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Thursday, 7 November 2024

TRANSCRIPT

NAB Group Chief Executive Officer Andrew Irvine today released NAB's 2024 Full Year Results to the market. Following the release, a media conference was held. An **EDITED** transcript of the conference call is below.

Andrew Irvine (AI): Thank you, and good morning.

Executing our strategy consistently for the past four and a half years has delivered the sound FY24 result we're proud to announce today.

We have the right plan and the right people in place, and I'm really pleased with how our bank is tracking.

Cash earnings over the year were $7.1 billion, 8.1% lower than the very strong levels of FY23 with revenue primarily impacted by strong home lending competition. Some of the pressure came off margins in the second half as we saw more stable operating conditions.

Our Business franchise provided $48 billion in new business lending over the year as we continue to invest in and back Australia's leading business bank.

Our Corporate & Institutional Bank, Personal Bank, BNZ and our ubank subsidiary also performed well, demonstrating we have the right mix in our customer facing businesses.

The final dividend of 85 cents takes the full year dividend to $1.69 per share and puts $5.2 billion back in the hands of shareholders. More than 40% of our shareholders are retail investors, many of whom are mums and dads and retirees who use these dividends as a source of income.

We've also refreshed our strategy. The solid foundations of our bank and where we want to grow and invest are not changing. But what is changing is our ambition to be better for customers, to be simpler and to be a faster-paced organisation. There will be no change in our discipline in managing costs, and no change to our focus on keeping our bank and our customers safe.

Turning to the economy more broadly, Australia and New Zealand continue to prove resilient. Low unemployment has been the key to this. Growth continues to be slow and below trend, however inflation is headed in the right direction.

While I believe the next move in interest rates will be down, they will remain elevated and together with cost of living pressures are causing customers to tighten their belts. They certainly don't like it, but they are adapting. For those customers continuing to find things tough, as always, we are here to help.

The geopolitical situation remains uncertain, although some of that uncertainty was resolved overnight. We are optimistic inflation will stabilise, interest rates will drop, and we will see improvements in the housing market going into 2025.

There is light at the end of the tunnel.

Businesses I talk to remain ambitious to grow. They're eager to invest and become more productive. As Australia's leading business bank, we are ready to support them.

In closing, we have started the new financial year with optimism and with confidence. We have the right strategy and the right people in place to deliver the next stage of growth at NAB.

Thank you for joining us and I'm now happy to take your questions.

Reporter: Thanks, Andrew. Look, I'll get the literal elephant in the room out of the way. Your customers are business customers and a lot of those are trade focused customers. So, what's your feeling about a world that now faces tariffs, a breakout in trade wars and all kinds of uncertainty on tariffs and trading fronts?

AI: Thanks for the question. We were anticipating a question in that space. Firstly, markets like certainty and we now have certainty. We know what we're going to be dealing with for the next four years in terms of who's going to be in power in the US and I think that's, on balance, positive.

We saw a lot of US indices increase overnight, the US dollar strengthened, stock markets rose and it's good for the world when America is strong. That's unambiguous. We sell a lot of stuff there. You are right to highlight that if he does go forward and execute on his tariff agenda, that will have negative implications to the global economy and therefore to Australia.

Let's wait and see whether or not he does actually deliver that. But if he were to, there's no doubt I think that will be disruptive to global trading patterns. Australia is a trading nation and some of our commodities and manufactured goods, as well as services, will be impacted. So, we'll have to wait and see.

I do worry about a global trade war between the two biggest global economies in the US and China. I don't think anyone wins in a global trade war. So, hopefully the rhetoric is bigger than what we actually see on this one.

Reporter: Thanks very much. I'll let someone else go now.

Reporter: Thanks, Andrew. Just a quick supplementary on what you were just saying there with respect to the potential for global trade wars and trade instability. Specifically, I suppose from your perspective running the biggest business bank, as Eric said, a lot of your customers will be exporters to China. I suppose they've got this potential where China gets hit with larger tariffs than anyone else in the world. I suppose economics would suggest that could slow the Chinese economy down. And what impact do you think that has on small businesses even up to middle sized businesses looking to export into the Chinese market. Is that the most immediate risk you see for Australian companies?

AI: I think one thing that we certainly saw over the last few years is that Australian businesses diversified their markets and we were probably a little bit over reliant on the Chinese economy four or five years ago. And I think we are better placed today, in the event of a Chinese slowdown, than we would have been four or five years ago. And I think that is testament to the diversification we've seen amongst many SMEs in this country.

That doesn't mean it will be without impact. We'll have to see.

The other thing that you would expect to see is if that were to happen, you might like to see more domestic stimulus from the Chinese Government to increase domestic spending to counteract any impacts to their exports.

We'll have to see what the different policy measures are, but I'm confident that Australian SMEs will get through this.

We're a trading nation. We've diversified our markets. We've got good products and services to sell, and I continue to be optimistic that we'll be right.

Reporter: Just a final quick one on the dollar. We obviously saw a stronger US dollar overnight, do you see any, I mean this is an obviously short-term reaction, there's a lot to play out on the dollar, but do you see any potential imported inflation types of dynamics going on from a weaker Australian dollar for a bit?

AI: Well, we'll have to see on that one. I do think you're likely to see strength in American indexes, broadly speaking. So, you're going to see strength in the share market. You're going to see strength in the US dollar. The view is that Trump is good for America and so those types of indices are going to rise.

In some ways, that's good for us because it makes our exports more competitive. But, you're right to highlight that on the margin there could also be a little bit of goods inflation. What I would maybe finish with is that goods inflation hasn't been our problem. The problem that we have here in Australia is services-driven inflation proving to be sticky and that's where I think we should keep our focus; get that down and that's going to allow interest rates here to start to ease next year.

Reporter: Just on the US election results overnight, Trump's victory has obviously opened up a new era of uncertainty over global decarbonisation. What kind of an impact, if any, are you expecting that to have on Australia, particularly critical mineral miners?

AI: I think the decarbonisation agenda is here to stay and is going to continue to gain pace. We're still in the period where there's not enough of this kind of work for future-facing minerals being extracted to enable the electrification and decarbonisation of the world economy.

So, the world still needs all the metals and minerals that Australia has, and so you might get short-term shifts there, but I'm still very bullish on the decarbonisation narrative.

The other thing that we'll have to see how it plays out is the Inflation Reduction Act in the US has been a very strong stimulant to climate-related expenditure. What I hear is that Trump is unlikely to reverse that. We'll have to see. I'm not setting his policies, but a lot of that spending was done in Republican-oriented states. And so the question you have to ask yourself is: is he going to pull away spending from the people that voted him in? I don't know, but we'll have to see.

Reporter: Westpac on Monday, when they released their results, Peter King has said the consumer sentiment was over 2 1/2 year high and hardship had peaked in June and it's coming back down again. Is that similar to what you’re seeing at NAB?

AI: Yeah, I would say it's exactly what we're experiencing too. Hardship cases were up 50% since 2023. So in the first half of the year, a real increase and they did peak for us as well in that kind of June, July timeline and they've started to plateau and actually since then start to come off a bit.

Reporter: In your statement this morning, you said you've pulled back from mortgage wars to sort of help preserve the balance in this dynamic environment, but profits in the consumer retail bank are still down 20% year on year. How does that happen?

AI: The primary lending category in our personal bank is home loans. So when you see significant margin compression in home lending that's bound to have an impact in our personal bank. It was pleasing that in the back half of the year we saw much more stability and I think, actually, Nathan, correct me if I'm wrong, but half-on-half, the personal bank was actually up. Yeah, about 5.6%. So that highlights the fact that we've seen a moderation in the operating environment in home lending and little bit of oxygen come back in there. As you can see from our announcements in the first half, we absolutely stayed out of those sub cost of capital pricing for origination and that impacted our growth, no doubt about it. In the back half of the year, pricing has gone back above cost of capital and so we're now meeting the market. We've seen our applications improve and we're optimistic that in the next couple of months, you'll see us growing much more closely to system because we're getting a fairer economic return from those originations.

Reporter: And then just the second one I had was on the arrears and non-performing loans. They jumped 26 basis points year on year. It looks like that's the fastest acceleration I can see for at least four or five years. How much higher can that go? And how much pressure are your customers under?

AI: We are continuing to see asset quality deterioration. We've been very clear that we expected the deterioration and we're provisioned for the deterioration. And if anything, we've been surprised over the past year, year and a half that the deterioration wasn't manifesting as quickly as we would have expected.

In the half that we've just announced, we did see a little bit more. There are two thematics here. In home lending that deterioration is predominantly around the ability for customers to pay bills and I alluded to the fact that hardship cases have plateaued and are now starting to come down, so I think that's positive from an asset quality headline in terms of what might be coming in the future. It's also important to know that we haven't seen those move to impairments given house prices continue to be strong. So while there's delinquencies, that's not leading to impairments on the housing side.

On SME, a little bit different. We have also continued to see rises in delinquency, but we have taken some specific impairments in SME. There were a handful of larger Business & Private banking names that hit us. These in my experience can be lumpy and they may hit in one half and may not hit in another.

What I would say is we're here to help those customers. We're going to work with them. This is a business we're really, really good at. We've been it in it a long time and nothing I'm seeing in the Business & Private Bank or frankly in housing for that matter gives me cause for concern.

Reporter: Just to clarify, when you said that hardship applications had plateaued and that's got read through for the future direction of arrears, do you think arrears are going down from here?

AI: No, I think arrears are going to probably continue at the level, they possibly could trend a little bit up. But I think we're at the toughest point in the economic cycle right now, and customers have gotten through it. Next year we are forecasting modest easing on the interest rate side with the first reduction possibly coming in February or March. We've seen tax relief hit as well. And so we're optimistic that next year will be better than this year – and so there is light at the end of the tunnel.

Reporter: Hi Andrew, and thanks for taking the question. Just following up from what Lucas was asking about, can you talk a little bit about where some of those pressure points are in the business lending space, the SME sector? You said you had seen rises in delinquencies and some specific impairments.

Which sort of sectors and which sort of names are we talking about? Are we seeing pockets of pain there?

AI: What I'm happy to see is that it's really broad based, which means there isn't a particular sector that's causing undue negative outcomes. So there's some impairments in construction, in agri, in discretionary spending related industries. There's some stress in supply chains and manufacturing. We've disclosed those in our investor pack and analyst reports. And again, we're going to work with those customers.

Times are tough for businesses in certain sectors, but by and large they're getting through it, and I think next year is going to be better for Australia than 2024, so we're at the worst of it right now.

Reporter: Thank you. Hey Andrew, and congrats on a new result. On a super basic, kind of high-level question, more on the kind of capital allocation, you note that we're kind of at the top of GDP, I look at the tech spend across the business and you guys seem to have your arms around that and well ahead of peers, and have really strong provisions - not chasing mortgage growth. It doesn't seem like there's any prominent cash needs kind of on the horizon. So why not hand back more capital to the shareholders, or is that around the corner? Or do you think shareholders just don't want higher payouts at this moment in the cycle? I'd be interested in your thoughts around that and why that was the decision today? Thanks.

AI: We're always trying to be thoughtful and manage our capital position, being attentive to any potential downside risks coming in the future. While having a target to return between 65% and 75% of our earnings to shareholders through fully franked dividends. We've done that this year. Our dividend payout is close to actually the top of our setting. We're comfortable with that and we were really pleased to be able to increase our half year dividend by 1 cent to 85c, and we're also continuing with our on-market buyback and there's still about $600 million, give or take, of buyback to go. That's probably going to take us to around our half year, and by then we can make another decision, if we're in a position to announce a new one.

I think we're being very thoughtful and retaining balance sheet strength and being prudent while continuing to put money back into our shareholders' pockets and reduce the share count where we can.

Reporter: Hi Andrew and thanks for taking my question. I did just want to jump back to the broader theme of today and that US election result. To go a little bit broader, what's your take on the result and what kind of an impact do you expect this to have on your business outside of the obvious health impact on businesses in Australia?

AI: I think certainty is good for our customers and for Australia. I think the American economy is going to become more robust. You're probably going to see tax cuts. You're going to see a big focus on reduction in regulation and red tape – Trump's been very clear on that. And so you're probably going to see stronger economic growth in the US.

The thing we're going to have to watch for is what does that mean for inflation, and what does that mean for interest rates? Because obviously if the US economy is stronger, rates won't come down as hard there as maybe markets were expecting and that could have implications to the rest of the global economy.

Reporter: Thanks Andrew. I was just interested in what exactly was so strong about the last half compared with this one. Was it just margins, was it revenue growth that you stepped back, was it the cost? Why was that one so much better than this when the environment wasn't all that different?

AI: We're trying to be steady and clean in our half yearly results and I think what you see in our second-half is continued momentum across our businesses and business banking GLA's growing 8% year on year, that's a damn good number. We're really happy with that. We're seeing growth in our deposit franchise. So we have momentum.

The one place where, and I've been clear, we grew fair bit slower than market was in home lending. That was particularly the case in the first half of the year where we just didn't like the economics in that business and pulled back. Those economics have changed. We're now meeting the market, but these are kind of long cycle products and so it takes three, four, five months for pipelines to rebuild and settlements to happen. We're now starting to see that. And I think you're going to see NAB doing a fair bit better in the forthcoming months than we did in the first half of the year.

So we've got momentum. I think you also saw margins stabilise a little bit, which is good in home lending. And then I think from the business side, things continue to be constructive and we like steady and we're just going to continue to be a well-run back going forward into next year.

Reporter: Thanks Andrew. Just back to that business lending side, so in terms of that growth there, is that new lending that you're doing or are you re-taking market share from other competitors in that one? And in terms of that business lending, where are you saying the green shoots happening, particularly in the small business sector or SME sector?

AI: Over the past four years, we have absolutely grown market share in business lending. Those things can be a little volatile month to month, quarter to quarter. But we're really happy with our momentum in that category. What I think’s been surprising for all of us is how strong business credit growth has been at the system level. It's outperformed home lending at the system level and it's only recently come down to single digit growth. For most of the year, business credit was growing at double digits, which I found quite surprising. At the half year I said our pipelines were the biggest they’ve ever been. What's pleasing is our pipelines continue to be very strong and that's, again, broad based across sectors. What that says is that SMEs, while things are tough, continue to have confidence in the future. I think that's important for Australia.

Reporter: Hi, thanks for taking my question. Just coming back to customers tightening their belts and hardship and businesses struggling. I'm wondering if, geographically, there's any segments of the market where you're seeing more customers under pressure? I'm looking at Victoria in particular and that's for home lending and business customers. Thanks.

AI: I’ve been on the record as saying that Australia is not homogeneous. We are seeing greater strength in resource intensive states. So WA, Queensland and frankly the Northern Territory as well. Those three markets are doing relatively better than the Australian average because of their skew to resources.

Whereas on the other side, Southeast Australia and Victoria in particular are doing it tougher. Sectorally you're seeing that too. Sectors that are more skewed to domestic retail consumption and discretionary spending are also I think starting to feel it a little bit as consumers have had to tighten their belts and budget pretty hard to stay afloat.

I think that’s the last question. Thanks everyone for your interest and for your many questions today. As I stated, I'm excited about the future of our bank and what we can achieve at NAB.

-Ends-

For further information:

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