

23/08/2019

## AFG's diversification strategy drives resilient FY19 performance

Australian Finance Group (ASX:AFG) has delivered a solid full-year profit, with its earnings diversification strategy mitigating challenging regulatory and economic conditions.

AFG has today delivered an annual underlying profit of \$28.56 million up 1.8% for the 12 months to 30 June 2019. For the first time, more than half of AFG's gross margin was generated from outside of its mortgage broking aggregation business. The continued growth in these diversified earnings streams despite a softer Australian credit market represents a watershed moment in the Group's development.

AFG Chief Executive Officer David Bailey said, "AFG has demonstrated real resilience this year. The mortgage broking sector has endured a tumultuous 12 months with unprecedented external forces creating a tough lending environment leading to residential settlements being down 11.5% compared to last year. However, AFG has emerged with a stronger and more sustainable business by executing our strategy to continue to develop a more diversified earnings base while still recognising the importance of our traditional aggregation business. A stand out for me has been the excellent growth in our own RMBS program which passed the \$2 billion under management milestone on the back of growth of 50% over the prior year.

The company also reports excellent returns from the investment in Thinktank and solid growth in our AFG Business platform settlements. "With a debt-free balance sheet our company is set up for ongoing strong cash flow generation, leaving AFG well positioned for growth" said Mr Bailey.

**FY19 financial year** highlights include:

- NPAT of \$33.03 million
- AFG Home Loans (AFGHL) settlements of \$3.15 billion, down 2.2%
- Combined residential and commercial loan book of \$155.45 billion, up 6.9%
- Securities loan book of \$2.06 billion
- Our 30.4% investment in Thinktank contributing \$1.5 million towards NPBT
- Settlements of \$1.06 billion through our AFG Securities business (up 108% on last year)
- Settlements of \$129.7 million through our AFG Business platform which is up 30.9% on the previous six months
- Return on Equity of 33 per cent, in line with prior period.

AFG remains focused on choice and competition for borrowers that can still deliver solid returns for shareholders, declaring a final dividend of 5.9 cents per share fully franked, bringing total dividends for the year to 10.6 cents per share. This represents a dividend yield of 6.8 per cent, based on AFG's share price at 30 June 2019.

"AFG's entry into the SME market through both its AFG Business platform and its investment in Thinktank is gaining momentum. We fully expect growth from both AFG Securities and AFG Commercial to provide additional contributions to earnings over the coming 12 months.

---

### Contact Details

Alison Clarke, AFG Head of Corporate Communications

Mob 0402 781 367 | Tel (08) 9420 7014

[www.afgonline.com.au](http://www.afgonline.com.au)

“We will continue to explore ways to improve customer experiences and improve the day to day efficiency of our brokers. We will continue our ongoing investment in technology and compliance as we believe innovative technology remains a critical area of focus as we transform the way AFG and our brokers improve the delivery of service and positive lending outcomes to Australian borrowers.

## **Connective merger**

On 12 August 2019, AFG announced it had entered into a binding conditional implementation deed to merge with Connective Group Pty Ltd. The combined group will create a significant national mortgage distribution network, with more than 6,575 brokers and combined mortgage settlements of \$76 billion in FY19. The \$120 million transaction is expected to be EPS accretive (pre-synergies) in the first full financial year post integration.

“The merger demonstrates our ambitions in growing the business,” said Mr Bailey. “Whilst we remain confident about the value AFG stands to generate from our existing ongoing growth plans, we felt successfully participating in the competitive sale process absolutely aligned to our strategy. The prospect of complementing our existing business with the cultural fit and shared customer-focused philosophy of Connective represents a compelling opportunity for AFG shareholders, particularly where we can do so on an earnings accretive basis.

“The proposed transaction offers exposure to an alternative mortgage broker aggregation model with strong ongoing brand recognition whilst also providing access to a broader distribution channel. Upon completion, we anticipate Connective brokers will have access to AFG’s securitisation program and the opportunity to grow both asset finance and commercial lending through the combined network. Expanded distribution channels and broader diversification of products provide greater choice and value for both brokers and consumers.”

The transaction remains conditional upon a court validating the transaction as not being unlawful or able to be set aside, Connective shareholder approval, Australian Competition and Consumer Commission approval and, if required, AFG shareholder approval. If the conditions are satisfied, AFG anticipates completion of the merger in the second half of FY20.

## **Industry outlook**

Looking ahead, AFG remains optimistic about the residential lending market and the important role brokers play in the home lending market. “The federal election outcome has removed much of the policy ambiguity clouding the industry and mapped out a pathway to deliver regulatory certainty for the business. With the full impact of the stimulus from the RBA and APRA’s amendments to serviceability assessments still to play out, from an AFG perspective the challenging lending landscape reinforces the company’s value proposition and ensures mortgage brokers remain the dominant channel for home loans.

“We will remain proactive in increasing awareness of the value brokers provide in delivering choice and competition to the nation’s home loan market,” said Mr Bailey. “Nevertheless, we fully expect regulatory and compliance requirements will increasingly be a factor for the Australian financial services industry over the short to medium term and the mortgage broking industry will need to adapt to the new environment.

“AFG’s customer-first approach and agile operating model presents enormous opportunities for our business and we enter financial year 2020 confident of another successful year as we deliver on our long-term strategy,” he concluded.

---

## **Contact Details**

Alison Clarke, AFG Head of Corporate Communications

Mob 0402 781 367 | Tel (08) 9420 7014

[www.afgonline.com.au](http://www.afgonline.com.au)