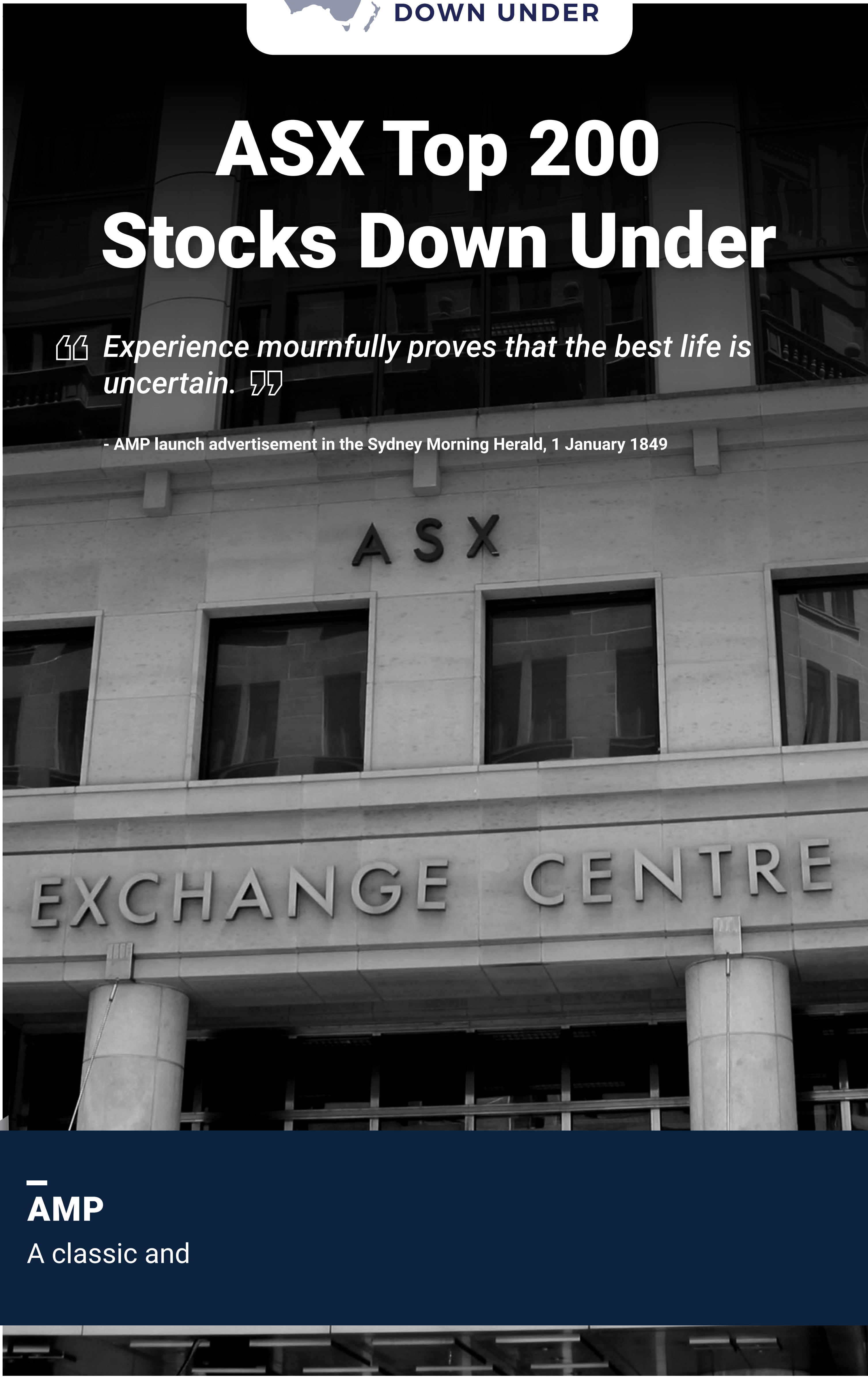
21 NOV 2022

ASX Top 200 Stocks Down Under

> *Experience mournfully proves that the best life is uncertain.*

- AMP launch advertisement in the Sydney Morning Herald, 1 January 1849



AMP

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Stocks Down Under rating: ★★

ASX: AMP
Market cap: A$4BN

52-week range: A$0.86 / A$1.30
Share price: A$1.28

One time wealth management giant AMP (ASX: AMP) has endured a massive fall from grace over the years. There is an argument to be made that now is turnaround time, since it now has a banking brand and wealth management platform, which are both performing well. But remember how much money investors have lost over the years betting that the turnaround was on when it really wasn't. Right now, here are a few good signs, but we still find it hard to get excited about this company. Not just because of past letdowns, but because the new industries AMP is attempting to penetrate are fiercely competitive – before you even consider its reputational baggage.

Share price chart

Source: Tradingview

Facing an existential crisis

AMP was founded in 1849 as the Australian Mutual Provident Society with an aim to provide life insurance for widow or widowers – in a colonial era where people died young. It only listed in 1998 after being demutualised and giving policy holders shares in the company. Over the next 20 years, AMP entered new businesses, including financial advice, banking, superannuation and investment management. While AMP's fate mostly followed the broader equity markets, it managed to peak at a market capitalisation of $20bn in early 2015.

But in 2018 its reputation was trashed by the Royal Commission through stories of fees for no service, inappropriate advice, charging fees to dead people, policy churning and employing incompetent financial advisers. Fast forward to 2022 and things have barely improved. There has been a significant turnover in staff, several backflips on strategic direction and a significant outflow of funds from the company. At the end of FY17, it boasted over $250bn in Funds under Management across the group, now it only has $121.4bn. As new financial advisor regulations (mandatory education and ethics reforms) were introduced, advisors left the industry en-masse. Over 60% of advisors on AMP's books in early 2019 have since departed. And it has copped big penalties from regulators for its misdemeanors in the past.

A new era or more of the same?

The company's current CEO is Alexis George, who used to be an executive at ANZ at the time it sold its wealth arm to IOOF. To turn the company around, she is pinning her hopes on two assets – the challenger bank (AMP Bank) and its wealth management platform (North). At first glance, you might say the turnaround is on track. AMP Bank grew at 1.4x the pace of the broader market in FY22 and has a $23.3bn loan book (having grown by $600m). And North had net inflows of $363m, up from $205m 12 months ago, and a total of $57bn in AUM (representing 15% CAGR in the last five years)

There have been other positives for the company too. It has unveiled a new retirement income product to help superannuation members' transition to retirement – providing a pension-style account with a lifetime-income promise. And the board resolved the question of what to do with its infrastructure equity and real estate businesses, by selling them off instead of demerging the entities as a single group (Collimate Capital).

Consensus estimates expect a retreat in FY23

However, costs remain high and the company's financial advice division faces a difficult few years ahead – a point even Ms George has conceded. It will be loss-making until at least FY24. As good as North has been, most of the funds are held with the diminishing number of AMP-aligned firms. There has been little growth in FUM from non-aligned firms.

While the case study of Macquarie depicts that it is not impossible for challenger retail banks to come out of nowhere and capture a major market share, this is easier said than done in an era of rising interest rates and cutthroat competition in the mortgage market. And there is also major competition in the annuities space. Perhaps AMP could grow through M&A, but there is competition here too – AMP tried to buy Westpac's Panorama platform but was knocked out of the auction. The $1.1bn capital return to shareholders in its 1HY22 result won't help its coffers for M&A activity.

Consensus estimates for FY22 (which is the calendar year), predict $1.6bn in revenue, down 30%. We would assume this is because of sold-off assets that were reflected in previous results. For FY23, analysts predict $1.4bn in revenue, which is down 10%. The company is trading at a P/E of 18.3x for FY23, implying a PEG ratio of 3.8x PEG (with a 4.4% Long Term Growth Rate) and 0.9x Price to Book (P/B). The first two multiples suggest AMP is over-valued, but the latter paints a more mixed picture. Most other financials on the ASX trade at P/B multiples of over 1. Consequently, you might conclude AMP is a buy on that basis alone. But remember that a P/B multiple lower than 1 can also imply that a company's assets are overstated or that it is generating a poor return on those assets. With AMP, it is hard to argue that the latter isn't the case.

Those who don't learn from history...

...are doomed to repeat it. We have heard plenty of times before that AMP is entering a new era, but it has continued to decline. There are some things in its favour at the moment, including AMP Bank and North. And despite the ASX's poor performance in 2022, AMP has managed a 5% share price gain.

But the new market segments it is trying to penetrate are fiercely competitive. And we doubt its ability to stand out considering its reputational damage. On top of all this, we doubt it can ever get back to its former self so far as financial advice is concerned because there is so much more red tape and costs in a post-Hayne Royal Commission World.

We acknowledge there is some recognition by regulators that some of this has gone too far, but any proposals so far have faced significant resistance from consumer advocacy groups and we have little reason to believe these will see the light of day. Therefore, AMP gets two stars from us.

Pitt Street Research Pty Ltd

3 Spring Street, Sydney, NSW 2000, Australia

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