



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



Challenger

Business Description

Challenger Limited (CGF) is an Australian annuities issuer and provider of listed and unlisted investment products and services. Their products are distributed via a large network of third-party intermediaries and independent financial advisers.

Strategy Analysis

Annuities are in demand by retail investors moving into retirement and CGF is well placed to take advantage of this trend. Changing demographics clearly complement the business model. The two business divisions are aligned to changes in the industry and are well positioned to take advantage of their small positions in a large market that continues to grow. We expect strong long-term demand for lower-risk, lower-cost income stream products, with the industry focus on new products and expanded distribution. CGF's simplified business model is based on annuity sales from its Life business and Funds Management, with around \$28bn of assets under management after selling most of its mortgage management business in late 2009. Challenger reported NPAT down 7.5% to \$261.4m for the year ended 30 June 2011. The upward trend in underlying profit resulting from an increasing asset base, due to strong annuity cash inflows in the prior and current period, was offset by lower gains on the Group's debt investments compared to 2010 and losses on the Group's infrastructure assets over the year. Revenues from ordinary activities were \$1.53bn, down 6.6% from last year. Diluted EPS was 50.7 cents compared to 50.4 cents last year. Net operating cash flow was \$1.22bn compared to \$229.1m last year. The final dividend declared was 9.5 cents, taking the full year dividend to 16.5 cents compared with 14.5 cents last year.

27 January 2012

Recommendation

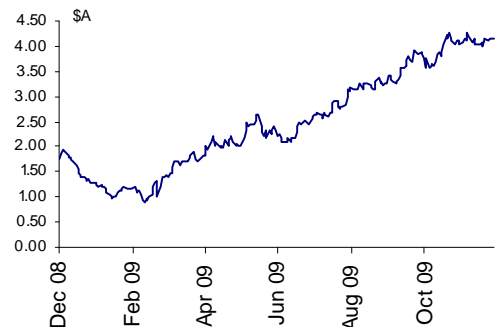
Recommendation: Outperform
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: CGF
Stock price: \$4.50
Market cap: \$2,485m

Y/E	30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	212.4	294.2	313.0	378.7
Adjusted e	\$m	275.3	308.8	326.8	352.3
EPS adjusted	¢	51.9	58.1	65.1	74.4
EPS growth	%	7.9	12.0	12.0	14.4
PE	x	8.7	7.7	6.9	6.0
PE relative	x	0.7	0.8	0.7	0.6
DPS	¢	17.0	17.0	19.0	23.0
Yield	%	3.8	3.8	4.2	5.1
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	81.9	3.8	87.0	1.0%	61.0%
Funds Management	18.1	13.2	22.7	4.0%	0.0%
Total	100.0	17.0	109.7		
Results by Geography				Dividend Reinvestment Plan	
Australia	100.0	100.0	100.0	Shareholder	Yes
Total	100.0			Discounts	No

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