

Analyst:

Hamish Carlisle



We currently value AMP at between \$3.50 and \$6.00 per share...

A company with problems can still offer good returns if investor expectations are sufficiently low...

The AMP Valuation Case

July 2019

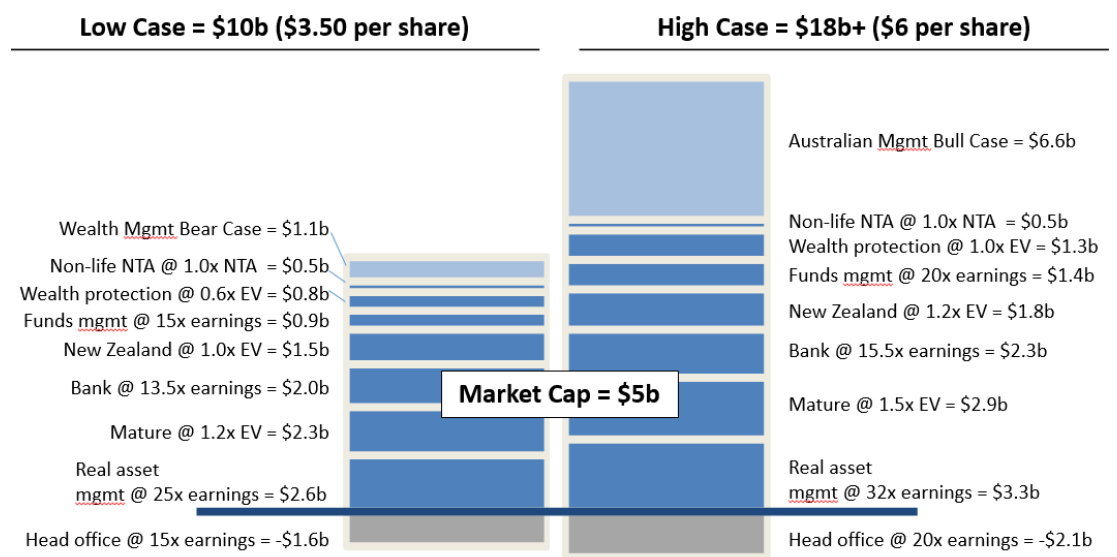
AMP have advised the sale of its insurance operations is “highly unlikely” to proceed on current terms due to challenges in meeting the condition precedent for Reserve Bank of New Zealand (RBNZ) approval.

We have been longstanding critics of the insurance sale from both valuation and governance perspectives as our investors and followers will be aware. We believe that terminating the transaction is in the best long-term interests of shareholders.

Nonetheless, the poor performance of the stock has prompted questions from many of our clients and other stakeholders so we thought it might be worthwhile outlining some of our thinking in relation to the segmental value of AMP.

We currently value AMP at between \$3.50 and \$6.00 per share. The low end of this this valuation range ascribes very little value to the “problematic” Australian Wealth Protection and Wealth Management divisions and is still roughly double the company’s current market capitalisation. A more detailed analysis is attached.

Figure 1. AMP Group Valuation



Source: Merlon Capital Partners

It is easy to confuse a company with “problems” with a “bad investment”. A key investment lesson that we always return to is that a company with problems can still offer good returns if investor expectations are sufficiently low.

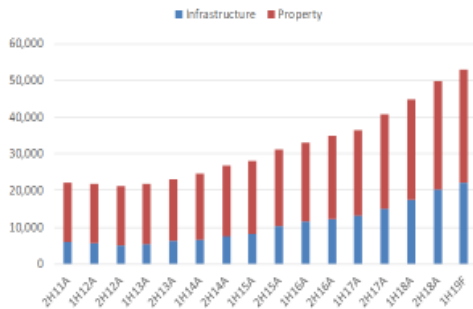
It is clear to us that in the case of AMP, expectations are very low. There is no telling whether expectations are at “rock bottom”. It is impossible to predict at what price the most panicked investor will sell. Yet, a large part of the investment community focus on trying to answer such questions. If AMP ultimately delivers on conservative expectations it will be a good investment. If it meets our expectations it will be a great investment.

AMP Segment Valuation Highlights

Real Asset Management (Valuation = \$2.6 to 3.3b)

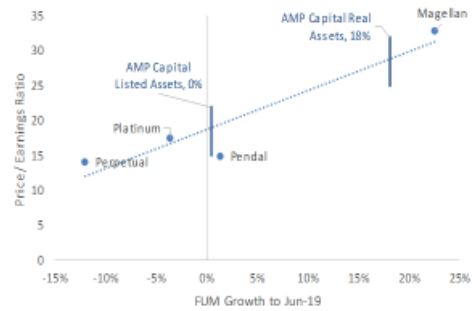


AMP Capital Real Funds Under Management (\$m)



Source: Company announcements, 2Q19 is Merlon estimate

Domestic Fund Manager Trading Multiples



Source: Company announcements, prices as at 26 July 2019, last 12 months "cash"/"underlying" earnings, 2Q19 AMP Capital FUM & profit mix are Merlon estimates

AMP's property & infrastructure assets are growing well above listed peers...

Mature (Valuation = \$2.3 to 2.9 billion)

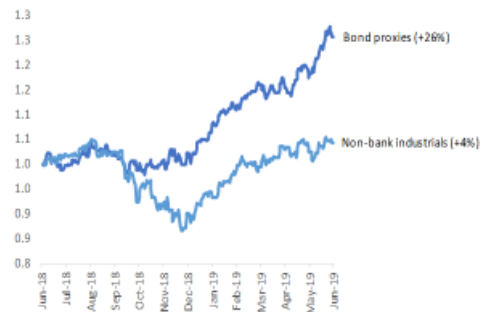


Cash Flow from Mature Business (\$m)



Source: Company announcements, Merlon estimates

Equity Returns Since Resolution Transaction



Source: Bloomberg, Merlon analysis

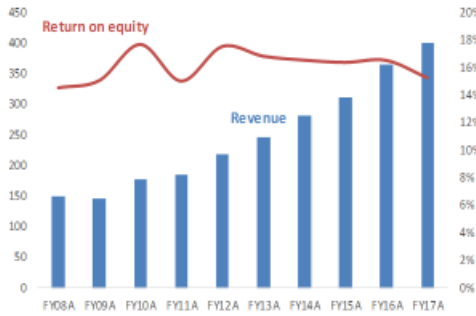
The mature business generates good cash flow, with franking saved post election...

AMP Segment Valuation Highlights (continued)

AMP Bank (Valuation = \$2.0 to 2.3 billion)

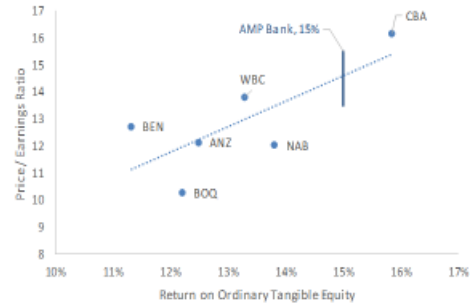


AMP Bank Financial Performance (\$m)



Source: Company announcements

Domestic Bank Trading Multiples



Source: Bloomberg, Company announcements, prices as at 26 July 2019, last 12 months "cash" earnings

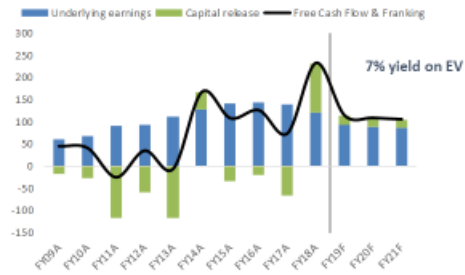
AMP bank is delivering superior growth and returns...

AMP Segment Valuation Highlights (continued)

New Zealand (Valuation = \$1.5 to 1.8 billion)

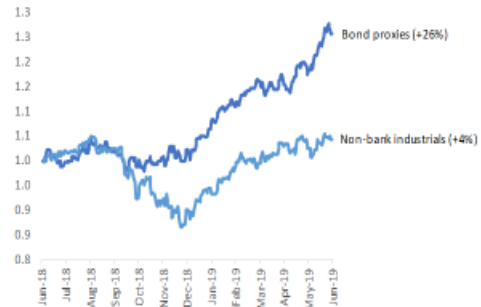


Cash Flow from New Zealand Business (\$m)



Source: Company announcements, Merlon estimates

Equity Returns Since Resolution Transaction



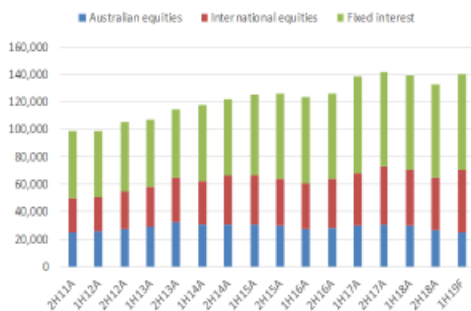
Source: Bloomberg, Merlon analysis

The NZ business has generated strong and consistent cash flows in recent years...

Listed Asset Management (Valuation = \$0.9 to 1.4 billion)

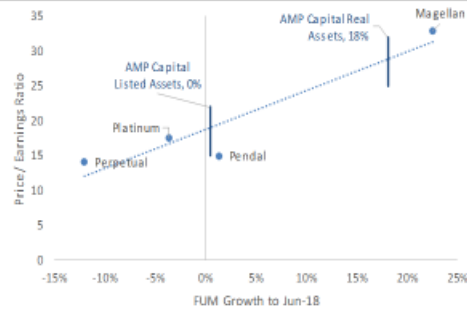


AMP Capital Listed Funds Under Management (\$m)



Source: Company announcements, 2Q19 is Merlon estimate

Domestic Fund Manager Trading Multiples



Source: Company announcements, prices as at 26 July 2019, last 12 months "cash"/"underlying" earnings, 2Q19 AMP Capital FUM & profit mix are Merlon estimates

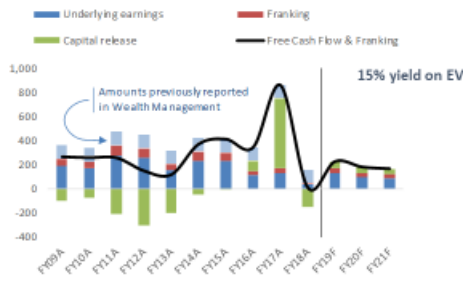
AMP's listed asset growth is sluggish but similar to many peers...

AMP Segment Valuation Highlights (continued)

Wealth Protection (Valuation = \$0.8 to 1.3 billion)

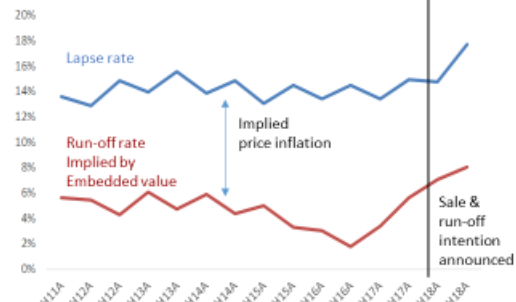


Cash Flow from Wealth Protection Business (\$m)



Source: Company announcements, Merlon estimates

Australian Wealth Protection Individual Lapse Rate



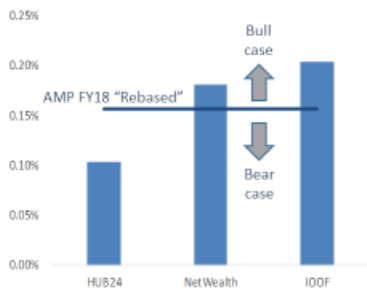
Source: Company announcements, Merlon analysis

To date there have been limited cash losses from wealth protection but ownership uncertainty is taking a toll...

Australian Wealth Management (Valuation = \$1.1 to 6.6b)

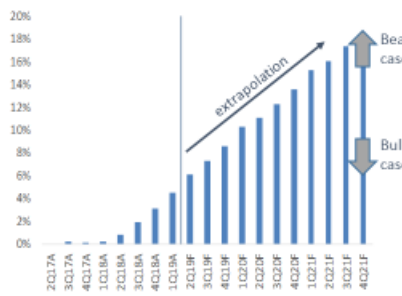


Platform Margins (NPAT / Funds)



Source: Company announcements, Merlon estimates

AMP Cumulative Fund Outflow



Source: Company announcements, Merlon estimates

AMP Wealth Valuation Scenarios

	Valuation (\$m)	
	Low	High
Funds under administration & advice as at March 2019	129,330	129,330
Fund retention	80%	100%
Retained funds under administration & advice	103,464	129,330
Earnings margin	0.10%	0.20%
Earnings	107	264
Multiple	15	25
Valuation before additional remediation	1,600	6,601
Additional remediation	-500	0
Valuation of AMP Wealth Management	1,100	6,601

Source: Company announcements, Merlon estimates

Wealth Management outlook remains highly uncertain...

Life Insurance Businesses

Merlon Approach to Valuing Life Insurance Companies



General Approach:

- ❑ Merlon values all companies based on the present value of expected future cash flows and franking credits
- ❑ Embedded values (EVs) represent the present value of expected future cash flows and franking credits from in-force business
- ❑ Embedded values are reviewed and signed off by internal actuaries, independent actuaries, auditors and the board at least on a half yearly basis
- ❑ Therefore, Merlon regards published EVs to be a useful starting point for valuing life insurance companies

Adjustments to Published EVs:

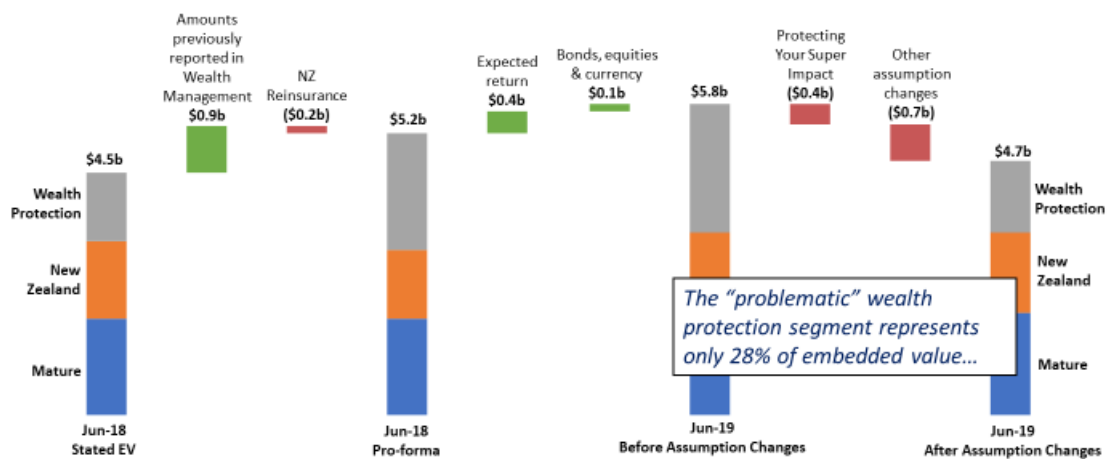
- ❑ Merlon adjusts stated EVs to reflect mid-cycle interest rates
 - ❑ In the case of AMP interest rate sensitivity from the mature and other businesses are partly offset
- ❑ Merlon notes that over long periods of time changes to embedded values have averaged approximately zero
 - ❑ In the long run, persistent industrywide deterioration in lapse & claims are offset by price increases

Embedded values are a useful starting point for valuing life insurance companies...

Roll Forward of Embedded Values to June 2019



AMP Life Embedded Values



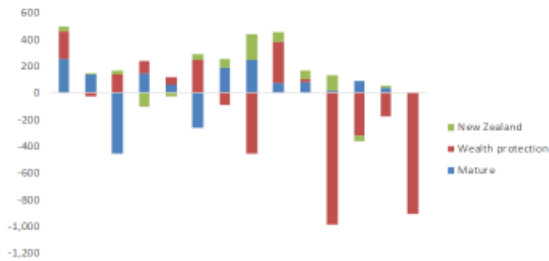
Source: Company announcements, Merlon Capital Partners

Life Insurance Businesses (continued)

Approach to Valuing AMP Life Insurance Operations



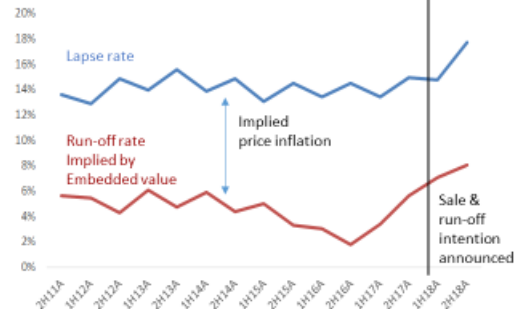
EV Impact of Markets & Assumption Changes (\$m)



Source: Company announcements

Outside wealth protection more recently, assumptions have proven robust...

Australian Wealth Protection Individual Lapse Rate



Source: Company announcements, Merlon analysis

The step-up lapses coincided with the sale announcement...

Value of AMP Life Based on Comparable Transactions



Australian Life Insurance Transaction Multiples

Target	Acquirer	Transaction Date	Value A\$m	Shares Sold	Value (100%) A\$m	Historical P/E (x)	Historical P/EV (x)
Suncorp	TAL	Aug-10	725	100%	725	13.7	0.6
ANZ	Zurich	Dec-17	2,850	100%	2,850	15	1.0
Cominsure	AIA	Sep-17	3,800	100%	3,800	16.9	1.1
Orasent	Sany Life	Oct-16	145	15%	973	36.8	1.6
Macquarie	Zurich	Mar-16	401	100%	401	17.1	1.1
MLC	Nippon	Oct-15	2,400	80%	3,000	16.6	1.1
Clearview	Chopant	Aug-12	236	53%	447	13.2	0.8
Tower	TAL	Dec-10	1,251	71%	1,762	19.1	1.2
AXA	AMP	Nov-10	4,154	100%	4,154	18	1.3
MBF Life	MNC	Mar-10	195	100%	195	14	0.8
ING	ANZ	Sep-09	1,760	51%	3,451	11	1.2
Aviva	NAB	Jun-09	825	100%	825	13.6	1.1
Tower	TAL	Aug-08	376	30%	1,266	19.5	1.6
Pharos	Tower	Jan-06	145	100%	145	20.7	1.1
Average						17.6	1.1
AMP Mature (assume 1x EV)					1,794	11.6	1.0
AMP NZ (assume 1x EV)					1,011	14.2	1.0
AMP Distribution Fees (assume 1x EV)					885	10.4	1.0
AMP Wealth Protection (implied)					-375	-2.4	-0.3
AMP Life	Resolution Life	Oct-18	3,315	100%	3,315	6.5	0.7

Source: Macquarie, Merlon Capital Partners, Company announcements

The middle 50% of precedent deals transacted at 1.0-1.3x EV and 11-16x earnings

Value of AMP Life Based on Comparable Transactions

Segment	Basis	Multiple (x)		Valuation (A\$m)	
		Low	High	Low	High
Mature	Price / Earnings	14.0	19.0	2,023	2,745
	P / Embedded Value	1.2	1.5	2,262	2,882
	Average			2,152	2,799
New Zealand	Price / Earnings	10.0	15.0	1,206	1,809
	P / Embedded Value	1.0	1.2	1,515	1,773
	Average			1,360	1,791
Wealth Protection	Price / Earnings	8.0	13.0	976	1,595
	P / Embedded Value	0.6	1.0	803	1,338
	Average			889	1,461
AMP Life Implied Value	Price / Earnings	10.9	15.9	4,204	6,139
	P / Embedded Value	1.0	1.3	4,599	5,963
	Average			4,402	6,061

Source: Merlon Capital Partners, Company announcements

Comparable transaction multiples now value AMP Life at between \$4.4 and \$6.1 billion

Life Insurance Businesses (continued)

Underlying Cash Flows From AMP Life



Cash Flow from Mature Business (\$m)

Cash Flow from NZ Business (\$m)

Cash Flow from Protection Business (\$m)



Source: Company announcements, Merlon estimates



Source: Company announcements, Merlon estimates



Source: Company announcements, Merlon estimates

With actuarial input, Merlon's has maintained forecasts of expected future cash flows that can be reconciled with AMP's stated embedded values...

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