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Macquarie Group (MQG)

Lock and load

Recommendation
Buy (unchanged)
Price
\$123.51
Target (12 months)
\$140.00 (unchanged)

GICS Sector
Banks

Expected Return

| | |
|-----------------------|--------------|
| Capital growth | 13.4% |
| Dividend yield | 4.9% |
| Total expected return | 18.3% |

Company Data & Ratios

| | |
|------------------------|----------------------------|
| Enterprise value | n/m |
| Market cap | \$42,041m |
| Issued capital | 340m |
| Free float | 100% |
| Avg. daily val. (52wk) | \$124.3m |
| 12 month price range | \$103.30 - \$136.84 |

Price Performance

| | (1m) | (3m) | (12m) |
|----------------|--------|--------|--------|
| Price (A\$) | 130.48 | 121.71 | 123.95 |
| Absolute (%) | -5.34 | 1.48 | -0.35 |
| Rel market (%) | -0.41 | 1.60 | -4.16 |



SOURCE: IRESS

\$1.0bn Institutional Placement, and then some

MQG announced plans today to raise \$1.0bn via a non-underwritten Institutional Placement (~8.4m shares to be issued, ~2.5% of total existing shares on issue). This is in addition to an associated Share Purchase Plan that is subject to potential scaling. MQG expects net capital investment of around \$1.6bn in 2Q20: (a) \$1.0bn within Macquarie Capital (renewables, technology and infrastructure) and significant wind farm investments; and (b) \$0.6bn within Commodities and Global Markets to satisfy APRA's ~\$0.6bn capital requirement for counterparty credit risk exposures. The capital raising will enhance MQG's flexibility to invest in projects with attractive risk-adjusted shareholder returns and maintain appropriate regulatory capital levels.

FY20 guidance maintained

MQG also provided a limited trading update. 1H20 result is expected to be up ~10% (~\$1.44bn vs. BP previous forecast of ~\$1.53bn) on the 1H19 result (\$1.31bn), although down on the 2H19 result (\$1.67bn) that benefited from higher markets-facing business contributions. However, MQG has reaffirmed its FY20 guidance of being "slightly down on FY19" (we take this to mean down by 1-2%, all else being equal and subject to the usual caveats) and the short and medium term outlooks. Today's guidance implies MQG is still expecting FY20 statutory NPAT in the \$2.90-2.95bn range (vs. \$2.98bn in FY19) and this compares to our ~\$2.97bn forecast.

\$140.00 price target and Buy rating unchanged

Our estimates are broadly unchanged and we have maintained MQG's \$140.00 price target (with the expected capital dilution offset by valuation time creep). The Buy rating is also maintained and our positive view is supported by the Group as a long term "Cash and Growth" story. MQG's other competitive advantages include a strong balance sheet, proven risk management framework and culture, expertise in annuity-style and markets-facing segments, cost discipline, sector leading ROE, adaptability to changing market conditions and access to value-adding global growth options.

Earnings Forecast

| Year end 31 March | 2019 | 2020e | 2021e | 2022e |
|-------------------------------|-------|-------|-------|-------|
| NPAT (statutory) (A\$m) | 2,982 | 2,966 | 3,176 | 3,340 |
| NPAT (for diluted EPS) (A\$m) | 3,049 | 3,066 | 3,276 | 3,440 |
| EPS (reported) (A¢) | 883 | 878 | 942 | 993 |
| EPS (reported) growth (%) | 17% | -1% | 7% | 5% |
| PER (x) | 14.0 | 14.1 | 13.1 | 12.4 |
| P/Book (x) | 2.3 | 2.1 | 2.0 | 1.9 |
| P/NTA (x) | 2.6 | 2.3 | 2.2 | 2.1 |
| Dividend (A¢) | 575 | 601 | 637 | 673 |
| Yield (%) | 4.7% | 4.9% | 5.2% | 5.4% |
| ROE (%) | 18.0% | 15.8% | 16.0% | 16.0% |
| Compensation ratio (%) | 39% | 38% | 38% | 37% |
| Franking (%) | 45.0% | 45.0% | 45.0% | 45.0% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

Lock and load

\$1.0bn Institutional Placement, and then some

MQG announced plans today to raise \$1.0bn via a non-underwritten Institutional Placement (~8.4m shares to be issued, ~2.5% of total existing shares on issue). This is in addition to an associated Share Purchase Plan (SPP maximum application size \$15,000 at the lower of the Placement price and 1% discount to 5-day VWAP prior to and including the SPP closing date) that is subject to potential scaling depending upon the former's take-up, and follows recent net capital investment across most regions largely within Macquarie Capital (MacCap) and Macquarie Asset Management (MAM).

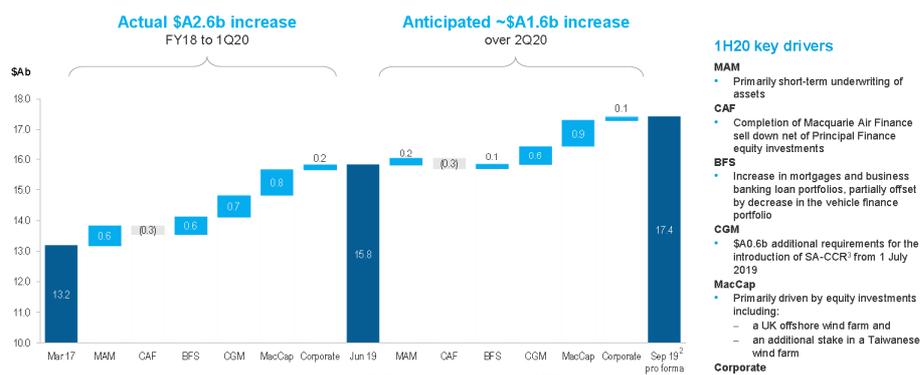
MQG expects net capital investment of around \$1.6bn in 2Q20 to be made up as follows: (a) \$1.0bn within MacCap (renewables, technology and infrastructure) and significant MAM wind farm investments in UK and Taiwan; and (b) \$0.6bn within Commodities and Global Markets (CGM) to satisfy APRA's ~\$0.6bn capital requirement flowing from the standardised approach for measuring counterparty credit risk exposures (SA-CCR) that came into effect 1 July 2019.

The capital raising will enhance MQG's flexibility to invest in projects with attractive risk-adjusted shareholder returns – good old fashioned “stocking the war chest” – and maintain appropriate regulatory capital levels (it should have sufficient capital following the raising to accommodate all Tier 1 capital requirements potentially arising from current regulatory reviews including finalisation of Basel III and TLAC). In terms of operational risk, Brexit is not regarded as a material event for MQG.

Figure 1 – Funding growth options

Macquarie | Capital raising and outlook update | macquarie.com Executive Summary Outlook update Capital Position Offer Appendix A – 1Q20 Update Appendix B – Key Risks

Business capital requirements¹



Investors should be aware of the key risks associated with an investment in Macquarie which are contained in appendix D. 1. Regulatory capital requirements are calculated at 8.5% RWVA including the capital conversion factor (CCF) per APRA 2019 Prudential Standard 110. Based on conservatively the 15.8% used to calculate capital requirements does not include the counterparty credit buffer (CCCB) of +12bps. The individual CCF varies by jurisdiction and the Bank Group's CCF is calculated as a weighted average based on exposure in different jurisdictions. Operating Group capital allocation for Sep 19 are based on the 15.8% RWVA and do not include the counterparty credit buffer. 2. The pro forma result is subject to counterparty credit risk exposures, regulatory additional, foreign exchange and other market movements. 3. APRA is planning the standardised approach for measuring counterparty credit risk exposures (SA-CCR) on 1 Jul 19. It is that SA-CCR has not yet been implemented in many jurisdictions, including US and EU.

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SOURCE: COMPANY DATA

Figure 2 – Timing

Macquarie | Capital raising and outlook update | macquarie.com | Executive Summary | Outlook update | Capital Position | Offer | Appendix A – 1Q20 Update | Appendix B – Key Risks

Offer timetable



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| Event | Date (Sydney time) |
|--|-------------------------------|
| Record date for SPP | 7.00pm Tuesday 27 August 2019 |
| Announcement of the Placement and trading halt | Wednesday 28 August 2019 |
| Placement bookbuild | Wednesday 28 August 2019 |
| Announcement of the outcome of the Placement | Thursday 29 August 2019 |
| Trading halt lifted | Thursday 29 August 2019 |
| Settlement of New Shares issued under the Placement | Monday 2 September 2019 |
| Allotment and normal trading of New Shares issued under the Placement | Tuesday 3 September 2019 |
| Expected SPP offer opening date | Wednesday 4 September 2019 |
| Expected SPP offer closing date | Friday 20 September 2019 |
| Expected SPP allotment date | Monday 30 September 2019 |
| Expected SPP holding statements dispatched and trading of new shares under the SPP | Tuesday 1 October 2019 |

All times and dates are indicative only and subject to change. NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES 19

SOURCE: COMPANY DATA

FY20 guidance reaffirmed

MQG also provided a limited trading update today. 1H20 result is expected to be up ~10% (~\$1.44bn vs. BP previous forecast of ~\$1.53bn) on the 1H19 result (\$1.31bn), although down on the 2H19 result (\$1.67bn) that benefited from higher markets-facing business contributions. However, MQG has reaffirmed its FY20 guidance of being “slightly down on FY19” (we take this to mean down by 1-2%, all else being equal and subject to the usual caveats including transaction completion, market conditions and FX impact) and the short and medium term outlooks (Figures 3 and 4).

Today’s guidance implies MQG is still expecting FY20 statutory NPAT in the \$2.90-2.95bn range (vs. \$2.98bn in FY19) and this compares to our ~\$2.97bn forecast. MQG further expects its FY20 compensation ratio to be in line with historical levels (estimated at 38-39%, in line with the BP forecast 38%) and the FY20 effective tax rate to be broadly in line with 23% in FY19 (BP forecast 23%). The 1H20 variance to our forecast is also likely due to transaction timing issues and we have left our FY20 forecast unchanged as a result.

Figure 3 – Conservative start to FY20

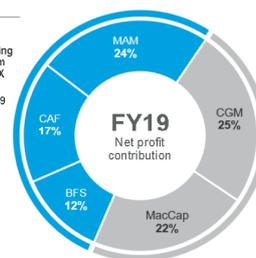
Macquarie | Capital raising and outlook update | macquarie.com | Executive Summary | Outlook update | Capital Position | Offer | Appendix A – 1Q20 Update | Appendix B – Key Risks

Factors impacting FY20 short-term outlook



Annuity-style businesses

- Macquarie Asset Management (MAM)**
Base fees expected to be broadly in line with FY19, benefitting from the deployment of capital and full-year effect of platform acquisitions, offset by divestments and internalisation of ALX
Performance fees and investment-related income (net of impairments) expected to be broadly in line with FY19
- Corporate and Asset Finance (CAF)**
Asset Finance portfolio broadly in line with FY19
Principal Finance expected to be down due to reduced loan volumes and timing of realisations
- Banking and Financial Services (BFS)**
Higher loan portfolio and platform volumes
Competitive dynamics to drive margin pressure



Markets-facing businesses

- Commodities and Global Markets (CGM)**
Strong customer base expected to drive consistent flow across Commodities, Fixed Income, Foreign Exchange and Futures
Equities expected to remain challenging
Reduced impact from impairments
Business benefited from strong market conditions in FY19 which continued into 1H20, however we do not currently anticipate these conditions will continue to the same extent throughout the remainder of FY20
- Macquarie Capital (MacCap)**
Assume market conditions broadly consistent with FY19
Solid pipeline of investment opportunities however investment-related income down due to timing of realisations

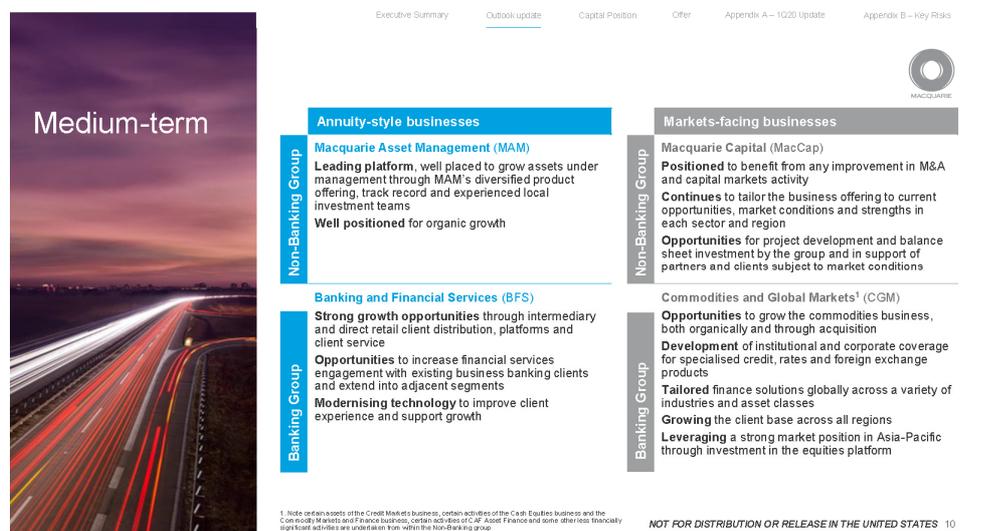
Corporate

Compensation ratio to be consistent with historical levels
Based on present mix of income, the FY20 effective tax rate is expected to be broadly in line with FY19

Note: Net profit contribution is management accounting profit before unallocated corporate costs, profit share and income tax. The chart is based on FY19 net profit contribution from Operating Groups as reported at the results announcement on 3 May 2019. Short term outlook will be updated at 1H20 result release on 1 November 2019 to reflect Operating Group changes announced at the Annual General Meeting. NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES 7

SOURCE: COMPANY DATA

Figure 4 – Growth story intact



SOURCE: COMPANY DATA

\$140.00 price target and Buy rating unchanged

Our estimates are broadly unchanged and we have maintained MQG's \$140.00 price target (with the expected capital dilution offset by valuation time creep). The Buy rating is also maintained and our positive view is underpinned by the Group as a long term "Cash and Growth" story. MQG's other competitive advantages include a strong balance sheet, proven risk management framework and culture, expertise in chosen markets (annuity-style and markets-facing), cost discipline, sector leading ROE, adaptability to changing market conditions and access to value-adding global growth options.

Table 1 – Estimate changes

| Macquarie Group Y/e March 31 (\$m) | 2020e | | | 2021e | | | 2022e | | | 2023e | | |
|---------------------------------------|---------------|---------------|------------|---------------|---------------|------------|---------------|---------------|------------|---------------|---------------|------------|
| | Current | Previous | Change |
| Net interest income | 1,717 | 1,717 | 0% | 1,859 | 1,859 | 0% | 1,974 | 1,974 | 0% | 2,094 | 2,094 | 0% |
| Net trading income | 2,262 | 2,362 | -4% | 2,462 | 2,462 | 0% | 2,462 | 2,462 | 0% | 2,462 | 2,462 | 0% |
| Fee & commission income | | | | | | | | | | | | |
| - Base fees | 1,766 | 1,766 | 0% | 1,837 | 1,837 | 0% | 1,910 | 1,910 | 0% | 1,987 | 1,987 | 0% |
| - Performance fees | 760 | 585 | 30% | 608 | 608 | 0% | 632 | 632 | 0% | 658 | 658 | 0% |
| - M&A, advisory & u/w fees | 1,108 | 1,186 | -7% | 1,163 | 1,227 | -5% | 1,221 | 1,270 | -4% | 1,282 | 1,315 | -2% |
| - Brokerage & commissions | 566 | 709 | -20% | 566 | 709 | -20% | 566 | 709 | -20% | 566 | 709 | -20% |
| - Other fee and commission income | 647 | 647 | 0% | 670 | 670 | 0% | 695 | 695 | 0% | 720 | 720 | 0% |
| - Income from life business, etc. | 0 | 0 | n/m |
| - Other revenue | 3,622 | 3,613 | 0% | 3,701 | 3,692 | 0% | 3,783 | 3,773 | 0% | 3,868 | 3,857 | 0% |
| Total operating income | 12,449 | 12,585 | -1% | 12,867 | 13,064 | -2% | 13,244 | 13,426 | -1% | 13,637 | 13,801 | -1% |
| Operating expenses | -8,341 | -8,457 | 1% | -8,480 | -8,628 | 2% | -8,633 | -8,778 | 2% | -8,777 | -8,919 | 2% |
| Impairment expenses | -225 | -239 | 6% | -231 | -255 | 10% | -242 | -266 | 10% | -250 | -274 | 10% |
| Operating profit before tax | 3,883 | 3,889 | 0% | 4,155 | 4,181 | -1% | 4,369 | 4,382 | 0% | 4,609 | 4,608 | 0% |
| Corporate tax expense | -893 | -895 | 0% | -956 | -962 | 1% | -1,005 | -1,008 | 0% | -1,060 | -1,060 | 0% |
| Minority interests | -24 | -24 | n/m |
| NPAT (reported) | 2,966 | 2,971 | 0% | 3,176 | 3,195 | -1% | 3,340 | 3,350 | 0% | 3,525 | 3,524 | 0% |
| EPS (reported) (cps) | 878 | 879 | 0% | 942 | 948 | -1% | 993 | 996 | 0% | 1,050 | 1,050 | 0% |
| Net DPS (cps) | 601 | 601 | 0% | 637 | 637 | 0% | 673 | 673 | 0% | 709 | 709 | 0% |
| Return on equity | 15.8% | 16.5% | -0.6% | 16.0% | 16.8% | -0.8% | 16.0% | 16.7% | -0.7% | 16.1% | 16.6% | -0.6% |
| MQG compensation ratio | 38% | 38% | 0% | 38% | 37% | 0% | 37% | 37% | 0% | 37% | 36% | 0% |
| Cost-to-income ratio | 67% | 67% | 0% | 66% | 66% | 0% | 65% | 65% | 0% | 64% | 65% | 0% |
| Effective tax rate | 23% | 23% | 0% | 23% | 23% | 0% | 23% | 23% | 0% | 23% | 23% | 0% |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

| Table 2 – MQG SOP valuation (pre-capital raising) | | | | |
|---|--------------|------------------|---------------|-----------------|
| Sum-of-Parts (As Is) | 2020e NPAT | Pros. PE (times) | Value (\$m) | Per share |
| Macquarie Securities | - | - | - | - |
| Macquarie Capital | 796 | 10.0 | 7,955 | \$23.37 |
| Macquarie Asset Management | 1,164 | 12.5 | 14,546 | \$42.73 |
| Commodities and Global Markets | 882 | 22.0 | 19,414 | \$57.03 |
| Corporate & Asset Finance | 980 | 11.0 | 10,778 | \$31.66 |
| Banking & Financial Services | 652 | 11.0 | 7,168 | \$21.06 |
| Real Estate Banking | - | - | - | - |
| Corporate & Other | -1,507 | 8.5 | -12,808 | -\$37.63 |
| Total | 2,966 | 15.9 | 47,053 | \$138.23 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

| Table 3 – MQG composite valuation (pre-capital raising) | | | | |
|---|-------------|-----------|-----------|---------------------------|
| Composite Valuation | Value (\$m) | Per share | Weighting | Composite value per share |
| DCF | 48,055 | \$141.18 | 30% | \$42.35 |
| Dividend yield play (short term) | 48,134 | \$141.41 | 20% | \$28.28 |
| ROE (sustainable) | 42,614 | \$125.19 | 20% | \$25.04 |
| Sum-of-Parts | 47,053 | \$138.23 | 30% | \$41.47 |
| Average | | | | \$137.15 |
| Surplus capital (@ 10.5% RWA) @ 25% | | | | \$3.35 |
| Total | | | | \$140.50 |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Macquarie Group

Company description

Macquarie Group (MQG) is a diversified financial group providing clients with asset management and finance, banking, advisory and risk and capital solutions across debt, equity and commodities. Founded in 1969, MQG operates across multiple locations in over 27 countries supported by 15,715 FTE (58% overseas). The Group has established alliances with 32 companies in 14 countries specialising in infrastructure investment, wealth management and trading services. Around 66% of operating income is sourced overseas with half of this coming out of the Americas region.

Investment strategy

We consider MQG primarily as a global wealth and risk manager with deep infrastructure capabilities. The company as a lower risk, higher return investment proposition should consequently be trading at higher PE and PB multiples than the major banks. It is currently sitting on sufficient capital/liquidity buffers and funding lines to sustain its unique business model and we see good long term leverage to the North American and European markets.

SWOT analysis

Strengths

1. "Cash and Growth" story;
2. Australia's independent global wealth and asset manager with diverse management and entrepreneurial capabilities;
3. Proven risk management framework and culture; and
4. Leveraged to the fast growing wealth management segment including earnings diversity by segment and geography (increasing leverage to the improving US economy).

Weaknesses

1. Small footprint in mortgage lending (although being addressed); and
2. Lacks balance sheet for significant DCM and lending initiatives (but this is more of a risk management issue).

Opportunities

1. Green Investment Bank incremental earnings;
2. US banking de-regulation;
3. Well placed to capitalise on upturn in global wealth services, etc.; and
4. Further infrastructure growth opportunities in North America and Europe.

Threats

1. Brexit uncertainty and implications for EMEA operations;
2. Increased scrutiny from Hayne inquiry into Australian banks;
3. Regulatory risk and compliance costs; and
4. Soft (staffing) issues (e.g. susceptible to poaching, etc.).

Table 4 – Financial summary

| As at | 28-Aug-19 | | | | | Share Price (A\$) | 123.51 | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|---|--------------|--------------|--------------|--------------|--------------|
| | | | | | | Market Cap (A\$M) | 42,041 | | | | |
| PROFIT AND LOSS | | | | | | VALUATION DATA | | | | | |
| Y/e March 31 (\$m) | 2018 | 2019 | 2020e | 2021e | 2022e | Y/e March 31 | 2018 | 2019 | 2020e | 2021e | 2022e |
| Net interest income | 1,986 | 1,760 | 1,717 | 1,859 | 1,974 | NPAT (reported) (\$m) | 2,557 | 2,982 | 2,966 | 3,176 | 3,340 |
| Net trading income | 1,957 | 2,791 | 2,262 | 2,462 | 2,462 | EPS (reported) (cps) | 758 | 883 | 878 | 942 | 993 |
| Fee & commission income | | | | | | - Growth | 15% | 17% | -1% | 7% | 5% |
| - Base fees | 1,568 | 1,738 | 1,766 | 1,837 | 1,910 | EPS (reported, diluted) (cps) | 743 | 868 | 861 | 920 | 966 |
| - Performance fees | 595 | 765 | 760 | 608 | 632 | - Growth | 15% | 17% | -1% | 7% | 5% |
| - M&A, advisory & u/w fees | 845 | 1,031 | 1,108 | 1,163 | 1,221 | P / E ratio (times) | 16.3 | 14.0 | 14.1 | 13.1 | 12.4 |
| - Brokerage & commissions | 686 | 731 | 566 | 566 | 566 | P / Book ratio (times) | 2.3 | 2.3 | 2.1 | 2.0 | 1.9 |
| - Other fee and commission income | 597 | 589 | 647 | 670 | 695 | P / NTA ratio (times) | 2.4 | 2.6 | 2.3 | 2.2 | 2.1 |
| - Income from life business, etc. | 0 | 0 | 0 | 0 | 0 | Net DPS (cps) | 525 | 575 | 601 | 637 | 673 |
| - Other revenue | 2,871 | 3,859 | 3,622 | 3,701 | 3,783 | Yield | 4.3% | 4.7% | 4.9% | 5.2% | 5.4% |
| Total operating income | 11,105 | 13,264 | 12,449 | 12,867 | 13,244 | Franking | 45% | 45% | 45% | 45% | 45% |
| Operating expenses | -7,456 | -8,887 | -8,341 | -8,480 | -8,633 | Payout (statutory basis, target 60- | 69% | 65% | 68% | 68% | 68% |
| Impairment expenses | -185 | -510 | -225 | -231 | -242 | | | | | | |
| Operating profit before tax | 3,464 | 3,867 | 3,883 | 4,155 | 4,369 | CAPITAL ADEQUACY | | | | | |
| Corporate tax expense | -883 | -879 | -893 | -956 | -1,005 | Y/e March 31 | 2018 | 2019 | 2020e | 2021e | 2022e |
| Minority interests | -24 | -6 | -24 | -24 | -24 | Risk weighted assets (\$m) | 91,730 | 77,517 | 83,426 | 89,459 | 95,163 |
| NPAT (reported) | 2,557 | 2,982 | 2,966 | 3,176 | 3,340 | Average risk weight | 60% | 48% | 48% | 48% | 48% |
| Adjustment | 53 | 67 | 100 | 100 | 100 | Tier 1 ratio | 12.8% | 13.5% | 14.9% | 15.0% | 15.2% |
| NPAT (basic/diluted EPS 2012+) | 2,610 | 3,049 | 3,066 | 3,276 | 3,440 | CET1 capital ratio (Bank) | 11.0% | 11.4% | 12.9% | 13.2% | 13.5% |
| CASHFLOW | | | | | | Equity ratio | 9.5% | 9.0% | 9.4% | 9.3% | 9.3% |
| Y/e March 31 (\$m) | 2018 | 2019 | 2020e | 2021e | 2022e | DIVISIONAL | | | | | |
| NPAT (reported basis) | 2,557 | 2,982 | 2,966 | 3,176 | 3,340 | Y/e March 31 (\$m) | 2018 | 2019 | 2020e | 2021e | 2022e |
| Increase in loans | -18,411 | -6,726 | -6,633 | -6,433 | -5,244 | Macquarie Securities | | | | | |
| Increase in other assets | 21,452 | -10,242 | -5,583 | -6,039 | -6,532 | Net trading income | | | | | |
| Capital expenditure | -417 | 6,725 | -142 | -146 | -151 | Brokerage & commissions | | | | | |
| Investing cashflow | 2,624 | -10,243 | -12,358 | -12,618 | -11,927 | Other revenue | | | | | |
| Increase in deposits & borrowings | 8,156 | 9,722 | 7,268 | 7,154 | 5,995 | Total operating income | | | | | |
| Increase in other liabilities | -618 | 1,951 | 3,162 | 4,447 | 4,876 | Operating expenses | | | | | |
| Ordinary equity raised | 0 | 0 | 1,000 | 0 | 0 | Net profit contribution b/4 OEI | | | | | |
| Other | -1,631 | -3,836 | -2,038 | -2,159 | -2,285 | Cost ratio | | | | | |
| Financing cashflow | 5,907 | 7,837 | 9,392 | 9,442 | 8,586 | Macquarie Capital | | | | | |
| Net change in cash | 11,088 | 576 | 0 | 0 | 0 | M&A, advisory & u/w fees | 845 | 1,031 | 1,108 | 1,163 | 1,221 |
| Cash at end of period | 38,559 | 39,135 | 39,135 | 39,135 | 39,135 | Other revenue | 477 | 1,388 | 762 | 804 | 849 |
| BALANCE SHEET | | | | | | Total operating income | 1,322 | 2,419 | 1,870 | 1,968 | 2,070 |
| Y/e March 31 (\$m) | 2018 | 2019 | 2020e | 2021e | 2022e | Operating expenses | -545 | -898 | -776 | -806 | -837 |
| Cash and liquid assets | 38,559 | 39,135 | 39,135 | 39,135 | 39,135 | Impairment expenses | -56 | -182 | -61 | -63 | -66 |
| Divisional gross loans | 86,183 | 93,057 | 99,729 | 106,201 | 111,487 | Net profit contribution b/4 OEI | 721 | 1,339 | 1,033 | 1,098 | 1,167 |
| Provisions | -470 | -618 | -657 | -738 | -738 | Cost ratio | 41% | 37% | 41% | 41% | 40% |
| Other IEA | 56,977 | 68,422 | 74,005 | 80,044 | 86,576 | Macquarie Asset Management | | | | | |
| Intangibles | 993 | 2,031 | 2,031 | 2,031 | 2,031 | Base fees | 1,568 | 1,738 | 1,766 | 1,837 | 1,910 |
| PP&E | 11,426 | 4,701 | 4,843 | 4,989 | 5,140 | Performance fees | 595 | 765 | 760 | 608 | 632 |
| Insurance assets | 0 | 0 | 0 | 0 | 0 | Other revenue | 399 | 341 | 334 | 350 | 367 |
| Other assets | -2,343 | -3,546 | -3,546 | -3,546 | -3,546 | Total operating income | 2,562 | 2,844 | 2,860 | 2,795 | 2,909 |
| Total assets | 191,325 | 203,182 | 215,540 | 228,158 | 240,084 | Operating expenses | -1,003 | -1,339 | -1,349 | -1,350 | -1,397 |
| Divisional deposits & IBL | 65,095 | 74,817 | 82,084 | 89,238 | 95,233 | Impairment expenses | 0 | 0 | 0 | 0 | 0 |
| Other borrowings | 106,321 | 109,665 | 112,827 | 117,274 | 122,150 | Net profit contribution b/4 OEI | 1,559 | 1,505 | 1,511 | 1,445 | 1,512 |
| Other liabilities | 1,729 | 336 | 336 | 336 | 336 | Cost ratio | 39% | 47% | 47% | 48% | 48% |
| Total liabilities | 173,145 | 184,818 | 195,248 | 206,849 | 217,719 | Commodities and Global Markets | | | | | |
| Ordinary share capital | 6,234 | 6,174 | 7,174 | 7,174 | 7,174 | Net trading income | 1,960 | 2,789 | 2,200 | 2,400 | 2,400 |
| Other equity instruments | 9 | 7 | 7 | 7 | 7 | Other revenue | 1,035 | 1,245 | 1,091 | 1,101 | 1,112 |
| Reserves | 1,297 | 1,773 | 1,773 | 1,773 | 1,773 | Total operating income | 2,995 | 4,034 | 3,291 | 3,501 | 3,512 |
| Retained profits | 8,817 | 9,807 | 10,735 | 11,752 | 12,808 | Operating expenses | -1,997 | -2,378 | -2,090 | -2,131 | -2,144 |
| Minority interests | 1,823 | 603 | 603 | 603 | 603 | Impairment expenses | -88 | -151 | -55 | -48 | -48 |
| Total shareholders' equity | 18,180 | 18,364 | 20,292 | 21,309 | 22,365 | Net profit contribution b/4 OEI | 910 | 1,505 | 1,146 | 1,322 | 1,320 |
| Total sh. equity & liabs. | 191,325 | 203,182 | 215,540 | 228,158 | 240,084 | Cost ratio | 67% | 59% | 64% | 61% | 61% |
| WANOS - statutory (m) | 322 | 324 | 324 | 324 | 324 | Corporate & Asset Finance | | | | | |
| WANOS - diluted (m) | 351 | 351 | 356 | 356 | 356 | Net interest income | 289 | 36 | 64 | 64 | 65 |
| PROFITABILITY RATIOS | | | | | | Net operating lease income | 932 | 947 | 956 | 966 | 976 |
| Y/e March 31 | 2018 | 2019 | 2020e | 2021e | 2022e | Other revenue | 515 | 674 | 876 | 877 | 878 |
| Return on assets | 1.3% | 1.5% | 1.4% | 1.4% | 1.4% | Total operating income | 1,736 | 1,657 | 1,896 | 1,907 | 1,919 |
| Return on equity | 16.8% | 18.0% | 15.8% | 16.0% | 16.0% | Operating expenses | -626 | -600 | -598 | -603 | -608 |
| Leverage ratio | 6.2% | 5.2% | 5.8% | 5.9% | 6.1% | Impairment expenses | 34 | -26 | -26 | -30 | -33 |
| Net interest margin | 1.52% | 1.14% | 1.03% | 1.04% | 1.04% | Net profit contribution b/4 OEI | 1,144 | 1,031 | 1,272 | 1,274 | 1,278 |
| Cost / income ratio | 67% | 67% | 67% | 66% | 65% | Cost ratio | 36% | 36% | 32% | 32% | 32% |
| Cost / average assets | 3.91% | 4.35% | 3.93% | 3.78% | 3.65% | Banking & Financial Services | | | | | |
| Growth in operating income | 3% | 19% | -6% | 3% | 3% | Net interest income | 1,584 | 1,678 | 1,769 | 1,911 | 2,025 |
| Growth in operating expenses | 3% | 19% | -6% | 2% | 2% | Base fees | 0 | 0 | 0 | 0 | 0 |
| Jaws | 0% | 0% | 0% | 2% | 1% | Commission income | 517 | 492 | 521 | 543 | 566 |
| Effective tax rate | 25% | 23% | 23% | 23% | 23% | Other revenue | 0 | 0 | 0 | 0 | 0 |
| ASSET QUALITY | | | | | | Total operating income | 2,101 | 2,170 | 2,290 | 2,454 | 2,592 |
| Y/e March 31 | 2018 | 2019 | 2020e | 2021e | 2022e | Operating expenses | -1,289 | -1,347 | -1,361 | -1,407 | -1,446 |
| impairment expense / GLA | 0.21% | 0.55% | 0.23% | 0.22% | 0.22% | Impairment expenses | -75 | -67 | -83 | -90 | -95 |
| impairment expense / RWA | 0.20% | 0.66% | 0.27% | 0.26% | 0.25% | Net profit contribution b/4 OEI | 737 | 756 | 846 | 957 | 1,050 |
| Total provisions (\$m) | 470 | 618 | 657 | 696 | 738 | Cost ratio | 61% | 62% | 59% | 57% | 56% |
| Total provisions / RWA | 0.51% | 0.80% | 0.79% | 0.78% | 0.78% | MQG compensation ratio | 39% | 39% | 38% | 38% | 37% |
| Indiv ass prov / gross imp assets | 28% | 172% | 172% | 172% | 172% | Net profit contribution b/4 OEI | | | | | |
| IBL / IEA | 120% | 115% | 113% | 111% | 110% | Annuity-style businesses | 3,440 | 3,292 | 3,630 | 3,676 | 3,840 |
| Total provisions + GRCL / RWA | 0.51% | 0.80% | 0.79% | 0.78% | 0.78% | Capital markets facing businesses | 1,631 | 2,844 | 2,179 | 2,421 | 2,487 |
| | | | | | | Combined net profit contribution | 5,071 | 6,136 | 5,809 | 6,097 | 6,327 |

SOURCE: 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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T S Lim, authoring analyst, holds long positions in MQG, MQGPC and MQGPD.

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