Market Release

21 February 2020

AFG strategies deliver 20 per cent profit growth and increased shareholder returns

Building on the strategies put in place since listing, Australian Finance Group (ASX: AFG) today announces an excellent first half performance, underpinned by growth in AFG Securities and growing trail books across diversified earnings streams.

Buoyed by an improving lending environment, AFG continues to generate strong cash flows and declared a 15 per cent increase in the interim dividend. The Company remains positioned for ongoing organic earnings growth.

AFG reported underlying net profit after tax of $17.7 million for the six months to 31 December 2019, a 20 per cent increase on the previous corresponding period.

H1 FY20 highlights include:

- NPAT of $18.3 million (up 10 %)
- Residential settlements of $16.9 billion
- Combined residential and commercial loan book of $160 billion
- AFG Securities settlements of $690 million (up 46 %)
- AFG Securities loan book $2.5 billion (up 51 %)
- AFG Business settlements $192 million (up 242 %)
- Return on Equity 34 %
- Interim dividend of 5.4 cents per share fully franked (up 15 %)

AFG Chief Executive Officer David Bailey said “Today’s result is testament to the growing strength, resilience and diversified nature of our business, and the service and value we deliver to Australian borrowers. After a subdued start to the year in residential settlements, AFG Home Loans, AFG Business and AFG Commercial are delivering growth and building on the momentum generated by the implementation of our diversification strategy. This makes AFG a more sustainable business.

“Over the past three months in particular we have seen market activity starting to accelerate. The competitive market is driving growth in market share for non-major lenders and adding to the complexity facing customers in the search for competition and choice. In this environment mortgage brokers are well positioned to entrench their status as the dominant channel for home loans.

“The Company remains a capital-light business, which helps drive strong cashflow. Our debt-free balance sheet provides flexibility to consider future investment opportunities as they arise.

“The shift in the mix towards AFG Securities highlighted last financial year is becoming a significant contributor to our earnings profile. The trend continued in the first half, with quality growth underpinned by broker-driven product improvements. AFG Securities lodgements were $1.19 billion, up 50 per cent on the previous corresponding period. The book quality remains high, with arrears still well below industry averages.

Contact Details
Alison Clarke, AFG Head of Corporate Communications
Mob 0402 781 367 | Tel (08) 9420 7014

www.afgonline.com.au

"We continue to be pleased with our strategic investment in Thinktank, which generated earnings of $1.1 million in the first six months. Thinktank white label arrangements are now in place with multiple aggregators and we expect the growth of this business to continue.

"With an expanded panel of 24 lenders on the AFG Business platform – including all four major banks for the first time - we are delivering greater choice and competition for small business operators as they come to understand the advantages of turning to a broker for help to meet their lending needs.

AFG – Connective merger

Last week the ACCC released a Statement of Issues (SOI) in relation to the merger proposal. The SOI seeks industry views and further information on certain competition issues that have arisen from the ACCC's market inquiries to date.

"We remain confident the proposed merger is pro-competitive and that the preliminary matters raised by the ACCC can be addressed," Mr Bailey said.

"The mortgage broking sector is a dynamic industry characterised by a variety of operating models designed to appeal to a wide range of brokers and for significant movement of brokers between aggregators. The main drivers of a broker's choice of aggregator are technology, fee model, level of business support and lender panel. If we are not providing the support our brokers need, they can leave with as little as 30 days' notice and the merger won't stop them from doing that.

"AFG has a long history of supporting the growth of the country's non-major lenders. A review of the past 10 years of the AFG Mortgage Index, which shows the market share non-majors are taking from the major lenders, is indisputable evidence of the competitive environment we provide. Our value proposition to our brokers, and in turn for our brokers to their customers, is choice of lenders. We want more lenders on our panel, not less.

Market conditions

"The lending market has shown signs of emerging from its early 2019 slumber, with interest rate cuts by the RBA and changes to serviceability enticing refinancers, first home buyers and investors back into the market," Mr Bailey said.

"To illustrate this shift in sentiment, while residential settlements dipped marginally for the half, second quarter lodgements are up nearly 20 per cent on the same period last year. Acknowledging seasonality influences, January lodgements were also robust when compared to the same period last year.

"Dynamics within Australia's financial services sector underline the potential opportunity for both AFG's diversified business and the mortgage broking industry. Banks continue to reduce branch numbers and choosing a suitable product remains a complex and time-consuming task in a time-poor world.

"With over half of Australian mortgages now arranged through a mortgage broker, customers continue to be comfortable placing their trust in the sector," he said. "Enhanced competition in the home loan market generates greater choice, lower loan pricing and improved service for all borrowers – a clear community benefit."

-ends-

Contact Details
Alison Clarke, AFG Head of Corporate Communications
Mob 0402 781 367 | Tel (08) 9420 7014

www.afgonline.com.au