

Headline gearing reduction masks asset value increases

Sydney, 30 August 2012 – Gearing across corporate Australia is at an all time low with data showing sub 50 percent on a debt to asset basis. Despite this downward gearing trend, data from East & Partners shows that in Western Australia and Queensland gearing has actually increased by over 15 percent since 2008. This broader reduction in gearing has been driven more by asset value increase than pure debt reduction.

As the economy moves into an 'extended workout' period, funding limitations, low confidence and a softening economy are all likely to lead to continued pressure on 'non prime' asset values. While the banks have taken a considered approach on impaired assets to date, this softer approach may not be optimal as it becomes more apparent that things are not going to improve for some assets.

Outside already existing impaired assets, there remains risk in terms of new impaired assets as well. The structurally higher Australian dollar is continuing to create chaos among domestic exporting industries outside of mining.

Paul Dowling, Principal Analyst from East & Partners commented, "Balance sheets are benefiting from the twin dynamics of continued debt reduction and business asset value appreciation with corporate borrowers continuing to amass record levels of cash. There is a masking effect, however, for a number of non-mining associated business sectors which remain under persistent stress. The analysis is indicating that the combination of difficult access to credit and low enterprise productivity on top of these dynamics, could well see bank provisioning start to climb again."

Mike Wiblin, Macquarie Equities Research's Banking Analyst noted, "We believe there is ongoing risk of provisioning top-ups as the recovery continues to be more drawn out than previously expected. Our analysis shows that in a second phase slowdown scenario, NAB would be the most exposed while CBA would be the least. WBC and ANZ appear to equivalent in terms of risk profile. This is counter to consensus and is driven by WBC's purchase of St George and recent growth in WA/QLD which has led to a worsening in the WBC risk profile relative to ANZ"

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About Macquarie Equities Research

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