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Macquarie Group (MQG)

Magnificent anachronism

Recommendation

Buy (unchanged)

Price

\$77.58

Target (12 months)

\$95.00 (unchanged)

Expected Return

Capital growth	22.5%
Dividend yield	5.2%
Total expected return	27.7%

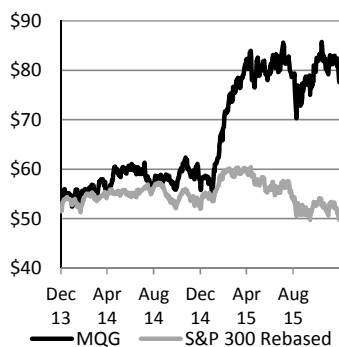
Company Data & Ratios

Enterprise value	n/m
Market cap	\$26,401m
Issued capital	340m
Free float	100%
Avg. daily val. (52wk)	\$99.0m
12 month price range	\$54.81 - \$86.72
GICS sector	Banks

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	81.39	77.34	59.69
Absolute (%)	-4.68	0.31	29.97
Rel market (%)	-0.56	6.05	36.28

Absolute Price



SOURCE: IRESS

Ahead of its time, ahead of its peers

Macquarie Infrastructure and Real Assets (MIRA) is consistently the largest source of performance fees for MQG since the GFC. MIRA is considered the world's largest infrastructure asset manager with \$148bn AUM. The AUM is spread across 51 funds (five public, 46 private including sub-funds), co-investments, partnerships and separately managed accounts. MIRA AUM may be only 29% of the Group total (invested in 120+ businesses, ~300 properties and 3.6m ha of farmland spanning 26 countries) but the division contributes to around 96% of Group performance fees. Current year guidance suggests there will be no repeat of the bumper performance fees enjoyed in 1H16. This may be due to some realisations but we feel MQG should still experience elevated performance fee levels in the medium term.

MIRA's competitive advantage lies in the breadth and depth of specialisation in essential infrastructure (utilities, roads and rail, airports, communications, etc.). These are largely domiciled in faster growing economies (North America and Europe) and currency leverage should provide further earnings upside. The investment in "scarce national resources" allows "economic rents" in the form of higher base and performance fees to be extracted from much lower AUM (compared with other Macquarie Asset Management units) – aided by the fact that average AUM per fund has also risen steadily since the inflexion point in 2013 to ~\$2bn. Performance fees may appear to have caught up with AUM but there is a significant delayed effect of around 10 years before the fees are generated. The notion that MIRA performance fees will start to decline thus appears weak as only 12% of the total funds are currently contributing and the bulk of these funds were established in 2003-05, a period before sizeable AUM expansion. In addition, YTD Bloomberg data suggests MIRA public funds that generated performance fees in 1H16 continue to outperform.

\$95.00 price target and Buy rating maintained

Our earnings estimates, \$95.00 price target and Buy rating are unchanged. MQG remains the stellar "Cash and Growth" story and our top coverage universe pick.

Earnings Forecast

Year end 31 March	2015	2016e	2017e	2018e
NPAT (reported) (A\$m)	1,604	2,021	2,135	2,278
NPAT (for diluted EPS) (A\$m)	1,609	2,033	2,147	2,290
EPS (reported) (Acps)	502	609	636	679
EPS growth (%)	31%	21%	5%	7%
PER (x)	15.5	12.7	12.2	11.4
P/Book (x)	1.8	1.6	1.6	1.5
P/NTA (x)	2.0	1.8	1.7	1.6
Dividend (Acps)	330	385	425	457
Yield (%)	4.3%	5.0%	5.5%	5.9%
ROE (%)	14.0%	14.5%	14.2%	14.4%
Compensation ratio (%)	41%	41%	41%	40%
Franking (%)	40.0%	40.0%	40.0%	40.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Magnificent anachronism

Ahead of its time, ahead of its peers

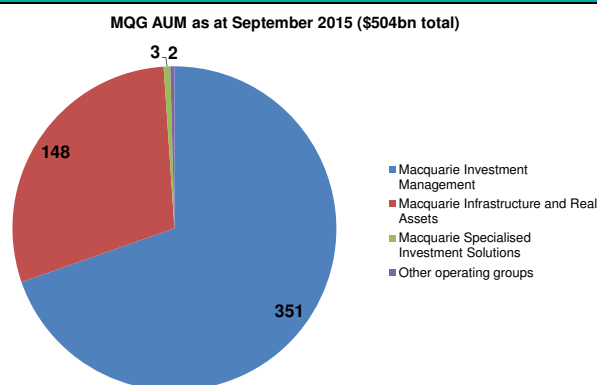
MQG benefited from significantly higher asset management fees in 1H16. Group base fees were 22% higher on a PCP basis to \$791m (reflecting 19% AUM growth on a PCP basis to \$504bn) and Group performance fees were 69% higher on a PCP basis to \$629m. Base and performance fees for MQG comprised 51% of total fee and commission income, up from 40% in 2H15 and 47% in 1H15. Around 99% of these base and performance fees are derived from Macquarie Asset Management (MAM).

The focus of this note is, however, on Macquarie Infrastructure and Real Assets (MIRA). A division of MAM, MIRA is consistently the largest source of performance fees for MQG since the GFC. MIRA's 1H16 performance fees of \$600m are largely sourced from just a handful of funds: Macquarie Infrastructure Company; Macquarie European Infrastructure Fund 1; Macquarie Atlas Roads; Macquarie International Infrastructure Fund (now closed and delisted); Macquarie Korea Infrastructure Fund; and a co-investment in a UK asset.

While MAM is one of the top 50 asset managers globally, MIRA is considered the world's largest infrastructure asset manager with \$148bn AUM (as at 30 September 2015). MIRA's AUM is spread across 51 funds (five public, 46 private including sub-funds), co-investments, partnerships and separately managed accounts. MIRA AUM may be only 29% of the Group total (invested in 120+ businesses, ~300 properties and 3.6m ha of farmland spanning 26 countries) but the division contributes to around 96% of Group performance fees. MIRA equity under management as at 30 September 2015 was \$71.6bn, 22% higher on a PCP basis.

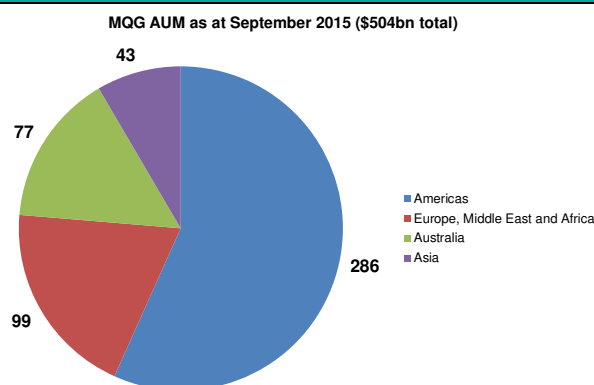
2016 guidance suggests there will be no repeat of the bumper performance fees enjoyed in the first half. This may have been due to some realisations but we believe MQG can still enjoy elevated performance fee levels in the medium term. We provide the reasons underpinning this assertion below.

Figure 1 – MQG the largest global alternate fund manager...



SOURCE: COMPANY DATA

Figure 2 – ...with the bulk of AUM in the Americas (Delaware)

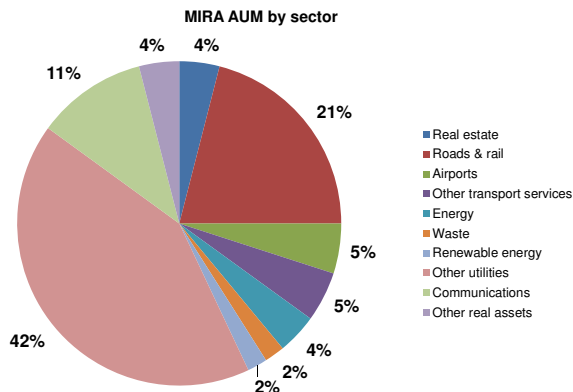


SOURCE: COMPANY DATA

AUM ramping up, base and performance fees to follow suit

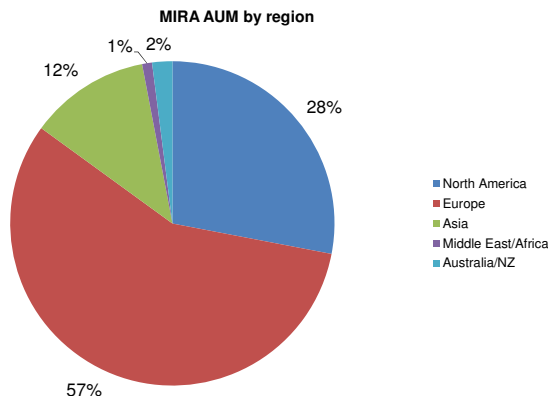
The sweet spot is the breadth and depth of MIRA's specialisation in essential infrastructure. The majority of the investments are in utilities, roads and rail, airports and communications, and these are largely spread across North America and Europe. Geographic diversification away from Australia and New Zealand towards faster growing economies in addition to currency leverage should also provide significant earnings upside.

Figure 3 – MIRA AUM by sector...



SOURCE: COMPANY DATA

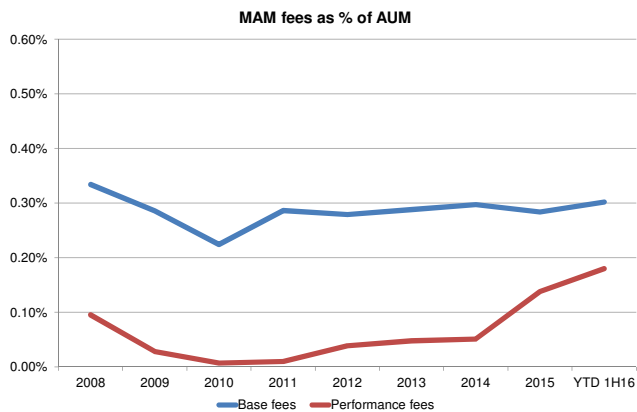
Figure 4 – ...with the bulk in North America and Europe



SOURCE: COMPANY DATA

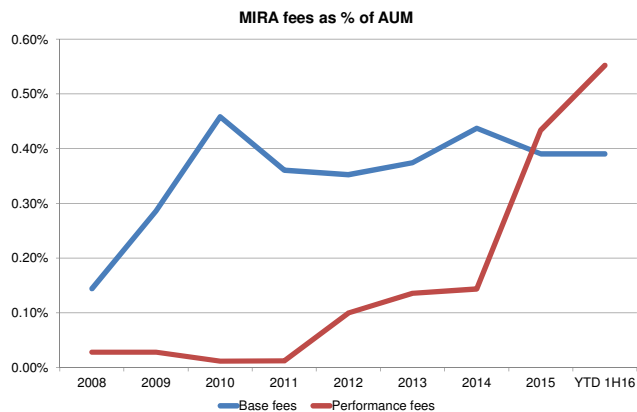
MIRA's specialisation into "scarce national resources" invariably allows "economic rents" in the form of higher base and performance fees to be extracted from much lower AUM. For example, MIRA's average base fee is around 40bp compared with 30bp for MAM as a whole (Figures 5 and 6). MIRA performance fees are also much higher now with fund traction and scale. Note the bulk of MAM's AUM comes from Macquarie Investment Management (MIM) that also includes North American-based AUM from Delaware (Figure 8) – that further underpins performance fee upside to the Group as a whole.

Figure 5 – MAM (including MIRA) fees 2



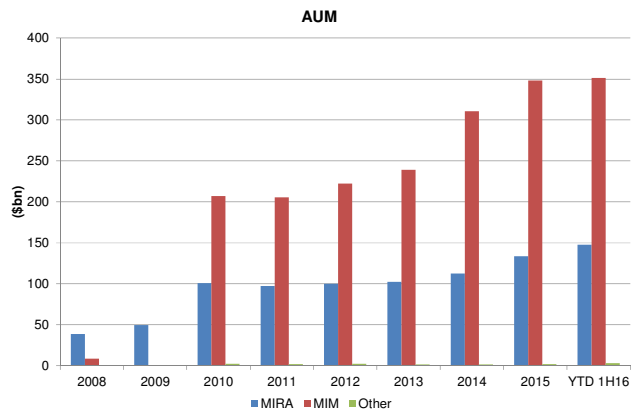
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 6 – MIRA fees 2



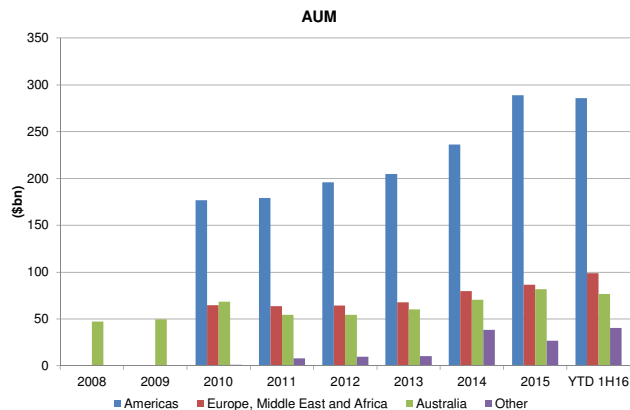
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 7 – MAM AUM by vehicle



SOURCE: COMPANY DATA

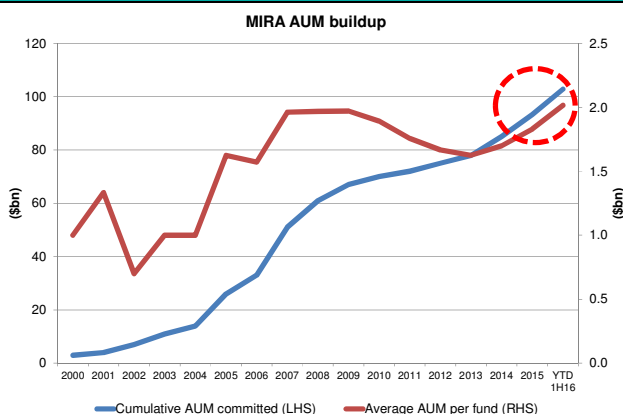
Figure 8 – MAM AUM by geography



SOURCE: COMPANY DATA

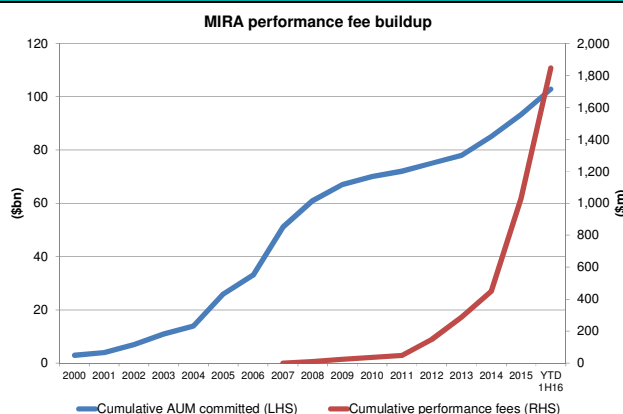
Next is timing. This plays a huge part in crystallising performance fees and supporting the case for elevated rather than lower performance fees over the medium term. Average MIRA AUM per fund has risen steadily since the inflexion point in 2013 to around \$2bn and we assume \$9.5bn of available equity will be fully deployed heading into 2H16 (Figure 9). MIRA's performance fees may appear to have caught up with AUM but there is a significant delayed effect of around 10 years before the fees are generated (Figure 10). The notion that MIRA performance fees will start to decline from now appears weak as only 12% of the total funds are currently contributing. The bulk of these funds were also established in 2003-05, a period before some sizeable AUM expansion.

Figure 9 – MIRA AUM per fund increasing



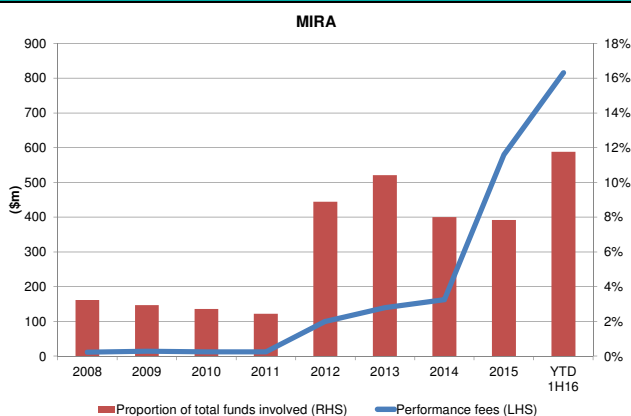
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 10 – MIRA performance fees just catching up



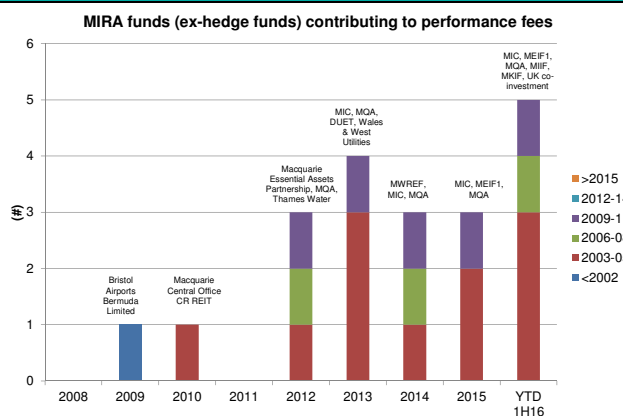
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 11 – Performance fees on small number of funds only



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 12 – Time is also on MIRA's side



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

There is little disclosed information on performance fee benchmarks other than those for Asian Pay Television Trust, Macquarie Atlas Roads, Macquarie Mexican Infrastructure Fund, Macquarie Korea Infrastructure Fund and Macquarie Investment Company (see Table 1 on the next page). However, our understanding is that the average performance fee is based on 20% outperformance over an 8% IRR (and with the average base fee being 1.5%). For unlisted funds, performance fees are payable once investors have received repayment of their initial capital plus preferential return.

In addition to expected positive effect of time lag, YTD Bloomberg data suggests MIRA public funds that generated performance fees in 1H16 continue to outperform (Figure 13, page 6).

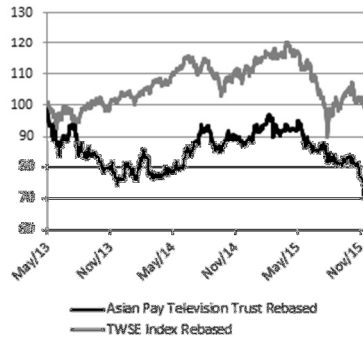
Table 1 – MIRA assets under management – key funds

Macquarie Infrastructure and Real Assets (MIRA) - Major Funds	Ticker	Est. / listed	2016 performance fees	Close-end (years)	AUM (est.)	Base fee	Performance fee	Description
1 Korea Private Concession Fund III	-	2014	N	-	-	-	-	-
2 Macquarie Asia Infrastructure Fund	-	2014	N	-	USD1.1bn	-	-	Pan-Asian infrastructure
3 Macquarie Korea Opportunities Fund 3	-	2014	N	-	-	-	-	Energy, power, gas, water, cable, communications, broadcasting, media infrastructure, social infrastructure, transport infrastructure and general infrastructure
4 Korea Private Concession Fund II	-	2014	N	-	-	-	-	-
5 Asian Pay Television Trust	S7OU (SGX)	2013	N	-	SGD1.1bn	\$7m p.a. + CPI	3% first 25% excess DPU, +6% next 25% excess, +12% next 25% excess, +18% >75%	Focused on pay-tv across Taiwan, Hong Kong, Japan and Singapore, main asset is Taiwan Broadband Communications Group
6 Macquarie Infrastructure Partners III	-	2013	N	-	USD3.0bn	-	-	US and Canadian infrastructure assets
7 MPF Holdings Limited	-	2013	N	-	-	-	-	Energy
8 Apollo Investment Partnership II	-	2012	N	-	USD50m	-	-	South African renewable energy
9 Korea Private Concession Fund	-	2012	N	-	-	-	-	-
10 Macquarie Mexican REIT	FIBRAMQ (MEX)	2012	N	-	USD1.0bn	-	-	Focus on industrial, office and retail real estate assets (264 industrial properties and 17 retail/office properties in 24 cities across 19 Mexican states)
11 Philippine Investment Alliance for Infrastructure	-	2012	N	10	PHP26bn	-	-	Greenfield and brownfield infrastructure
12 Macquarie China Retail Company 1 Limited	-	2011	N	-	-	-	-	China retail property
13 Macquarie European Infrastructure Fund 4	-	2011	N	10	EUR2.7bn (USD3.5bn)	-	-	Germany and Czech Republic (gas transmission network), UK (airports in Aberdeen, Glasgow and Southampton), Italy and France (wind farms), Slovak Republic (terrestrial and satellite TV and broadcasting services), Spain and Portugal (power and gas)
14 Macquarie Greater China Infrastructure Fund	-	2011	N	10	-	-	-	Operating infrastructure assets in Greater China
15 SBI Macquarie Infrastructure Trust	-	2011	N	-	USD300m	-	-	Indian infrastructure and infrastructure-like assets
16 African Infrastructure Fund 2	-	2010	N	-	USD500m	-	-	Sub-Saharan infrastructure assets
17 Korea Macquarie Growth Fund	-	2010	N	-	-	-	-	Infrastructure, utilities and renewable assets
18 Macquarie Atlas Roads	MQA	2010	Y	-	AUD2.2bn	1.75% <=A\$1bn, +1.00% >A\$1bn	15% outperformance of ASX300, payable every 4 months	Global toll road developer and operator, assets in France, USA, UK and Germany
19 Macquarie Mexican Infrastructure Fund	-	2009	N	-	MXN3.0bn	1.50%	20% excess over 8% benchmark	Peso-denominated fund
20 Macquarie Russia & CIS Infrastructure Fund	-	2009	N	-	-	-	-	-
21 Macquarie SBI Infrastructure Fund	-	2009	N	-	USD1.0bn	-	-	Indian infrastructure and infrastructure-like assets
22 ADCB Macquarie Infrastructure Fund	-	2008	N	10	-	-	-	Middle East (focus on Gulf Cooperation Council countries) and North Africa infrastructure and infrastructure-like assets
23 Macquarie Advanced Investment Partners	-	2008	-	-	-	-	-	-
24 Macquarie European Infrastructure Fund 3	-	2008	N	10	EUR1.2bn	-	-	Airports (Brussels, Copenhagen), Czech Republic (broadcast and telecommunications tower infrastructure), Germany (gas transmission network)
25 Macquarie Infrastructure Partners II	-	2008	N	-	USD3.0bn	-	-	US, Canadian and Mexican infrastructure assets
26 Macquarie Special Situations Fund	-	2008	-	-	-	-	-	-
27 Lombard Odier Macquarie Infrastructure Fund	-	2007	-	-	-	-	-	-
28 Macquarie Global Infrastructure Fund III	-	2007	N	10	-	-	-	Australia (Hobart airport), France (oil storage, transportation and distribution), NZ (aged care)
29 Macquarie Global Opportunities Partners	-	2007	-	-	-	-	-	-
30 Kagiso Infrastructure Empowerment Fund	-	2007	N	-	-	-	-	South African infrastructure assets
31 Macquarie Pastoral Fund	-	2007	N	-	-	-	-	Gain and oilseed assets in Australia (8 farms, 68,000ha) and Brazil (2 farms, 20,000ha)
32 Macquarie European Infrastructure Fund 2	-	2006	N	10	EUR4.6bn	-	-	UK (media, car parks, Thames Water, ferry services), France (major motorway), Czech Republic (broadcast and telecommunications tower infrastructure), Germany (energy services provider), Sweden (11 district heating sites)
33 Macquarie Infrastructure Partners	-	2006	N	10	-	-	-	US and Canadian infrastructure assets (3 sub-funds)
34 Macquarie Korea Infrastructure Fund	MKIF (LSE)	2006	Y	-	GBP0.4bn	1.25% <=KRW1.5tr, +1.10% >KRW1.5tr	20% excess over 8% benchmark	Owns, operates and invests in infrastructure businesses in Korea, e.g. bridges, expressways, tunnels and ports
35 MWREF Limited	-	2006	N	-	-	-	-	China retail property
36 ZonesCorp Infrastructure Fund	-	2006	N	-	-	-	-	UAE infrastructure assets
37 Macquarie International Infrastructure Fund	M41 (SGX)	2005	Y	Closed	-	-	-	Hua Nan Expressway (China)
38 Macquarie Korea Opportunities Fund	-	2005	N	-	-	-	-	Energy, power, gas, water, cable, communications, broadcasting, media infrastructure, social infrastructure, transport infrastructure and general infrastructure
39 African Infrastructure Fund	-	2004	N	-	-	-	-	South African infrastructure assets
40 Macquarie European Infrastructure Fund 1	-	2004	Y	10	EUR1.5bn	-	-	Major French motorway network, Brussels airport and renewable energy in the UK
41 Macquarie Infrastructure Company	MIC (NYSE)	2004	Y	-	USD6.6bn	1.50%	20% outperformance of MSCI US IMI/Utilities Index and MSCI Europe Utilities Index	Owns, operates and invests in diversified group of infrastructure businesses in the US, e.g. airport services, bulk liquid terminaling, gas processing and distribution and power and energy investments
42 Macquarie Global Infrastructure Fund II	-	2003	N	10	-	-	-	UK (media), NZ (aged care), Poland (deep sea container port), France (wind farm), US (regulated electricity transmission and distribution)
43 Macquarie Real Estate Equity Fund Series	-	2002	N	-	-	-	-	Australian metro diversified property development and trading (7 unlisted funds)
44 South African Infrastructure Fund	-	2000	N	-	-	-	-	South African infrastructure assets (3 sub-funds)

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 13 – Selected public funds vs. benchmarks

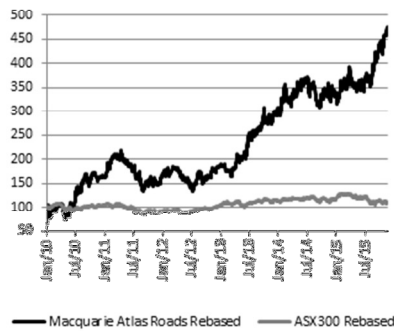
Asian Pay Television Trust vs Taiwan Exchange



Table

	(1m)	(3m)	(12m)
Price	0.79	0.81	0.86
Absolute (%)	-13.9%	-15.5%	-20.5%
Rel market (%)	-9.0%	-14.9%	-11.4%

Macquarie Atlas Roads vs ASX300



Table

	(1m)	(3m)	(12m)
Price	3.98	3.51	3.14
Absolute (%)	9.8%	24.5%	39.2%
Rel market (%)	11.0%	24.6%	42.1%

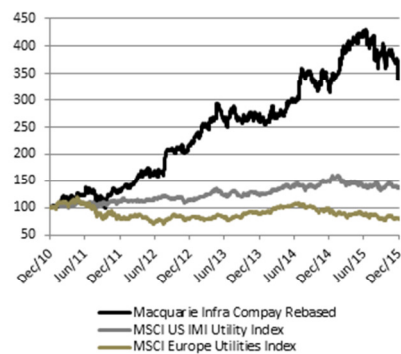
Macquarie Korea Infrastructure Fund vs 8% benchmark



Table

	(1m)	(3m)	(12m)
Price	7920	7920	7140
Absolute (%)	0.9%	0.9%	11.9%
Rel market (%)	0.2%	-1.1%	3.8%

Macquarie Infrastructure Company vs MSCI US Utility Index and MSCI Europe Utilit Index



Table

	(1m)	(3m)	(12m)
Price	77.62	79.65	64.85
Absolute (%)	-11.4%	-13.7%	6.0%
Rel market (%)	-8.9%	-15.7%	15.1%

SOURCE: BLOOMBERG

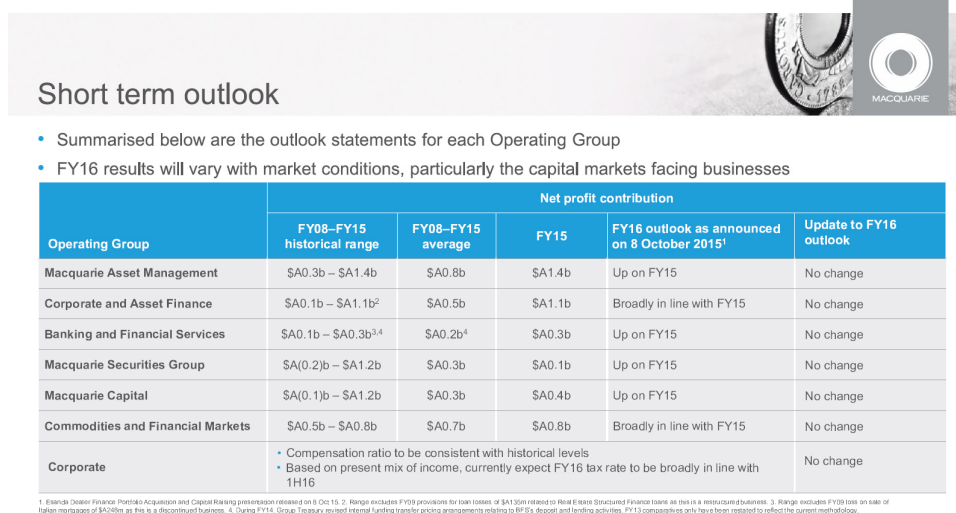
2016 guidance conservative

MQG expects the short term outlook to be positive and has guided to:

- 2016 reported NPAT to be up on \$1,604m in 2015 (BP 2016 forecast \$2,021m);
- 2016 tax rate to be broadly in line with 33% in 1H16 (BP 2016 forecast 33%);
- 2H16 reported NPAT to be higher than \$926m in 2H15 (BP 2H16 forecast \$951m); and
- 2016 compensation ratio to be consistent with historical levels.

The medium term outlook remains equally positive, underpinned by strong capital and debt funding positions, proven risk management, further cost initiatives (including Esanda synergies to come) and the ability to adapt the business mix to changing market conditions. Strong momentum across all businesses suggests a sustainable Group ROE of closer to 16-17% in the medium term.

Figure 14 – Outlook conservative in our view in light of annuity-style business momentum



SOURCE: COMPANY DATA

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\$95.00 price target and Buy rating maintained

Our earnings estimates, \$95.00 price target and Buy rating are unchanged. MQG remains the stellar “Cash and Growth” story and the top pick across our coverage universe.

Table 2 – MQG SOP valuation

Sum-of-Parts (As Is)	2017e NPAT	Pros. PE (times)	Value (\$m)	Per share
Macquarie Securities	153	9.0	1,380	\$4.05
Macquarie Capital	365	9.0	3,288	\$9.66
Macquarie Asset Management	1,071	13.5	14,459	\$42.49
Commodities and Financial Markets	632	9.0	5,687	\$16.71
Corporate & Asset Finance	904	12.5	11,302	\$33.21
Banking & Financial Services	251	12.5	3,139	\$9.22
Real Estate Banking	0	0.0	0	\$0.00
Corporate & Other	-1,242	5.0	-6,210	-\$18.25
Total	2,135	15.5	33,045	\$97.11

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 3 – MQG composite valuation

Composite Valuation	Value (\$m)	Per share	Weighting	Composite value per share
DCF	29,008	\$85.24	33%	\$28.41
Dividend yield play (short term)	-	-	-	-
ROE (sustainable)	30,655	\$90.08	33%	\$30.03
Sum-of-Parts	33,045	\$97.11	33%	\$32.37
Average				\$90.81
Surplus capital (@ 10.0% RWA)				\$4.56
Total				\$95.37

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

MQG profile

Company description

Macquarie Group (MQG) is a global provider of retail and wholesale banking, financial, advisory, investment and funds management services. Founded in 1969, MQG operates across 58 overseas locations supported by 14,085 FTE (of which 54% are international staff). The Group has established alliances with 32 companies in 14 countries specialising in infrastructure investment, wealth management and FX services. 70% of income is sourced overseas.

Investment strategy

MQG is currently sitting on sufficient capital/liquidity buffers and funding lines to sustain its unique business model but faces severe revenue headwinds in its core securities and advisory businesses. We see good leverage to North American, Europe and Asia in the long run.

SWOT analysis

Strengths

1. “Cash and Growth” story;
2. Australia’s independent global investment bank with diverse management and entrepreneurial capabilities; and
3. Leveraged to the fast growing wealth management segment including earnings diversity by segment and geography (increasing Asian footprint plus leverage to improving US economy).

Weaknesses

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

Opportunities

1. Strategic appeal – complements majors (e.g. ANZ) and offshore peers including private equity interests in non-traditional banking markets;
2. Well placed to capitalise on upturn in global advisory services, etc.; and
3. Further growth opportunities in Asia, North America and Europe.

Threats

1. Increased competition from the majors;
2. Regulatory risk and compliance costs;
3. Financial planning and other contingent liabilities; and
4. Soft (staffing) issues (e.g. susceptible to poaching, etc.).

Table 4 – Financial summary

Macquarie Group						Share Price (A\$)					77.58
As at						Market Cap (A\$M)					26,401
16-Dec-15											
PROFIT AND LOSS											
Y/e March 31 (\$m)	2014	2015	2016e	2017e	2018e	Y/e March 31	2014	2015	2016e	2017e	2018e
Net interest income	1,705	2,092	2,199	2,249	2,356	NPAT (reported) (\$m)	1,265	1,604	2,021	2,135	2,278
Net trading income	1,570	1,727	1,999	1,783	1,703	EPS (reported) (cps)	384	502	609	636	679
Fee & commission income						- Growth	53%	31%	21%	5%	7%
- Base fees	1,286	1,384	1,595	1,704	1,840	EPS (reported, diluted) (cps)	370	484	580	605	643
- Performance fees	217	667	875	508	396	- Growth	50%	31%	20%	4%	6%
- M&A, advisory & u/w fees	667	797	950	1,026	1,108	P / E ratio (times)	20.2	15.5	12.7	12.2	11.4
- Brokerage & commissions	874	823	916	938	961	P / Book ratio (times)	2.2	1.8	1.6	1.6	1.5
- Other fee and commission income	548	559	622	648	670	P / NTA ratio (times)	2.5	2.0	1.8	1.7	1.6
- Income from life business, etc.	0	0	0	0	0	Net DPS (cps)	260	330	385	425	457
- Other revenue	1,475	1,962	1,944	2,211	2,285	Yield	3.4%	4.3%	5.0%	5.5%	5.9%
Total operating income	8,342	10,011	11,099	11,067	11,319	Franking	40%	40%	40%	40%	40%
Operating expenses	-6,026	-6,740	-7,395	-7,397	-7,524	Payout (statutory basis)	68%	66%	63%	67%	67%
Impairment expenses	-210	-749	-631	-411	-321						
Operating profit before tax	2,106	2,522	3,073	3,259	3,474	CAPITAL ADEQUACY					
Corporate tax expense	-827	-899	-1,015	-1,086	-1,158	Y/e March 31	2014	2015	2016e	2017e	2018e
Minority interests	-14	-19	-38	-38	-38	Risk weighted assets (\$m)	65,698	86,499	100,693	108,032	115,144
NPAT (reported)	1,265	1,604	2,021	2,135	2,278	Average risk weight	49%	54%	53%	53%	53%
Adjustment	14	5	12	12	12	Tier 1 ratio	10.6%	11.0%	11.1%	11.1%	11.2%
NPAT (basic/diluted EPS 2012+)	1,279	1,609	2,033	2,147	2,290	Core Tier 1 ratio	9.6%	9.7%	10.0%	10.1%	10.2%
CASHFLOW											
Y/e March 31 (\$m)	2014	2015	2016e	2017e	2018e	Equity ratio	7.7%	7.7%	7.2%	7.1%	7.1%
NPAT (cash basis)	1,265	1,604	2,021	2,135	2,278	DIVISIONAL					
Increase in loans	-6,886	-10,484	-16,451	-6,572	-5,588	Y/e March 31 (\$m)	2014	2015	2016e	2017e	2018e
Increase in other assets	4,776	-13,629	-9,335	-6,806	-7,361	Macquarie Securities					
Capital expenditure	-668	-768	-3,460	-319	-328	Net trading income	234	289	562	385	405
Investing cashflow	-2,778	-24,881	-29,245	-13,697	-13,277	Brokerage & commissions	547	542	597	609	621
Increase in deposits & borrowings	3,636	6,467	3,666	3,816	4,093	Other revenue	84	87	62	68	72
Increase in other liabilities	5,561	25,123	32,035	9,058	8,338	Total operating income	865	918	1,221	1,061	1,097
Equity raised	-795	835	463	69	75	Operating expenses	-758	-854	-904	-831	-844
Other	-511	100	-690	-1,381	-1,508	Net profit contribution	107	64	316	230	253
Financing cashflow	7,991	32,525	35,474	11,562	10,999	Cost ratio	88%	93%	74%	78%	77%
Net change in cash	6,378	9,248	8,249	0	0	Macquarie Capital					
Cash at end of period	19,457	28,705	36,954	36,954	36,954	M&A, advisory & u/w fees	667	797	950	1,026	1,108
BALANCE SHEET											
Y/e March 31 (\$m)	2014	2015	2016e	2017e	2018e	Other revenue	180	286	345	359	371
Cash and liquid assets	19,457	28,705	36,954	36,954	36,954	Total operating income	847	1,083	1,296	1,385	1,479
Divisional gross loans	50,799	61,666	78,416	85,045	90,684	Operating expenses	-548	-629	-726	-746	-782
Provisions	-667	-1,049	-1,348	-1,405	-1,456	Impairment expenses	-30	-29	-118	-92	-62
Other IEA	64,990	75,064	83,402	90,207	97,568	Net profit contribution	269	425	451	548	634
Intangibles	1,221	1,164	1,182	1,182	1,185	Cost ratio	65%	58%	56%	54%	53%
PP&E	6,311	7,079	10,539	10,857	11,185	Macquarie Asset Management					
Insurance assets	0	0	0	0	0	Base fees	1,262	1,372	1,583	1,692	1,827
Other assets	11,793	15,347	16,344	16,344	16,344	Performance fees	217	667	875	508	396
Total assets	153,904	187,976	225,488	239,185	252,462	Other revenue	445	408	472	481	490
Divisional deposits & IBL	42,552	49,019	52,685	56,501	60,594	Total operating income	1,924	2,447	2,929	2,680	2,713
Other borrowings	95,326	121,126	148,912	157,970	166,308	Operating expenses	-877	-997	-1,047	-1,073	-1,095
Other liabilities	4,112	3,435	7,684	7,684	7,684	Impairment expenses	4	0	0	0	0
Total liabilities	141,990	173,580	209,281	222,154	234,586	Net profit contribution	1,051	1,450	1,883	1,607	1,618
Ordinary share capital	5,085	5,930	6,397	6,466	6,541	Cost ratio	46%	41%	36%	40%	40%
Other equity instruments	27	17	13	13	13	Commodities and Financial Markets					
Reserves	669	1,656	2,090	2,090	2,090	Net trading income	1,580	1,693	1,629	1,600	1,500
Retained profits	5,637	6,306	7,122	8,646	8,646	Other revenue	286	472	580	598	615
Minority interests	496	487	586	586	586	Total operating income	1,866	2,165	2,209	2,198	2,115
Total shareholders' equity	11,914	14,396	16,208	17,031	17,876	Operating expenses	-956	-996	-1,074	-1,058	-1,070
Total sh. equity & liabs.	153,904	187,976	225,488	239,185	252,462	Impairment expenses	-184	-334	-336	-192	-120
WANOS - statutory (m)	306	298	314	319	319	Net profit contribution	726	835	799	948	925
WANOS - diluted (m)	346	332	351	355	356	Cost ratio	51%	46%	49%	48%	51%
PROFITABILITY RATIOS											
Y/e March 31	2014	2015	2016e	2017e	2018e	Corporate & Asset Finance					
Return on assets	0.8%	0.9%	0.9%	0.9%	0.9%	Net interest income	663	737	816	831	865
Return on equity	11.0%	14.0%	14.5%	14.2%	14.4%	Net operating lease income	520	587	854	1,113	1,157
Leverage ratio	4.6%	5.1%	5.0%	5.0%	5.1%	Other revenue	93	423	84	44	45
Net interest margin	1.55%	1.70%	1.50%	1.34%	1.31%	Total operating income	1,276	1,747	1,754	1,988	2,067
Cost / income ratio	72%	67%	67%	67%	66%	Operating expenses	-381	-482	-521	-548	-564
Cost / average assets	3.91%	3.85%	3.40%	3.13%	3.03%	Impairment expenses	-69	-153	-60	-83	-86
Growth in operating income	16%	20%	11%	0%	2%	Net profit contribution	826	1,112	1,173	1,356	1,417
Growth in operating expenses	14%	12%	10%	0%	2%	Cost ratio	30%	28%	30%	28%	27%
Jaws	2%	8%	1%	0%	1%	Banking & Financial Services					
Effective tax rate	39%	36%	33%	33%	33%	Net interest income	738	825	885	920	994
ASSET QUALITY											
Y/e March 31	2014	2015	2016e	2017e	2018e	Base fees	24	12	12	13	13
impairment expense / GLA	0.41%	1.21%	0.80%	0.48%	0.35%	Commission income	605	538	589	606	625
impairment expense / RWA	0.32%	0.87%	0.63%	0.38%	0.28%	Other revenue	0	0	0	0	0
Total provisions (\$m)	667	1,049	1,348	1,405	1,456	Total operating income	1,367	1,375	1,486	1,539	1,631
Total provisions / RWA	1.02%	1.21%	1.34%	1.30%	1.26%	Operating expenses	-1,060	-1,060	-1,100	-1,119	-1,147
Indiv ass prov / gross imp assets	42%	46%	51%	51%	51%	Impairment expenses	-47	-30	-31	-44	-52
IBL / IEA	120%	125%	126%	123%	121%	Net profit contribution	260	285	356	377	433
Total provisions + GRCL / RWA	1.02%	1.21%	1.34%	1.30%	1.26%	Cost ratio	78%	77%	74%	73%	70%
						MQG compensation ratio	45%	41%	41%	41%	40%

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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