



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



Commonwealth Bank

Business Description

Commonwealth Bank of Australia (CBA) is Australia's largest retail bank and one of the 'Big Four'. It also operates in New Zealand and Asia. Its core business is the provision of retail, business and institutional banking services. It is also a major fund manager and has increasing market shares in general and life insurance.

Strategy Analysis

CBA's strategy is focused on Australia, New Zealand and Asia. The vision is to become Australia's finest financial services organisation through excelling in customer service. The CEO's strategic priorities are customer service, business banking, technology and operational excellence, trust and team spirit, and profitable growth. CBA has invested heavily in customer service training and new staff to recover market share losses in home loans and deposits. The bank has recruited new business bankers and has upgraded its service offer. The Core Banking Modernisation program aims to reduce inefficiency and disruption from antiquated legacy systems, and to create competitive advantage by uniquely offering real-time banking and faster account openings. The bank sees medium-term growth opportunities in Asia and has built a portfolio of holdings in Asian banks. CBA avoids business it perceives to be high-risk or which doesn't meet its return criteria; the aim is to keep credit quality strong. CBA is always assessing potential acquisitions and acquired Bankwest in 2008. New CEO Ian Narev started on 1 December 2011 and we await his changes to the strategy. Commonwealth Bank of Australia reported NPAT up 13% to \$6.39bn for the year ended 30 June 2011. Revenues from ordinary activities were \$46.22bn, up 11% from last year. Diluted EPS was 395.1 cents compared to 354.2 cents last year. Net operating cash flow was \$7.08bn compared to \$2.92bn last year. The final dividend declared was 188 cents, taking the full year dividend to 320 cents compared with 290 cents last year. The 2011 financial year has been characterised by subdued system credit growth and intense competition. At this stage there is nothing to suggest that the 2012 financial year will see any material improvement nor is it clear what the catalyst will be for a meaningful revival in consumer and corporate confidence which is prerequisite to stronger demand for credit.

27 January 2012

Recommendation

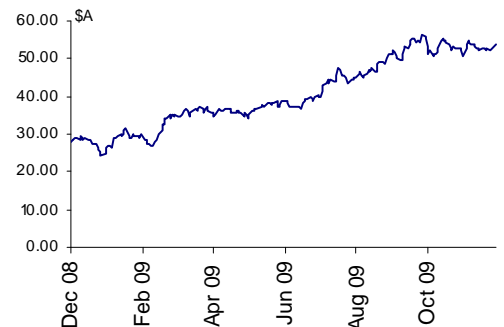
Recommendation: Neutral
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: CBA
Stock price: \$51.16
Market cap: \$80,898m

| | Y/E 30/06/2012 | 2012e | 2013e | 2014e | 2015e |
|--------------|----------------|--------|--------|--------|--------|
| Reported e | \$m | 6983.5 | 7295.3 | 7842.4 | 8336.0 |
| Adjusted e | \$m | 7201.5 | 7513.3 | 8060.4 | 8554.0 |
| EPS adjusted | ¢ | 439.3 | 451.6 | 476.7 | 498.0 |
| EPS growth | % | 3.9 | 2.8 | 5.6 | 4.5 |
| PE | x | 11.6 | 11.3 | 10.7 | 10.3 |
| PE relative | x | 1.0 | 1.1 | 1.2 | 1.1 |
| DPS | ¢ | 332.0 | 346.0 | 369.0 | 384.0 |
| Yield | % | 6.5 | 6.8 | 7.2 | 7.5 |
| Franking | % | 100.0 | 100.0 | 100.0 | 100.0 |

Share Price



Source: ASX and Company accounts

Segment Performance

| Results by Industry | Revenue (%) | Return on Sales (%) | Return on Assets (%) | Annual Shareholders' Return | |
|-----------------------------------|--------------|---------------------|----------------------|-----------------------------|-------|
| | | | | 1 year | 3.0% |
| Retail Banking Services | 38.2 | 1.5 | 53.9 | 3 year | 31.0% |
| Other | 20.1 | 0.9 | 45.3 | 5 year | 6.0% |
| Business and Private Banking | 15.5 | 1.8 | 47.7 | 10 year | 10.0% |
| Wealth Management | 13.7 | 4.3 | 32.9 | Dividend Reinvestment Plan | Yes |
| Institutional Banking and Markets | 12.6 | 1.4 | 53.3 | Shareholder Discounts | No |
| Total | 100.1 | 9.9 | 233.1 | | |
| Results by Geography | | | | | |
| Australia | 88.1 | 0.0 | 0.0 | | |
| New Zealand | 8.3 | 0.0 | 0.0 | | |
| Other locations | 3.6 | 0.0 | 0.0 | | |
| Total | 100.0 | | | | |

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