77	0	0	0	0	0	0	0	79.0%	nm	na	na
Non-core items	-598	-187	-188	-375	-188	-189	-377	-378	48.2%	37.3%	-0.4%	-0.5%
<b>Reported profit</b>	<b>5,452</b>	<b>3,012</b>	<b>3,184</b>	<b>6,197</b>	<b>3,255</b>	<b>3,137</b>	<b>6,392</b>	<b>6,623</b>	<b>33.6%</b>	<b>13.7%</b>	<b>3.1%</b>	<b>3.6%</b>
Preference dividends	-188	-94	-96	-190	-99	-101	-200	-200	9.2%	-0.8%	-5.3%	0%
<b>Net profit attributable to s/h</b>	<b>5,264</b>	<b>2,919</b>	<b>3,088</b>	<b>6,007</b>	<b>3,156</b>	<b>3,036</b>	<b>6,192</b>	<b>6,423</b>	<b>35.8%</b>	<b>14.1%</b>	<b>3.1%</b>	<b>3.7%</b>
<b>Cash earnings (pre except/non-</b>	<b>5,936</b>	<b>3,103</b>	<b>3,273</b>	<b>6,375</b>	<b>3,340</b>	<b>3,220</b>	<b>6,560</b>	<b>6,791</b>	<b>9.3%</b>	<b>7.4%</b>	<b>2.9%</b>	<b>3.5%</b>
<b>Per share data</b>												
Basic cash EPS (¢)	254.1	128.3	133.9	262.2	135.2	128.9	264.0	268.4	4.8%	3.2%	0.7%	1.6%
Diluted cash EPS (¢)	250.6	127.9	133.3	261.2	134.6	128.4	262.9	267.1	4.9%	4.2%	0.7%	1.6%
PE (x)	14.4	14.1	13.5	13.8	13.4	14.0	13.7	13.5	-4.7%	-4.1%	-0.6%	-1.6%
DPS (¢)	190.0	96.0	100.0	196.0	98.0	102.0	200.0	200.0	5.6%	3.2%	2.0%	0%
Dividend yield (%)	5.3	5.3	5.6	5.4	5.4	5.7	5.6	5.6	5.6%	3.2%	2.0%	0%
Payout ratio (%) (basic cash)	74.8	74.8	74.7	74.7	72.5	79.1	75.7	74.5	0.8%	0.0%	1.3%	-1.6%
NTA per share (\$)	14.23	14.68	15.20	15.20	15.69	16.15	16.15	16.99	2.3%	6.8%	6.2%	5.2%
Price to NTA (x)	2.53	2.45	2.37	2.37	2.29	2.23	2.23	2.12	-2.2%	-6.4%	-5.9%	-4.9%
Wtd avg diluted shares (m)	2,374	2,447	2,475	2,461	2,502	2,529	2,516	2,562	3.5%	3.7%	2.2%	1.9%
<b>Balance sheet (A\$b)</b>												
Total assets	808	844	853	853	883	896	896	948	5.9%	5.5%	5.0%	5.8%
RWA	362	367	371	371	377	385	385	404	9.3%	2.4%	3.9%	5.0%
Ave interest earning assets	662	686	702	694	719	740	729	772	5.1%	4.8%	5.1%	5.9%
Loans & advances	516	525	535	535	547	561	561	592	4.4%	3.5%	5.0%	5.5%
Non accrual loans (\$m)	6,347	6,157	5,972	5,972	5,672	5,793	5,793	4,443	-3.0%	-5.9%	-3.0%	-23.3%
Ave interest bearing liabilities	591	612	626	619	641	660	650	689	4.6%	4.8%	5.1%	5.9%
Ave FUM (\$m)	na	na	na	na	na	na	na	na	na	na	na	na
Shareholders' funds (\$m)	46,620	48,104	49,763	49,763	51,409	52,956	52,956	55,725	6.4%	6.7%	6.4%	5.2%
<b>Capital adequacy (%)</b>												
Tier 1 ratio	10.4	10.5	10.7	10.7	10.9	10.9	10.9	10.8	0.8%	3.8%	1.7%	-0.8%
Core tier 1 ratio	8.4	8.6	8.9	8.9	9.0	9.1	9.1	9.1	1.7%	5.2%	2.9%	0.0%
<b>Profit &amp; efficiency measures (%)</b>												
Spread	1.70	1.65	1.64	1.65	1.64	1.62	1.63	1.62	-1.3%	-3.0%	-1.2%	-0.6%
Margin	2.02	1.97	1.97	1.97	1.96	1.95	1.95	1.94	-4.1%	-2.6%	-0.9%	-0.6%
Return on assets	0.67	0.70	0.72	0.71	0.72	0.67	0.70	0.68	19.2%	6.6%	-1.8%	-2.0%
Return on equity	13.02	13.44	13.73	13.59	13.53	12.58	13.05	12.73	19.2%	4.4%	-3.9%	-2.4%
Cost to income	43.99	45.18	44.45	44.81	43.62	44.79	44.21	43.32	2.4%	1.9%	-1.3%	-2.0%
Cost to assets	1.02	1.01	1.00	1.01	0.97	1.00	0.99	0.96	-1.1%	-1.4%	-2.0%	-2.6%
Assets per employee (\$m)	19,173	20,069	20,332	20,332	21,102	21,456	21,456	22,813	8.9%	6.0%	5.5%	6.3%
Profit per employee (\$000)	124,936	69,301	73,509	142,805	75,301	72,604	147,908	154,163	29.6%	14.3%	3.6%	4.2%

## Company Focus

## Westpac Banking Corp (WBC.AX) 1H 2014 Result

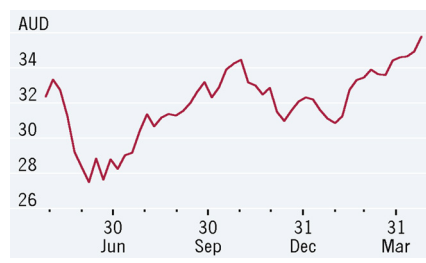
■ **Briefing details** — 10am AEST Monday 5<sup>th</sup> May, Australia: 1800 725 000, international +61 2 83733582, conference ID 22780597

### ■ Rating Change

<b>Neutral</b>	<b>2</b>
<i>from Buy</i>	
Price (28 Apr 14)	A\$35.86
Target price	A\$35.75
Expected share price return	-0.3%
Expected dividend yield	5.6%
<b>Expected total return</b>	<b>5.3%</b>
Market Cap	A\$111,490M
	US\$103,413M

### Price Performance

(RIC: WBC.AX, BB: WBC AU)



WBC.AU revisions (Y/E Sep)	2012A	2013A	2014E	2015E	2016E
Reported Profit (A\$m)	5,970.0	6,816.0	7,375.8	7,717.0	7,854.4
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core Net Profit (A\$m)	6,598.0	7,097.0	7,657.4	7,970.4	8,107.8
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
Core EPS (A¢)	210.0	224.2	239.1	247.7	252.1
% revision	0.0%	0.0%	0.0%	0.0%	0.0%
EPS Growth (%)	4.0	6.7	6.7	3.6	1.8
PE Ratio (x)	17.1	16.0	15.0	14.5	14.2
DPS (A¢)	166.0	194.0	182.0	190.0	198.0
Dividend Yield (%)	4.6	5.4	5.1	5.3	5.5
Franking Rate (%)	100.0	100.0	100.0	100.0	100.0

Source: Company Reports and dataCentral, Citi Research.

Fiscal year end 30-Sep									% change pcp			
Profit & loss (A\$m)	2013	1H14E	2H14E	2014E	1H15E	2H15E	2015E	2016E	2013	2014E	2015E	2016E
<b>Net interest income</b>	<b>12,912</b>	<b>6,734</b>	<b>7,043</b>	<b>13,777</b>	<b>7,183</b>	<b>7,420</b>	<b>14,603</b>	<b>15,293</b>	<b>2.8%</b>	<b>6.7%</b>	<b>6.0%</b>	<b>4.7%</b>
Fees & commissions	1,253	648	661	1,309	671	682	1,353	1,413	6.3%	4.5%	3.3%	4.4%
Other fees & commissions	1,470	755	772	1,528	783	793	1,576	1,645	1.3%	3.9%	3.2%	4.4%
Trading income	1,069	401	377	778	390	398	788	831	25.8%	-27.2%	1.2%	5.4%
Wealth management	0	0	0	0	0	0	0	0	na	na	na	na
Other	2,129	1,203	1,285	2,488	1,284	1,380	2,664	2,821	4.7%	16.9%	7.1%	5.9%
<b>Total non interest income</b>	<b>5,921</b>	<b>3,008</b>	<b>3,096</b>	<b>6,103</b>	<b>3,127</b>	<b>3,254</b>	<b>6,381</b>	<b>6,709</b>	<b>7.4%</b>	<b>3.1%</b>	<b>4.6%</b>	<b>5.1%</b>
<b>Total revenue</b>	<b>18,833</b>	<b>9,741</b>	<b>10,139</b>	<b>19,880</b>	<b>10,310</b>	<b>10,674</b>	<b>20,984</b>	<b>22,002</b>	<b>4.2%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>4.9%</b>
Salaries & staff expenses	-4,287	-2,191	-2,210	-4,401	-2,264	-2,298	-4,561	-4,762	-4.4%	-2.7%	-3.6%	-4.4%
<b>Total operating expenses</b>	<b>-7,710</b>	<b>-3,961</b>	<b>-3,997</b>	<b>-7,958</b>	<b>-4,071</b>	<b>-4,132</b>	<b>-8,204</b>	<b>-8,473</b>	<b>-4.5%</b>	<b>-3.2%</b>	<b>-3.1%</b>	<b>-3.3%</b>
<b>Core profit</b>	<b>11,123</b>	<b>5,780</b>	<b>6,142</b>	<b>11,923</b>	<b>6,239</b>	<b>6,542</b>	<b>12,781</b>	<b>13,529</b>	<b>4.0%</b>	<b>7.2%</b>	<b>7.2%</b>	<b>5.9%</b>
Bad debt charge	-847	-383	-451	-834	-579	-654	-1,233	-1,773	30.1%	1.6%	-47.9%	-43.8%
as a % of non-housing loans	0.50	0.43	0.48	0.45	0.60	0.66	0.63	0.86	-31.5%	-9.2%	39.1%	36.5%
as a % of total average loans	0.16	0.14	0.16	0.15	0.20	0.22	0.21	0.29	-32.4%	-7.3%	40.0%	35.7%
<b>Pre tax profit</b>	<b>10,276</b>	<b>5,397</b>	<b>5,692</b>	<b>11,089</b>	<b>5,660</b>	<b>5,888</b>	<b>11,548</b>	<b>11,756</b>	<b>8.3%</b>	<b>7.9%</b>	<b>4.1%</b>	<b>1.8%</b>
Tax	-3,103	-1,630	-1,719	-3,348	-1,709	-1,778	-3,487	-3,550	-10.1%	-7.9%	-4.1%	-1.8%
Tax rate (%)	30	30	30	30	30	30	30	30	1.6%	0.0%	0.0%	0.0%
Minority interests	-76	-39	-44	-83	-43	-48	-90	-98	-10.1%	-9.0%	-9.0%	-9.0%
Exceptional items	-217	-205	-103	-308	-103	-103	-207	-207	39.2%	-42.2%	32.9%	0%
Non-core items	-64	50	-23	27	-23	-23	-46	-46	76.4%	nm	nm	0%
<b>Reported profit</b>	<b>6,816</b>	<b>3,573</b>	<b>3,803</b>	<b>7,376</b>	<b>3,781</b>	<b>3,936</b>	<b>7,717</b>	<b>7,854</b>	<b>14.2%</b>	<b>8.2%</b>	<b>4.6%</b>	<b>1.8%</b>
Preference dividends	0	0	0	0	0	0	0	0	na	na	na	na
<b>Net profit attributable to s/h</b>	<b>6,816</b>	<b>3,573</b>	<b>3,803</b>	<b>7,376</b>	<b>3,781</b>	<b>3,936</b>	<b>7,717</b>	<b>7,854</b>	<b>14.2%</b>	<b>8.2%</b>	<b>4.6%</b>	<b>1.8%</b>
<b>Cash earnings (pre except/non-</b>	<b>7,097</b>	<b>3,728</b>	<b>3,929</b>	<b>7,657</b>	<b>3,908</b>	<b>4,062</b>	<b>7,970</b>	<b>8,108</b>	<b>7.6%</b>	<b>7.9%</b>	<b>4.1%</b>	<b>1.7%</b>
<b>Per share data</b>												
Basic cash EPS (¢)	228.9	119.5	125.2	244.7	124.1	128.9	252.9	256.8	6.0%	6.9%	3.3%	1.5%
Diluted cash EPS (¢)	224.2	117.0	122.5	239.1	121.7	126.5	247.7	252.1	6.7%	6.7%	3.6%	1.8%
PE (x)	16.0	15.3	14.6	15.0	14.7	14.2	14.5	14.2	-6.3%	-6.3%	-3.5%	-1.7%
DPS (¢)	194.0	90.0	92.0	182.0	94.0	96.0	190.0	198.0	16.9%	-6.2%	4.4%	4.2%
Dividend yield (%)	5.4	5.0	5.1	5.1	5.2	5.4	5.3	5.5	16.9%	-6.2%	4.4%	4.2%
Payout ratio (%) (basic cash)	84.7	75.3	73.5	74.4	75.8	74.5	75.1	77.1	10.2%	-12.2%	1.0%	2.6%
NTA per share (\$)	11.03	11.41	11.85	11.85	12.11	12.44	12.44	13.00	5.7%	7.5%	5.0%	4.5%
Price to NTA (x)	3.25	3.14	3.03	3.03	2.96	2.88	2.88	2.76	-5.4%	-6.9%	-4.7%	-4.3%
Wtd avg diluted shares (m)	3,238	3,271	3,291	3,281	3,297	3,295	3,296	3,293	1.0%	1.3%	0.5%	-0.1%
<b>Balance sheet (A\$b)</b>												
Total assets	697	729	752	752	784	806	806	869	3.2%	8.0%	7.2%	7.8%
RWA	307	324	332	332	339	349	349	367	3.2%	7.9%	5.2%	5.3%
Ave interest earning assets	600	627	647	637	664	683	673	714	3.8%	6.2%	5.8%	6.0%
Loans & advances	536	558	572	572	586	606	606	641	4.2%	6.6%	5.9%	5.9%
Non accrual loans (\$m)	3,600	3,060	2,601	2,601	2,211	2,277	2,277	2,416	-17.9%	-27.8%	-12.5%	6.1%
Ave interest bearing liabilities	560	585	604	595	621	639	630	668	3.7%	6.1%	5.8%	6.1%
Ave FUM (\$m)	na	na	na	na	na	na	na	na	na	na	na	na
Shareholders' funds (\$m)	47,481	48,882	50,520	50,520	51,355	52,436	52,436	54,289	2.7%	6.4%	3.8%	3.5%
<b>Capital adequacy (%)</b>												
Tier 1 ratio	10.7	11.3	11.5	11.5	11.5	11.4	11.4	11.3	3.9%	8.0%	-1.2%	-0.6%
Core tier 1 ratio	9.1	9.0	9.3	9.3	9.2	9.1	9.1	9.0	8.6%	1.7%	-1.8%	-1.0%
<b>Profit &amp; efficiency measures (%)</b>												
Spread	1.92	1.92	1.94	1.93	1.94	1.94	1.94	1.92	1.7%	0.7%	0.5%	-1.0%
Margin	2.15	2.15	2.17	2.16	2.17	2.17	2.17	2.14	-1.0%	0.5%	0.2%	-1.2%
Return on assets	1.03	1.06	1.06	1.06	1.02	1.04	1.03	0.99	7.6%	2.7%	-2.4%	-3.9%
Return on equity	15.86	15.97	16.00	15.98	15.52	15.83	15.67	15.38	6.8%	0.8%	-1.9%	-1.9%
Cost to income	40.94	40.67	39.42	40.03	39.49	38.71	39.09	38.51	0.3%	-2.2%	-2.3%	-1.5%
Cost to assets	1.13	1.11	1.08	1.09	1.07	1.06	1.07	1.04	1.1%	-2.9%	-2.5%	-2.5%
Assets per employee (\$m)	19,569	20,543	21,256	21,256	22,124	22,778	22,778	24,490	3.4%	8.6%	7.2%	7.5%
Profit per employee (\$000)	197,357	106,286	110,195	216,475	109,689	114,044	223,860	227,483	14.5%	9.7%	3.4%	1.6%



## Australia and New Zealand Banking Group Ltd

### Company description

ANZ is a major Australian-based bank operating in retail and business banking in Australia, New Zealand and throughout the Asia Pacific. Australian operations make up the largest part of ANZ's business with commercial & retail banking & funds management.

### Investment strategy

We rate ANZ Neutral. After strong share price appreciation in 2012/2013, we expect more modest returns in the coming 12 months despite the banking industry structure remaining supportive for continued high returns on equity. While we believe that the push into APEA will be return - and valuation - dilutive over time, we believe that the bank's ~5% fully franked dividend yield is sustainable and will continue to be a key attraction for investors.

### Valuation

Our 12-month target price of A\$31.00 is based on an implied price-to-book multiple of ~2.0x our spot 12-month forward BVPS. Our P/BV multiple is derived from our forecast Regulatory Adjusted Profit return on equity (RAPTOE) of ~14.9%, ~10.2% cost of equity and net payout of ~65% (dividends plus other capital returns).

### Risks

We believe banks' share prices and earnings performance are subject to common factors and risks - net interest margin pressure, interest rate risk, market risk, operational risk, funding risk and re-regulation. More specific to ANZ: i) in relation to its Asian expansion strategy, if the bank were to purchase a business at what is deemed too high a price, the share price may come under pressure; ii) there is a significant degree of execution risk in undertaking an offshore expansion strategy, both organically and via acquisition. From a positive perspective, success in developing its Asian franchise into a material component of the Group may offer scope for upside to earnings forecasts. Adverse or favourable movements in these risk factors may cause ANZ's share price to deviate from our target price.

## National Australia Bank Ltd

### Company description

National Australia Bank is a large financial services group providing a comprehensive and integrated range of financial products and services throughout Australia, NZ and parts of the UK. Australian banking operations dominate and represent 60% of group assets.

### Investment strategy

We rate NAB Sell. We see poor expected H114 revenue and underlying profit growth and continuing lackluster demand for business lending. With higher credit and operational risk in the business, along with a number of sub-cost of capital returning businesses, we believe that NAB should trade at a discount to peers.

## Valuation

Our 12-month target price of A\$34.00 is based on 1) our fundamental valuation of \$29.75 which is derived from our implied price-to-book multiple of 1.5x; and 2) an adjustment for our probability weighted assessment of potential ROE upside for the Group beyond our base case returns. The fundamental valuation multiple is based on our estimated cash Reg Adj Profit Return on Equity of ~14%, net payout ratio of 65% and cost of equity of 10.2% multiplied by our 12-month forward spot book value per share.

## Risks

We believe banks' share prices and earnings performance are subject to common factors and risks - net interest margin pressure, interest rate risk, market risk, operational risk, funding risk and re-regulation. More specific to NAB: i) the bank is currently undertaking a significant core banking system replacement ("NextGen") which carries significant execution risk; ii) the bank has a non-core presence in the UK which may be divested or scaled up and is therefore subject to price/execution risk. From a positive perspective, successful completion of the core banking overhaul and realization of the expected revenue/productivity benefits offer upside to earnings forecasts. Adverse or favourable movements in these risk factors may cause NAB's share price to deviate from our target price.

## Westpac Banking Corp

### Company description

Westpac is Australia's oldest bank and corporation. It operates a leading banking franchise in both Australia and NZ and has a strong presence in consumer, commercial, institutional banking and wealth. The acquisition of SGB confirmed the bank as a clear Top 2 bank by customer numbers and profit in addition to making the bank the largest in NSW.

### Investment strategy

We rate WBC Neutral. In the near term, we believe that the bank's ~6% fully franked dividend yield is sustainable and will continue to be a key attraction for investors. However recent share price strength indicates the market has priced this in and expected total return is limited.

## Valuation

Our fundamental valuation of A\$30.32 is based on an implied price-to-book multiple of ~2.2x our spot 12-month forward BVPS. Our P/BV multiple is derived from our forecast Regulatory Adjusted Profit return on equity (RAPTOE) of ~15%, ~10% cost of equity and net payout of ~83% (dividends plus surplus capital returns). Our 12-month target price of A\$35.75 is based on a ~6% prospective dividend yield.

## Risks

We believe banks' share prices and earnings performance are subject to common factors and risks - net interest margin pressure, interest rate risk, market risk, operational risk, funding risk and re-regulation. More specific to WBC, with a lower quality deposit-gathering franchise, WBC has a greater reliance on wholesale funding. From a positive perspective, progress on productivity initiatives may offer upside to earnings forecasts. Adverse or favourable movements in these risk factors may cause WBC's share price to deviate from our target price.

# Appendix A-1

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## IMPORTANT DISCLOSURES

### Westpac Banking Corp (WBC.AX)

#### Ratings and Target Price History Fundamental Research

Analyst: Craig Williams



	Date	Rating	Target Price	Closing Price
1	20-Jul-11	2M	*20.88	21.04
2	3-Oct-11	2M	*19.88	19.39
3	7-Oct-11	Stock rating system changed		
4	7-Oct-11	*2	19.88	21.11

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	12-Jul-12	2	*21.37	21.74
6	8-Nov-12	*1	*28.33	25.78
7	25-Feb-13	1	*33.10	30.19
8	21-Jul-13	1	*33.10	29.18

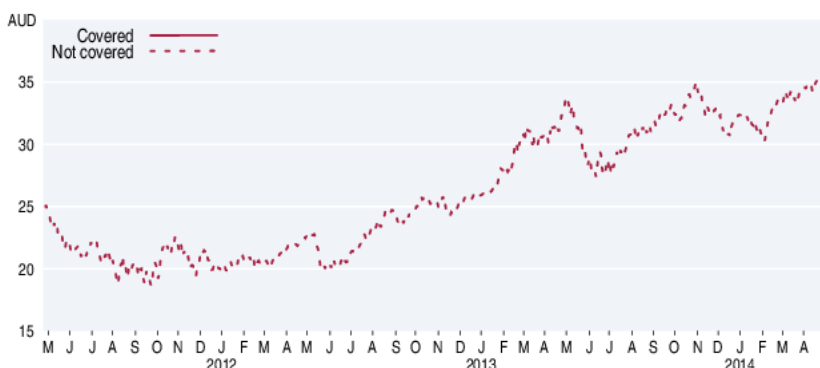
	Date	Rating	Target Price	Closing Price
9	24-Dec-13	1	*33.10	32.14
10	15-Jan-14	*2	33.10	31.71
11	18-Feb-14	*1	*35.75	32.86

Rating/target price changes above reflect Eastern Standard Time

### Westpac Banking Corp (WBC.AX)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Craig Williams



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## Australia and New Zealand Banking Group Ltd (ANZ.AX)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Craig Williams



	Date	Rating	Target Price	Closing Price
1	20-Jul-11	1M	*23.50	21.20
2	19-Aug-11	*2M	23.50	19.50
3	19-Aug-11	2M	*21.50	19.50
4	3-Oct-11	2M	*19.50	18.94
5	7-Oct-11	Stock rating system changed		

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	7-Oct-11	*2	19.50	20.71
7	20-Jan-12	2	*21.50	20.89
8	2-May-12	2	*24.00	23.80
9	12-Jul-12	*1	*24.50	22.18
10	8-Nov-12	1	*26.50	24.37

	Date	Rating	Target Price	Closing Price
11	1-May-13	1	*35.00	31.69
12	21-Jun-13	1	*31.00	27.41
13	15-Jan-14	*2	31.00	30.97

Rating/target price changes above reflect Eastern Standard Time

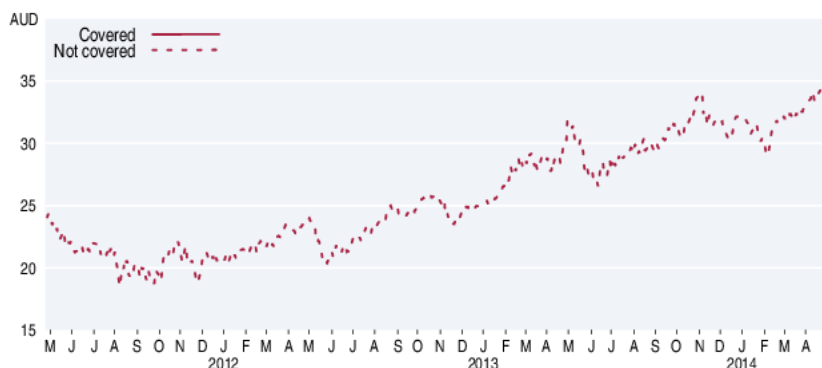
## Australia and New Zealand Banking Group Ltd (ANZ.AX)

### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Craig Williams



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## National Australia Bank Ltd (NAB.AX)

### Ratings and Target Price History

#### Fundamental Research

Analyst: Craig Williams



	Date	Rating	Target Price	Closing Price
1	5-May-11	*1M	*29.00	27.01
2	20-Jul-11	1M	*26.50	24.29
3	3-Oct-11	*2M	*22.00	21.63
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*2	22.00	23.76

\* Indicates change

	Date	Rating	Target Price	Closing Price
6	28-Oct-11	2	*27.00	25.99
7	20-Jan-12	2	*23.50	23.88
8	18-Jun-12	*1	*24.50	22.81
9	2-Aug-12	*2	24.50	25.15
10	8-Nov-12	2	*25.00	24.87

	Date	Rating	Target Price	Closing Price
11	1-Feb-13	*1	*29.75	28.00
12	13-Mar-13	*2	29.75	30.95
13	29-Nov-13	2	*34.00	34.58

Rating/target price changes above reflect Eastern Standard Time

# National Australia Bank Ltd (NAB.AX)

## Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Craig Williams



Date	Rating	Target Price	Closing Price
[1] 15-May-11	*ADD MP	-	26.89

\* Indicates change

Date	Rating	Target Price	Closing Price
[2] 3-Oct-11	*REM MP	-	21.63

Rating/target price changes above reflect Eastern Standard Time

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12 Month Rating

Relative Rating

**Data current as of 31 Mar 2014**

	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	55%	53%	45%	58%	53%	42%

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Craig Williams

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