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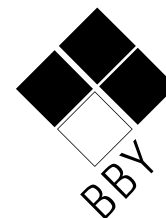
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Banking Round-Up

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What Made the News?

Australian Banking Sector

- ▶ **BankWest:** BankWest delivered a strong 1998 full year result of \$101M (1997 \$94M) before abnormals which compared favourably with our forecast of \$97M. The key drivers were lower staff costs, strong volume growth and increased fee income. The full year dividend was down to 15.5¢ from 16.5¢ and the DRP take-up is expected to remain high at over 75% and will continue to dilute earnings per share. At current prices, we recommend investors SWITCH to ADB which is better relative value and has less down-side with a lower risk loan book.

International Banking Sector

- ▶ **Bank Of New York makes hostile bid:** Bank of New York has offered to acquire Mellon Bank Corp in a US\$24B stock swap that would create a company with a market capitalisation of US\$50B. Bank of New York said it was offering to exchange 1.40 shares for each Mellon share. This latest wave in bank mergers continues to place pressure on Australian regulators to remove the Four Pillars policy.
- ▶ **Indonesia** advised that it had met its IMF reform targets due this week. The two items were the replacement of a ban on palm oil exports by a 40% export tax and a presidential decree amending the country's antiquated bankruptcy law.
- ▶ **1Q USA results:** Recently announced USA 1Q results were generally in line or above expectations.

	Net Income (US\$M)			EPS (US\$)		
	1Q 97	1Q 98	% change	1Q 97	1Q 98	% change
Bank of New York	265	284	7	0.64	0.73	14
Citicorp	995	1,070	8	2.01	2.23	11
Banc One	382	518	36	0.58	0.79	36
Wells Fargo	339	315	-7	3.58	3.58	0

Forthcoming Events

27 Monday	28 Tuesday	29 Wednesday	30 Thursday	1 Friday
			<ul style="list-style-type: none">▶ BEN 10¢ ff div paid▶ BWA 8¢ ff div paid	
4 Monday	5 Tuesday	6 Wednesday	7 Thursday	8 Friday
<ul style="list-style-type: none">▶ CBA Analyst briefing			<ul style="list-style-type: none">▶ NAB 1H98 result – \$1,126M (pre abs) 46 ff div	

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Best Ideas

- ▶ Switch from NAB to WBC. Following recent outperformance, NAB has reached our fair market value. Westpac offers better relative value in addition to lower gearing and stronger provisioning.
- ▶ Lower exposure to the potential down-side impact of Asia by accumulating WBC and reducing ANZ. WBC offers strong provisioning coverage, lower gearing and a lower risk profile both domestically and abroad.
- ▶ In a low inflation environment, with potential down-side "shock" from Asia, SGB offers a low risk, defensive exposure with strong yield and good asset quality.
- ▶ Switch from BWA to ADB. At current prices ADB offers better relative value. Both companies have a reasonable chance of being taken over but ADB has less down-side with a low risk loan book.

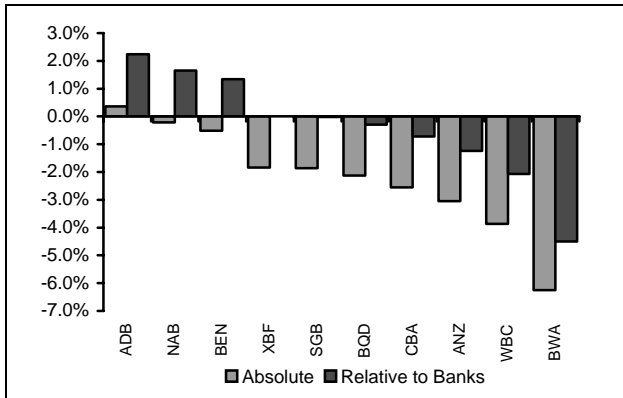
TABLE 1: ACTION

Buy/Accumulate	Hold	Reduce
WBC <ul style="list-style-type: none"> ▶ Strong asset quality ▶ Good opportunity to reduce costs via acquisitions ▶ Cross-sell opportunities via expanded customer base 	MBL CBA	ANZ <ul style="list-style-type: none"> ▶ Bad debt risk due to Asia not fully reflected in the price ▶ Is likely to need re-capitalisation if an acquisitive strategy is pursued in Asia
SGB <ul style="list-style-type: none"> ▶ Good yield play ▶ Target for potential acquisition ▶ EPS growth underpinned by internally generated cost savings 		BQD <ul style="list-style-type: none"> ▶ Expensive at present ▶ Reduction of costs required ▶ Better exposure to acquisition targets in ADB and SGB
ADB <ul style="list-style-type: none"> ▶ Strong management & asset quality ▶ New income streams expected via interstate loan growth ▶ Cost savings to underpin growth ▶ Target for potential acquisition 		NAB (Switch to WBC) <ul style="list-style-type: none"> ▶ Proven management currently stretched ▶ Capital to be boosted to 9-9.5% (via capital securities) ▶ Acquisitive
		BWA (Switch to ADB) <ul style="list-style-type: none"> ▶ At current prices better value in ADB ▶ EPS diluted by DRP ▶ More exposed to a change in the bad debt cycle

TABLE 2: INVESTMENT ARITHMETIC

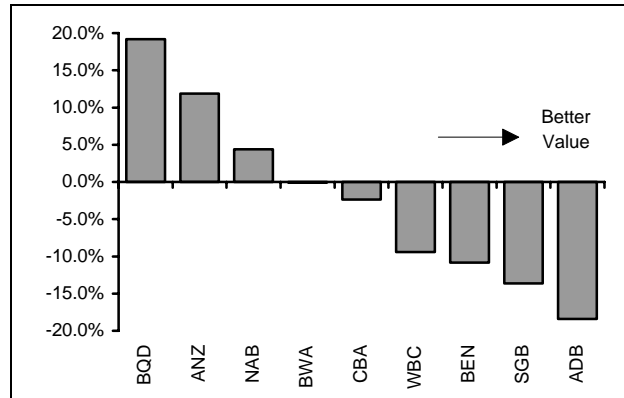
Bank	Price (\$)	Mkt Cap	NPAT (\$M)		EPS growth (%)		PE (x)		Yield (%)		ROE (%)		P/NTA (x)	
	24/4/98	(\$M)	98F	99F	98F	99F	98F	99F	98F	99F	98F	99F	98F	99F
NAB	22.92	33,362	2253	2388	2	5	15	15	4.2	4.5	17.2	16.7	3.1	2.7
WBC	10.69	20,422	1404	1592	9	9	14	13	4.0	4.4	16.8	16.9	2.8	2.6
CBA	18.73	17,466	1210	1328	-2	10	15	13	5.5	5.6	17.2	17.7	2.7	2.5
ANZ	11.40	17,678	1186	1243	0	4	15	14	4.2	4.3	16.2	15.6	2.3	2.1
SGB	9.50	4,436	240	292	5	15	16	14	5.5	6.0	7.3	8.5	3.0	2.6
BWA	3.15	1,491	101	108	1	2	14	14	4.9	5.2	17.1	16.0	2.4	2.1
ADB	5.52	403	29	31	4	7	13	13	5.3	5.4	15.2	15.6	2.0	1.9
BQD	5.51	316	14	19	-3	25	25	20	2.9	3.3	9.9	12.3	2.2	2.1
BEN	3.85	184	14	16	-4	10	14	12	5.2	5.7	9.6	10.3	1.6	1.5

CHART 1: WEEKLY SHARE PRICE PERFORMANCE



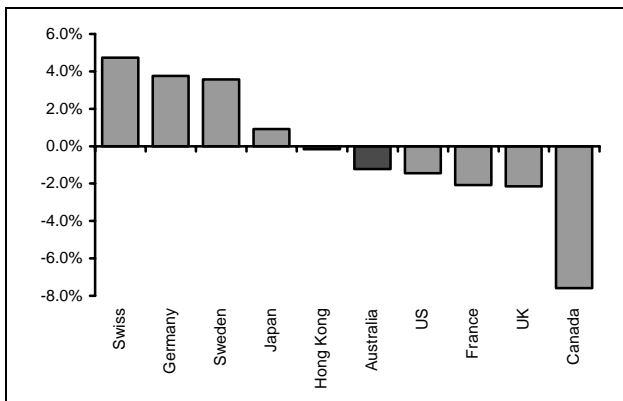
► Buy Westpac following recent underperformance.

CHART 2: SHARE PRICE PREMIUM TO VALUATION



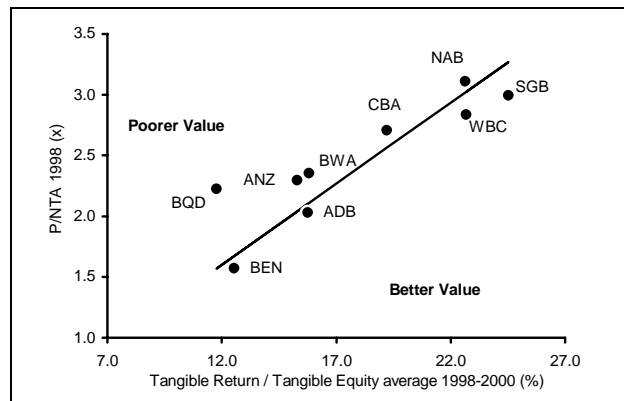
► SGB and ADB stand out as strong buys.

CHART 3: BANK REL PERF TO DOMESTIC MARKETS



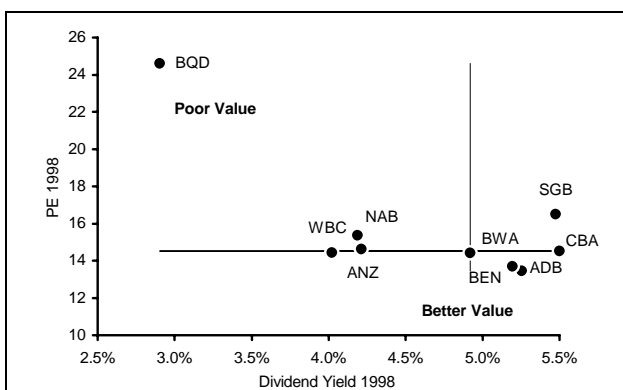
► Stocks which outperformed last week following merger speculation returned to more normal levels.

CHART 4: BBY PREFERRED VALUE INDICATOR



► WBC and SGB stand out as the best value with ANZ looking overpriced.

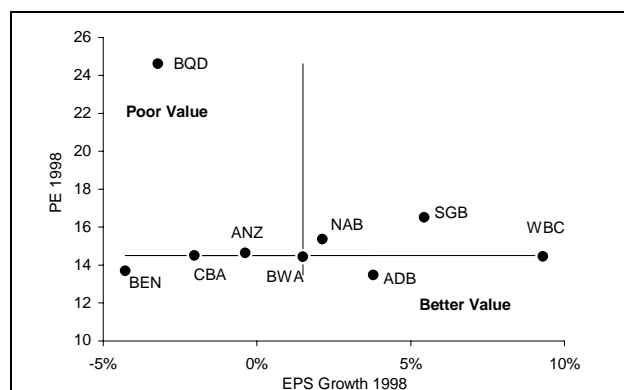
CHART 5: PE VERSUS DIVIDEND YIELD



Source: BBY

► SGB has one of the strongest ability to maintain yield given goodwill is a non cash flow item.

CHART 6: PE VERSUS EPS GROWTH 1998



► WBC and SGB stand out as the strong growth stocks.

TABLE 3: INVESTMENT ARITHMETIC

Bank	SGB	ADB	WBC	CBA	BEN	BWA	NAB	ANZ	BQD	
BBY forced ranking	1	2	3	5	6	7	8	9	10	
Recommendation	Buy	Buy	Buy	Hold	Hold	Switch	Switch	Lighten	Lighten	
Price	\$9.50	\$5.52	\$10.69	\$18.73	\$3.85	\$3.15	\$22.92	\$11.40	\$5.51	
BBY - Composite Valuation	\$11.00	\$6.76	\$11.80	\$19.19	\$4.32	\$3.15	\$21.96	\$10.19	\$4.38	
Net profit before abnormals (\$M)										
	1996A	155	26	1,093	1,118	14	35	2,099	1,116	24
	1997A	187	27	1,252	1,206	13	94	2,223	1,170	15
	1998F	240	29	1,404	1,210	14	101	2,253	1,186	14
	1999F	292	31	1,592	1,328	16	108	2,388	1,243	19
Fully diluted EPS (c)										
	1996A	76.3	37.4	57.6	114.8	33.9	8.1	142.5	76.2	41.9
	1997A	54.6	39.5	67.7	131.8	29.4	21.5	146.0	78.2	23.1
	1998F	57.6	41.0	74.0	129.1	28.1	21.8	149.1	77.9	22.4
	1999F	66.2	43.9	81.0	141.4	30.9	22.4	156.1	80.9	28.0
Price/earnings ratio (times)										
	1996A	12.5	14.8	18.6	16.3	11.4	39.1	16.1	15.0	13.2
	1997A	17.4	14.0	15.8	14.2	13.1	14.6	15.7	14.6	23.8
	1998F	16.5	13.5	14.4	14.5	13.7	14.4	15.4	14.6	24.6
	1999F	14.4	12.6	13.2	13.2	12.5	14.1	14.7	14.1	19.7
Dividends per share (\$)										
	1996A	52.0	27.0	33.0	90.0	23.0	16.5	87.0	42.0	28.0
	1997A	52.0	28.0	39.0	102.0	21.0	16.5	94.0	48.0	89.0
	1998F	52.0	29.0	43.0	103.0	20.0	15.5	96.0	48.0	16.0
	1999F	57.0	30.0	47.0	104.0	22.0	16.5	102.0	49.0	18.0
Yield (%)										
	1996A	5.5	4.9	3.1	4.8	6.0	5.2	3.8	3.7	5.1
	1997A	5.5	5.1	3.6	5.4	5.5	5.2	4.1	4.2	16.2
	1998F	5.5	5.3	4.0	5.5	5.2	4.9	4.2	4.2	2.9
	1999F	6.0	5.4	4.4	5.6	5.7	5.2	4.5	4.3	3.3
Franking (%)										
	1996A	100.0	100.0	100.0	100.0	100.0	100.0	100.0	78.6	100.0
	1997A	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	1998F	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	100.0
	1999F	100.0	100.0	100.0	100.0	100.0	100.0	100.0	75.0	100.0
Price/NTA per share (times)										
	1996A	1.4	2.2	3.2	2.8	1.6	2.7	3.3	2.7	1.8
	1997A	2.9	2.1	2.9	2.8	1.6	2.5	3.1	2.5	2.3
	1998F	3.0	2.0	2.8	2.7	1.6	2.4	3.1	2.3	2.2
	1999F	2.6	1.9	2.6	2.5	1.5	2.1	2.7	2.1	2.1
Price/Book (times)										
	1996A	1.4	2.2	2.7	2.6	1.4	2.7	2.7	2.7	1.8
	1997A	1.3	2.1	2.5	2.5	1.3	2.5	2.6	2.5	2.2
	1998F	1.3	2.0	2.3	2.5	1.3	2.4	2.4	2.3	2.1
	1999F	1.3	1.9	2.1	2.3	1.3	2.1	2.2	2.1	2.1