BELL POTTER

2 November 2015

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Westpac Bank (WBC)

Run for the roses

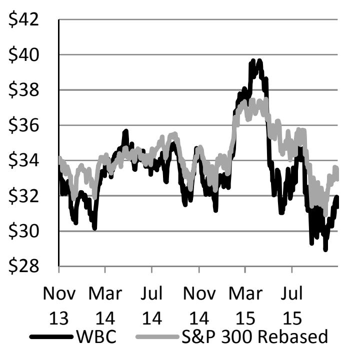
Recommendation
Buy (unchanged)
Price
$30.61
Target (12 months)
$34.90 (unchanged)

Expected Return	
Capital growth	**14.0%**
Dividend yield	**6.2%**
Total expected return	**20.2%**
Company Data & Ratios	
Enterprise value	**n/m**
Market cap	**$97,459m**
Issued capital	**3,184m**
Free float	**100%**
Avg. daily val. (52wk)	**$251.3m**
12 month price range	**$28.94 - $39.85**
GICS sector	**Banks**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	30.07	34.17	34.37
Absolute (%)	4.34	-8.17	-8.70
Rel market (%)	1.81	-2.11	-4.88

Absolute Price



SOURCE: IRESS

Strong 2015 underlying fundamentals confirmed

WBC pre-released its 2015 results alongside its capital raising plans on 14 October: (1) reported NPAT $8,012m (+6%); (2) cash NPAT $7,820m (+3%); (3) cash EPS 250cps (+2%); (4) final dividend 94cps fully franked; (5) BDD charge $753m or 12bp of GLA; and (6) NIM 2.08% (unchanged).

While there are no surprises in the headline results, WBC provided further divisional detail in today's announcement. This confirmed the strength of its underlying fundamentals, e.g. revenue growth based on strong lending volumes and stable NIM, cost discipline, stable asset quality and sufficient funding (both equity and debt) and liquidity. We believe the bank is well placed in an operating environment characterised by higher regulatory requirements and lower interest rates. The variance between reported and cash NPAT relates to the partial sale of BTIM, capitalised IT balances and amortisation of intangibles.

CET1 capital ratio on an APRA basis was 9.5% at the end of 2H15. Post the $3.5bn entitlement offer and net of proposed higher mortgage risk weights, the pro-forma ratio would be around 9.4% vs. the internal target range of 8.75-9.25% (14.2% harmonised and in the top quartile of the global peer group). The APRA leverage ratio is estimated at 5.2% (above the proposed 3-5% range, harmonised ~5.9%) and the bank suggested future capital requirements under Basel IV would be sourced internally (all else being equal).

WBC remains committed to a 15% minimum ROE and growing dividends per share within the context of a sustainable payout ratio.

$34.90 price target and Buy rating unchanged

Our estimates are largely unchanged and we maintain the $34.90 price target and Buy rating. This view is supported by strong underlying performances in the core Australian and New Zealand retail and business banks and a positive dividend growth outlook as highlighted above.

Earnings Forecast

Year end 30 September	2015	2016e	2017e	2018e
NPAT (reported) (A$m)	8,012	8,416	8,918	9,284
NPAT (adjusted) (A$m)	7,820	8,386	8,888	9,254
EPS (adjusted) (A¢ps)	250	256	264	273
EPS growth (%)	2%	3%	3%	3%
PER (x)	12.3	11.9	11.6	11.2
P/Book (x)	1.8	1.6	1.5	1.4
P/NTA (x)	2.3	2.0	1.9	1.8
Dividend (A¢ps)	187	191	195	201
Yield (%)	6.1%	6.2%	6.4%	6.6%
ROE (%)	15.8%	14.7%	14.6%	14.4%
NIM (%)	2.08%	2.10%	2.11%	2.11%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Run for the roses

Strong 2015 underlying fundamentals confirmed

WBC pre-released its 2015 results alongside its capital raising plans on 14 October:

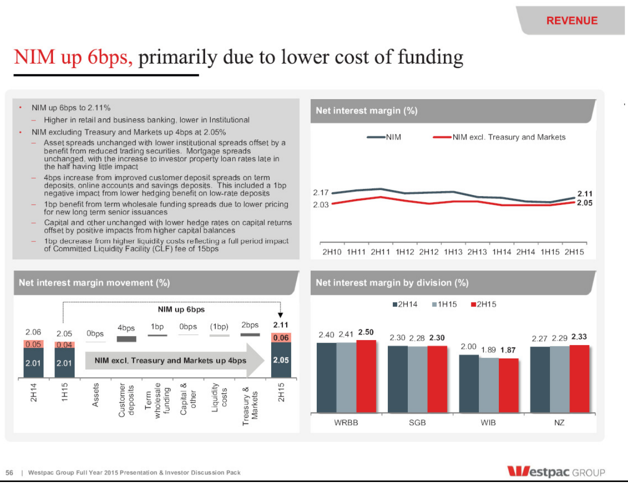
- Reported NPAT $8,012m (+6%);
- Cash NPAT $7,820m (+3%);
- Cash EPS 250cps (+2%);
- Final dividend 94cps fully franked;
- ROE 15.8%;
- BDD charge $753m or 12bp of GLA;
- NIM 2.08% (unchanged); and
- CET1 capital ratio 9.5%.

While there are no surprises in the headline results, WBC provided further divisional detail in today's announcement. This confirmed the strength of its underlying fundamentals, e.g. revenue growth based on strong lending volumes and stable NIM, cost discipline, stable asset quality and sufficient funding (both equity and debt) and liquidity. We believe the bank is well placed in an operating environment characterised by higher regulatory requirements and lower interest rates. The variance between reported and cash NPAT relates to the partial sale of BTIM, capitalised IT balances and amortisation of intangibles.

YES, THERE IS REVENUE GROWTH AND IT IS PROFITABLE

Net operating income increased by 4% on a PCP basis to $20.5bn (+5% HOH to $10.5bn). The main driver was strong growth in net interest income which increased by 6% on a PCP basis to $14.2bn (+5% HOH to $7.3bn). Excluding markets and treasury impact (i.e. liquidity drag), this was due to 6% volume growth and a 2bp increase in Group NIM (+2% and +4bp HOH). Spreads increased by 1bp over the year to 1.90% and by 7bp HOH to 1.94%, further evidence of the bank managing volumes for profitable growth. Average asset yield and funding cost fell in tandem over the year, while deposit tailwinds in 2H15 resulted in the funding cost falling at a quicker rate than asset yield. Including markets and treasury income, Group NIM was flat over the year at 2.08% but increased by 6bp HOH to 2.11% due to favourable deposit repricing tailwinds.

Figure 1 – Group NIM



SOURCE: COMPANY DATA

Volume growth on the asset side was strong particularly in Australia (housing and business) and New Zealand (housing, personal and business), while the Overseas component benefited from FX translation offsetting lower trade finance volumes (driven by commodity price reductions). This was largely funded by deposit growth in Australia and New Zealand. Overall market shares have been maintained in all core segments – roughly unchanged since 1H14.

WBC highlighted the deposit pricing tailwind would start to ease while competition would creep into asset pricing within institutional and commercial banking. Nevertheless, we believe the recent mortgage rate rises across the Group will be sufficient to offset the earlier-mentioned NIM compression.

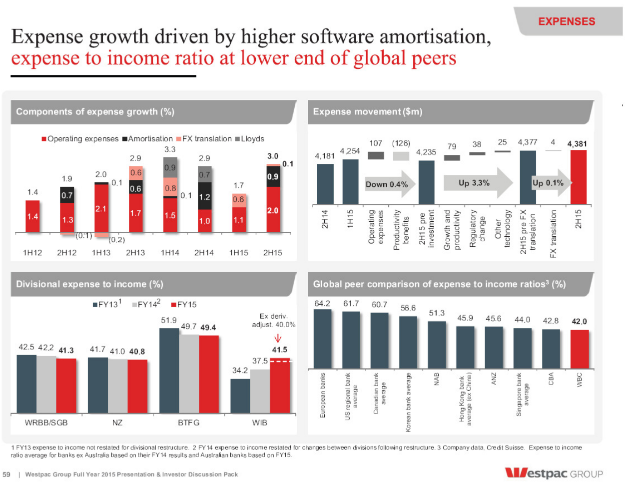
Other income was flat on a PCO basis at $6.3bn (+4% HOH to $3.2bn), driven by stable fees and commissions (largely business lending fees, institutional fees and the full year impact of the Lloyds acquisition) and better 2H15 trading income offsetting weaker BTFG income (impacted by severe weather events and lower performance fees in 2H15 net of a better life insurance outcome and the partial sale of BTIM).

SUFFICIENT COST DISCIPLINE

Operating expenses increased by 5% on a PCP basis to $8.6bn (+3% HOH to $4.4bn). Of the 5% growth, FX translation contributed 1% with the remainder coming from the bank's investment programs including higher IT costs. Staff expense growth was capped at 2% on a PCP basis (unchanged HOH) while the 12% PCP growth in IT costs (+14% HOH) reflected higher software amortisation and IT depreciation costs and higher software licencing and telecommunication costs.

While the cost-to-income ratio increased marginally by 44bp over the year to 42.0%, the HOH trend was positive highlighting an 82bp fall to 41.6%. Our estimated costs as a percentage of average assets remained steady at 1.09% despite the higher IT costs. Cost growth is expected to be 2-3% going forward with WBC guiding to a cost-to-income ratio of <40% by 2018 (we see branch rationalisation playing a huge part).

Figure 2 – Operating expenses



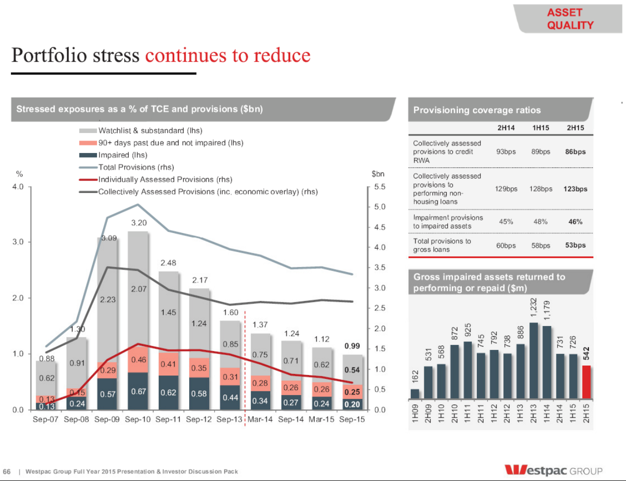
SOURCE: COMPANY DATA

ASSET QUALITY UNDER CONTROL

The BDD charge increased by 16% on a PCP basis to $0.7bn (+21% HOH to $0.4bn). As a percentage of GLA, this was 12bp (unchanged over the year, 16bp including interest adjustment) but 2bp higher HOH to 13bp mainly due to collective provisions. Economic overlays were maintained while stressed exposures (watchlist and substandard, 90 days past due and impaired) continue to decline: 0.99% of TCE in 2H15 vs. 1.12% in 1H15 and 1.24% in 2H14.

Stressed exposures continue to fall in most industries with the exception of manufacturing, services (related to mining) and utilities. WBC remains underweight in mining and agriculture (especially dairy where there are signs of increasing stresses). In our view, the BDD charge will gradually increase towards the through-the-cycle charge of 20-30bp.

Figure 3 – Asset quality



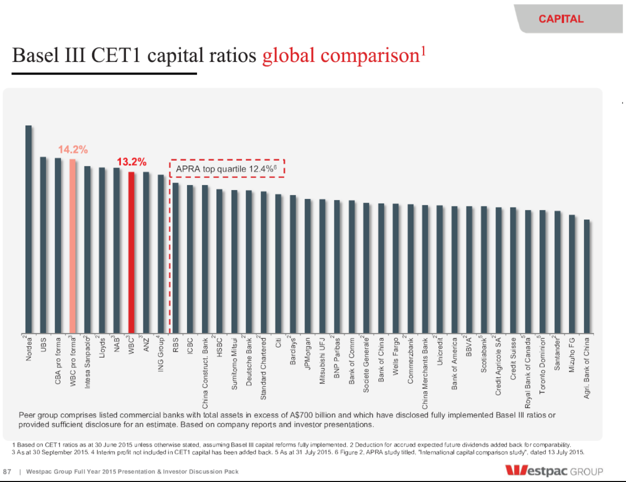
SOURCE: COMPANY DATA

CAPITAL AND FUNDING IN THE BAG

CET1 capital ratio on an APRA basis was 9.5% at the end of 2H15. Post the $3.5bn entitlement offer and net of proposed higher mortgage risk weights, the pro-forma ratio would be around 9.4% vs. the internal target range of 8.75-9.25% (14.2% harmonised and in the top quartile of the global peer group). The APRA leverage ratio is estimated at 5.2% (above the proposed 3-5% range, harmonised ~5.9%) and the bank suggested future capital requirements under Basel IV would be sourced internally (all else being equal). WBC remains committed to a 15% minimum ROE and growing dividends per share within the context of a sustainable payout ratio.

Liquidity Coverage Ratio is 121% (vs. 114% in 1H15 and >100% minimum requirement) while the Stable Funding Ratio increased marginally to 84%.

Figure 4 – Capital



SOURCE: COMPANY DATA

Table 1 – Group KPIs (6m trends)

Group KPIs	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Growth in NIE	-	-	24%	21%	5%	-3%	-1%	6%	4%	2%	4%	2%	4%	5%	4%	7%
Growth in other income	-	-	2%	-8%	-2%	3%	-2%	-2%	5%	18%	9%	6%	9%	4%	-3%	2%
Growth in operating expenses	-	-	4%	5%	2%	4%	2%	2%	4%	3%	5%	6%	6%	6%	5%	5%
Growth in PBT before BDD	-	-	25%	15%	3%	-6%	-3%	4%	5%	9%	6%	1%	5%	4%	0%	6%
Growth in loans	-	-	10%	7%	6%	3%	2%	4%	4%	4%	3%	4%	8%	8%	7%	7%
Growth in deposits	-	-	21%	19%	9%	6%	7%	9%	11%	16%	13%	11%	9%	8%	8%	4%
NIM	2.00%	2.05%	2.24%	2.39%	2.26%	2.17%	2.21%	2.23%	2.17%	2.18%	2.19%	2.12%	2.12%	2.06%	2.05%	2.11%
Cost ratio	45%	42%	40%	40%	40%	42%	41%	42%	41%	41%	41%	42%	41%	42%	42%	42%
Cost / average assets	1.40%	1.14%	1.14%	1.14%	1.16%	1.16%	1.13%	1.12%	1.10%	1.12%	1.13%	1.14%	1.14%	1.11%	1.09%	1.09%
Tier 1 capital ratio	7.4%	7.8%	8.4%	8.1%	8.6%	9.1%	9.5%	9.7%	9.8%	10.3%	10.8%	10.7%	10.3%	10.6%	10.3%	11.4%
Impairment expense / loans	0.27%	0.31%	0.73%	0.74%	0.37%	0.24%	0.19%	0.22%	0.24%	0.24%	0.17%	0.16%	0.12%	0.11%	0.12%	0.13%
Total provisions + GRCL / RWA	1.09%	1.21%	1.69%	1.89%	2.08%	1.84%	1.82%	1.60%	1.48%	1.44%	1.38%	1.31%	1.20%	1.07%	1.03%	0.95%
ROE	22.7%	21.9%	14.5%	13.5%	16.4%	15.8%	16.6%	15.7%	15.1%	15.9%	16.1%	15.8%	16.5%	16.3%	15.8%	15.8%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Core segment observations

Overall Group cash NPAT increase was driven by the core Australian and New Zealand retail and business banks. Our summary observations are as follows.

Westpac Retail & Business Bank – One of the key profit and value contributors for the Group, Cash NPAT increased by 8% on a PCP basis to $2.8bn (+7% HOH to $1.4bn). A quality result based on volume growth, margin improvement (NIM +7bp PCP to 2.45%, +9bp HOH to 2.50%) from improved deposit spreads and mix, stable other income (despite some seasonality) and incremental cost efficiencies offsetting a slight increase in the BDD charge (portfolio growth and lower write-backs).

Table 2 – Westpac Retail & Business Bank

Westpac R&BB	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Market share																
- Home loans	7.1%	7.3%	7.8%	8.6%	9.2%	9.5%	9.1%	9.3%	9.3%	9.2%	9.2%	9.2%	9.2%	9.3%	9.2%	9.3%
- Other loans	2.6%	2.7%	2.7%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%	2.4%	2.4%
- Deposits	8.1%	8.0%	8.6%	8.7%	9.0%	9.1%	9.0%	9.0%	9.2%	9.3%	9.3%	9.5%	9.4%	9.5%	9.5%	9.5%
NIM	-	2.43%	2.34%	2.32%	2.21%	2.08%	2.15%	2.17%	2.21%	2.25%	2.31%	2.35%	2.37%	2.40%	2.41%	2.50%
Other income / footings	0.27%	0.24%	0.24%	0.18%	0.15%	0.15%	0.15%	0.15%	0.15%	0.16%	0.16%	0.17%	0.17%	0.17%	0.16%	0.16%
Operating expense / footings	0.53%	0.51%	0.50%	0.46%	0.45%	0.43%	0.43%	0.43%	0.41%	0.39%	0.39%	0.39%	0.39%	0.38%	0.38%	0.37%
Cost ratio	50%	49%	47%	47%	49%	50%	49%	50%	48%	47%	45%	44%	44%	44%	44%	43%
Impairment expense / loans	0.09%	0.10%	0.11%	0.15%	0.13%	0.12%	0.12%	0.11%	0.09%	0.08%	0.10%	0.09%	0.09%	0.08%	0.08%	0.09%
Effective tax rate	30%	30%	30%	30%	30%	30%	30%	29%	30%	28%	30%	30%	30%	30%	30%	30%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

St George Banking Group (including Bank of Melbourne) – Another key profit contributor to the Group with cash NPAT 7% higher on a PCP basis to $1.7bn (+2% HOH to $0.9bn). Similar to Westpac Retail & Business Bank, another quality outcome given volume growth (mortgages and business lending), 2bp higher NIM from 1H15 (stable over the year), strong other income growth (higher business line and lending fees plus the full year impact of the Lloyds acquisition) and cost discipline once again.

Table 3 – St George Banking Group

St George	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Market share																
- Home loans	3.9%	3.9%	4.0%	4.3%	4.5%	4.6%	5.1%	5.2%	5.1%	5.2%	5.3%	5.3%	5.4%	5.4%	5.5%	5.6%
- Other loans	1.8%	1.9%	2.0%	2.0%	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.7%	1.7%	1.9%	1.9%	1.8%	1.9%
- Deposits	4.9%	4.9%	5.0%	5.1%	5.3%	5.2%	5.0%	5.1%	5.2%	5.4%	5.5%	5.6%	5.4%	5.5%	5.4%	5.3%
NIM	-	2.32%	2.01%	2.07%	1.92%	1.90%	1.89%	1.94%	2.08%	2.16%	2.20%	2.25%	2.27%	2.30%	2.28%	2.30%
Other income / footings	0.21%	0.20%	0.20%	0.18%	0.15%	0.15%	0.13%	0.13%	0.13%	0.12%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Operating expense / footings	0.38%	0.35%	0.35%	0.33%	0.32%	0.33%	0.32%	0.32%	0.30%	0.30%	0.30%	0.29%	0.30%	0.31%	0.30%	0.30%
Cost ratio	42%	36%	37%	36%	37%	39%	39%	38%	38%	38%	38%	38%	38%	39%	38%	37%
Impairment expense / loans	0.08%	0.13%	0.17%	0.33%	0.26%	0.14%	0.13%	0.15%	0.17%	0.13%	0.08%	0.11%	0.07%	0.08%	0.07%	0.09%
Effective tax rate	30%	30%	30%	30%	31%	29%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

BT Financial Group – Flat cash NPAT of $0.9bn PCP and HOH, impacted by the BTIM sell-down (FUM -48% PCP), lower performance fees in 2H15 (JOHCM performance fees paid in 1H) and adverse weather events leading to 13% PCP lower general insurance earnings (although this improved in 2H15 leading to +15% higher HOH earnings).

Table 4 – BT Financial Group

BT Financial Group	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Growth in FUA	-53%	-57%	-18%	6%	31%	4%	2%	-3%	4%	14%	12%	17%	12%	10%	17%	8%
Funds management return	0.51%	0.82%	0.79%	0.84%	0.80%	0.77%	0.93%	0.97%	0.90%	0.85%	0.94%	0.91%	1.00%	0.92%	0.89%	0.82%
Growth in insurance income	-	-	10%	15%	11%	-2%	-9%	21%	18%	16%	4%	-16%	7%	10%	2%	-12%
Volume expenses / TOI	30%	27%	25%	22%	24%	24%	22%	21%	22%	21%	0%	0%	0%	0%	0%	0%
Growth in operating expenses	0%	0%	25%	29%	-8%	-6%	21%	20%	25%	21%	78%	74%	12%	7%	0%	-3%
Effective tax rate	27%	31%	32%	31%	31%	29%	30%	31%	31%	30%	30%	30%	30%	30%	30%	30%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Westpac Institutional Bank – Cash NPAT was 12% lower on a PCP basis to $1.3bn (but +6% HOH to $0.7bn). The division was a drag on Group NPAT due to lower NIE (NIM -15bp PCP although only -2bp HOH, impacted by higher liquidity levels and narrowing asset spreads) and -1% PCP lower other income ($122m negative impact from one-off methodology changes to derivative valuations that was guided to previously; excluding this other income was $110m higher).

Table 5 – Westpac Institutional Bank

Westpac Institutional Bank	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Market share																
- Loans	4.4%	4.4%	4.3%	3.9%	3.6%	3.1%	2.6%	2.5%	2.6%	2.5%	2.6%	2.6%	2.9%	2.9%	2.9%	3.0%
- Other IEA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- IBL	3.4%	3.5%	4.2%	4.3%	4.0%	3.8%	3.6%	3.5%	3.7%	4.3%	4.3%	4.6%	4.4%	4.6%	4.2%	4.2%
NIM	0.00%	1.77%	2.17%	2.23%	2.09%	1.79%	1.85%	1.92%	2.59%	2.39%	2.29%	2.21%	2.06%	2.00%	1.89%	1.87%
Other income / footings	0.54%	0.46%	0.57%	0.43%	0.55%	0.51%	0.46%	0.37%	0.50%	0.48%	0.50%	0.48%	0.42%	0.37%	0.34%	0.39%
Operating expense / footings	0.42%	0.41%	0.39%	0.41%	0.35%	0.37%	0.34%	0.31%	0.34%	0.31%	0.34%	0.33%	0.32%	0.30%	0.31%	0.33%
Cost ratio	38%	39%	31%	37%	30%	33%	34%	32%	30%	32%	34%	35%	37%	38%	41%	42%
Impairment expense / loans	0.25%	0.22%	1.10%	0.82%	0.07%	0.05%	-0.01%	-0.08%	0.07%	0.06%	-0.05%	-0.05%	-0.09%	-0.04%	-0.02%	-0.01%
Effective tax rate	29%	28%	32%	28%	29%	29%	30%	30%	29%	29%	30%	29%	31%	29%	31%	30%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Westpac New Zealand (NZ$ terms) – Another strong performance in the core retail and business bank with cash NPAT up by 6% on a PCP basis to NZ$0.9bn (+8% HOH to NZ$0.5bn). Key drivers include strong NIM expansion (+4bp PCP and HOH to 2.31% and 2.33% respectively), volume growth right across all segments and cost discipline offsetting a higher BDD charge (fewer write-back and recoveries).

Table 6 – Westpac New Zealand

NZ Banking	1H08	2H08	1H09	2H09	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	1H15	2H15
Growth																
- Loans	-	16.5%	4.4%	2.6%	4.0%	4.4%	14.7%	15.7%	3.6%	3.1%	2.9%	3.7%	5.5%	4.9%	5.4%	6.8%
- Deposits	-	17.8%	5.7%	5.9%	7.1%	5.9%	23.3%	24.6%	6.5%	10.5%	14.2%	11.0%	7.6%	6.0%	6.4%	5.1%
NIM	-	2.58%	2.25%	2.22%	2.07%	2.16%	2.38%	2.41%	2.40%	2.43%	2.34%	2.32%	2.28%	2.27%	2.29%	2.33%
Other income / footings	0.28%	0.30%	0.28%	0.25%	0.21%	0.21%	0.20%	0.20%	0.21%	0.20%	0.21%	0.20%	0.20%	0.20%	0.20%	0.19%
Operating expense / footings	0.50%	0.49%	0.49%	0.49%	0.47%	0.43%	0.40%	0.41%	0.40%	0.39%	0.39%	0.36%	0.36%	0.35%	0.35%	0.36%
Cost ratio	46%	44%	44%	47%	49%	47%	44%	43%	42%	42%	43%	41%	41%	41%	41%	41%
Impairment expense / loans	0.14%	0.23%	0.39%	0.81%	0.42%	0.24%	0.21%	0.17%	0.15%	0.14%	0.10%	0.07%	0.01%	0.03%	0.04%	0.02%
Effective tax rate	32%	32%	30%	19%	29%	30%	28%	31%	28%	28%	28%	28%	28%	28%	28%	27%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

$34.90 price target and Buy rating unchanged

Our estimates are largely unchanged (Table 7, next page) and we maintain the $34.90 price target and Buy rating. This view is supported by strong underlying performances in the core Australian and New Zealand retail and business banks and a positive dividend growth outlook where WBC has guided to increasing dividends per share within the context of a sustainable payout ratio.

Table 7 – Little overall change to our EPS estimates post full capital raising

Westpac Bank	2016e			2017e			2018e			2019e		
Y/e September 30 ($m)	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Profit & Loss												
Net interest income	15,242	15,139	1%	15,952	15,789	1%	16,628	16,451	1%	17,341	17,149	1%
Other income	6,546	6,714	-2%	6,873	7,327	-6%	7,246	7,716	-6%	7,665	8,219	-7%
Total operating income	**21,787**	**21,853**	0%	**22,825**	**23,116**	-1%	**23,874**	**24,166**	-1%	**25,007**	**25,368**	-1%
Operating expenses	-8,737	-8,858	1%	-8,882	-9,047	2%	-9,191	-9,335	2%	-9,591	-9,794	2%
Impairment expenses	-1,053	-1,023	-3%	-1,227	-1,221	-1%	-1,444	-1,422	-2%	-1,692	-1,691	0%
Net profit before income tax	**11,998**	**11,972**	0%	**12,716**	**12,848**	-1%	**13,238**	**13,409**	-1%	**13,723**	**13,883**	-1%
Corporate tax expense	-3,564	-3,516	-1%	-3,779	-3,779	0%	-3,937	-3,947	0%	-4,083	-4,089	0%
Distributions & other	-48	-68	42%	-48	-68	42%	-48	-68	42%	-48	-68	42%
NPAT (cash basis)	**8,386**	**8,388**	0%	**8,888**	**9,001**	-1%	**9,254**	**9,394**	-1%	**9,593**	**9,726**	-1%
DPS (cps)	191	191	0%	195	195	0%	201	203	-1%	207	211	-2%
EPS (cash basis) (cps)	256	255	1%	264	264	0%	273	273	0%	280	280	0%
ROE	14.7%	14.5%	0.3%	14.6%	14.4%	0.2%	14.4%	14.3%	0.1%	14.2%	14.0%	0.2%
NIM	2.10%	2.10%	0.00%	2.11%	2.10%	0.01%	2.11%	2.10%	0.01%	2.11%	2.10%	0.01%
Cost ratio	40.1%	40.5%	0.4%	38.9%	39.1%	0.2%	38.5%	38.6%	0.1%	38.4%	38.6%	0.3%
Impairment expense as % of GLA	0.16%	0.16%	0.00%	0.18%	0.18%	0.00%	0.20%	0.20%	0.00%	0.22%	0.23%	0.00%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 8 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF	126,271	$38.02	40%	$15.21
Dividend yield (sustainable)	115,335	$34.73	40%	$13.89
ROE (sustainable)	95,637	$28.80	10%	$2.88
Sum-of-Parts	99,264	$29.89	10%	$2.99
Total				**$34.97**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 9 – SOP valuation

Sum-of-Parts (As Is)	2017e NPAT	Pros. PE (times)	Value ($m)	Per share
WBC Retail & Business Banking	3,376	12.0	40,510	$12.20
St George Banking Group	1,587	12.0	19,046	$5.73
Westpac Institutional Bank	1,704	10.0	17,042	$5.13
BT Financial Group	1,066	12.0	12,787	$3.85
NZ & Pacific Banking	988	10.0	9,880	$2.97
Group	168	0.0	0	$0.00
Total	**8,888**	**11.2**	**99,264**	**$29.89**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

WBC profile

Company description

WBC is Australia's oldest bank with a focus in Australia and New Zealand. Following the transformational merger with SGB in December 2008, the bank is now the leading financial services player in the country (with 10m customers, 1,200 branches and 2,700 ATMs) and the largest provider of wealth platforms.

Investment strategy

Our current rating reflects WBC's relatively lower risk profile and significant ROE and value upside from productivity and efficiency gains within Westpac Retail & Business Banking in the medium term in rationalising the branch network with St George ($2.00 per share upside included in the price target). The other key value drivers are scale in banking and wealth management (domestic and overseas) and exposure to fast growing NSW.

Valuation

The price target closely reflects the current composite valuation of WBC, weighted as follows:

1. DCF value of $38.02 per share (comprising 10.0% hurdle rate, 3.00% terminal growth rate and 10.0% CET1 requirement; 40% weight);
2. Dividend yield play (short term) valuation of $34.73 per share based on 5.5% required return (40% weight);
3. Price / book valuation (based on 15% sustainable ROE and in excess of its cost of equity) of $28.80 per share (10% weight); and
4. SOP value of $29.89 per share (10% weight).

Table 10 – Composite valuation

Composite Valuation	Value ($m)	Per share	Weighting	Composite value per share
DCF	126,271	$38.02	40%	$15.21
Dividend yield (sustainable)	115,335	$34.73	40%	$13.89
ROE (sustainable)	95,637	$28.80	10%	$2.88
Sum-of-Parts	99,264	$29.89	10%	$2.99
Total				**$34.97**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 11 – SOP valuation

Sum-of-Parts (As Is)	2017e NPAT	Pros. PE (times)	Value ($m)	Per share
WBC Retail & Business Banking	3,376	12.0	40,510	$12.20
St George Banking Group	1,587	12.0	19,046	$5.73
Westpac Institutional Bank	1,704	10.0	17,042	$5.13
BT Financial Group	1,066	12.0	12,787	$3.85
NZ & Pacific Banking	988	10.0	9,880	$2.97
Group	168	0.0	0	$0.00
Total	**8,888**	**11.2**	**99,264**	**$29.89**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

SWOT analysis

Strengths

1. Conservative Board/Management with relevant banking experience;
2. Strong execution capabilities including M&A planning and integration;
3. Scale in wealth management and global markets; and
4. Domestic retail and SME banking franchise, including service and sales.

Weaknesses

1. Overweight NZ but the risks are partially mitigated by exposure to relatively lower risk retail assets.

Opportunities

1. Multiple domestic banking and wealth management opportunities based on securing alternate distribution strategies (offshore for the latter);
2. Radical restructuring of the combined WBC/SGB network especially in NSW;
3. IT outsourcing of further 2,000 FTE; and
4. Leveraged to east coast economic recovery.

Threats

1. Macroeconomic factors, e.g. higher unemployment and slowing credit growth;
2. Changes in regulatory environment;
3. Potential capping of funds management and advice fees that would crimp wealth management earnings growth;
4. Some sovereign risk – exposed to sometimes unstable governments in the Pacific region such as Fiji; and
5. Increased competition specifically from NAB and ANZ on the domestic front in retail and wholesale banking and wealth management.

Sensitivities

Table 12 – Sensitivities

Y/e September 30	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e
Sensitivities									
Group NIM +10bp									
- NPAT upside (cash basis)	6.1%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
- Price target upside	$2.12	$2.08	$2.08	$2.09	$2.09	$2.09	$2.09	$2.10	$2.10
Group Loans +1%									
- NPAT upside (cash basis)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
- Price target upside	$0.27	$0.27	$0.27	$0.27	$0.27	$0.27	$0.28	$0.28	$0.28
WBC R&BB loans +1%									
- NPAT upside (cash basis)	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%
- Price target upside	$0.13	$0.13	$0.13	$0.13	$0.13	$0.12	$0.12	$0.12	$0.12
SGB R&BB loans +1%									
- NPAT upside (cash basis)	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
- Price target upside	$0.06	$0.06	$0.06	$0.06	$0.06	$0.06	$0.06	$0.07	$0.06
NZ loans +1%									
- NPAT upside (cash basis)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
- Price target upside	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04	$0.04
Other income +1%									
- NPAT upside (cash basis)	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
- Price target upside	$0.19	$0.19	$0.19	$0.20	$0.20	$0.20	$0.20	$0.20	$0.21
BDD +1%									
- NPAT upside (cash basis)	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%
- Price target upside	-$0.03	-$0.03	-$0.04	-$0.04	-$0.05	-$0.05	-$0.05	-$0.05	-$0.06
Costs +1%									
- NPAT upside (cash basis)	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%	-0.7%
- Price target upside	-$0.25	-$0.24	-$0.24	-$0.24	-$0.24	-$0.24	-$0.24	-$0.24	-$0.24

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Westpac Bank
as at 2 November 2015

Recommendation	Buy
Price	$30.61
Target (12 months)	$34.90

Table 13 – Financial summary

Westpac Bank		**Share Price (A$)**	**30.61**
As at	2-Nov-15	**Market Cap (A$M)**	**97,459**

PROFIT AND LOSS

Y/e September 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Net interest income	13,496	14,239	15,242	15,952	16,628
Other banking income	3,661	3,661	3,783	3,894	4,033
Total banking income	**17,157**	**17,900**	**19,025**	**19,846**	**20,661**
Funds management income	2,057	2,066	2,155	2,338	2,537
Insurance income	606	574	608	641	677
Total operating income	**19,820**	**20,540**	**21,787**	**22,825**	**23,874**
Operating expenses	-8,246	-8,635	-8,737	-8,882	-9,191
Impairment expenses	-650	-753	-1,053	-1,227	-1,444
Net profit before income tax	**10,924**	**11,152**	**11,998**	**12,716**	**13,238**
Corporate tax expense	-3,230	-3,274	-3,564	-3,779	-3,937
Minority interests	-66	-58	-48	-48	-48
Preference dividends	0	0	0	0	0
NPAT (cash basis)	**7,628**	**7,820**	**8,386**	**8,888**	**9,254**
Adjustments (merger, etc.)	-67	192	30	30	30
NPAT (statutory basis)	**7,561**	**8,012**	**8,416**	**8,918**	**9,284**

CASHFLOW

Y/e September 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
NPAT (cash basis)	7,628	7,820	8,386	8,888	9,254
Increase in divisional loans	-47,222	-40,559	-34,590	-34,112	-36,276
Increase in other assets	-7,919	-12,637	-6,504	-6,733	-7,021
Capital expenditure	-278	-140	-48	-50	-51
Investing cashflow	**-55,419**	**-53,336**	**-41,142**	**-40,895**	**-43,349**
Increase in deposits & borrowings	28,654	15,760	25,667	28,232	30,444
Increase in other liabilities	39,291	20,976	8,919	9,376	9,447
Equity raised	-129	2,256	4,301	842	871
Other	-5,964	-4,466	-6,130	-6,444	-6,666
Financing cashflow	**61,852**	**34,526**	**32,756**	**32,006**	**34,095**
Net change in cash	14,061	-10,990	0	0	0
Cash at end of period	**25,760**	**14,770**	**14,770**	**14,770**	**14,770**

BALANCE SHEET

Y/e September 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Cash and liquid assets	25,760	14,770	14,770	14,770	14,770
Divisional gross loans	571,047	611,457	646,327	680,672	717,150
Provisions	-3,481	-3,332	-3,612	-3,846	-4,047
Other gross loans	12,469	14,887	14,887	14,887	14,887
Other IEA	132,597	141,656	147,379	153,333	159,528
Intangibles	12,606	11,574	11,574	11,574	11,574
PP&E	1,452	1,592	1,640	1,690	1,741
Insurance assets	11,007	13,125	13,906	14,685	15,512
Other assets	7,385	6,427	6,427	6,427	6,427
Total assets	**770,842**	**812,156**	**853,298**	**894,193**	**937,541**
Divisional deposits	381,898	397,657	423,324	451,556	482,000
Other borrowings	319,444	338,826	347,744	357,121	366,568
Other liabilities	20,163	21,758	21,758	21,758	21,758
Total liabilities	**721,505**	**758,241**	**792,826**	**830,435**	**870,325**
Ordinary share capital	26,639	28,895	33,196	34,037	34,908
Other equity instruments	0	0	0	0	0
Reserves	1,176	1,031	1,031	1,031	1,031
Retained profits	20,641	23,172	25,428	27,873	30,460
Minority interests	881	817	817	817	817
Total shareholders' equity	**49,337**	**53,915**	**60,472**	**63,758**	**67,216**
Total sh. equity & liabs.	**770,842**	**812,156**	**853,298**	**894,193**	**937,541**
WANOS - statutory (m)	**3,098**	**3,124**	**3,259**	**3,354**	**3,382**
WANOS - cash (m)	**3,109**	**3,134**	**3,270**	**3,365**	**3,393**

PROFITABILITY RATIOS

Y/e September 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Return on assets	1.0%	1.0%	1.0%	1.0%	1.0%
Return on equity	**16.4%**	**15.8%**	**14.7%**	**14.6%**	**14.4%**
Leverage ratio	4.6%	5.1%	5.6%	5.7%	5.8%
Net interest margin	**2.08%**	**2.08%**	**2.10%**	**2.11%**	**2.11%**
Cost / income ratio	42%	42%	40%	39%	38%
Cost / average assets	1.13%	1.09%	1.05%	1.02%	1.01%
Growth in operating income	5%	4%	6%	5%	5%
Growth in operating expenses	6%	5%	1%	2%	3%
Jaws	**-1%**	**-1%**	**5%**	**3%**	**1%**

ASSET QUALITY

Y/e September 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Impairment expense / GLA	0.11%	0.12%	0.16%	0.18%	0.20%
Impairment expense / RWA	0.20%	0.21%	0.25%	0.28%	0.31%
Total provisions ($m)	**3,481**	**3,332**	**3,612**	**3,846**	**4,047**
Total provisions / RWA	1.05%	0.93%	0.87%	0.87%	0.87%
Indiv ass prov / gross imp assets	37%	35%	35%	35%	35%
IBL / IEA	98%	96%	96%	96%	96%
Total provisions + GRCL / RWA	**1.07%**	**0.95%**	**0.88%**	**0.88%**	**0.88%**

VALUATION DATA

Y/e September 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
NPAT (cash basis) ($m)	7,628	7,820	8,386	8,888	9,254
EPS (statutory basis) (cps)	244	256	258	266	275
- Growth	12%	5%	1%	3%	3%
EPS (cash basis) (cps)	245	250	256	264	273
- Growth	8%	2%	3%	3%	3%
P / E ratio (times)	12.5	12.3	11.9	11.6	11.2
P / Book ratio (times)	2.0	1.8	1.6	1.5	1.4
P / NTA ratio (times)	2.7	2.3	2.0	1.9	1.8
Net DPS (cps)	182	187	191	195	201
Yield	5.9%	6.1%	6.2%	6.4%	6.6%
Franking	100%	100%	100%	100%	100%
Payout (cash basis)	74%	75%	74%	74%	74%

CAPITAL ADEQUACY

Y/e September 30	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Risk weighted assets ($m)	331,387	358,580	416,439	444,564	466,774
Average risk weight	45%	45%	50%	51%	51%
Tier 1 ratio	**10.6%**	**11.4%**	**11.4%**	**11.4%**	**11.6%**
Core Tier 1 ratio	**9.0%**	**9.5%**	**9.8%**	**9.9%**	**10.1%**
Total capital ratio	12.3%	13.3%	13.0%	12.9%	13.0%
Equity ratio	6.4%	6.6%	7.1%	7.1%	7.2%

DIVISIONAL

Y/e September 30 ($m)	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Westpac and St George Retail & Business Banking					
Net interest income	9,484	10,163	10,386	10,960	11,505
Other income	1,956	2,012	2,102	2,209	2,213
Total banking income	**11,440**	**12,175**	**12,488**	**13,169**	**13,718**
Operating expenses	-4,825	-5,026	-4,975	-5,043	-5,209
Impairment expenses	-672	-751	-916	-1,030	-1,196
Net profit before tax	**5,943**	**6,398**	**6,597**	**7,096**	**7,312**
Corporate tax expense	-1,785	-1,922	-1,983	-2,133	-2,198
Cash net profit after tax	**4,158**	**4,476**	**4,614**	**4,963**	**5,114**
Home loans	338,700	362,400	383,602	404,085	425,635
Other loans	100,300	104,700	111,990	119,177	126,783
Deposits	256,000	270,000	288,900	309,123	330,762
Westpac Institutional Bank					
Net interest income	1,658	1,645	2,309	2,373	2,439
Other income	1,470	1,458	1,538	1,519	1,632
Total banking income	**3,128**	**3,103**	**3,846**	**3,892**	**4,071**
Operating expenses	-1,174	-1,289	-1,371	-1,345	-1,383
Impairment expenses	135	39	-76	-104	-120
Net profit before tax	**2,089**	**1,853**	**2,399**	**2,443**	**2,569**
Corporate tax expense	-622	-567	-726	-739	-777
Cash net profit after tax	**1,467**	**1,286**	**1,674**	**1,704**	**1,792**
Loans	66,200	74,400	78,120	81,635	85,309
IBL	78,100	77,400	82,818	88,615	94,818
BT Financial Group					
Funds management income	2,057	2,066	2,155	2,338	2,537
Insurance income	606	574	608	641	677
Total operating income	**2,663**	**2,640**	**2,763**	**2,979**	**3,214**
Volume expenses	2	4	0	0	0
Operating expenses	-1,323	-1,304	-1,332	-1,420	-1,514
Net profit before tax	**1,342**	**1,340**	**1,431**	**1,559**	**1,700**
Corporate tax expense	-403	-402	-429	-468	-510
Investment experience	-39	-34	-24	-26	-27
Cash net profit after tax	**900**	**904**	**977**	**1,066**	**1,163**
FUA	112,700	121,900	131,851	142,614	154,256
NZ & Pacific Banking					
Net interest income	1,595	1,757	1,790	1,861	1,926
Other income	590	575	578	601	623
Total operating income	**2,185**	**2,332**	**2,368**	**2,462**	**2,549**
Operating expenses	-875	-943	-942	-958	-970
Impairment expenses	-33	-45	-61	-93	-128
Net profit before tax	**1,277**	**1,344**	**1,365**	**1,411**	**1,451**
Corporate tax expense	-371	-403	-410	-423	-435
Minority interests	0	0	0	0	0
Investment experience	0	0	0	0	0
Cash net profit after tax	**906**	**941**	**956**	**988**	**1,016**
Loans	62,366	66,625	69,003	71,930	75,376
Deposits	47,798	50,257	51,606	53,818	56,420

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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Disclosure of interest:

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