



# ***INCOME/CORE***

## **RECOMMENDATION**



**Commonwealth  
Bank**

**CBA:ASX**  
**November 2024**

*GENERAL ADVICE ONLY - THIS RECOMMENDATION IS GENERAL ADVICE ONLY AND DOES NOT TAKE INTO ACCOUNT YOUR SPECIFIC CIRCUMSTANCES*

## INCOME/CORE RECOMMENDATION

### Commonwealth Bank CBA:ASX

Commonwealth Bank of Australia (CBA) is Australia's largest bank and leading provider of integrated financial services.

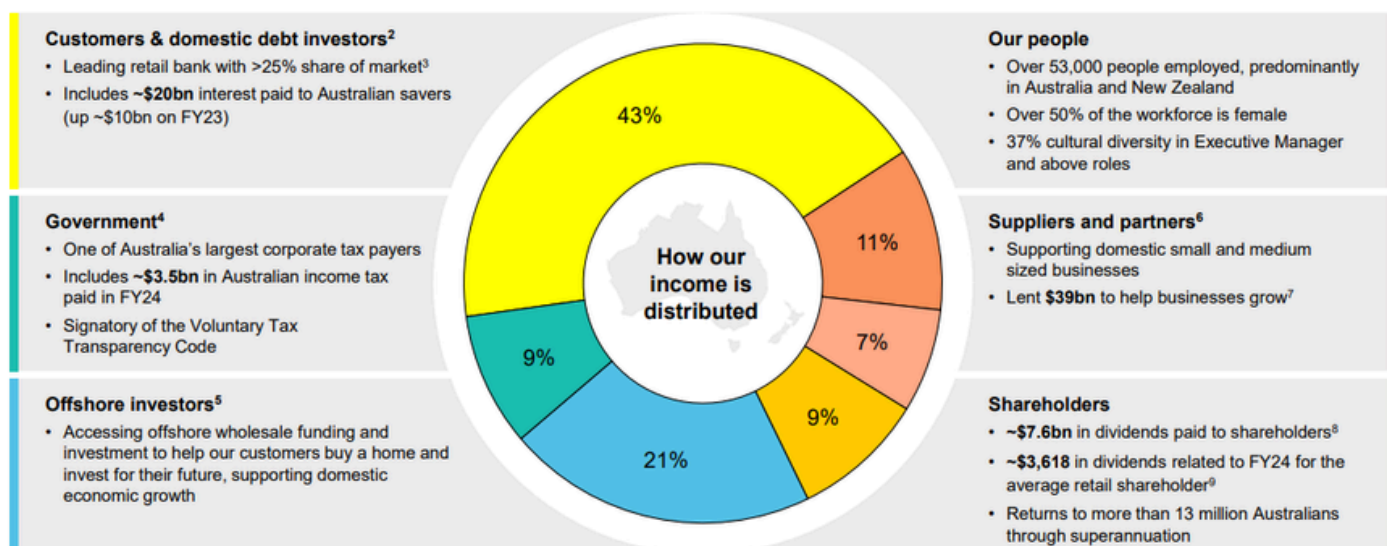
The company offers retail, business and institutional banking, funds management, superannuation, insurance and investment services to over 17 million customers.

CBA has the largest branch and ATM network in Australia, as well as leading digital banking capabilities. The bank's core business is providing banking services and lending to retail and business customers. CBA has a dominant 25.5% market share in business banking and 35.5% share of retail banking customers who consider it their main financial institution.

The company also has operations in New Zealand through its ASB Bank subsidiary.

CBA's size and scale provide it with significant competitive advantages in the Australian banking market, including a lower cost of funding and the ability to invest heavily in technology and digital capabilities.

The bank's strategy is focused on building deeper customer relationships, reimagining banking products and services, and maintaining strong foundations.

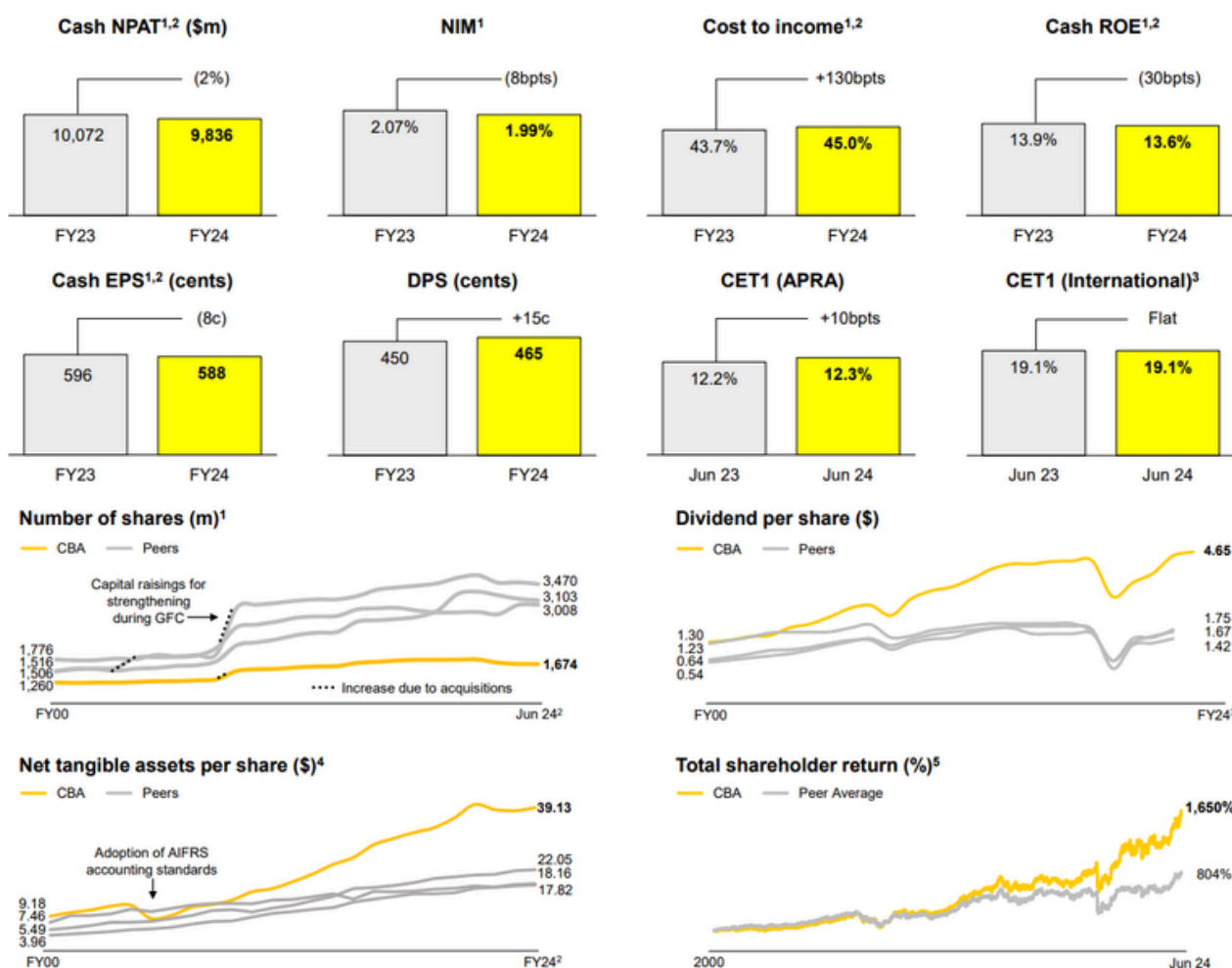


## INVESTMENT CONSIDERATIONS

### Leadership

CBA is led by CEO Matt Comyn, who has been in the role since 2018. Comyn has driven a customer-focused strategy and investments in technology and digital banking capabilities. He has also overseen efforts to simplify the bank's operations and strengthen its risk management and compliance frameworks. The executive team has significant banking experience and has demonstrated an ability to execute on strategic priorities. Chairman Paul O'Malley, appointed in 2022, brings extensive business leadership experience. The board and management have shown a commitment to addressing past issues and positioning CBA for long-term success. Key focus areas for leadership include supporting customers through economic challenges, combating financial crime, and facilitating Australia's transition to a low carbon economy. Management has also maintained a disciplined approach to costs and capital management while investing for future growth.

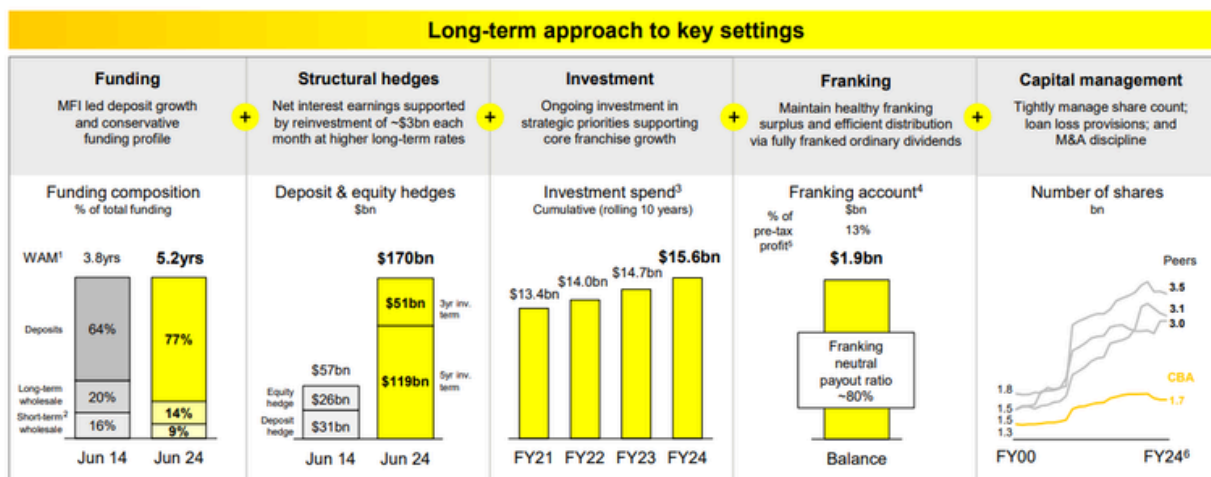
### Financial Performance



# INVESTMENT CONSIDERATIONS

## Valuation

CBA trades at a premium to domestic peers, reflecting its market leadership position and superior returns. The stock currently trades at a FY2025 P/E of 15.5x and price-to-book ratio of 2.2x. While this represents a premium to other major Australian banks, we believe it is justified given CBA's scale advantages, strong deposit franchise, and technology leadership. Our target price of A\$115 implies a FY2025 P/E of 16.5x. CBA has consistently delivered sector-leading return on equity, which stood at 13.9% for FY2024. The bank's strong profitability and capital position support a sustainable dividend yield of around 4.5% fully franked. CBA's valuation premium has persisted over time due to its consistent operational execution and financial performance. The bank's large retail deposit base provides a funding advantage, while its technology investments create a moat versus competitors. Overall, we view the current valuation as reasonable given CBA's quality and growth outlook.



## Sociological Factors

As Australia's largest bank, CBA plays a critical role in the economy and financial system. The company's lending and banking services support economic growth and help Australians achieve financial goals like home ownership and business expansion. CBA has increased its focus on sustainability, committing A\$70 billion in sustainability funding by 2030 to support the transition to a low carbon economy. The bank also supports financial literacy programs and provides banking services to underserved communities. CBA's size means its policies and practices can have broad societal impacts. The company has worked to address past issues in areas like financial advice and has strengthened its approach to responsible lending. CBA's digital banking innovations have helped improve financial inclusion and access to services. As a major employer, the bank's diversity and inclusion efforts also have wider societal benefits. CBA faces ongoing scrutiny of its societal role and impact, but has demonstrated a commitment to considering broader stakeholder interests in its decision-making.

## RISKS

**Key Investment risks for CBA include:**

1. Margin pressure from low interest rates and competition in mortgages and deposits. This could erode CBA's profitability as it faces challenges in maintaining its net interest margin in a highly competitive environment
2. Potential increase in bad debts if economic conditions deteriorate, particularly in the housing market. A downturn in the property market or rising unemployment could lead to higher loan defaults and increased provisions
3. Regulatory risks and compliance costs, including potential for further remediation charges. Ongoing regulatory scrutiny and potential new regulations could result in additional compliance expenses and penalties
4. Disruption from fintech competitors and big tech firms entering financial services. New entrants leveraging technology could capture market share and pressure CBA's traditional business model
5. Reputational and financial impacts from any future governance or compliance failures. Past issues have highlighted the importance of robust governance, and any future lapses could significantly impact CBA's reputation and bottom line
6. Exposure to climate change risks through lending book. CBA's large lending portfolio, particularly in sectors sensitive to climate change, could face increased risks as environmental concerns grow
7. Execution risks around technology investments and business transformation initiatives. While necessary for future competitiveness, large-scale technology projects carry inherent risks of delays, cost overruns, or implementation challenges
8. Geopolitical and macroeconomic uncertainties impacting the Australian economy. As Australia's largest bank, CBA is particularly exposed to broader economic trends and global events that could affect the domestic economy

## WHY HOLD THE COMPANY?

**Investors should consider owning CBA shares for the following reasons:**

1. Market leader with unrivaled scale and distribution network in Australia: CBA is the largest bank in Australia, serving one in three Australians and one in four businesses as their main financial institution
2. Strong deposit franchise provides sustainable funding advantage: The bank safeguards over \$880 billion in customer deposits, providing a stable and cost-effective funding base
3. Technology leadership driving customer acquisition and engagement: CBA's digital strategy and investments, including the CommBank app used by 8.5 million customers, enable seamless banking experiences and superior customer service
4. Well-positioned to benefit from rising interest rates: As interest rates have increased, CBA has been able to reprice loans and deposits to protect margins
5. Conservative balance sheet with sector-leading capital position: CBA maintains strong capital, liquidity, funding, and provisioning metrics, positioning it well to support customers and deliver sustainable returns
6. Consistent dividend yield of ~4.5% fully franked: In FY2024, CBA returned \$8 billion to shareholders in dividends and share buybacks, with a full year dividend of \$4.65 per share, fully franked
7. Exposure to resilient Australian economy and banking system: Despite economic challenges, the Australian economy remains fundamentally sound with several structural advantages
8. Management executing well on customer-focused strategy: CBA's focus on building long-lasting relationships with customers and becoming their trusted financial partner has led to strong financial results and customer satisfaction
9. Potential for capital management given strong capital generation: CBA's peer-leading growth in organic capital allows it to fund new lending, invest for the future, and pay sustainable dividends

CBA's dominant market position, technology investments, and strong balance sheet position it to deliver sustainable earnings growth and returns. The bank should benefit as interest rates normalize, supporting margins and profitability. With an attractive dividend yield and potential for capital management, we see compelling value in CBA shares at current levels. The company offers investors exposure to a high-quality franchise in a stable banking market.

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