

24 August 2018

AFG annual results FY2018

ASX: AFG has today announced its annual results for the 2018 financial year (FY2018). Strong organic growth has seen AFG deliver profit growth of 10.4% in FY2018.

The company reports an annual cash net profit of \$33.3 million for the financial year ended 30 June 2018 and announces a final dividend of 5.7 cents per share fully franked, bringing total dividends for the year to 22.4 cents per share inclusive of the special dividend that was paid in March 2018. This represents a dividend yield of 15.9%.

AFG retains a strong balance sheet which remains debt free. In a relatively benign credit market, the growth in AFG's profit is reflective of the strength of its distribution capability with residential settlements of \$35.3 billion representing growth of 3%.

AFG CEO David Bailey said the company continues to successfully deliver earnings diversification through the core residential and commercial aggregation business and the higher margin AFG Home Loans business line.

"The earnings diversification strategy of AFGHL continues to deliver results for shareholders with settlements of \$3.2 billion, up 20% on FY2017.

AFG's strategic focus on the under-served SME market also saw the company acquire a significant stake in leading commercial SME lender Think Tank Group Pty Ltd ("Thinktank") and continue to roll out its AFG Business platform.

"AFG continues to generate consistent growth in sustainable quality earnings despite challenging regulatory and economic conditions," he said. "This would not be possible without AFG's earnings diversification strategy, systemic importance to the Australian financial services industry, the certainty provided by a \$145.4 billion loan book and distribution network of over 2,950 brokers across Australia.

Highlights include:

- NPAT of \$33.3 million, an increase of 10.4% on normalised FY17
- AFG Home Loans settlements of \$3.2 billion
- Cash flows from operations of \$32.5m
- Combined residential and commercial loan book of \$145.4 billion
- Final dividend yield of 7.4% based on closing share price of \$1.41 at 30 June 2018
- Return on equity of 33%, up from 31% in FY2017.
- 30.4% (fully diluted) investment in Think Tank Group Pty Ltd for \$10.9 million

Company update

Since listing on the ASX the sector in which the Group operates has been confronted by a number of challenges, including: property price contractions, changes to foreign investor requirements, regulatory intervention, changing lender appetites, significant scrutiny by the regulators and market noise about potential impacts of all of this activity on the sector. “In this environment we have established a track record of financial performance underpinned by earnings growth and ongoing improvement in earnings quality. We are proud of the company’s performance and the results we are announcing today.”

Looking ahead

The past 18 months has seen a significant examination of the lending sector in Australia. “The findings of these inquiries should assist the government to promote a competitive and stable financial industry that contributes to Australia’s productivity,” said Mr Bailey. “We believe, and the Government recognises, that the mortgage broking sector provides vital competition to all Australians and it also an important contributor to the Australian economy in its own right.

“The regulatory reviews of the industry have already led to a level of tightening in credit which we expect will continue in the short term. An effectively functioning financial system requires an appropriate balance of regulation and self-regulation. We will continue to work closely with government, regulators and our industry partners to ensure momentum-based decisions do not drive unintended negative consequences for Australian borrowers.

“With competition and consumers at the core of our business AFG will continue to be a first-choice partner for lenders and broking groups. AFG has 50 lenders on its panel with more than 40% of residential borrowings going to lenders other than the four major banks, and AFG remains committed to ensuring choice and competition remains for all Australian consumers,” said Mr Bailey.

“The broker value proposition is strong, and broker introduced business now represents over 55% of the home lending market. Consumers are clearly comfortable with the channel.

“The industry will continue to evolve and as an agile business in the sector with access to broad distribution and funding and building blocks in place, the future will provide opportunities for AFG and I look forward to another successful year for the company,” he concluded.