

Macquarie Group Limited(ASX: MQG) Well-Positioned To Deliver Superior Performance In The Medium Term

BY ACE INVESTORS / 14 DECEMBER 2022



Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: MQG
Shares O/S	386.48 million
Closing Price	AUD 172.86
Market Cap	66.28 billion
52 High/Low	217.32/149.51
One Year Stock Performance	-14.68%
Avg volume (TTM)	0.79 million
EPS (TTM)	12.677
P/E	13.52
Annual Dividend Yield	5.33%
Franking	40%
Last Dividend Ex-Date	07 Nov 2022
Last Dividend Pay Date	13 Dec 2022
DPS (AUD)	9.22
ROE %	17.38%

COMPANY OVERVIEW

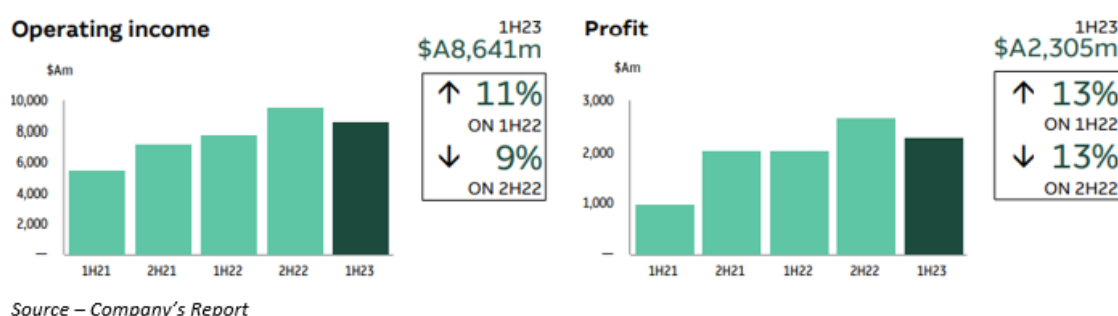
Macquarie Group Limited (**“MQG” or the “Company”**) is a global financial services group operating in 33 markets in asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advice, access to capital and principal investment.

On 28 October 2022, the Company announced its result for the half year ended FY 2023. The Company announced a net profit after tax attributable to ordinary shareholders of \$A2,305 million for the half year ended 30 September 2022 (1H23),

up 135 on the half year ended 30 September 2021 (1H22) and down 13% on the half year ended 31 March 2022 (2H22).

Macquarie's businesses continued to perform well against a backdrop of more challenging market conditions, reflecting the diversity of our activities and ongoing focus on prudent risk management.

Macquarie's assets under management on 30 September 2022 were \$A795.6 billion, up 3% from \$A774.8 billion on 31 March 2022. The increase was primarily due to investments made by MAM Private Markets-managed funds and foreign exchange movements, partially offset by market movements in MAM Public Investments.



Source – Company's Report

The Company reported a net operating income of \$A8,641 million was up 11% on 1H22. International income accounted for 72% of Macquarie's total income. The Company announced a 1H23 interim ordinary dividend of \$A3.00 per share (40% franked), up on the 1H22 interim ordinary dividend of \$A2.72 per share (40% franked). This represents a payout ratio of 50.5. Macquarie's dividend policy remains a 50 to 70% annual payout ratio.

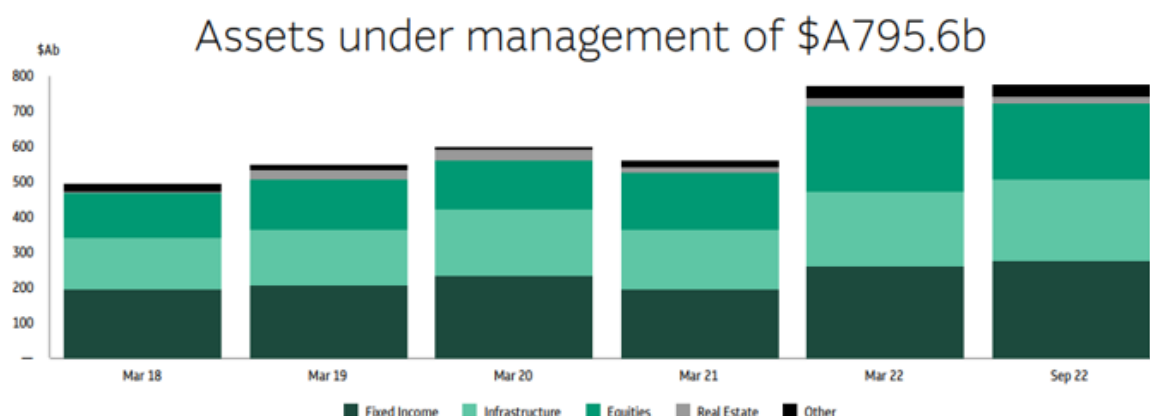
TECHNICAL CHART



Note – At current level, the stock chart pattern is exhibiting a strong upward movement, which provide a great entry point to investors. Based on 50 days moving average and Relative strength indicators, the chart represents a bull case.

INVESTMENT RATIONALE

- Strong Growth in Annuity-Style Activities** – During 1H23, annuity-style activities, which are undertaken by Macquarie Asset Management (MAM), Banking and Financial Services (BFS) and certain businesses in Commodities and Global Markets (CGM), generated a combined net profit contribution of \$2,281 million, in line with 1H22 and down 15 percent on 2H22. MAM AUM increased 3% to \$A795.6 billion from 31 March 2022 due to investments made by Private Markets-managed funds and foreign exchange movements, partially offset by market movements in Public Investments. During the period, MAM raised a record \$A22.5 billion in new equity from clients for a diverse range of Private Markets strategies. MAM invested \$A14.8 billion of equity, across 28 new investments, including: 10 real assets, 10 real estate, and 8 private credit investments. MAM continued to scale and expand its Public Investment's capabilities, with the integration of Waddell & Reed Financial nearing completion and the ongoing integration of Central Park Group and AMP Capital's public investments business.



Source – Company's Report

Source – Company's Report

- Strong Growth Continues in Market Facing Activities** – Markets-facing activities, which are undertaken by Macquarie Capital and most businesses in CGM, delivered a combined net profit contribution of \$A2,292 million, up 35% on 1H22. The strong result was primarily driven by positive performances from CGM's businesses. CGM remains focused on: opportunities to grow the commodities business, both organically and through acquisition; the development of institutional and corporate coverage for specialized credit, rates, and foreign exchange products; providing tailored financing solutions globally.
- Growth in Loan Portfolio** – For the half year ended 30 September 2022, the loan portfolio increased 10% to \$A121.0 billion, and total BFS deposits increased 19% to \$A116.7 billion. Funds on the platform decreased 6% to \$A111.4 billion as strong net flows of \$A3.4 billion were offset by market movements. The home loan portfolio increased 13% to \$A101.0 billion, driven by strong demand in lower loan-to-value ratio and owner-occupier lending tiers, while the Business Banking loan portfolio increased 7% to \$A12.3 billion, driven by an increase in client acquisition across core segments and a continued build into emerging segments. During the year, BFS expanded the Macquarie Wrap managed accounts offering with funds under administration of \$A8.5 billion, up from \$A6.8 billion in September 2021 and up from \$A7.9 billion in March 2022.

BFS remains focused on growth opportunities through intermediary and direct retail client distribution, platforms and client service; opportunities to increase financial services engagement with existing business banking clients and extend into adjacent segments; and modernizing technology to improve client experience and support growth.

- Strong Capital Management and Funding Position-** Macquarie's financial position exceeds the Australian Prudential Regulation Authority's (APRA's) Basel III regulatory requirements, with a Group capital surplus of \$A12.2 billion on 30 September 2022, up from \$A10.7 billion at 31 March 2022. The Bank Group APRA Basel III Level 2 Common Equity Tier 1 capital ratio was

12.85 on 30 September 2022, up from 11.5% on 31 March 2022. Total customer deposits increased to \$A122 billion on 30 September 2022, up from \$A101.5 billion on 31 March 2022. Term funding of \$A15.4 billion was raised during 1H23.

ACE's RECOMMENDATION:

The Company is a global financial services business operating in diversified business divisions. Macquarie has been an Australian success story and over the years, the Company has become a well-known brand across the world. Macquarie has experienced a period of sustained and material growth in capital requirements across its annuity-style and markets-facing activities. Having deployed \$A3.6 billion of capital over 1H23, the Company continues to see a strong pipeline of opportunities. Raising new capital provides it with additional flexibility to invest in new opportunities where the expected risk-adjusted returns are attractive to its shareholders, while maintaining an appropriate capital surplus.

Macquarie remains well-positioned to deliver superior performance in the medium term. This is due to its deep expertise in major markets; strength in business and geographic diversity, and ability to adapt the portfolio mix to changing market conditions; an ongoing program to identify cost-saving initiatives and efficiency; a strong and conservative balance sheet; and a proven risk management framework. We recommend the stock as **BUY** at a closing price of \$172.86.

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