

28 August 2020

Australian Finance Group Ltd annual results

Australian Finance Group Ltd (ASX: AFG) today announces the delivery of a very successful full year operating result driven by growth in every division of the company.

AFG reports net profit after tax of \$38.1 million for the full year to 30 June 2020, a 15.3% increase year on year. AFG CEO David Bailey said the company has proven its resilience during a time of extraordinary upheaval in the economy to report its best financial result to date.

Whilst very pleased with the overall performance for the year, the full scale of the likely future disruption to both the residential and commercial lending markets is very difficult to predict and we suspect not yet fully realised. The Company notes some reservations as to the year ahead. "Our business model generates strong cash flow and is supported by a trail book that will generate cash flows which are actuarially reliable. AFG's business model continues to be capital light; however, we maintain a cautious outlook.

FY20 highlights include:

- NPAT of \$38.1 million (up 15.3% on FY19)
- Underlying NPAT of \$36.3 million (up 27% on FY19)
- Residential settlements of \$34.1 billion (growth of 8.9% on FY19)
- Combined residential and commercial loan book of \$163 billion (up 5% on FY19)
- AFG Securities loan book \$2.91 billion (up 41.3% on FY19)
- AFG Home Loans book \$10.5 billion (up 14% on FY19)
- AFG Business settlements \$346 million (up 167% on FY19)
- Final dividend of 4.7c per share fully franked

"All divisions of the company have delivered growth and overall lodgements are up 22% year on year. We experienced growth in every state," he said. "Our combined residential and commercial loan book is sitting at \$163 billion, supported by 2,975 brokers accessing over 55 lenders on our panel.

As previously reported, the company experienced a significant increase in lodgements as it navigated the initial impacts of the COVID-19 pandemic in the last quarter of the 2020 financial year. Moving into the first quarter of FY2021, lodgement activity remains robust, representing an increase of 28% on July 2019 and 35% two years earlier.

"As we head into the new financial year the residential business is well placed to reap the initial financial benefit of this increased lodgement activity however uncertainty remains around the broader impact on the Australian economy for the balance of the new financial year.

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AFG Securities continued to be a strong contributor with the loan book growing to \$2.91 billion generating a Net Interest Margin of 157 bps. The AFG Securities business contributed 29% of overall gross margin generated by the company.

“The AFG Business platform recorded pleasing growth, with settlements up 167% from \$130 million in FY19 to \$346 million in FY20” he said. The platform offers an extensive commercial product range and lender choice for customers. There are now 29 lenders on the AFG Business panel, including all four major banks.

Dividend

The AFG Board is very pleased to declare a final dividend payment of 4.7 cents per share for those shareholders on record at 10 September 2020. The dividend will be fully franked and paid on 29 September 2020. This payment, in addition to the interim dividend of 5.4 cents declared on 21 February 2020, represents a dividend yield of 6% over the past 12 months.

AFG Securities

The AFG Securities business has enjoyed a very successful year in terms of responsible book growth and improvement in funding mix. The dislocation in the funding markets necessitated a cautious approach to lending for a period and the equity raise conducted in May 2020 will ensure this part of our business continues from a position of strength. The business has now returned to a more normal footing with new originations beginning to grow once more.

“Pleasingly, there has been a meaningful reduction in the number of AFG Securities customers requesting a repayment pause due to the pandemic with the number of loans in a full hardship arrangement reducing from 4.98% in May to 2.03% this month,” said Mr Bailey.

“The strength of the overall AFG Securities book remains of a high standard and importantly on the back of our historic strong underwriting discipline and arrears history, our hardship numbers appear to be tracking lower than those communicated to the market by other lenders.

At the end of July there was further validation of the AFG Securities business when the company priced its largest term transaction to date by completing a \$700 million Residential Mortgage Backed Securities (RMBS) issue. “A significant proportion of the funding of our book is now locked in for periods greater than 364 days. Our portfolio, 100% broker introduced, has a track record of outstanding performance and we were very pleased to see both new and return investor participation.

AFG merger with Connective

In June, the Australian Competition and Consumer Commission (ACCC) granted merger clearance to AFG and Connective Group Pty Ltd. As noted previously, the transaction is also subject to court approval (a non-customary condition). This process is currently awaiting the court’s decision.

Equity raise

In the final quarter of FY20, AFG successfully completed a \$60 million equity raising to support the growth of the AFG Securities business, accelerate the investment in our technology and to allow the company to continue to explore strategic opportunities to further diversify earnings.

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“As largely an entitlement issue to existing shareholders, the equity raise was very well received by the market and has ensured AFG is well placed and well capitalised to maintain the momentum behind our business,” he said.

The market

“Choice and competition are vital to an effective lending market. The major lenders have been aggressively competing for business and AFG brokers have been serving their customers by ensuring they are provided with the benefits of that competition,” said Mr Bailey.

“Additionally, banks closing branches and redirecting staff to assist with hardships has meant our brokers have been dealing with a substantial influx of customers looking to refinance their loans to take advantage of record low interest rates and competitive offers from lenders.

The reach the broker distribution channel provides to lenders and customers is vitally important. Limited access to branches and the constraints on movement have brought forward the move to digital transactions. “AFG’s investment in technology ensured our brokers were well positioned to rapidly adapt to this change and were able to continue to assist their customers through the lockdown.

Looking ahead

“The AFG Board and executive team are cognisant that while FY21 currently sees AFG performing ahead of expectation, the ongoing impact of COVID-19 on the community and on future residential market lending fundamentals mean that despite the company’s strength we remain concerned about the outlook for the property and mortgage markets. It is difficult on any reasonable basis to confidently predict future financial performance. In line with previous years, the company will not provide any guidance on future performance.

“As evidenced by our most recent AFG Index, the pipeline of business currently remains strong and various federal and state government incentives have played an important role in stimulating lending activity.

“There remain uncertainties as the country grapples with a way through the current health and economic challenges. With rising unemployment there is an expectation that some additional borrowers may enter hardship as government fiscal support programs and loan relief measures come to an end, or in the event that lockdowns are extended in Victoria or revisited in other parts of the country.

“We retain a cautious outlook of what may lay ahead however we remain confident that AFG’s business model and balance sheet strength places it in a solid position to respond to the challenges that the next twelve months will undoubtedly present.”

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Analyst briefing

An investor presentation and Q&A session to discuss AFG’s annual results will be held at **10am AEST**

The release of this announcement was authorised by the AFG Board of Directors.

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