Market Release

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AFG delivers record first half profit

Australian Finance Group (ASX: AFG) has today announced a net profit after tax increase of 36% to $24.97 million for the six-month period to 31 December 2020.

In response to an extraordinarily strong appetite for Australian housing buoyed by government incentives to support the economy, the sector has shown its resilience and AFG has demonstrated growth across the country.

AFG CEO David Bailey said he was delighted to report the company's strong growth in its core residential business has been the cornerstone of the company's overall performance. "I am very pleased to be in the position to report an outstanding first half result for the company. We have recorded year on year growth in residential settlements in every month of the first half of FY21. AFG's residential trail book has increased 5% to $160 billion.

"The resilience displayed by the company's staff and our brokers in their unwavering support of their customers through what has been one of the most challenging periods our community has ever faced, has been remarkable. The first half performance demonstrates the company is delivering strong returns through a commitment to a shared value business model, diversified income streams and a resilient core that delivers choice, competition, and value to Australian borrowers.

Highlights

- Statutory NPAT increased 36% to $24.97 million
- Underlying (cash) profit increased 41% to $24.88 million
- Return on equity of 27%
- Earnings per share increase of 9% to 9.2 cents
- Interim dividend of 5.9 cents per share representing a dividend yield of 4.5% based on the AFG share price at 31 December 2020
- HY21 Residential settlements up 24% to $20.92 billion
- Year on year growth in residential settlements in each month of H1 FY21, with strong growth in each state. Residential trail book increased 5% to $160 billion
- AFG Securities loan book up 18% to $2.96 billion and approximately 8,000 customers
- NIM of 179bps (2019: 151bps)
- AFG Home Loans trail book up 9% to $10.68 billion
- Profit contribution from AFG's 33% equity investment in Thinktank increased 102% to $2.31 million in H1 FY21
- Strong balance sheet with unrestricted cash, trail book assets, financial assets and sub-ordinated capital totaling $267 million

AFG Home Loans

Overall settlement volumes for AFG Home Loans were $1.47 billion and the AFG Home Loans trail book is now at $10.7 billion, an increase of 9%. AFG Home Loans now has over 27,000 retail customers.

"As mentioned in our FY 2020 results, as the pandemic hit we adopted a cautious approach to lending within AFG Securities which drove a greater focus onto white label arrangements. This ultimately impacted the AFG securities lodgement pipeline as we entered the new financial year. As a result, AFG Securities settlements decreased by 35% to $446 million for the half.

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“From my perspective, the pleasing aspect is that as the lending environment stabilized over the half, we expected the flows of business to return to AFG Securities products, and this is now occurring. AFG Securities loan book is up 18% to $2.96 billion and in December we settled in excess of $100 million.

“Looking to current trading conditions, AFG Securities recorded higher lodgement volumes in December 2020 and January 2021 compared to the prior year. January 2021 has closed at levels 3% above January last year.

Importantly, AFG Securities’ arrears remain well below industry averages while COVID-19 hardship numbers continue to improve. “AFG Securities’ customers accessing assistance through a COVID-19 deferral of their repayments has dropped to just 0.02% or 2 customers. The percentage of customers currently making payments under a COVID-19 Interest Only arrangement is at 0.57% or 37 customers.

Commercial lending

The commercial lending environment has been the most affected by the pandemic. As a result, growth in AFG Business, AFG Commercial and AFG Commercial powered by Thinktank, is likely to be constrained in the short term as restrictions on businesses continue in many states.

“Whilst the commercial arm of AFG is likely to continue to experience a slower recovery, expansion of the AFG Business lender panel will continue to provide choice and competition for brokers and assist their commercial customers to get back on their feet.

Current market conditions

The federal and state governments have been actively supporting the economy with stimulus aimed at first home buyers and the construction market. The stimulus is working.

“Our most recent AFG Index reported a record-breaking quarter with more than $19.9 billion of home finance lodged by AFG brokers across the second quarter of the 2021 financial year. The strong results have continued into January with brokers responding to increased demand over a traditionally slower period to drive residential volume up 28% in January 2021 to $4.8 billion.

“For the company’s 2,975 affiliated mortgage brokers, the first half of the 2021 financial year has clearly shown the value mortgage brokers deliver to Australian homebuyers and the important role they provide in ensuring the efficient functioning of the lending market.

“It has been very pleasing to see that it is not just the first home buyers that have driven demand. The past six months we have seen increased participation from upgraders and, in the first half of the 2021 financial year, refinancers. All have been looking to take the opportunity, with interest rates being at all-time lows, to reduce the largest cost to their monthly budget.

In a time of intermittent lockdowns across the country, customers have turned to brokers to help them look for savings and navigate the vast amount of choice in the marketplace.

“We head into the second half of the 2021 financial year, with a strong balance sheet, no debt, a solid pipeline of lodgements and a good cash flow. We are well equipped to continue to deliver value to our brokers, choice to customers, competition to the lending market, and returns for shareholders,” he concluded.

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