Market Release

29 February 2024

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AFG's core anchors first half

Australian Finance Group Ltd (**ASX:AFG**) has navigated a challenging half year with its distribution business delivering 7% earnings growth and positive momentum across its diversified portfolio leading into the second half of the 2024 financial year.

1HY24 results

- Distribution earnings up 7%, to $26.8 million
- Reported NPAT (Net Profit After Tax) of $14.5 million, down 34% or $7.4 million
- Operating costs remain well controlled, and the company has invested in increasing its holding of strategic investments and in uplifting technology
- Net Interest Margin (NIM) down by $11.6 million, reflecting peak funding costs and competition
- Asset Finance and leasing settlements up 28%, underpinned by Fintelligence
- 1HFY24 fully franked dividend of 4.0 cents per share, a dividend yield of 5% and payout ratio of 60%

Financial performance

AFG Chief Executive Officer David Bailey outlined the results today. "At a time when the manufacturing aspect of our business faced similar challenges to all non-banks, our distribution business – a cornerstone of our diversified business model – demonstrated some offsetting growth which will provide enduring benefits to the Group," he said. "Being a leading aggregator with significant scale across product classes has delivered gross profit of $52.9 million."

"Broker remains the dominant channel in the Australian residential lending market and AFG's broker proposition has meant we have grown broker market share, with our broker numbers increasing and our market share of active brokers increasing to 21%."

AFG residential settlements grew 13% for the half compared to the prior six months, and earnings from the distribution business are up 7%. "In what has continued to be a volatile market, AFG has faced increasing funding costs and intense competition across the half," he said. These conditions have led to NIM contracting across the industry and AFG has reported a NIM of $24.4 million, down $11.6 million, contributing to Underlying NPATA being down $7.7 million to $17.9 million.

Although challenges remain, conditions in the funding markets are improving and the market is returning to a more even footing. "Within our residential manufacturing business, AFG Securities, we are seeing the loan book stabilising at $4.1 billion and although HY24 run-off remained elevated, conditions in the second quarter of FY24 allowed us to refocus from margin protection to loan book retention and growth as changes to product and funding costs were delivered. In December 2023, the loan book returned to growth, with AFG Securities settlements increasing 13% for the half compared to the prior six months," he said.

For media enquiries, please contact

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Operational Update

Distribution

AFG's distribution business is providing earnings growth supported by annuity style revenues, delivering an Underlying Return on Equity of 41%. "Within our distribution business, broker recruitment has been a positive for the half," said Mr Bailey.

"AFG's differentiated value proposition and investment in our core technology is providing the tools for our brokers to respond to changing market conditions and drive efficiencies into their businesses. Our model is one of shared success, and our support of their growth has delivered a 14% increase for the half in residential, commercial and asset finance settlements across the network," he said.

Fintelligence has once again performed strongly, with its compelling technology proposition supporting both a growth in broker numbers and a 27% increase in settlements. That investment, together with BrokerEngine, contributed $10.7 million to AFG's gross profit for the half, a 20% increase.

"AFG is continuing to invest in technology advancements focused on delivering a differentiated offering for our brokers to meet customer demand for a more efficient digital experience," he said.

Manufacturing

The major banks continued to capitalise on their funding advantage during the half whilst AFG Securities maintained its pricing discipline and focus on quality. "The fight for market share by the major lenders saw our residential manufacturing business, particularly for the first four months of the year, become less competitive, which led to a higher level of run-off as customers sought cashback offers and lower interest rates," he said.

The challenges have been felt across the market. "For the first time in just over five years of working with Thinktank we saw a decline in settlements, as market competitiveness also reduced their NIM. Their loan book grew to $5.5 billion."

Market conditions are now showing signs of improvement and competition is expected to slowly re-balance towards non-major lenders and non-banks. "As the market normalises, we are now once again looking to grow our securitised loan book." In January, AFG Securities has seen a 98% increase in lodgements on the same period last year, which combined across the white label and securitised AFG Home Loans product suite, was a $187 million increase.

"Our investment in a new lending platform for our manufacturing business has successfully moved out of pilot and is now being used in day-to-day operations," said Mr Bailey. "This will deliver efficiencies for our Credit and Operations functions and improve the user experience of brokers using AFG Securities. These benefits will amplify as we continue to see our volumes grow."

In October AFG Securities launched an innovative Australian-first product to address a gap in the Australian mortgage market. "Retro Thrive is an interest-only refinancing mortgage which provides mature-aged borrowers with low debt investment portfolios a lending product that meets their needs at that stage of life," he said. "We see this as a truly underserved segment."

"AFG Securities remains well provisioned, and although some customers have felt the impact of the rising interest rate environment, we are working with them to navigate the challenges. The portfolio remains well balanced with a proven history of disciplined risk management," he said. AFG Home Loans is the number one non-bank on the AFG lending panel, consistently performing well above peers, and is well positioned to seize opportunities in the next phase of the market cycle.

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Outlook

"In the second half, all eyes will be on the Reserve Bank's interest rate decisions however the strength of the channel in helping to guide their customers through an increasingly complex market means homebuyers will continue to turn to brokers for help," Mr Bailey said. "Mortgage brokers are a part of the fabric of the communities in which they operate."

"Brokers provide a unique combination of choice and expertise, combined with a regulated duty to deliver outcomes in their customers' best interests," he said. "The competitive tension brokers provide to the market helps all homebuyers. They provide a vital service to those lenders without a branch network, and access to finance for consumers in many areas the big banks have exited, such as rural and regional Australia."

"The leading indicator for our business, home loan lodgements for January and February, are very positive," he said. "Although cost-of-living pressures continue to be felt by many Australian households our brokers are reporting an increased level of inquiry, which points to a better residential market as we head into the second half of FY24 and into FY25."

AFG is well placed to maximise opportunities as the market lifts. "Our cash flow generation capability, balance sheet strength, leading position in high growth new asset classes, and growth in our core distribution business will see our brokers and shareholders benefit from the investments we have made. We look forward to continuing to provide support to our brokers and customers, and to delivering shareholder value through the depth of our industry experience and strong balance sheet," concluded Mr Bailey.

Dividend

A fully franked interim dividend of $0.04 per share, was determined, representing a payout ratio of 60% of the Company's cash earnings, which is at the higher end of the current target payout ratio.

The ex-dividend date is 7 March 2024, the record date is 8 March 2024, and the interim dividend will be paid on or around 25 March 2024.

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Analyst briefing

David Bailey, Chief Executive Officer, and Luca Pietropiccolo, Chief Financial Officer, will provide a presentation to analysts and investors via a conference call at 11:00 am (AEDT) today, 29 February 2024.

To participate in the call, please pre-register using the following link:
https://registrations.events/direct/OCP61471

The release of this announcement was authorised by AFG's Board of Directors

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