

Financials

Banking Sector Weekly

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Weekly Moves

The banking sector, +0.6%, underperformed the ASX 200, +3.0%, over the week. WBC was the best of the majors at +2.9% while CBA was worst, at flat. BOQ was the best non-major at +7.3% while MQG was worst at +3.4%.

Post-FY10 reporting wrap up

- NIM:** With exception of ANZ's 5bp hoh expansion in NIM, on the whole margins were lower (NAB's down 2bp hoh, WBC's -9bp). By division, we saw margin compression across the Australian retail portfolios and this is expected to continue (CBA's interest rate release indicated 1Q11 NIM was 2.15% vs 2H10 at 2.19%); however, New Zealand recorded NIM expansion which is also expected to continue into FY11.
- Better-than-expected dividends:** Each of the majors posted final dividends above expectations. In particular we note WBC's final dividend of 74¢ indicated a payout ratio of 75.5% for 2H10.
- Provisioning levels normalised (as expected):** Two points of note: (1) economic overlay remained untouched with the exception of WBC which released \$49m and (2) outlook statements indicated lower provisions in FY11, although the decline is expected to slow versus FY10.
- Business lending not expected to return until 2H11:** While the majors noted they were still seeing healthy pipelines, the much awaited business lending growth turnaround is not expected until 2H11.

CBA's rate rise decision - when will the others follow?

- CBA announced a 20bp rise in mortgage rates above the RBA's 25bp change to OCR. The big winners are likely to be regional banks, which have ~2x leverage to above-cycle repricing vs major bank peers. We note that the differential in rates was 27bp pre the rate rise; thus, some banks may have more room to move than others

FY11 Sensitivity to Cash Earnings (full period impact)

	Variable Mortgage Spread Increase (Aust. Only)				
	0.05%	0.10%	0.15%	0.20%	0.25%
ANZ	0.8%	1.6%	2.4%	3.3%	4.1%
CBA	1.3%	2.5%	3.8%	5.1%	6.4%
NAB	1.0%	2.0%	3.0%	4.0%	5.0%
WBC	1.4%	2.8%	4.1%	5.5%	6.9%
Majors	1.1%	2.3%	3.4%	4.5%	5.6%
SUN	1.0%	2.0%	3.0%	4.0%	5.0%
BEN	2.7%	5.3%	8.0%	10.7%	13.3%
BOQ	3.0%	6.1%	9.1%	12.2%	15.2%

Source: GS&PA Research estimates

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Share Price Movement

% Movement over the week to 5 Nov, 10

Major Banks

WBC	+2.9%
NAB	+2.0%
ANZ#	+0.1%
CBA	-0.0%

Regional Banks

BOQ	+7.3%
SUN	+5.4%
BEN	+5.3%
MQG	+3.4%

Comparable Index Movement

ASX 200 Index	+3.0%
ASX Bank Index	+0.6%
FTSE Bank Index*	+5.0%
FTSE 100*	+3.3%
S&P 500 Bank Index*	+5.0%
S&P500*	+3.1%

Source: IRESS, Bloomberg

* Thursday to Thursday

#Adjusted for ex-dividend

UPCOMING EVENTS:

- 11-12 Nov:** G20 Leaders Summit, South Korea (finalisation of Basel III)

Best trading idea: Out of MQG (HOLD, \$37.42) into NAB (well capitalised and cheap valuation)
Order of preference (12-month basis): NAB, ANZ, CBA, WBC
NAB (BUY, \$25.97): Greatest long term upside, with M&A risk diminishing
ANZ (BUY, \$24.09): Asia leverage, benefit from BDD normalisation and cheap valuation
CBA (HOLD, \$48.88): Strong domestic bank, but priced in
WBC (HOLD, \$23.36): Australia recovery play, valuation inexpensive

Source: GS&PA Research, IRESS

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