



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth

Snapshot

Challenger Financial Services Group

Business Description

Challenger Financial Services (CGF) is an Australian annuities issuer and provider of listed and unlisted investment products and services.

Strategy Analysis

CGF's simplified business model will focus on Life and Funds Management, with around \$23bn FY10 pro-forma assets under management after selling most of its mortgage management business in late CY09. Challenger Financial Services Group reported net loss of \$107.9m for the half-year ended 31 December 2008. Revenue from ordinary activities were \$1.06bn, down 21.9% from the same period last year. Diluted EPS was (18.1) cents compared to 15 cents last year. The net operating cash outflow was \$62.4m compared to an inflow of \$106.1m in the pcp. The interim dividend declared was 5 cents in line with last year. Global capital markets remained volatile during the last six months, resulting in difficult operating conditions for all of its businesses. However the Group continues to maintain a prudent level of capital adequacy within Challenger Life No.2 and low levels of debt at Group. While the Group expects markets to remain constrained for some time, the Group remains well positioned to operate through this period and to take advantage of future market recovery.

28 July 2010

Recommendation

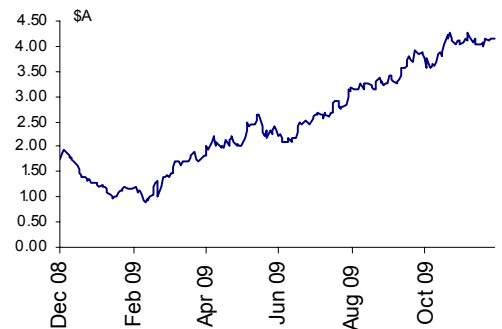
Recommendation: Neutral
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: CGF
Stock price: \$3.56
Market cap: \$1,805m

Y/E	30/06/2010	2010e	2011e	2012e	2013e
Reported e	\$m	197.4	266.3	264.3	246.1
Adjusted e	\$m	223.2	201.0	197.4	177.6
EPS adjusted	¢	40.3	37.5	36.2	31.9
EPS growth	%	4.8	-7.1	-3.3	-11.8
PE	x	8.8	9.5	9.8	11.2
PE relative	x	0.6	0.8	1.0	1.2
DPS	¢	12.0	12.0	11.0	10.0
Yield	%	3.4	3.4	3.1	2.8
Franking	%	0.0	0.0	0.0	

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 year
Life	43.7	-3.5	-85.7	37.0%	-9.0%
Mortgage Management	36.4	12.1	65.2	5.0%	0.0%
Funds Management	19.9	16.7	15.8		
Total	100.0	25.3	-4.7	Dividend Reinvestment Plan	No
Results by Geography				Shareholder Discounts	No
Australia	100.0	100.0	100.0		
Total	100.0				

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