

**Analyst**

TS Lim 612 8224 2810

**Authorisation**

Chris Savage 612 8224 2835

# Commonwealth Bank (CBA)

## The bazooka king

**Recommendation**
**Buy** (Hold)

**Price**
**\$99.56**
**Target (12 months)**
**\$108.00** (unchanged)

**GICS Sector**
**Banks**
**Expected Return**

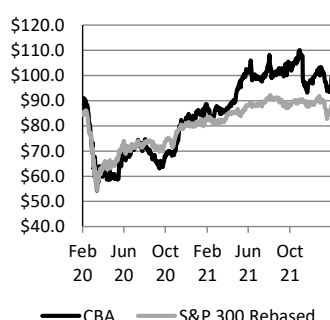
Capital growth	<b>8.5%</b>
Dividend yield	<b>3.7%</b>
Total expected return	<b>12.2%</b>

**Company Data & Ratios**

Enterprise value	<b>n/m</b>
Market cap	<b>\$169,888m</b>
Issued capital	<b>1,706m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$292.8m</b>
12 month price range	<b>\$81.56 - \$110.19</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	99.97	108.50	87.06
Absolute (%)	-0.41	-8.24	14.36
Rel market (%)	0.84	-5.94	6.71

**Absolute Price**


SOURCE: IRESS

**1H22: \$4.75bn cash NPAT, 175¢ interim dividend**

CBA's result includes: 1) cash NPAT (continuing operations) \$4.75bn (BP \$4.38bn); 2) cash EPS (continuing operations) 273¢ (BP 247¢); 3) interim dividend 175¢ (BP 162¢) fully franked (payout ratio 62%); 4) ROE (continuing operations) 12.3% (BP 11.4%); 5) NIM (continuing operations) 1.92% (BP 1.93%); 6) loan impairment expense - \$0.07bn/-2bp GLA (BP \$0.32bn/8bp); and 7) CET1 ratio 11.8% (BP 11.4%).

We will focus purely on cash NPAT from continuing operations. CBA's \$4.75bn cash NPAT was 8% higher than our forecast and was mainly due to a benefit in loan impairment. Regardless, this was another strong outcome despite low interest rates and purely as a result of COVID-19. Other than a loan impairment benefit of \$0.07bn/2bp GLA, this was also due to continued volume growth in home lending, business lending and deposits (above system growth in all core markets), disciplined and flat operating costs, reduction in remediation costs and, above all, a still improving economic outlook. Cash NPAT was nearly on par with 2H21, a great outcome. There was also investment in operational execution (in line with the bank's strategic priorities) coupled with a return of excess capital to shareholders of \$2bn (on-market share buyback; surplus capital post buy-back would be around \$4bn). Finally, the interim dividend was set at 175¢ being fully franked (no DRP, neutralised).

**\$108.00 price target unchanged, back to a Buy**

While cash earnings in FY22e and FY23e are increased substantially by 11% and 8%, these were mainly due to lower credit impairment expenses [FY22e \$101m (previously \$728m) and FY23e \$761m (previously \$1,113m)]. There were also benefits from higher total operating income every year (4-5%) mainly from volume-related lending and deposit fees. Given that, cash earnings were increased by 2% from FY25e onwards. Net of higher risk metrics (sustainable dividend yield up by 25bp to 3.75% and discount rate up by the same amount to 9.75%), the amount is only break-even – meaning the valuation and price target are unchanged from \$108.00. Allowing for the current interim dividend of 175¢, the rating for CBA is brought back to a Buy.

**Earnings Forecast**

Year end 30 June	2021	2022e	2023e	2024e
NPAT (reported) (A\$m)	10,181	10,828	9,842	10,036
NPAT (cash, continuing) (A\$m)	8,653	9,704	9,842	10,036
EPS (cash, continuing) (A¢)	489	563	574	582
EPS (cash) growth (%)	20%	15%	2%	1%
PER (x)	20.4	17.7	17.3	17.1
P/Book (x)	2.2	2.2	2.1	2.0
P/NTA (x)	2.4	2.4	2.3	2.2
Dividend (A¢)	350	387	407	423
Yield (%)	3.5%	3.9%	4.1%	4.2%
ROE (continuing) (%)	11.5%	12.7%	12.5%	12.1%
NIM (continuing) (%)	2.08%	1.92%	1.93%	1.94%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# The bazooka king

## 1H22: \$4.75bn cash NPAT, 175¢ interim dividend

CBA's result is as follows:

1. Statutory NPAT \$5.87bn (BP \$4.68bn);
2. Cash NPAT (including discontinued operations and one-offs) \$4.85bn (BP \$4.38bn);
3. Cash EPS (including discontinued operations and one-offs) 279¢ (BP 247¢);
4. Cash NPAT (continuing operations) \$4.75bn (BP \$4.38bn);
5. Cash EPS (continuing operations) 273¢ (BP 247¢);
6. Interim dividend 175¢ (BP 162¢) fully franked (payout ratio 62%);
7. ROE (continuing operations) 12.3% (BP 11.4%);
8. NIM (continuing operations) 1.92% (BP 1.93%);
9. Loan impairment expense (LIE) -\$0.07bn/-2bp GLA (BP \$0.32bn/8bp); and
10. CET1 ratio 11.8% (BP 11.4%).

We will focus purely on cash NPAT from continuing operations. CBA's \$4.75bn cash NPAT was 8% higher than our forecast and was mainly due to a benefit in loan impairment. Regardless, this was another strong outcome despite low interest rates and purely as a result of COVID-19. Other than a loan impairment benefit of \$0.07bn/2bp GLA, this was also due to continued volume growth in home lending, business lending and deposits (above system growth in all core markets), disciplined and flat operating costs, reduction in remediation costs and, above all, a still improving economic outlook.

The following table implies cash NPAT was nearly on par with 2H21, a great outcome. There was also investment in operational execution (in line with the bank's strategic priorities) coupled with a return of excess capital to shareholders of \$2bn (on-market share buyback; surplus capital post buy-back would be around \$4bn). Finally, the interim dividend was set at 175¢ being fully franked (no DRP, neutralised).

Table 1 – 1H22 vs. 2H21 and 1H21

CBA Y/E 30 June (cash basis, continuing operations, \$m)		1H21a	2H21a	1H22a	Movement 1H22a vs. 2H21a	Forecast
Operating income	As reported	11,961	12,195	12,205	0.1%	-1.7%
	Mortgage Broking consolidation & other	0	0	0		
	Operating income excluding notable items	11,961	12,195	12,205	0.1%	-1.7%
Operating expenses	As reported	5,591	5,768	5,588	-3.1%	-5.0%
	Insurance recovery	0	0	0		
	Mortgage Broking consolidation	0	0	0		
	Customer remediation	-242	-333	0		
	Risk & compliance uplifts	0	0	0		
	Operating expense excluding customer remediation	5,349	5,435	5,588	2.8%	0.8%
Loan impairment expense (LIE)		882	-328	-75	n/m	n/m
Cash NPBT excluding notable items as reported		5,730	7,088	6,692	-5.6%	-12.7%
<b>Cash NPAT as reported</b>		<b>3,868</b>	<b>4,785</b>	<b>4,746</b>	<b>-0.8%</b>	<b>-8.5%</b>
<b>Statutory NPAT as reported</b>		<b>4,869</b>	<b>5,312</b>	<b>5,870</b>	<b>10.5%</b>	<b>-8.0%</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Profit & loss highlights

### TOTAL OPERATING INCOME

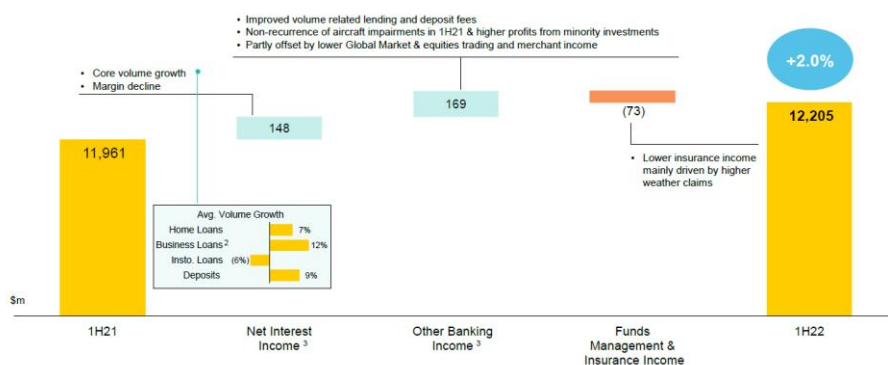
Total operating income was up by 2% to \$12.21bn, driven by core volume growth (home lending, business lending and deposits) and higher fee income offset by lower NIM. While NII increased by 1.5%, there was a fall in NIM by 14bp to 1.92% (although the fall was much smaller at 5bp based on excluded lower yielding liquid assets and basically driven by more fixed rate home loans, rising swap rates and ongoing pressure in the home loan market space).

Home loan price competition and switching may continue in the second half but non-interest income was up by 4.1% (and mainly driven by higher volume related lending and deposit fee income).

Figure 1 – Operating income 1

### Operating income<sup>1</sup>

Strong core volume growth & higher OBI, partly offset by lower margin & reduced insurance income



SOURCE: COMPANY DATA

Figure 2 – Operating income 2

### Group margin<sup>1</sup> – last 6 months

Impacted by continued fixed rate switching and home loan competition



SOURCE: COMPANY DATA

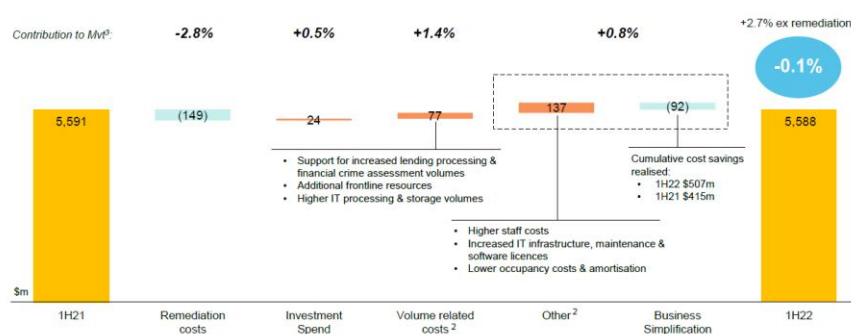
## OPERATING EXPENSES

Operating expenses remained a key positive at \$5.58bn, being flat, and were driven by lower occupancy, IT and remediation costs that just offset higher staff expenses (necessary to support volumes and strategic initiatives). Staff expenses increased by 13% due to higher staff numbers (increased loan application processing, higher financial crime assessment volumes and cyber security capabilities) and wage inflation. Occupancy and equipment expenses were down by 16% due to branch/ATM optimisations and exit of commercial office space, while IT expenses fell by 5% as a result of lower amortisation and business simplification initiatives net of higher infrastructure and maintenance costs. Finally, remediation costs were now lower driven by lower Aligned Advice costs.

Figure 3 – Operating expenses

### Operating expenses<sup>1</sup>

Lower remediation costs & business simplification benefits offsetting higher investment spend, volume and staff costs



1. Presented on a continuing operations basis. 2. Excludes remediation and investment spend. 3. Growth rate percentages calculated on 1H21 cost base excluding remediation.

SOURCE: COMPANY DATA

## LOAN IMPAIRMENT EXPENSE

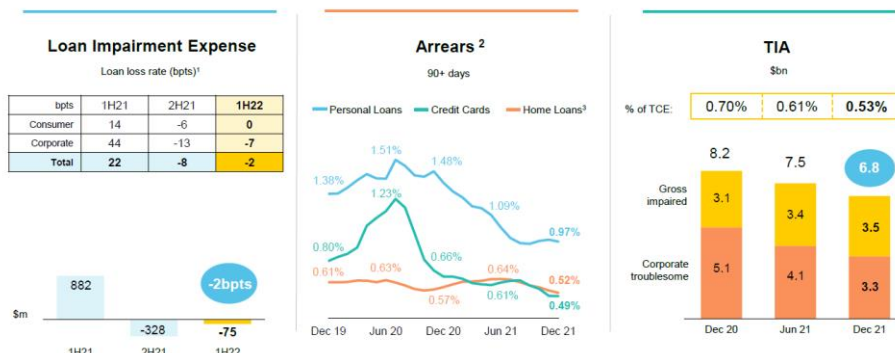
Loan impairment expense decreased by \$957m to a benefit of \$75m basically due to an improved COVID-19 economic outlook. This was not anticipated but certainly fills in the gap for the time being, and we have lowered the costs over the next few years. Regardless, provisions were still higher than expected losses under the central economic scenario. Arrears on home loans and consumer finance remained low, likewise credit card and personal loans. As such, troublesome and impaired assets further decreased by almost 10% to \$6.8bn while Corporate troublesome assets further decreased by \$0.8bn on the previous half (refinancing, repayments and upgrades).

Overall loan impairment provisions decreased from \$6.82bn to \$5.85bn as such. On the other hand, there was a small increase in gross impaired assets (+\$73m) due to New Zealand restructured home loans and a small number of single corporate name exposures.

Figure 4 – Loan impairment expense

## Credit risk

Leading indicators reflect continued improvement in economic conditions and outlook



<sup>1</sup> Loan Impairment Expense as a percentage of average Gross Loans and Acceptances (GLAA) (bpts) annualised. <sup>2</sup> Group consumer arrears including New Zealand. APRA's prudential relief for customers on eligible COVID-19 loan repayment deferral arrangements has effectively 'stopped the clock' on home loan and personal loan arrears. <sup>3</sup> Excludes Reverse Mortgage, Commonwealth Portfolio Loan and Residential Mortgage Group loans.

SOURCE: COMPANY DATA

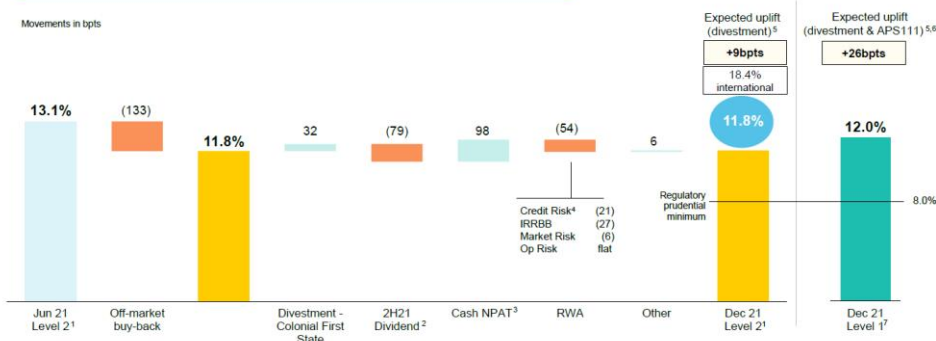
## OTHER ITEMS

The quality of the bank's funding, liquidity and capital measures continue to be strong. The loan book is still 73% deposit funded (and almost unchanged at 74% at the end of FY20), while LCR was 134%, NSFR was 131% and Level 2 CET1 ratio was 11.8%. CBA completed the \$6bn off-market share buy-back (-133bp) plus the 2H21 final dividend payment (-79bp) and higher RWA (-54bp), funded by strong profit generation (+98bp) and asset sales (+32bp). The interim dividend was 175¢ and payout ratio was 62% (or ~70% normalised for long run loss rates). The bank will still target a full year cash payout ratio of 70-80% and an interim ratio of ~70%.

Figure 5 – Capital management 1

## Capital

Strong capital position retained post off-market buy-back and dividends



<sup>1</sup> Level 2 is the consolidated banking group including banking subsidiaries such as ASB Bank, PT Bank Commonwealth (Indonesia) and CBA Europe N.V. It excludes the insurance businesses.

<sup>2</sup> 2021 final dividend included the on-market purchase of shares in respect of the DRP. <sup>3</sup> Excludes equity accounting profits from minority investments as it is capital neutral with offsetting increases in capital deductions. <sup>4</sup> Excludes impact of FX movements which is included in 'Other'. <sup>5</sup> Expected CET1 uplift from the previously announced divestment Comminsure General Insurance (Level 2: 8bpts; Level 1: 8bpts). Completion of divestments subject to regulatory approvals. <sup>6</sup> Implementation of the revised final APS 111 from 1 January 2022, in which investments in regulated banking and insurance subsidiaries will be risk weighted at 250% (currently 400%), capped at 10% of CET1 capital, above which investments are treated as a 100% CET1 deduction. The revision will contribute 20bpts uplift in Level 1 CET1 ratio.

<sup>7</sup> Level 1 is the CBA parent bank, offshore branches and extended license entities approved by APRA.

SOURCE: COMPANY DATA

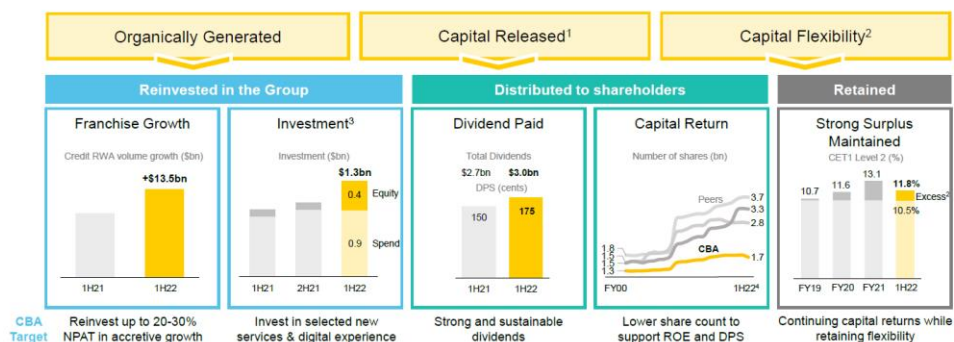
Despite the misgivings of the market and especially COVID-19's Omicron strain, CBA sees FY22 as a strong year. The unemployment (and underemployment rate) are the lowest since 2008 and Australian household accumulated savings are stronger than ever (likewise the rate at which wage growth is anticipated). Inflation is likely to increase in due course (and that's a good thing for all banks) while non-mining investment including infrastructure

continue to hold up reasonably well. The bank has again bounced back from its lows and is on its way back to its usual top line growth potential.

Figure 6 – Capital management 2

## Capital management

A disciplined and balanced approach that optimises growth, reinvestment, shareholder returns and flexibility



<sup>1</sup> Capital released from divestments and changes in financial and non-financial risk exposures. <sup>2</sup> Capital surplus in excess of APRA's current 10.5% benchmark. <sup>3</sup> Investment spend in the franchise and capital injected in equity investments. 1H22 equity includes ~\$200m PEXA investment. <sup>4</sup> CBA shares on issue as at 31 December 2021. Peer banks' share numbers as at 30 September 2021.

SOURCE: COMPANY DATA

## SIX MONTHLY TRENDS AND VARIANCE ANALYSIS

The bank's six monthly trends and variance analysis are found below.

Table 2 – Variance analysis

Commonwealth Bank Y/E 30 June (\$m)	1H22	BP	Variance	Comments
<b>Profit &amp; Loss (continuing)</b>				
Net interest income	9,748	9,387	4%	Better outcome due to higher lending and deposit volumes
Other income	2,457	2,596	-5%	Basically due to lower trading and insurance income
<b>Total operating income</b>	<b>12,205</b>	<b>11,983</b>	<b>2%</b>	Broadly in line with expectations
Operating expenses	-5,588	-5,479	-2%	Broadly in line with expectations
Loan impairment expense	75	-318	-525%	Drivers were Corporate and Consumer (-7bp and 0bp respectively)
<b>Net profit before income tax</b>	<b>6,692</b>	<b>6,185</b>	<b>8%</b>	Mainly due to lower loan impairment outcome
Corporate tax expense	-1,946	-1,807	-7%	
Minority interests	0	0	n/m	
Investment experience	0	0	n/m	
<b>NPAT (cash basis inc. discount'd)</b>	<b>4,746</b>	<b>4,378</b>	<b>8%</b>	Mainly due to lower loan impairment outcome
<b>NPAT (cash basis, continuing)</b>	<b>4,746</b>	<b>4,378</b>	<b>8%</b>	Mainly due to lower loan impairment outcome
<b>DPS (cps)</b>	<b>175</b>	<b>162</b>	<b>8%</b>	Positive outcome based on higher payout ratio
<b>EPS (cash basis inc. discount'd) (¢)</b>	<b>273</b>	<b>247</b>	<b>11%</b>	Mainly due to lower loan impairment outcome
<b>EPS (cash basis, continuing) (¢)</b>	<b>273</b>	<b>247</b>	<b>11%</b>	Mainly due to lower loan impairment outcome
NIM	1.92%	1.93%	-0.01%	Mainly due to lower loan impairment outcome
ROE	12.3%	11.4%	0.9%	Mainly due to lower loan impairment outcome
<b>Underlying earnings (ex-BDD)</b>	<b>6,617</b>	<b>6,504</b>	<b>1.7%</b>	Mainly due to lower loan impairment outcome
Total BDD charge as % of GLA	-0.02%	0.08%	0.10%	Better outcome reflects our initial conservatism
Effective tax rate	29%	29%	0%	Broadly in line with expectations

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES



Table 3 – Six-month trends (12 periods)

Group KPIs	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Growth in NIE	8%	3%	4%	6%	3%	-1%	0%	2%	2%	3%	5%	2%
Growth in total income	4%	4%	1%	-1%	-1%	-2%	-9%	-3%	5%	-1%	4%	2%
Growth in operating expenses	3%	5%	-1%	0%	8%	-3%	0%	-2%	5%	7%	0%	0%
Growth in PBT before BDD	6%	3%	4%	-2%	-7%	-1%	-16%	-4%	6%	-7%	8%	4%
Growth in loans	8%	6%	5%	4%	2%	2%	1%	1%	3%	3%	5%	8%
Growth in deposits	7%	7%	6%	0%	-2%	6%	5%	3%	11%	11%	7%	11%
NIM	2.14%	2.10%	2.10%	2.16%	2.14%	2.10%	2.08%	2.11%	2.04%	2.06%	2.09%	1.92%
Cost ratio	43%	43%	41%	43%	45%	43%	50%	43%	49%	47%	47%	46%
Cost / average assets	1.14%	1.15%	1.06%	1.13%	1.14%	1.08%	1.13%	1.06%	1.16%	1.08%	1.07%	1.00%
Tier 1 capital ratio	12.3%	11.5%	12.1%	12.4%	12.3%	12.9%	12.7%	14.1%	13.9%	15.0%	15.7%	14.0%
Loan impairment expense / GLA	0.20%	0.17%	0.14%	0.16%	0.13%	0.15%	0.17%	0.17%	0.48%	0.22%	-0.08%	-0.02%
Total provisions + GRCL / GLA	0.54%	0.54%	0.51%	0.51%	0.49%	0.63%	0.64%	0.66%	0.82%	0.87%	0.76%	0.69%
ROE	15.8%	15.8%	15.7%	14.2%	13.1%	13.8%	10.4%	12.3%	8.1%	10.5%	12.5%	12.3%
ROA	1.01%	1.01%	1.00%	0.95%	0.89%	0.96%	0.72%	0.89%	0.58%	0.75%	0.89%	0.85%

RBS	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Market share												
- Home loans	12.2%	12.3%	12.3%	12.9%	12.8%	12.4%	12.6%	13.4%	13.5%	13.5%	13.7%	14.4%
- Consumer loans	0.7%	0.7%	0.6%	0.9%	0.9%	0.5%	0.5%	0.6%	0.5%	0.4%	0.4%	0.4%
- Deposits	11.1%	11.2%	10.7%	11.8%	11.6%	10.3%	10.2%	11.1%	10.6%	10.4%	10.1%	10.7%
NIM	2.91%	2.90%	2.91%	2.77%	2.71%	2.57%	2.53%	2.65%	2.62%	2.61%	2.60%	2.44%
Other income / footings	0.15%	0.17%	0.17%	0.15%	0.13%	0.13%	0.13%	0.12%	0.10%	0.09%	0.10%	0.09%
Operating expense / footings	0.29%	0.29%	0.29%	0.32%	0.31%	0.32%	0.34%	0.32%	0.31%	0.31%	0.29%	0.29%
Cost ratio	32%	31%	31%	35%	36%	38%	42%	38%	39%	40%	38%	40%
Impairment expense / loans	0.11%	0.10%	0.10%	0.09%	0.08%	0.08%	0.10%	0.07%	0.19%	0.07%	-0.04%	0.00%
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%

BB / IB&M	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Market share												
- Loans	8.3%	8.4%	8.4%	10.1%	9.8%	10.2%	9.8%	9.3%	9.3%	9.3%	9.2%	9.5%
- Other IEA	1.1%	1.1%	1.2%	1.1%	1.0%	1.1%	1.3%	1.6%	1.6%	1.8%	1.4%	1.7%
- IBL	10.3%	10.3%	10.6%	12.1%	11.9%	13.0%	12.8%	12.3%	12.4%	11.9%	11.3%	11.6%
NIM	1.97%	1.92%	1.94%	2.15%	2.20%	2.27%	2.34%	2.19%	2.53%	2.20%	2.29%	2.25%
Other income / footings	0.22%	0.25%	0.22%	0.24%	0.22%	0.21%	0.18%	0.20%	0.17%	0.17%	0.14%	0.14%
Operating expense / footings	0.27%	0.27%	0.26%	0.28%	0.30%	0.27%	0.29%	0.27%	0.26%	0.26%	0.28%	0.25%
Cost ratio	39%	37%	38%	34%	37%	35%	40%	37%	35%	37%	42%	39%
Impairment expense / AIEA	0.09%	0.04%	0.01%	0.07%	0.04%	0.07%	0.06%	0.09%	0.26%	0.14%	-0.04%	-0.02%
Effective tax rate	29%	27%	28%	28%	28%	28%	28%	29%	23%	29%	29%	29%

Wealth	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
Growth in FUA	0%	0%	6%	-57%	-58%	-	-	-	-	-	-	-
Funds management return	0.28%	0.27%	0.27%	0.30%	0.29%	-	-	-	-	-	-	-
Growth in insurance income	-25%	-67%	-92%	-100%	-100%	-	-	-	-	-	-	-
Volume expenses / TOI	27%	32%	37%	0%	0%	-	-	-	-	-	-	-
Growth in operating expenses	-9%	-23%	-41%	-36%	-29%	-	-	-	-	-	-	-
Effective tax rate	21%	26%	24%	29%	30%	-	-	-	-	-	-	-

New Zealand	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	1H22
NIM	2.20%	2.09%	2.04%	2.20%	2.27%	2.23%	2.23%	2.15%	2.09%	2.12%	2.31%	2.19%
Other income / footings	0.12%	0.13%	0.13%	0.14%	0.13%	0.14%	0.13%	0.14%	0.11%	0.10%	0.10%	0.10%
Operating expense / footings	0.33%	0.26%	0.26%	0.27%	0.28%	0.27%	0.28%	0.28%	0.31%	0.26%	0.29%	0.25%
Cost ratio	41%	37%	38%	37%	38%	36%	37%	37%	45%	39%	41%	36%
Impairment expense / AIEA	0.11%	0.06%	0.02%	0.03%	0.06%	0.05%	0.07%	0.02%	0.28%	0.03%	-0.03%	0.00%
Effective tax rate	26%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## \$108.00 price target unchanged, back to a Buy

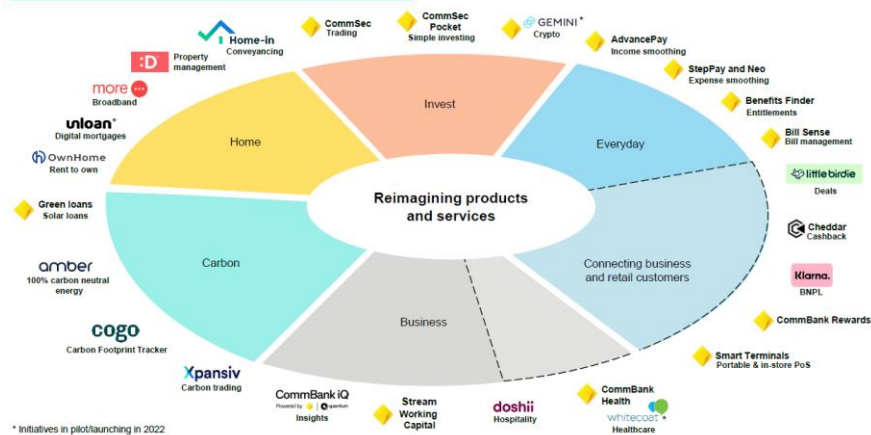
While cash earnings in FY22e and FY23e are increased substantially by 11% and 8%, these were mainly due to lower credit impairment expenses [FY22e \$101m (previously \$728m) and FY23e \$761m (previously \$1,113m)]. There were also benefits from higher total operating income every year (4-5%) mainly from volume-related lending and deposit fees. Given that, cash earnings were increased by 2% from FY25e onwards. Net of higher risk metrics (sustainable dividend yield up by 25bp to 3.75% and discount rate up by the same amount to 9.75%), the amount is only break-even – meaning the valuation and price

target are unchanged from \$108.00. Allowing for the interim dividend of 175¢, the rating for CBA is brought back to a Buy.

Figure 7 – Banking reimagined

## Reimagined products and services

Reinforcing our core proposition – example initiatives



SOURCE: COMPANY DATA

Table 4 – Estimate changes

Commonwealth Bank	FY22e			FY23e			FY24e			FY25e		
Y/e June 30 (\$m)	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
<b>Profit &amp; Loss (continuing)</b>												
Net interest income	20,034	18,902	6%	21,042	19,420	8%	21,689	19,954	9%	22,361	20,503	9%
Other income	4,977	5,253	-5%	4,969	5,507	-10%	5,188	5,798	-11%	5,341	5,942	-10%
<b>Total operating income</b>	<b>25,012</b>	<b>24,156</b>	<b>4%</b>	<b>26,010</b>	<b>24,928</b>	<b>4%</b>	<b>26,877</b>	<b>25,751</b>	<b>4%</b>	<b>27,702</b>	<b>26,445</b>	<b>5%</b>
Operating expenses	-11,241	-11,111	-1%	-11,399	-10,914	-4%	-11,553	-10,886	-6%	-11,742	-10,827	-8%
Loan impairment expense	-101	-728	622%	-761	-1,113	46%	-1,202	-1,250	4%	-1,366	-1,285	-6%
<b>Net profit before income tax</b>	<b>13,670</b>	<b>12,316</b>	<b>11%</b>	<b>13,851</b>	<b>12,900</b>	<b>7%</b>	<b>14,123</b>	<b>13,616</b>	<b>4%</b>	<b>14,594</b>	<b>14,334</b>	<b>2%</b>
Corporate tax expense	-3,966	-3,598	-9%	-4,008	-3,770	-6%	-4,087	-3,979	-3%	-4,221	-4,188	-1%
Investment expense	0	0	n/a	0	0	n/a	0	0	n/a	0	0	n/a
<b>NPAT (cash basis)</b>	<b>9,704</b>	<b>8,718</b>	<b>11%</b>	<b>9,842</b>	<b>9,130</b>	<b>8%</b>	<b>10,036</b>	<b>9,637</b>	<b>4%</b>	<b>10,372</b>	<b>10,145</b>	<b>2%</b>
<b>DPS (cps)</b>	<b>387</b>	<b>374</b>	<b>3%</b>	<b>407</b>	<b>403</b>	<b>1%</b>	<b>423</b>	<b>426</b>	<b>-1%</b>	<b>439</b>	<b>448</b>	<b>-2%</b>
EPS (cash basis) (cps)	563	501	12%	574	535	7%	582	565	3%	597	595	0%
Payout ratio	69%	75%	-6%	71%	75%	-4%	73%	75%	-3%	74%	75%	-2%
ROE	12.7%	11.6%	1.2%	12.5%	11.9%	0.6%	12.1%	12.0%	0.1%	11.9%	12.2%	-0.3%
NIM	1.92%	1.94%	-0.01%	1.93%	1.94%	-0.01%	1.94%	1.95%	-0.01%	1.95%	1.95%	-0.01%
Cost ratio	45%	46%	1%	44%	44%	0%	43%	42%	-1%	42%	41%	-1%
Impairment expense as % of GLA	0.01%	0.09%	0.08%	0.08%	0.13%	0.04%	0.13%	0.14%	0.01%	0.14%	0.14%	0.00%
Effective tax rate	29%	29%	0%	29%	29%	0%	29%	29%	0%	29%	29%	0%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES



# Commonwealth Bank

## Company description

CBA is Australia's leading integrated financial services organisation, providing banking and wealth management (funds management, superannuation, insurance and investment advice) products and services to over 10m customers. It currently occupies pole positions in home lending and retail deposits. The bank's strategic strengths of scale, brand and diversified mix is supported by an irreplaceable infrastructure consisting of over 1,100 branches, 3,800 Australia Post agencies and nearly 3,600 ATMs.

## Investment strategy

CBA's strategy is built upon continuous service and sales improvement backed by IT and operational excellence, and a leadership position in retail banking. Incremental value add is expected to come from opportunities in the SME banking, ECM / DCM and wealth management space (particularly in advice, private banking and life risk where the market is 80% underinsured) and selective Asian expansion (East Asia and Singapore).

## Valuation

The price target is based on a composite valuation of DCF, dividend yield, ROE and Sum-of-Parts weighted equally.

Table 5 – Composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	148,739	\$87.17	25%	\$21.79
Dividend yield (sustainable)	185,200	\$108.53	25%	\$27.13
ROE (sustainable)	194,990	\$114.27	25%	\$28.57
Sum-of-Parts	187,709	\$110.00	25%	\$27.50
Surplus capital *	5,534	\$3.24		\$3.24
<b>Total</b>				<b>\$108.24</b>

\* Less estimated capital deductions

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 6 – SOP valuation

SOP Valuation	FY23e NPAT	Pros. PE (times)	Value (\$m)	Per share
Retail Banking	4,636	18.0	83,450	\$48.90
B&PB / IB&M	4,283	18.5	79,243	\$46.44
Wealth Management	0	0.0	-	-
New Zealand	1,429	17.5	25,015	\$14.66
Other	-507	-	-	-
<b>Total</b>	<b>9,842</b>	<b>19.1</b>	<b>187,709</b>	<b>\$110.00</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## SWOT analysis

### Strengths

1. Retail and business banking (sales and service);
2. Strong management and execution capabilities;
3. Cost discipline;
4. Lower risk banking assets; and
5. IT capabilities.

### Weaknesses

1. WA market although recovering slowly; and
2. Ongoing liquidity drag in a low rate environment that is a systemic issue.

**Opportunities**

1. Value add from ECM / DCM opportunities in capitalising on the bank's AA- rating and balance sheet strength;
2. Selected capital-light offshore e-banking opportunities; and
3. Leveraged to the strength of NSW and VIC economies.

**Threats**

1. Macroeconomic factors such as higher unemployment and slowing credit growth;
2. COVID-19 fallout;
3. Changes in regulatory environment;
4. Disruptors;
5. Negative fallout from offshore regulator civil actions and domestic class actions;
6. Bank re-regulation; and
7. Some sovereign risk.

**Sensitivities****Table 7 – Sensitivities**

Y/e June 30	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e
<b>Sensitivities</b>									
<b>Group NIM +10bp</b>									
- NPAT upside (cash basis)	7.5%	7.7%	7.8%	7.7%	7.7%	7.7%	7.6%	7.6%	7.6%
- Price target upside	\$8.11	\$8.37	\$8.42	\$8.36	\$8.33	\$8.29	\$8.26	\$8.23	\$8.20
<b>Group Loans +1%</b>									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
- Price target upside	\$0.82	\$0.81	\$0.81	\$0.81	\$0.81	\$0.81	\$0.81	\$0.81	\$0.81
<b>RBS loans +1%</b>									
- NPAT upside (cash basis)	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.53	\$0.51	\$0.50	\$0.49	\$0.49	\$0.48	\$0.48	\$0.47	\$0.47
<b>B&amp;PB/IB&amp;M loans +1%</b>									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.47	\$0.47	\$0.47	\$0.48	\$0.48	\$0.48	\$0.47	\$0.47	\$0.46
<b>NZ loans +1%</b>									
- NPAT upside (cash basis)	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
- Price target upside	\$0.15	\$0.16	\$0.16	\$0.16	\$0.17	\$0.17	\$0.18	\$0.18	\$0.19
<b>Other income +1%</b>									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
- Price target upside	\$0.39	\$0.38	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39	\$0.39
<b>BDD +1%</b>									
- NPAT upside (cash basis)	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
- Price target upside	-\$0.01	-\$0.06	-\$0.09	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10	-\$0.10
<b>Costs +1%</b>									
- NPAT upside (cash basis)	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
- Price target upside	-\$0.88	-\$0.88	-\$0.87	-\$0.86	-\$0.86	-\$0.86	-\$0.86	-\$0.86	-\$0.86

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Commonwealth Bank

as at 9 February 2022

Recommendation

Buy

Price

\$99.56

Target (12 months)

\$108.00

Table 8 – Financial summary

Commonwealth Bank						Share Price (A\$)						99.56
As at						Market Cap (A\$M)						169,888
9-Feb-22												
PROFIT AND LOSS						VALUATION DATA						
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e June 30	2020	2021	2022e	2023e	2024e	
Net interest income	18,610	19,302	20,034	21,042	21,689	NPAT (cash basis) (\$m)	7,225	8,653	9,704	9,842	10,036	
Other banking income	4,837	4,544	4,777	4,760	4,975	NPAT (cash basis, continuing) (\$m)	7,225	8,653	9,704	9,842	10,036	
Total banking income	23,447	23,846	24,811	25,802	26,663	EPS (statutory basis) (cps)	418	575	628	574	582	
Funds management income	173	165	165	173	178	- Growth	-14%	38%	9%	-9%	1%	
Insurance income	141	145	36	36	36	EPS (cash basis) (cps)	408	489	563	574	582	
Total operating income	23,761	24,156	25,012	26,010	26,877	- Growth	-17%	20%	15%	2%	1%	
Operating expenses	-10,996	-11,359	-11,241	-11,399	-11,553	EPS (cash basis, continuing) (cps)	408	489	563	574	582	
Loan impairment expense	-2,518	-554	-101	-761	-1,202	- Growth	-12%	20%	15%	2%	1%	
Net profit before income tax	10,247	12,243	13,670	13,851	14,123	P / E ratio (times)	24.4	20.4	17.7	17.3	17.1	
Corporate tax expense	-3,022	-3,590	-3,966	-4,008	-4,087	P / Book ratio (times)	2.4	2.2	2.2	2.1	2.0	
Minority interests	0	0	0	0	0	P / NTA ratio (times)	2.6	2.4	2.4	2.3	2.2	
Net profit after tax from discontinued operations	0	0	0	0	0	Net DPS (cps)	298	350	387	407	423	
Investment experience	0	0	0	0	0	Yield	3.0%	3.5%	3.9%	4.1%	4.2%	
NPAT (cash basis)	7,225	8,653	9,704	9,842	10,036	Franking	100%	100%	100%	100%	100%	
Adjustments	163	1,528	1,124	0	0	Payout (cash basis, target 70-80%)	73%	72%	69%	71%	73%	
NPAT (statutory basis)	7,388	10,181	10,828	9,842	10,036							
CASHFLOW						CAPITAL ADEQUACY						
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Y/e June 30	2020	2021	2022e	2023e	2024e	
NPAT (cash basis)	7,225	8,653	9,704	9,842	10,036	Risk weighted assets (\$m)	454,948	450,680	485,399	512,750	558,738	
Increase in loans	-19,318	-39,995	-57,324	-27,021	-28,064	Average risk weight	47%	45%	47%	48%	50%	
Increase in other assets	-1,264	17,636	4,972	-9,196	-9,854	Tier 1 ratio	13.9%	15.7%	14.0%	13.6%	13.6%	
Capital expenditure	-3,219	318	210	-153	-158	CET1 capital ratio	11.6%	13.1%	11.8%	11.6%	11.7%	
Investing cashflow	-23,801	-22,041	-52,142	-36,371	-38,076	Total capital ratio	17.5%	19.8%	17.9%	17.3%	16.9%	
Increase in deposits & borrowings	68,568	46,989	77,639	33,565	35,179	Equity ratio	7.1%	7.2%	6.5%	6.7%	6.8%	
Increase in other liabilities	-33,374	24,251	10,522	-1,325	-1,130	DIVISIONAL						
Ordinary equity raised	0	0	0	0	0	Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	
Other	-3,840	-1,976	-11,408	-5,711	-6,009	Retail Banking Services						
Financing cashflow	31,354	69,264	76,752	26,529	28,039	Net interest income	9,697	9,769	9,954	10,384	10,644	
Net change in cash	14,778	55,876	34,314	0	0	Other income	1,510	1,341	1,493	1,379	1,503	
Cash at end of period	44,165	100,041	134,355	134,355	134,355	Net interest income	9,697	9,769	9,954	10,384	10,644	
BALANCE SHEET						Other income	1,510	1,341	1,493	1,379	1,503	
Y/e June 30 (\$m)	2020	2021	2022e	2023e	2024e	Total banking income	11,207	11,110	11,447	11,764	12,147	
Cash and liquid assets	44,165	100,041	134,355	134,355	134,355	Operating expenses	-4,335	-4,333	-4,564	-4,706	-4,844	
Divisional gross loans	774,622	814,465	871,636	898,567	926,558	Loan impairment expense	-1,034	-139	-135	-473	-679	
Provisions	-6,363	-6,211	-6,058	-5,968	-5,895	Net profit before tax	5,838	6,638	6,748	6,584	6,624	
Divisional IEA	59,047	52,633	64,800	66,748	68,763	Corporate tax expense	-1,743	-1,986	-1,996	-1,948	-1,960	
Other IEA & other loans	114,393	104,811	88,827	96,075	103,915	Cash net profit after tax	4,095	4,652	4,752	4,636	4,664	
Intangibles	6,944	6,942	7,073	7,073	7,073	Home loans	400,921	423,113	456,666	468,082	479,785	
PP&E	5,602	5,284	5,074	5,227	5,385	Consumer & other loans	14,001	11,172	11,249	11,530	11,818	
Insurance assets	0	0	0	0	0	Deposits	246,031	253,203	277,584	287,300	297,355	
Other assets	15,650	14,010	12,855	12,855	12,855	Deposits non bearing interest	33,882	44,598	53,996	55,886	57,842	
Total assets	1,014,060	1,091,975	1,178,562	1,214,933	1,253,009	BB / IB&M						
Divisional deposits & borrowings	703,962	750,951	828,590	862,155	897,334	Net interest income	7,304	7,129	7,559	7,950	8,149	
Other borrowings	220,664	245,980	260,059	258,733	257,603	Other income	2,382	2,148	2,039	2,100	2,164	
Other liabilities	17,421	16,356	12,799	12,799	12,799	Total banking income	9,686	9,277	9,598	10,050	10,313	
Total liabilities	942,047	1,013,287	1,101,447	1,133,687	1,167,736	Operating expenses	-3,479	-3,645	-3,719	-3,831	-3,758	
Ordinary share capital	38,131	38,420	37,429	38,522	39,672	Loan impairment expense	-1,137	-324	46	-215	-368	
Other equity instruments	0	0	0	0	0	Net profit before tax	5,070	5,308	5,925	6,004	6,187	
Reserves	2,666	3,249	2,848	2,848	2,848	Corporate tax expense	-1,333	-1,542	-1,698	-1,721	-1,773	
Retained profits	31,211	37,014	36,833	39,871	42,748	Cash net profit after tax	3,737	3,766	4,227	4,283	4,414	
Minority interests	5	5	5	5	5	Loans	277,412	285,440	301,157	308,686	316,403	
Total shareholders' equity	72,013	78,688	77,115	81,246	85,273	Other IEA	48,147	42,022	53,537	54,876	56,248	
Total sh. equity & liabs.	1,014,060	1,091,975	1,178,562	1,214,933	1,253,009	IBL	288,136	283,871	301,694	312,253	323,182	
WANOS - statutory (m)	1,769	1,771	1,723	1,714	1,725	Deposits non bearing interest	58,407	73,838	91,684	94,893	98,214	
WANOS - cash (m)	1,769	1,771	1,723	1,714	1,725	Wealth Management						
PROFITABILITY RATIOS						Funds management income	0	0	0	0	0	
Y/e June 30	2020	2021	2022e	2023e	2024e	Insurance income	0	0	0	0	0	
Return on assets (continuing)	0.7%	0.8%	0.8%	0.8%	0.8%	Total operating income	0	0	0	0	0	
Return on equity (continuing)	10.2%	11.5%	12.7%	12.5%	12.1%	Volume expenses	0	0	0	0	0	
Leverage ratio	6.3%	6.5%	5.8%	5.8%	6.1%	Operating expenses	0	0	0	0	0	
Net interest margin (continuing)	2.07%	2.08%	1.92%	1.93%	1.94%	Net profit before tax	0	0	0	0	0	
Cost / income ratio	46%	47%	45%	44%	43%	Corporate tax expense	0	0	0	0	0	
Cost / average assets	1.10%	1.06%	0.97%	0.95%	0.93%	Investment experience	0	0	0	0	0	
Growth in operating income	1%	2%	4%	4%	3%	Cash net profit after tax	0	0	0	0	0	
Growth in operating expenses	2%	3%	-1%	1%	1%	FUA	0	0	0	0	0	
Jaws	-1%	-2%	5%	3%	2%	New Zealand						
ASSET QUALITY						Net interest income	1,934	2,150	2,401	2,587	2,776	
Y/e June 30	2020	2021	2022e	2023e	2024e	Other income	375	394	433	468	495	
Loan impairment expense / GLA	0.33%	0.07%	0.01%	0.08%	0.13%	Total banking income	2,309	2,544	2,834	3,056	3,272	
Loan impairment expense / RWA	0.55%	0.12%	0.02%	0.15%	0.22%	Funds management income	136	140	157	165	170	
Total provisions (\$m)	6,363	6,211	6,058	5,968	5,895	Insurance income	0	0	0	0	0	
Total provisions / RWA	1.40%	1.38%	1.25%	1.16%	1.06%	Total operating income	2,445	2,684	2,991	3,220	3,441	
Indiv ass prov / gross imp assets	27%	26%	23%	23%	23%	Operating expenses	-1,032	-1,071	-1,080	-1,162	-1,251	
IBL / IEA	98%	103%	107%	106%	106%	Loan impairment expense	-292	5	12	-72	-155	
Total provisions + GRCL / GLA	0.82%	0.76%	0.69%	0.66%	0.64%	Net profit before tax	1,121	1,618	1,923	1,986	2,036	
						Corporate tax expense	-312	-457	-539	-557	-571	
Effective tax rate	29%	29%	29%	29%	29%	Minority interests	0	0	0	0	0	
Payout (statutory)	71%	61%	62%	71%	73%	Investment experience	0	0	0	0	0	
						Cash net profit after tax	809	1,161	1,384	1,429	1,465	
						Loans	82,288	94,740	102,564	110,269	118,553	
						Other IEA	10,900	10,611	11,263	11,873	12,515	
						Deposits	57,879	72,274	79,625	87,118	95,316	
						Other IBL	19,626	23,167	24,007	24,705	25,425	

**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.*

**Research Team**

Staff Member	Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
<b>Analyst</b>			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Joseph House	Resources	613 9235 1624	jhouse
Regan Burrows	Resources	618 9326 7677	rburrows
Brad Watson	Resources	618 9326 7672	bwatson
<b>Associate</b>			
Michael Ardrey	Associate Analyst	613 9235 8782	mardrey
Daniel Laing	Associate Analyst	612 8224 2886	dlaing

**Bell Potter Securities Limited**  
ACN 25 006 390 7721  
Level 29, 101 Collins Street  
Melbourne, Victoria, 3000  
Telephone +61 3 9256 8700  
[www.bellpotter.com.au](http://www.bellpotter.com.au)

**Bell Potter Securities (HK) Limited**  
Room 1701, 17/F  
Prosperity Tower, 39 Queens Road  
Central, Hong Kong, 0000  
Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**  
Floor 39  
444 Madison Avenue, New York  
NY 10022, U.S.A  
Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**  
16 Berkeley Street  
London, England  
W1J 8DZ, United Kingdom  
Telephone +44 7734 2929

**The following may affect your legal rights. Important Disclaimer:**

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. **In Hong Kong**, this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. **In the United States**, this research is issued and distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

**Research Policies:**

For Bell Potter's Research Coverage Decision Making Process and Research Independence Policy, please refer to our company website:

<https://www.bellpotter.com.au/research-independence-policy/>

**Disclosure of interest:**

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

T S Lim, authoring analyst, holds long positions in CBA, CBAPH and CBAPL.

**ANALYST CERTIFICATION**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.