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ADVISORY

# Big 4 Banks – Remaining Underweight and Selective

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Our weekly view on Australian equities.

19 November 2025

# Big 4 Bank Costs and Capital Trends in Focus

Following the major banks' annual and quarterly results over the past month, our cautious sector stance and underweight positioning remain unchanged.

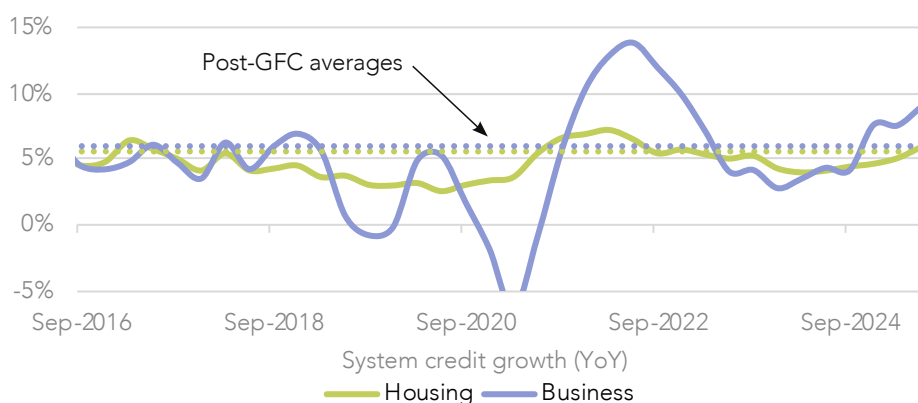
Overall, the reporting season demonstrated that sector fundamentals are broadly sound, with headline results largely in line with expectations. However, there were some notable differences in underlying trends and relative share price performance across the majors – with CommBank's (CBA) recent underperformance standing out as a key development.

Several key sector themes were prominent during the period:

- **Strong credit growth** – credit growth continues to surprise to the upside, supporting better-than-expected revenue. System growth remains above trend, at ~6% in home loans and ~9% in business lending. Banks have expressed confidence this pace can be sustained given a healthy macro backdrop – a view reflected in medium-term consensus forecasts.
- **Costs a key differentiator** – operating expenses grew faster than expected at CBA and NAB (~4-5%+), due to higher wages, more frontline staff and tech spend. On the other hand, ANZ and Westpac (WBC) are holding up better than expected, guiding to flat (WBC) or lower (ANZ) costs over the next year, amidst their respective restructuring programs.

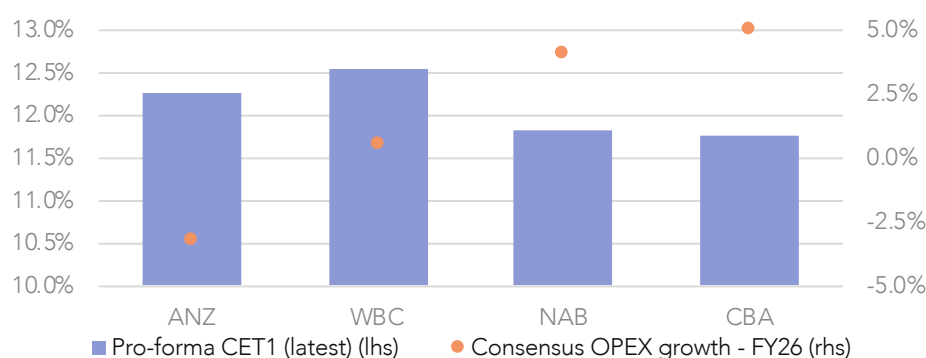
- **Mixed capital positions** – balance sheets remain broadly healthy on a proforma CET1 basis, albeit with some key differences across the banks. Westpac is very strong (12.5%), supporting potential surplus capital returns, while ANZ (12.3%) is also well positioned. CBA's CET1 declined unexpectedly in Q1 (11.8%), while NAB (11.8%) has no meaningful buffer above its target, which could pose downside risk to consensus dividend expectations.
- **Clean credit quality** – the majors generally reported lower-than-expected credit impairment/bad debt charges, which has driven modest EPS upgrades. Westpac (5 bps of gross loans) and ANZ (26 bps) were the most benign, while CBA's impairment charge (9 bps) came in line with consensus. However, NAB's bad debts (11 bps) were 6% above consensus, driving modest EPS downgrades. Looking forward, with lower cash rates and a decline in early arrears, impairment charges are expected to remain below through-the-cycle levels across the sector over the medium-term.
- **Margins expected to compress** – Net Interest Margins (NIM) were resilient through the half bolstered by deposit repricing early in the half, despite RBA rate cuts and intense mortgage and business banking competition. However, consensus expects margins to ease over the medium-term, due to ongoing competitive and funding pressures, which will be a key headwind for sector earnings.

**Figure 1: System credit growth remains strong**



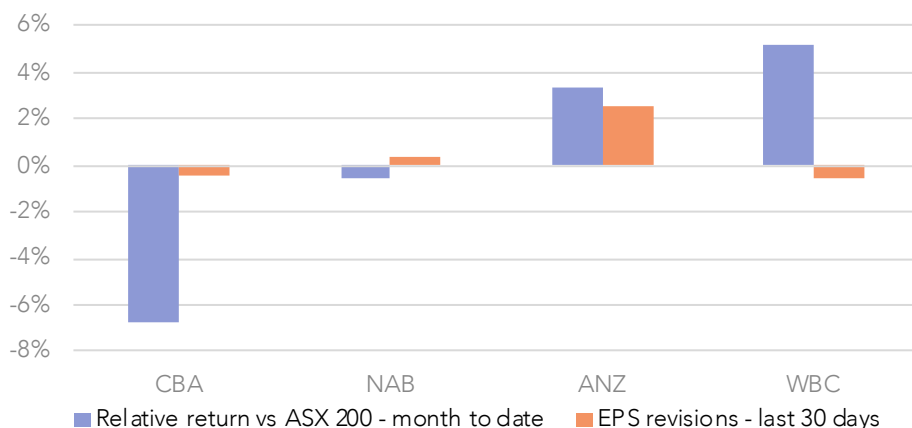
Source: APRA, Wilsons Advisory / Canaccord Genuity.

**Figure 2: ANZ and Westpac are demonstrating better cost and capital trends than CBA and NAB**



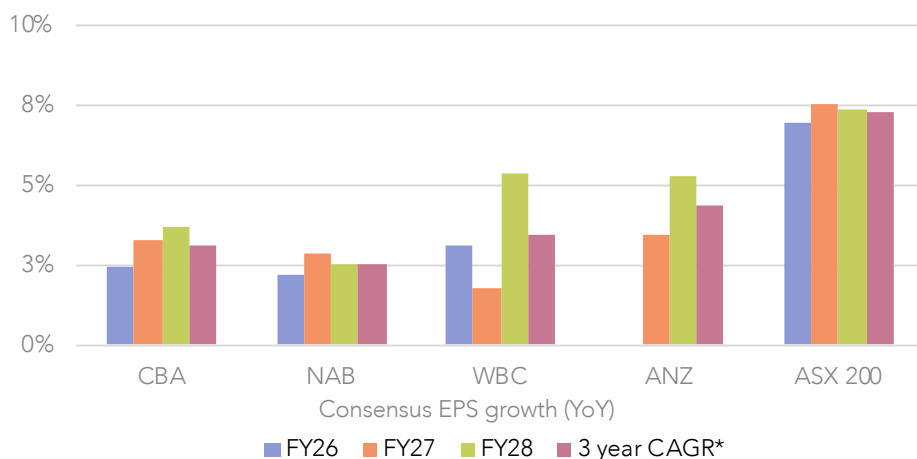
Source: Company filings, Visible Alpha, Wilsons Advisory / Canaccord Genuity.

**Figure 3: CBA's broadly 'in line' Q1 update disappointed the market amidst high expectations, which had left no 'room for error'**



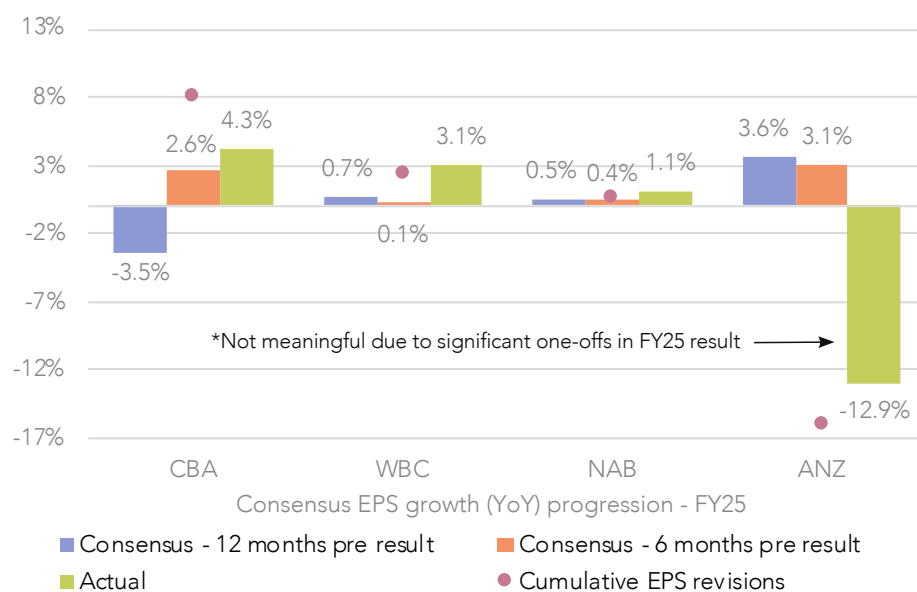
Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 4: The major banks continue to offer below-market EPS growth**



\*Refers to 2 year CAGR (FY26-28) for ANZ, given its FY26 EPS growth has been excluded as an abnormal value.  
Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 5: CBA delivered material EPS upgrades throughout FY25**



Source: Visible Alpha, Wilsons Advisory / Canaccord Genuity.

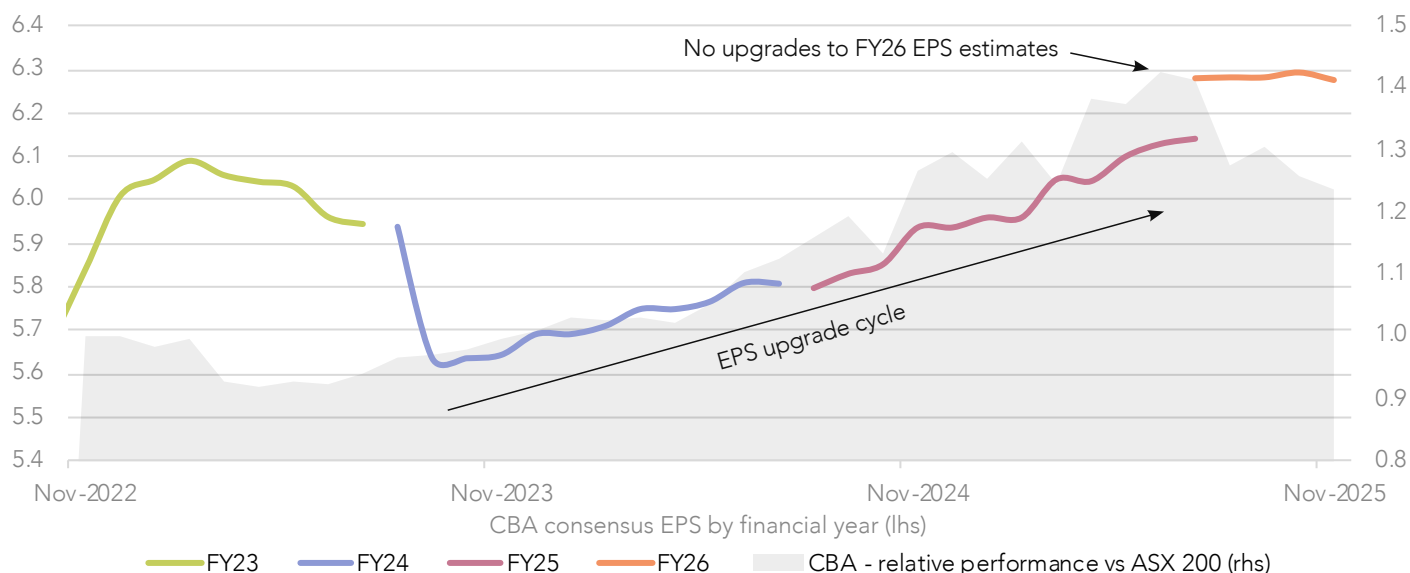
## CBA's Market Leadership Has Stalled

Since the August reporting season, there has been a clear shift in earnings leadership within the Banks sector.

CBA has previously been a consistent source of earnings upgrades, offering a degree of relative safety in a market characterised by sluggish earnings growth, China-related weakness impacting resources stocks, and earnings risks associated with broad macro/ political uncertainty.

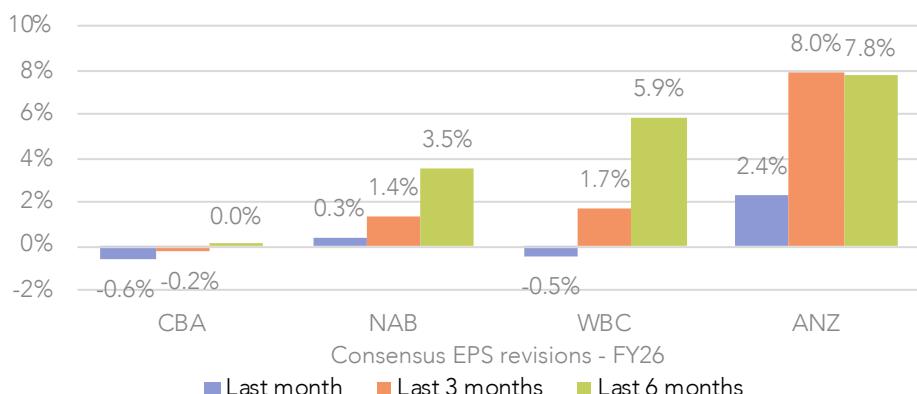
Reliable earnings upgrades attracted momentum-driven quant buying, which, combined with passive flows, pushed CBA's valuation to extreme levels and underpinned its outperformance of the market and its peers (see Figure 6).

**Figure 6: CBA's upgrade cycle supported its outperformance until recently**



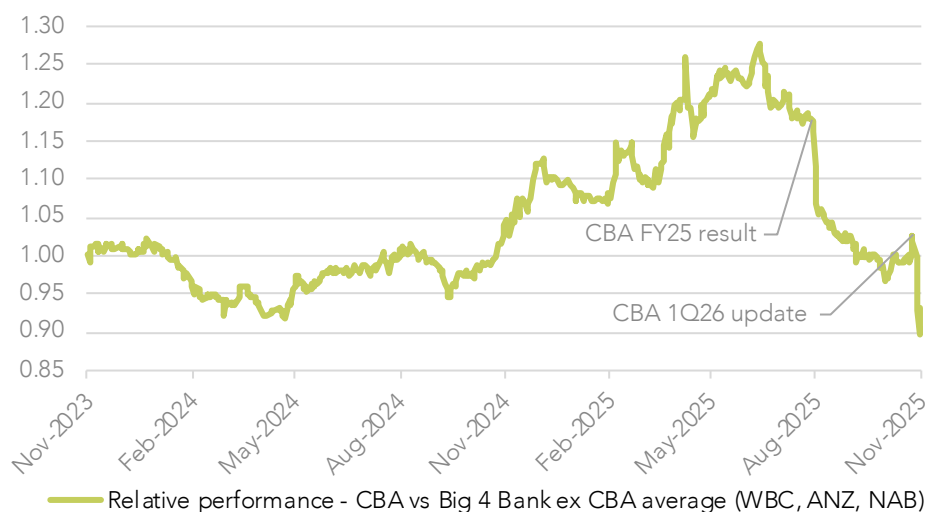
Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 7: CBA is no longer seeing EPS upgrades, while the other majors are**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 8: With CBA's upgrade cycle taking a pause, it has given back its outperformance**



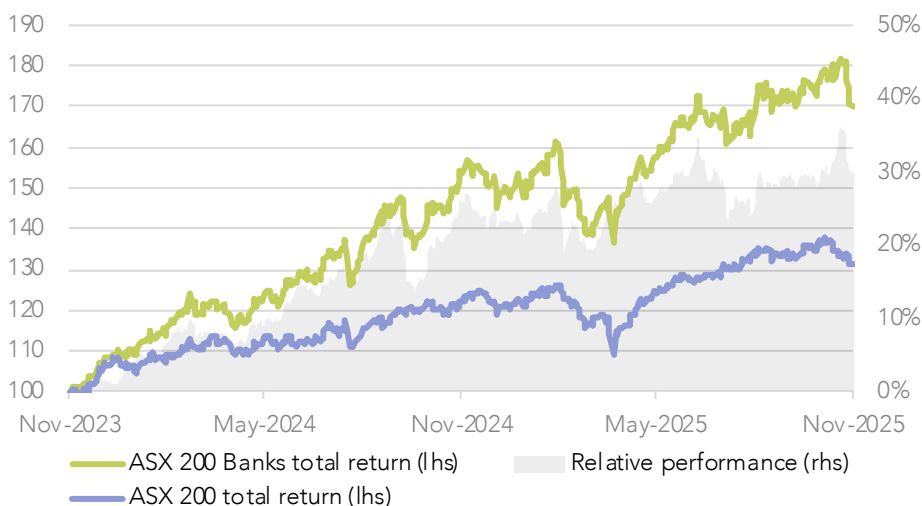
Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

However, CBA has begun to unwind some of that outperformance as upgrades have waned. The bank's 'in-line' FY25 result and 1Q26 updates both failed to meet elevated expectations for further earnings upgrades, while also raising concerns around rising costs and a declining CET1. This is at a time when other banks – particularly ANZ and Westpac – have shown improving consensus earnings momentum, which is shown on Figure 7.

Meanwhile, sentiment toward resources has also improved, with the sector receiving material EPS upgrades over the past month on rising commodity prices. This is further exacerbating the rotation out of CBA and into other large caps within the market (i.e. BHP and RIO).

Overall, with CBA's upgrade cycle stalling, peers gaining consensus earnings momentum, and its valuation premium still substantial, we see further downside in CBA's relative performance as the market continues to rotate.

**Figure 9: The banks have meaningfully outperformed since late-2023**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 10: The Bank sector remains expensive on a price-to-book basis**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 11: However, when excluding CBA, bank valuations look somewhat reasonable on a relative P/E basis**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

## Valuations are full, but not extreme (outside of CBA)

After material outperformance since the Fed's late-2023 pivot, the ASX 200 Banks sector is expensive from both a forward P/E and price-to-book (P/B) perspective, at multiples of 20.7x and 2.2x, which are 43% and 46% above their respective 10 year averages. The sector's P/B ratio is particularly demanding relative to history in the context of a low-double digit ROE, which is shown in Figure 10.

However, when excluding index heavyweight CBA, valuations are more reasonable – especially relative to a fully priced ASX 200. On average, the Big 4 ex-CBA trade at a modest discount to the market and sit within their historical relative P/E range (vs the ASX 200), albeit towards the upper end. This suggests bank sector valuations are elevated, but not extreme, outside of CBA.

Broadly speaking, the upside case for the sector at current valuations rests on the delivery of EPS upgrades. These could be driven by stronger-than-expected credit growth and/or continued benign asset quality backdrop, which may enable further provision releases. In addition, our preferred exposures, ANZ and WBC (explored below), offer incremental upside from internal 'self-help' initiatives (tech and productivity), as well as the potential for capital management – particularly in the case of WBC.

Everything considered, with a still-uncompelling consensus earnings growth outlook, we remain cautious towards the banks at the sector level and continue to advocate a selective approach – with a preference for ANZ and Westpac (discussed below).



## Remain Underweight Banks, with a Preference for ANZ and Westpac

Overall, we remain cautious on the Banks sector overall and continue to advocate an underweight portfolio exposure, given full valuations and a below-market EPS growth outlook. We maintain a selective stance, with our order of preference as follows:

1. **ANZ** – comfortably the ‘best value’ bank on all key valuation metrics, while offering the most attractive yield. ANZ has reset its cost base lower and has a strong capital position. ANZ’s 2030 strategy offers a clear pathway to a structurally lower cost-to-income ratio, an improved ROE, and growth in dividends over time. Recent EPS revisions momentum is another relative appeal vs CBA and NAB.
2. **Westpac** – offers an attractive yield and holds the strongest balance sheet, with material surplus capital that we expect to support capital returns over the coming year. Its cost outlook is attractive relative to CBA and NAB, and the UNITE simplification strategy offers a credible pathway to an improved ROE over the medium-term. Recent EPS revisions momentum also compares positively with CBA and NAB.
3. **NAB** – unconvincing risk/reward considering a full valuation alongside weaker cost and capital position trends. NAB has the weakest balance sheet of the majors, with no meaningful capital buffer – presenting downside risks to consensus dividend estimates. Profitability is also under pressure, with heightened competition in business lending driving the bank’s ROE to its lowest level since FY21.
4. **CommBank** – a high quality franchise, but still by far the most expensive bank on every key valuation measure, making the risk/reward unattractive. Despite recent underperformance vs peers, CBA’s valuation premium remains excessive, particularly in light of rising cost pressures, a declining CET1, and seemingly the end of its EPS upgrade cycle.

**Figure 12: Big 4 Banks pecking order – ANZ and Westpac offer the most attractive risk/reward**

Preference	Company Name	Ticker	Share price	Total return - YTD	Price-to-book	P/E	Dividend yield %	Grossed up yield	3 year EPS CAGR (FY25-28)	ROE	Pro-forma CET-1
1	ANZ	ANZ	36.2	33.4%	1.5	14.7	5.6%	7.3%	*4.4%	10.0%	12.3%
2	Westpac	WBC	38.4	26.2%	1.8	18.8	4.9%	7.0%	3.4%	9.7%	12.5%
3	NAB	NAB	41.0	16.7%	1.9	17.5	4.7%	6.7%	2.4%	11.3%	11.8%
4	CommBank	CBA	152.7	4.7%	3.2	24.5	3.0%	4.3%	3.1%	13.1%	11.8%

All figures are based on 12 month forward consensus estimates unless otherwise stated. Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

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