Market Release

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4/100 Havelock Street
West Perth WA 6005

PO Box 710
West Perth WA 6872

AFG Annual Results FY24

Following a challenging first half marked by intense competition, Australian Finance Group Ltd **(ASX:AFG)** has rebounded with strong growth in its Distribution division and a lift in activity in its Manufacturing division during the second half. The company has made significant progress in executing its strategy and is well-positioned to continue building its market presence, with favourable market conditions driving channel growth. This resurgence paves the way for optimism about growth and opportunities in FY25.

Group Highlights

- Combined trail book size $214 billion
- Reported NPAT $29 million
- Underlying NPATA $36.1 million
- Operating costs decreased by $3 million year-on-year
- Net cash flows from operating activities were $39 million, on a cash conversion ratio of 107%, delivering net cash, liquid assets, and other high performing investments totalling $190 million

AFG's business continues to evolve, characterised by two distinct segments: Distribution and Manufacturing. The focus on this differentiation enables the company to grow its earnings and diversify its operations. AFG Chief Executive Officer David Bailey outlined the results: "The 2024 financial year has been a tale of two halves for our business. Our Distribution division recruited strongly, our residential loan book hit a record high $200 billion, and new income streams enabled that part of our business to generate $44 million in profit before tax for the Group.

"Our Manufacturing division was impacted in the first half by high funding costs and competition heavily skewed towards major lenders," he said. "In this environment AFG Securities maintained discipline with credit appetite and returns on capital. This affected both volumes and the margin we made on those volumes, resulting in our Manufacturing division's earnings decreasing 53% to $15 million," he said. "However, in the second half of FY24, fundamental changes in underlying market dynamics resulted in solid flows and the book has returned to growth. The final quarter of FY24 delivered over $1 billion in lodgements for AFG Securities. These volumes will flow to settlements in FY25.

Distribution

- Residential trail book $200 billion
- Earnings (profit before tax) grew by 20% year-on-year to $54 million
- Distribution underlying RoE an outstanding 38%
- Record broker group recruitment, for the first time the network exceeds 4,000 brokers
- Record combined total settlements of $63 billion, up 5% year-on-year

"We have had a record year in recruitment of brokers to the Group," he said. "The value AFG delivers to our brokers drives that growth." Residential settlements grew 3%, and final quarter lodgements were, the highest Q4 on record.

The combination of cash rates settling, and other macro factors saw credit growth in both residential and commercial markets lift. Favourable conditions are expected to persist into FY25, which, when combined with increasing broker share in these markets, positions AFG well.

"The continued solid performance of our investments in the Fintelligence and BrokerEngine businesses contributed a gross profit increase of 12% year on year," said Mr Bailey. "Fintelligence settlements were up 22% and our total leasing and asset finance settlements surpassed $3 billion." We are on the brink of completing the integration of the BrokerEngine platform into our technology suite. Our investment has enabled us to scale this technology, improving efficiency in broker operations and allowing them to provide seamless, compliant services to their clients. It's rewarding to see our strategic vision for this investment coming to fruition delivering a best-in-market platform for our brokers and further scalability for AFG."

For media enquiries, please contact
Alison Clarke
Head of Corporate Communications
P (08) 9420 7014 | P 0402 781 367
afgonline.com.au

ABN 11 066 385 822

Manufacturing

- AFG Securities' loan book $4.4 billion has returned to growth, increasing by 8% or $0.3 billion in H2 2024
- Earnings (profit before tax) of $15 million, down 53%
- Manufacturing underlying RoE was 12%, as AFG continued to maintain strong credit quality and pricing discipline
- Net Interest Margin (NIM) reduced to 113bps, reflecting elevated competition and high funding costs
- $1.5 billion in RMBS transactions in FY24

The AFG Securities loan book closed at $4.4 billion, up 8% on just six months ago. The loan book quality remains sound, with no losses recorded. "Our NIM in FY24 has understandably been affected by intense competition and historically high warehouse prices. Funding costs are now starting to improve; however, we will elect to reinvest these improvements into customer pricing to remain competitive and expand our loan book. This strategy will yield benefits in future periods as our NIM begins to recover."

The Group's investment in Think Tank Group Pty Ltd (Thinktank) was similarly affected by market conditions, resulting in its contribution to FY24 profit decreasing by $4 million to $2 million. "The Thinktank loan book grew to $5.8 billion, and we have confidence the business will also benefit from a more favourable lending environment in FY25," said Mr Bailey.

Outlook

AFG's 4,000+ brokers are at the core of the company's business model – a high-quality distribution network delivering 1 in 10 mortgages in Australia. "2024 marks AFG's 30th year in business and as we celebrate this milestone, we close FY24 with a $200 billion residential loan book that is the result of more than 20 years of consecutive growth. By leveraging that scale through delivering a diverse range of higher margin products and services, AFG has grown earnings at an average of 9% per annum since FY18.

"We are an important player in a market where increasing numbers of Australians are choosing to use a broker. Our industry reports the current reach of brokers in the Australian finance market is sitting at 74%[1]. "We expect total broker market share to exceed 80%," said Mr Bailey. Brokers play a trusted and vital role in delivering competition and choice to consumers. "We head into FY25 with optimism. AFG's broker recruitment remains strong which will underpin growth in settlements and create a larger market in which to generate further earnings, and the major components of our technology spend is largely complete and benefits of this spend will generate new revenue in FY25. The major banks' structural funding advantage has reduced, and funding markets are returning to a more normal footing. This will favour the non-bank sector and our manufacturing business," he said.

AFG is in an enviable position, equipped with a competitive edge that positions us well to drive our market share. We are committed to our strategy of delivering more products and services to our brokers and their customers, diversifying and growing our brokers' businesses and AFG's earnings profile. With strong cashflows and a conservative balance sheet AFG remains committed to delivering value to our shareholders through a continued focus on our core business drivers and disciplined financial management," he concluded.

A final fully franked dividend of 4 cents per share has been declared. The full year dividend is 8 cents per share, a dividend yield of 6%. The dividend will be paid on 11 October 2024.

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[1] MFAA | Mortgage brokers remain the first choice for homebuyers

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afgonline.com.au