Economic snapback 'unlikely' as deal flow slows: Macquarie

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A quick economic snapback is very "unlikely" and there is a decent chance it will be many years before Australian business activity recovers to pre-pandemic levels, according to Macquarie Group chief executive Shemara Wikramanayake.

Unveiling an 8.4 per cent drop in full-year profit to $2.7 billion and a final dividend reduced by half on Friday, Ms Wikramanayake said the company had already learned lessons from the "latest black swan" event and warned there was still a great deal of uncertainty about the economic and financial outlook.

This includes a slowing down of large asset sales and financing deals. "We do think activity level will be subdued because people won't be able to get around. There'll be implications," Ms Wikramanayake said.

Ms Wikramanayake said although there would be some delays in the "realisation" of asset sales, cross-border deals were still in the making despite a blow out in the cost of finance, funding availability and changes in investors' required rates of returns.

About 98 per cent of the group's employees are currently working from home.

Macquarie booked a provision of $1.04 billion for an expected wave of bad loans due to the coronavirus pandemic, almost double its impairment charges last year. Almost all of the credit impairments were booked in the second half.

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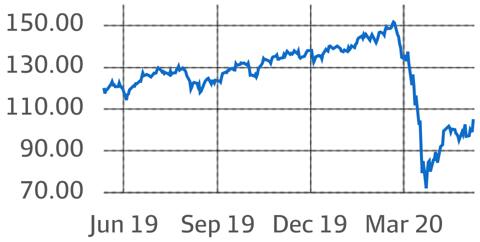

That compares with a collective $3.5 billion in extra provisioning over the last two weeks by Westpac, ANZ and National Australia Bank to prepare for expected loan defaults due to the economic shutdown. Commonwealth Bank is expected to increase that figure to more than $5 billion for the four major banks next week.

Chief financial officer Alex Harvey said the company's base case – with a likelihood of slightly more than 50 per cent – was for a 9 per cent fall in GDP by mid-year sparking an surge in unemployment to 9 per cent and a 15 per cent slide in house prices.

There was slightly less than even chance of a less optimistic scenario – a jobless rate of 11 per cent and a 30 per cent crash in the property market – occurring.

Mr Harvey said the company wasn't betting on an economic snapback. "I'm not saying it's zero [per cent chance] – it's unlikely," he said. The company said it was "unable to provide meaningful guidance" for its earnings over the coming year.

Citi analyst Brendan Sproules said bears on the company would cling to a "material fall" in performance fees and investment income, but bulls would be attracted to Macquarie's ability to deploy $7 billion of surplus capital into volatile markets. He recommended selling the stock during the "uncertain times".

UBS analyst Jonathan Mott said the outlook for the group "remains challenging".

Revenue for the asset management and investment banking group slipped 3.4 per cent to $12.3 billion over the year. But Ms Wikramanayake said the company's markets business had strong levels of activity, particularly in the areas of capital raising on the local sharemarket and other financial services such as providing hedges for the historical collapse in oil prices.

Macquarie also benefits from owning oil storage facilities, which have increased in value since a brief burst of negative oil prices last month.

While ANZ and Westpac this month deferred dividend payments after the Australian Prudential Regulation Authority cautioned banks against the capital-reducing payouts, Macquarie cut its final distribution.

Its final dividend of $1.80 per share – half of the prior year's final dividend – leaves total distributions for the year down by a quarter from last year. Macquarie has ring-fenced its bank from contributing to the profit distribution.

Macquarie's common equity Tier 1 capital ratio hit an all-time high of 12.2 per cent by the end of March. Total customer deposits rose 20 per cent to $67 billion, while the company has raised $3.7 billion of additional capital since the end of March

After the prudential regulator warned financial institutions about shelling out dividends in the current uncertain economic environment, Macquarie has re-opened a dividend investment plan at a discount of 1.5 per cent to the current market value of the stock. The inflow of capital from this would more than offset the dividend payment, Ms Wikramanayake said.

Protecting the business from the worst affects of the health-turned-economic crisis was the asset management division, which pays an annuity-style return to Macquarie, where earning rose 16 per cent as assets under management rose 10 per cent to $607 billion.

Revenue in its markets facing operations in the Macquarie Capital division, which runs the debt capital markets, slid 57 per cent over the year.

Macquarie shares jumped 6 per cent on Friday, but are down 30 per cent since their February peak, at about $106 a share. However, the stock still towers over its global financial crisis low of $16.

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