27 August 2020

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# Auswide Bank (ABA)

## No one does banking like us

Recommendation
Buy (unchanged)
Price
$4.83
Target (12 months)
$5.50 (previously $5.15)

**GICS Sector**

**Banks**

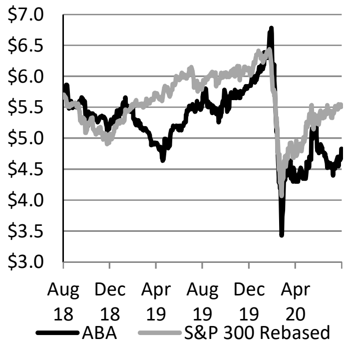
| Expected Return | |
|---|---|
| Capital growth | **13.9%** |
| Dividend yield | **4.7%** |
| Total expected return | **18.6%** |

| Company Data & Ratios | |
|---|---|
| Enterprise value | **n/m** |
| Market cap | **$205m** |
| Issued capital | **42m** |
| Free float | **100%** |
| Avg. daily val. (52wk) | **$126,287** |
| 12 month price range | **$3.30 - $6.83** |

**Price Performance**

| ABA | (1m) | (3m) | (12m) |
|---|---|---|---|
| Price (A$) | 4.55 | 4.35 | 5.46 |
| Absolute (%) | 6.15 | 11.03 | -11.54 |
| Rel market (%) | 4.40 | -0.41 | -5.60 |

**Absolute Price**




SOURCE: IRESS

## FY20: Statutory NPAT $18.5m, final dividend 10.75¢

ABA's FY20 result components include $18.5m statutory NPAT (BP $17.7m) or $20.1m ex-COVID, 44¢ statutory EPS (BP 42¢) or 48¢ ex-COVID, 10.75¢ fully franked final dividend (BP 10.5¢), 1.97% NIM (BP 1.92%) and $3.8m/12bp impairment expenses (BP $3.3m/10bp GLA). This was a good result from ABA, coming ahead of consensus and having achieved all FY20 financial targets including 1.5x system lending growth, 10bp higher NIM, further CIR reduction and RONTA excluding COVID-19 impacts of exceeding 10%. We also estimate ROE of 7.7% that is higher than those of the larger regional banks. Excluding COVID-19 impacts and thanks to a resilient QLD economy (and with limited VIC exposure of only 8% of the loan book), statutory NPAT was 17% pcp higher at $20.1m.

CET1 ratio of 11.1% was unchanged since the end of 1H20 and would have been higher if the prior period DRP was not suspended. Despite 89bp loan book growth greater than system and higher collective provision overlays for COVID-19, ABA's organic capital generation remained strong in 2H20 and largely enabled the bank to pay a very respectable FY20 final dividend of 10.75¢ (ex-date September 4, payment date 18 September). This represents a 2H20 payout ratio of 49.3%, in line with APRA's capital management guidance of <50% statutory NPAT. ABA's track record of generating profitable growth is unbroken and its FY21 outlook (being one of the few banks that continues to provide guidance) remains positive with targets of stable NIM (BP forecast 1.99%), 60% CIR (BP forecast 61%) and 10% RONTA (BP forecast 9.5%). ABA has also maintained its 70-80% target payout ratio in the medium term.

## Price target increased to $5.50, Buy rating unchanged

Statutory NPAT forecasts are materially increased (FY21 +27%, FY22 +18% and FY23 +14%) based on a combination of better top line growth (including stable NIM of 1.99% in FY21) and ongoing cost discipline targeting 60% CIR. The price target is increased by 7% to $5.50 and ABA's Buy rating is unchanged.

**Earnings Forecast**

| Year end 30 June | 2020 | 2021e | 2022e | 2023e |
|---|---|---|---|---|
| NPAT (statutory) (A$m) | 18.5 | 19.1 | 19.9 | 20.7 |
| NPAT (underlying) (A$m) | 18.5 | 19.1 | 19.9 | 20.7 |
| EPS (underlying) (A¢) | 44 | 45 | 46 | 48 |
| EPS (underlying) growth (%) | 7% | 2% | 3% | 3% |
| PER (x) | 11.0 | 10.8 | 10.4 | 10.1 |
| P/Book (x) | 0.8 | 0.8 | 0.8 | 0.7 |
| P/NTA (x) | 1.1 | 1.0 | 0.9 | 0.9 |
| Dividend (A¢) | 28 | 23 | 26 | 29 |
| Yield (%) | 5.7% | 4.7% | 5.3% | 5.9% |
| RONTA (%) | 9.6% | 9.5% | 9.4% | 9.3% |
| NIM (%) | 1.97% | 1.99% | 1.96% | 1.93% |
| Franking (%) | 100.0% | 100.0% | 100.0% | 100.0% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# No one does banking like us

## FY20: Statutory NPAT $18.5m, final dividend 10.75¢

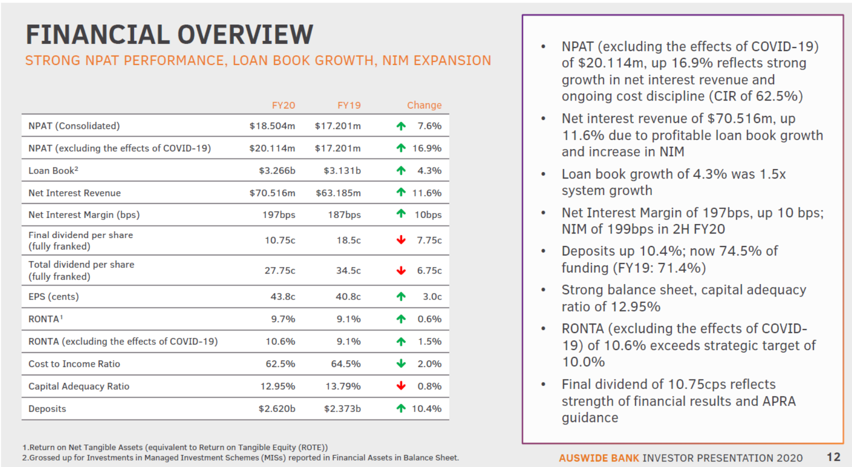
ABA's FY20 result components are as follows:

1. Statutory NPAT $18.5m (BP $17.7m), +8% pcp, or $20.1m excluding COVID-19 impacts;
2. Statutory EPS 44¢ (BP 42¢), +7% pcp;
3. Underlying NPAT $18.5m (BP $17.7m), +8% pcp;
4. Underlying EPS 44¢ (BP 42¢), +7% pcp;
5. Fully franked final dividend 10.75¢ (BP 10.5¢), payout 49% 2H20 and 63% FY20;
6. RONTA 9.7% (BP 9.2%) or 10.6% excluding COVID-19 impacts;
7. NIM 1.97% (BP 1.92%);
8. CIR 62% (BP 64%);
9. Impairment expenses $3.8m/12bp GLA (BP $3.3m/10bp GLA); and
10. CET1 ratio 11.1% (BP 11.2%).

This was a good result from ABA, coming ahead of consensus and having achieved all FY20 financial targets including 1.5x system lending growth, 10bp higher NIM, further CIR reduction and RONTA excluding COVID-19 impacts of exceeding 10%. We also estimate ROE of 7.7% that is higher than those of the larger regional banks. Excluding COVID-19 impacts and thanks to a resilient QLD economy (and with limited VIC exposure of only 8% of the loan book), statutory NPAT was 17% pcp higher at $20.1m.

CET1 ratio of 11.1% was unchanged since the end of 1H20 and would have been higher if the FY19 final DRP was not suspended. Despite 89bp loan book growth greater than system and higher collective provision overlays for COVID-19, ABA's organic capital generation remained strong in 2H20 and largely enabled the bank to pay a very respectable FY20 final dividend of 10.75¢ (ex-date September 4, payment date 18 September). This represents a 2H20 payout ratio of 49.3%, in line with APRA's capital management guidance of <50% statutory NPAT. ABA's track record of generating profitable growth remains unbroken (Figure 2).

**Figure 1 – Ticked all the right boxes**



FINANCIAL OVERVIEW

STRONG NPAT PERFORMANCE, LOAN BOOK GROWTH, NIM EXPANSION

| | FY20 | FY19 | Change |
|---|---|---|---|
| NPAT (Consolidated) | $18.504m | $17.201m | ↑ 7.6% |
| NPAT (excluding the effects of COVID-19) | $20.114m | $17.201m | ↑ 16.9% |
| Loan Book[2] | $3.266b | $3.131b | ↑ 4.3% |
| Net Interest Revenue | $70.516m | $63.185m | ↑ 11.6% |
| Net Interest Margin (bps) | 197bps | 187bps | ↑ 10bps |
| Final dividend per share (fully franked) | 10.75c | 18.5c | ↓ 7.75c |
| Total dividend per share (fully franked) | 27.75c | 34.5c | ↓ 6.75c |
| EPS (cents) | 43.8c | 40.8c | ↑ 3.0c |
| RONTA[1] | 9.7% | 9.1% | ↑ 0.6% |
| RONTA (excluding the effects of COVID-19) | 10.6% | 9.1% | ↑ 1.5% |
| Cost to Income Ratio | 62.5% | 64.5% | ↓ 2.0% |
| Capital Adequacy Ratio | 12.95% | 13.79% | ↓ 0.8% |
| Deposits | $2.620b | $2.373b | ↑ 10.4% |

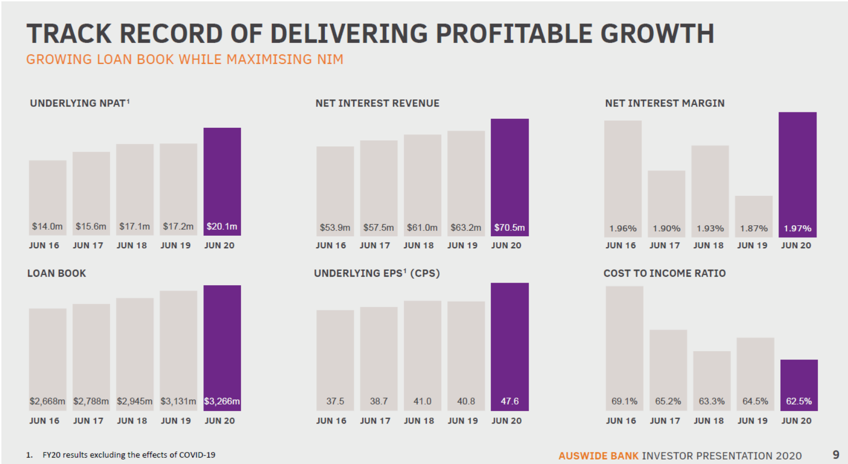
1.Return on Net Tangible Assets (equivalent to Return on Tangible Equity (ROTE))
2.Grossed up for Investments in Managed Investment Schemes (MISs) reported in Financial Assets in Balance Sheet.

- NPAT (excluding the effects of COVID-19) of $20.114m, up 16.9% reflects strong growth in net interest revenue and ongoing cost discipline (CIR of 62.5%)
- Net interest revenue of $70.516m, up 11.6% due to profitable loan book growth and increase in NIM
- Loan book growth of 4.3% was 1.5x system growth
- Net Interest Margin of 197bps, up 10 bps; NIM of 199bps in 2H FY20
- Deposits up 10.4%; now 74.5% of funding (FY19: 71.4%)
- Strong balance sheet, capital adequacy ratio of 12.95%
- RONTA (excluding the effects of COVID-19) of 10.6% exceeds strategic target of 10.0%
- Final dividend of 10.75cps reflects strength of financial results and APRA guidance

AUSWIDE BANK INVESTOR PRESENTATION 2020 12

SOURCE: COMPANY DATA

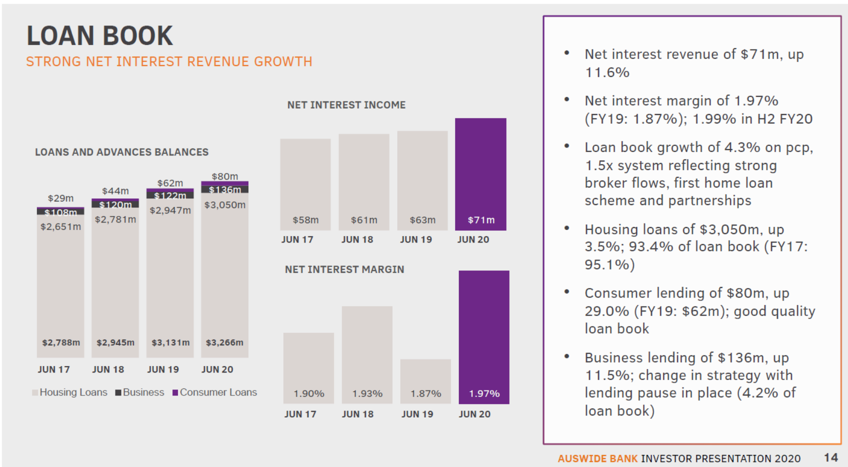
**Figure 2 – Focused on profitable growth**




SOURCE: COMPANY DATA

NIM was one of the highlights in FY20 (+10bp to 1.97%) and in 2H20 (+4bp to 1.99%) despite a low interest rate environment, and we understand this was largely due to replacing ABA's more expensive wholesale funding and lower TD funding costs. Combined with higher loan volumes [SE QLD remains a significant growth opportunity (+2.8% pcp) in addition to strong broker flows in NSW (+8.2% pcp), VIC (+5.5% pcp) – although from a low base – and other states (+17.1% pcp)] and broadly stable other income, NIE increased by 12% pcp to $70.5m (+4% hoh to $36.0m) and total operating income increased by 11% pcp to $80.5m (+12% hoh to $40.2m).

**Figure 3 – Strong top line growth based on positive volume and rate effects**




SOURCE: COMPANY DATA

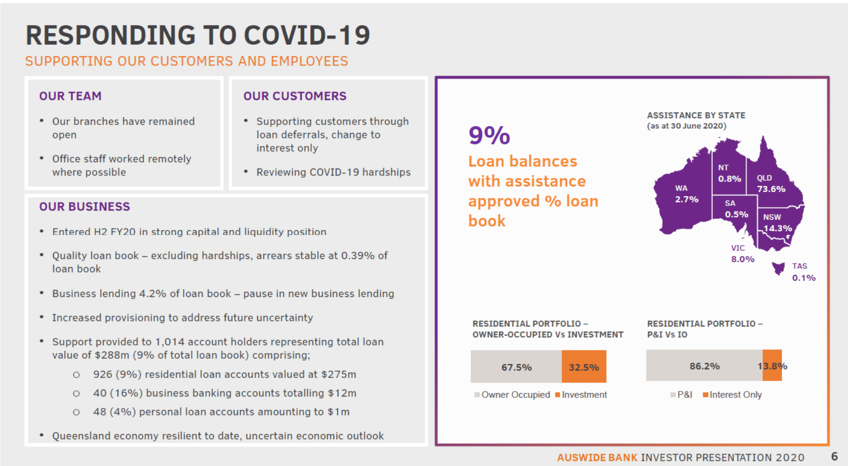
Operating expenses were 7% pcp higher at $50.1m (+6% hoh to $24.7m), impacted by AASB 16 lease accounting adjustments in D&A expense and further front office investments. Regardless, strong top line growth ensured an ongoing reduction in CIR (64% 1H20, 61% 2H20) and positive "Jaws" (+2% 1H20, +6% 2H20).

Loan impairment expense increased from $0.8m/5bp in 1H20 to $3.0m/18bp in 2H20 mainly due to COVID-19 impacts ($2.3m/14bp increase in collective provisions) and impairments in MIS investments.

ABA's loan deferral data is set out below:

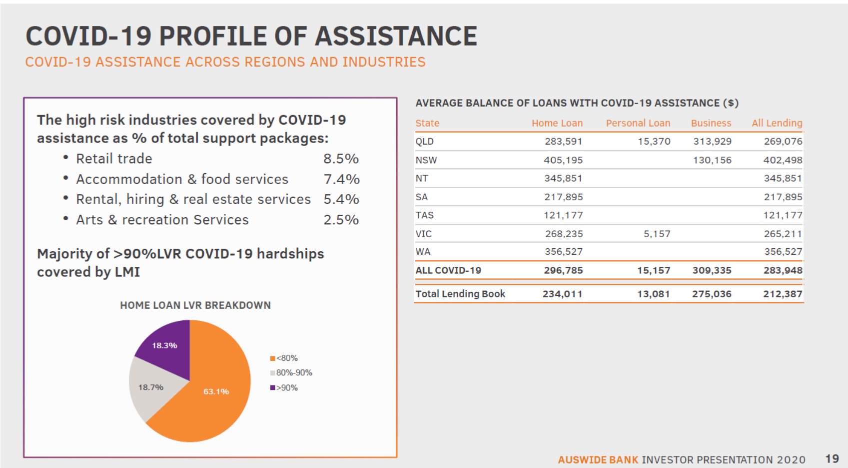
1. Australian home loans (latest):
   a. 9% (vs. ANZ 12%, BEN 10%, CBA 10%, NAB 11%, SUN 5% and WBC 7%);
   b. DLVR <80% 63% (vs. ANZ 67%, BEN 84%, CBA 67%, NAB 80%, SUN 69% and WBC 77%);
   c. P&I 86% (vs. ANZ 92%, BEN 79%, CBA 84%, NAB 86%, SUN 85% and WBC 78%);
   d. Owner Occupied 68% (vs. ANZ 73%, BEN 69%, CBA 72%, NAB 53%, SUN 68% and WBC 63%); and
   e. VIC exposure 8% (vs. ANZ 32%, BEN 40%, CBA 26%, NAB 32%, SUN 13% and WBC 30%).
2. Australian commercial loans:
   a. 16% (vs. ANZ 14%, BEN 12%, CBA 15%, NAB 16%, SUN 11% and WBC small business 14%); and
   b. VIC exposure Nil (vs. ANZ 36%, BEN 52%, CBA 25%, NAB 29%, SUN 12% and WBC 26%).

**Figure 4 – COVID-19 impacts 1**




SOURCE: COMPANY DATA

**Figure 5 – COVID-19 impacts 2**

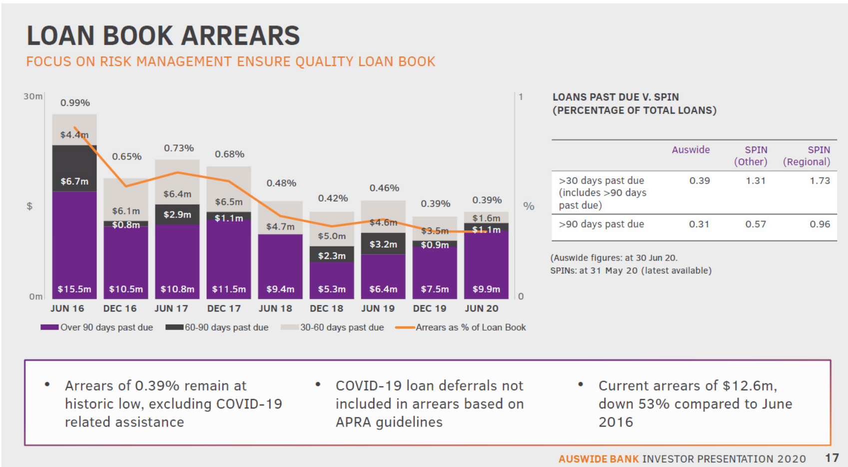



SOURCE: COMPANY DATA

COVID-19 aside, ABA's underlying asset quality remains in good shape with stable loan book arrears and past due loans below sector averages. ABA's lower provisions are likely explained by its historically lower arrears and better quality book:

1. 2H20 impairment charge/GLA 18bp (vs. ANZ 3Q20 31bp, BEN 2H20 45bp, CBA 2H20 48bp, NAB 3Q20 38bp, SUN 2H20 59bp and WBC 3Q20 46bp);
2. Provisions/CRWA 65bp (vs. ANZ 151bp, BEN 125bp, CBA 170bp, NAB 195bp, SUN 142bp and WBC 170bp); and
3. Provisions/GLA 30bp (vs. ANZ 87bp, BEN 66bp, CBA 82bp, NAB 103bp, SUN 72bp and WBC 76bp).

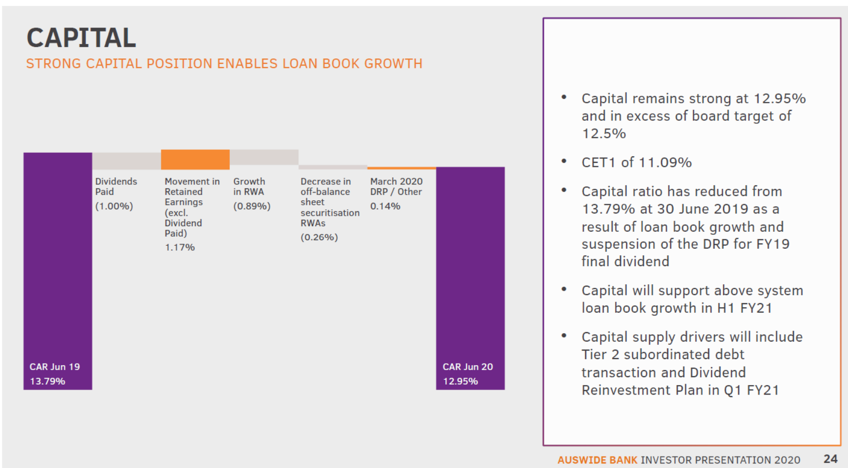
**Figure 6 – Asset quality**




SOURCE: COMPANY DATA

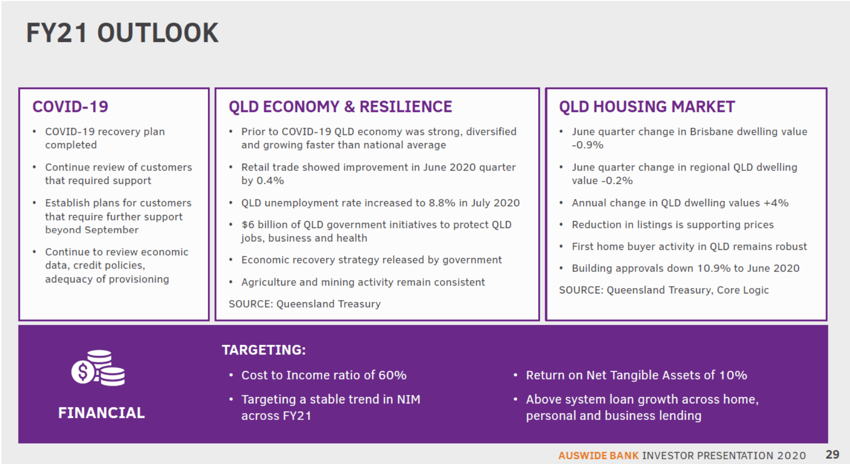
Based on the board's target CAR of 12.5%, excess capital is currently estimated at $7m or 16¢ per share. Finally, ABA's FY21 outlook remains positive (Figure 8) with targets of stable NIM (BP forecast 1.99%), 60% CIR (BP forecast 61%) and 10% RONTA (BP forecast 9.5%). ABA has also maintained its 70-80% target payout ratio in the medium term (we forecast 50% in FY21 and for this to creep up by 5% p.a. in the medium term).

**Figure 7 – Strong capital position to support earnings growth and further IT investment**




SOURCE: COMPANY DATA

## Figure 8 – FY21 outlook




SOURCE: COMPANY DATA

## Table 1 – Variance analysis

| Auswide Bank 30 June ($m) | FY20 | BP | Variance | Comments |
|---|---|---|---|---|
| Net interest revenue | 70.5 | 68.6 | 3% | Better lending volumes (>system) and NIM |
| Other income | 10.0 | 10.1 | -1% | Broadly in line with expectations |
| **Total operating income** | **80.5** | **78.7** | **2%** | |
| Operating expenses | -50.1 | -50.1 | 0% | In line with expectations |
| Impairment expenses | -3.8 | -3.3 | -15% | Impacted by higher COVID-19 overlays |
| **Net profit before income tax** | **26.5** | **25.3** | **5%** | Positive variance mainly due to better top line |
| Corporate tax expense | -8.0 | -7.6 | -4% | Function of NPBT |
| Other | 0.0 | 0.0 | nm | |
| Investment experience | 0.0 | 0.0 | nm | |
| **NPAT (statutory basis)** | **18.5** | **17.7** | **5%** | Positive variance mainly due to better top line |
| Adjustments | 0.0 | 0.0 | nm | |
| **NPAT (underlying basis)** | **18.5** | **17.7** | **5%** | Positive variance mainly due to better top line |
| DPS (cps) | 28 | 27 | 1% | Broadly in line with expectations |
| Payout ratio | 63% | 66% | -2% | |
| EPS (underlying basis) (cps) | 44 | 42 | 5% | Positive variance mainly due to better top line |
| RONTA | 9.6% | 9.2% | 0.4% | Positive variance mainly due to better top line |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Table 2 – 6-month KPIs

| Group KPIs | 1H12 | 2H12 | 1H13 | 2H13 | 1H14 | 2H14 | 1H15 | 2H15 | 1H16 | 2H16 | 1H17 | 2H17 | 1H18 | 2H18 | 1H19 | 2H19 | 1H20 | 2H20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total banking income ($m) | 32.4 | 32.1 | 29.9 | 29.2 | 29.4 | 28.1 | 29.8 | 29.6 | 31.5 | 31.5 | 32.9 | 33.7 | 35.1 | 34.8 | 36.1 | 36.0 | 39.5 | 40.2 |
| Total operating income ($m) | 34.0 | 35.5 | 31.1 | 31.5 | 31.2 | 28.7 | 30.4 | 30.6 | 31.5 | 31.5 | 32.9 | 34.4 | 35.1 | 35.3 | 36.4 | 36.3 | 39.9 | 40.6 |
| SAW ($m) | 8.1 | 9.2 | 10.0 | 7.5 | 7.0 | 11.9 | 11.9 | 7.4 | 8.5 | 10.5 | 8.5 | 10.4 | 8.5 | 10.9 | 9.2 | 11.4 | 9.6 | 12.0 |
| Other operating expenses ($m) | 12.5 | 14.2 | 13.1 | 18.4 | 13.7 | 6.8 | 8.8 | 13.5 | 15.2 | 12.3 | 13.4 | 12.0 | 13.7 | 11.5 | 14.4 | 11.9 | 15.8 | 12.7 |
| Loans ($m) | 2,230.4 | 2,230.3 | 2,197.5 | 2,231.3 | 2,192.9 | 2,226.4 | 2,464.0 | 2,331.8 | 2,435.5 | 2,671.5 | 2,675.9 | 2,777.5 | 2,807.1 | 2,910.8 | 2,986.3 | 3,131.0 | 3,216.0 | 3,266.0 |
| Deposits ($m) | 1,563.8 | 1,625.6 | 1,678.0 | 1,707.4 | 1,753.1 | 1,743.8 | 1,827.9 | 1,852.1 | 1,943.2 | 2,183.9 | 2,216.5 | 2,304.6 | 2,332.6 | 2,446.8 | 2,601.0 | 2,802.6 | 2,972.8 | 3,018.5 |
| Growth in NIE | -9% | -5% | -7% | 0% | -2% | -3% | 4% | 3% | 3% | 8% | 6% | 7% | 9% | 4% | 1% | 6% | 11% | 12% |
| Growth in total income | -10% | 2% | -9% | -11% | 0% | -9% | -2% | 6% | 3% | 3% | 5% | 9% | 7% | 3% | 4% | 3% | 10% | 12% |
| Growth in operating expenses | 0% | 21% | 12% | 11% | -11% | -28% | 0% | 12% | 14% | 9% | -7% | -1% | 1% | 0% | 6% | 4% | 8% | 6% |
| Growth in PBT before BDD | -22% | -22% | -40% | -55% | 32% | 82% | -7% | -3% | -20% | -10% | 40% | 36% | 17% | 8% | -1% | 1% | 13% | 22% |
| Growth in loans | -1% | -2% | -1% | 0% | - | - | 12% | 5% | -1% | 15% | 10% | 4% | 5% | 5% | 6% | 8% | 8% | 4% |
| Growth in deposits | 11% | 12% | 7% | 5% | 4% | 2% | 4% | 6% | 6% | 18% | 14% | 6% | 5% | 6% | 12% | 15% | 14% | 8% |
| NIM | 2.16% | 1.94% | 2.04% | 1.98% | 1.96% | 1.94% | 2.01% | 1.94% | 1.98% | 1.94% | 1.90% | 1.89% | 1.96% | 1.91% | 1.88% | 1.87% | 1.95% | 1.99% |
| Cost ratio | 61% | 66% | 74% | 82% | 66% | 65% | 68% | 68% | 75% | 72% | 67% | 65% | 63% | 64% | 65% | 64% | 64% | 61% |
| Cost / average assets | 1.52% | 1.73% | 1.73% | 1.95% | 1.55% | 1.41% | 1.50% | 1.49% | 1.71% | 1.54% | 1.42% | 1.41% | 1.36% | 1.36% | 1.39% | 1.32% | 1.39% | 1.31% |
| Tier 1 capital ratio | 12.8% | 11.3% | 11.5% | 11.1% | 11.4% | 11.7% | 12.3% | 12.5% | 12.6% | 12.1% | 12.2% | 12.1% | 12.6% | 12.7% | 12.3% | 11.8% | 11.1% | 11.1% |
| impairment expense / GLA | 0.02% | 0.02% | 0.00% | 0.21% | 0.02% | 0.02% | 0.03% | 0.00% | -0.07% | 0.02% | 0.03% | 0.04% | 0.05% | 0.04% | 0.03% | 0.05% | 0.05% | 0.18% |
| Total provisions + GRCL / GLA | 0.15% | 0.15% | 0.14% | 0.20% | 0.19% | 0.22% | 0.17% | 0.07% | 0.10% | 0.19% | 0.25% | 0.24% | 0.21% | 0.26% | 0.21% | 0.22% | 0.23% | 0.29% |
| RONTA | 11.7% | 11.6% | 7.3% | 9.9% | 9.8% | 9.1% | 8.4% | 9.2% | 8.6% | 9.2% | 8.6% | 10.2% | 9.1% | 9.8% | 9.4% | 9.0% | 10.1% | 9.2% |
| "Jaws" | -10% | -20% | -20% | -22% | 11% | 19% | -2% | -5% | -11% | -6% | 12% | 10% | 5% | 3% | -2% | -1% | 2% | 6% |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Price target increased to $5.50, Buy rating unchanged

Statutory NPAT forecasts are materially increased (FY21 +27%, FY22 +18% and FY23 +14%) based on a combination of better top line growth (including stable NIM of 1.99% in FY21) and ongoing cost discipline targeting 60% CIR. The price target is increased by 7% to $5.50 and ABA's Buy rating is unchanged.

### Table 3 – Estimate changes

| | FY21e | | FY22e | | FY23e | |
|---|---|---|---|---|---|---|
| | New | Change | New | Change | New | Change |
| NPAT (statutory) (A$m) | 19.1 | 27% | 19.9 | 18% | 20.7 | 14% |
| NPAT (underlying) (A$m) | 19.1 | 27% | 19.9 | 18% | 20.7 | 14% |
| EPS (underlying) (cps) | 45 | 26% | 46 | 16% | 48 | 11% |
| EPS growth (%) | 2% | 17% | 3% | -9% | 3% | -5% |
| DPS (cps) | 23 | -4% | 26 | -4% | 29 | -3% |
| RONTA (%) | 9.5% | 1.8% | 9.4% | 1.0% | 9.3% | 0.5% |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

### Figure 9 – Strategy


SOURCE: COMPANY DATA

# Auswide Bank

## Company description

ABA, formerly Wide Bay Australia Ltd, is Australia's 10th and QLD's 3rd listed bank. The QLD-based bank has a national omni-channel reach through its QLD branches, a national ATM and Bank@Post distribution network, and online and digital channels via strategic relationships such as mortgage brokers. The bank provides an extensive range of personal and business banking products and services issued directly or in partnership with leading national service providers.

## Board/Management

(1) Professor John Humphrey (Chairman) – Former Senior Partner, Mallesons Stephen Jacques; (2) Martin Barrett (Managing Director); (3) Bill Schafer (Chief Financial Officer); (4) Craig Lonergan (Chief Risk Officer); (5) Steve Caville (Chief Information Officer).

## Investment strategy

This is largely based on ABA as a challenger regional bank in Central QLD.

## Valuation

ABA's price target is a blended valuation broadly based on the company's DCF value (~$5.50 incorporating 11.5% cost of equity, 3% terminal growth rate and 10.0% target CET1 requirement as opposed to APRA's 8.5% minimum, 40% weighting), dividend yield valuation (~$5.00 based on 4.5% required yield, 30% weighting) and PB valuation (~$4.80 based on long term ROE of up to 9.0%, 30% weighting), plus value of surplus capital (~$0.30). There is no consideration for ABA as a takeover target.

## SWOT analysis

**Strengths**

Experienced management; strong service culture and brand; deep understanding of the customer base and the nuts and bolts of regional/community banking; irreplaceable branch network; IT capabilities; and presence in fast growing banking catchment areas.

**Weaknesses**

Sub-scale and heavily reliant on regional lending pickup; and lack of revenue and regional diversification.

**Opportunities**

SME/business banking initiatives; credit growth based on QLD rebuilding opportunities; efficiency gains through streamlining systems and processes; and M&A opportunities – e.g. tie up with other sub-scale building societies and credit unions.

**Threats**

Macroeconomic factors (such as slowing credit growth) and increased competition specifically from SUN Bank, BEN, BOQ and any of the majors on the domestic front (e.g. in retail and wholesale banking and wealth management).

# Auswide Bank
as at 27 August 2020

| | |
|---|---|
| Recommendation | Buy |
| Price | $4.83 |
| Target (12 months) | $5.50 |

## Table 4 – Financial summary

| | | | |
|---|---|---|---|
| **Auswide Bank** | | **Share Price (A$)** | **4.83** |
| As at | 27-Aug-20 | **Market Cap (A$M)** | **205** |

### PROFIT AND LOSS

| **Y/e June 30 ($m)** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| Net interest revenue | 63.2 | 70.5 | 72.5 | 73.1 | 73.6 |
| Fees and commissions | 9.0 | 9.2 | 9.3 | 9.5 | 9.8 |
| **Total banking income** | **72.1** | **79.7** | **81.9** | **82.6** | **83.4** |
| Premium revenue (MRM) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share of profit of FTSPL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 0.5 | 0.8 | 0.5 | 0.5 | 0.5 |
| Sign up payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total operating income** | **72.6** | **80.5** | **82.4** | **83.1** | **83.9** |
| Fees and commissions | -10.0 | -11.5 | -10.8 | -11.1 | -11.3 |
| SAW | -20.6 | -21.6 | -22.0 | -22.5 | -22.9 |
| Depreciation expense | -1.9 | -3.3 | -3.3 | -3.3 | -3.3 |
| Amortisation expense (assume acquisition costs of $2,038,922) | -0.7 | -0.7 | -1.4 | -1.4 | -1.4 |
| G&A expenses | -13.7 | -13.0 | -12.3 | -12.5 | -12.7 |
| Underwriting expenses | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Impairment expenses | -1.1 | -3.8 | -5.3 | -4.0 | -2.7 |
| **Net profit before income tax** | **24.6** | **26.5** | **27.2** | **28.4** | **29.6** |
| Corporate tax expense | -7.4 | -8.0 | -8.2 | -8.5 | -8.9 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **NPAT (statutory basis)** | **17.2** | **18.5** | **19.1** | **19.9** | **20.7** |
| Adjustments | | | | | |
| - Sign up payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Impairment expenses/one-offs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - One-offs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **NPAT (underlying basis)** | **17.2** | **18.5** | **19.1** | **19.9** | **20.7** |

### CASHFLOW

| **Y/e June 30 ($m)** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| NPAT (statutory basis) | 17.2 | 18.5 | 19.1 | 19.9 | 20.7 |
| Increase in loans | -221.0 | -132.4 | -49.4 | -49.6 | -50.3 |
| Increase in other assets | -15.5 | -45.1 | -32.2 | -34.8 | -37.7 |
| Capital expenditure | 1.2 | -7.0 | 0.0 | 0.0 | 0.0 |
| **Investing cashflow** | **-235.3** | **-184.5** | **-81.6** | **-84.4** | **-88.0** |
| Increase in deposits & borrowings | 355.8 | 215.9 | 90.6 | 93.3 | 96.1 |
| Increase in other liabilities | -104.4 | -33.4 | -20.9 | -20.5 | -19.4 |
| Ordinary equity raised | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | -15.3 | -14.4 | -7.1 | -8.3 | -9.4 |
| **Financing cashflow** | **236.1** | **168.1** | **62.5** | **64.5** | **67.3** |
| Net change in cash | 18.0 | 2.1 | 0.0 | 0.0 | 0.0 |
| **Cash at end of period** | **104.4** | **106.5** | **106.5** | **106.5** | **106.5** |

### BALANCE SHEET

| **Y/e June 30 ($m)** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| Cash and liquid assets | 104.4 | 106.5 | 106.5 | 106.5 | 106.5 |
| Divisional gross loans | 3,131.0 | 3,266.0 | 3,315.0 | 3,364.7 | 3,415.2 |
| Provisions | -4.5 | -7.1 | -6.7 | -6.8 | -7.0 |
| Other gross loans / inter div. | -40.4 | -53.1 | -53.1 | -53.1 | -53.1 |
| Other IEA | 338.1 | 394.6 | 426.8 | 461.6 | 499.2 |
| Intangibles | 48.1 | 47.6 | 47.6 | 47.6 | 47.6 |
| PP&E | 14.4 | 21.4 | 21.4 | 21.4 | 21.4 |
| Insurance assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other assets | 12.3 | 13.7 | 13.7 | 13.7 | 13.7 |
| **Total assets** | **3,603.4** | **3,789.5** | **3,871.1** | **3,955.5** | **4,043.5** |
| Divisional deposits | 2,802.6 | 3,018.5 | 3,109.1 | 3,202.3 | 3,298.4 |
| Other borrowings | 518.4 | 498.5 | 477.6 | 457.1 | 437.7 |
| Other liabilities | 43.9 | 30.4 | 30.4 | 30.4 | 30.4 |
| **Total liabilities** | **3,364.9** | **3,547.4** | **3,617.1** | **3,689.8** | **3,766.5** |
| Ordinary share capital | 191.9 | 193.3 | 195.0 | 197.0 | 199.3 |
| Other equity instruments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves | 12.8 | 12.0 | 12.0 | 12.0 | 12.0 |
| GRCL | 2.4 | 2.4 | 2.4 | 2.5 | 2.6 |
| Retained profits | 31.4 | 34.3 | 44.5 | 54.1 | 63.0 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total shareholders' equity** | **238.5** | **242.0** | **254.0** | **265.7** | **277.0** |
| **Total sh. equity & liabs.** | **3,603.4** | **3,789.5** | **3,871.1** | **3,955.5** | **4,043.5** |
| **WANOS - statutory (m)** | **42.2** | **42.2** | **42.5** | **42.9** | **43.3** |
| **WANOS - normalised (m)** | **42.2** | **42.2** | **42.5** | **42.9** | **43.3** |
| **ROE** | **7.3%** | **7.7%** | **7.7%** | **7.7%** | **7.6%** |

### VALUATION DATA

| **Y/e June 30** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| NPAT (underlying basis) ($m) | 17.2 | 18.5 | 19.1 | 19.9 | 20.7 |
| EPS (statutory basis) (¢) | 41 | 44 | 45 | 46 | 48 |
| *- Growth* | -5% | 7% | 2% | 3% | 3% |
| EPS (underlying basis) (¢) | 41 | 44 | 45 | 46 | 48 |
| *- Growth* | 0% | 7% | 2% | 3% | 3% |
| P / E ratio (times) | 11.8 | 11.0 | 10.8 | 10.4 | 10.1 |
| P / Book ratio (times) | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 |
| P / NTA ratio (times) | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 |
| Net DPS (¢) | 34 | 28 | 23 | 26 | 29 |
| Yield | 7.1% | 5.7% | 4.7% | 5.3% | 5.9% |
| Franking | 100% | 100% | 100% | 100% | 100% |
| Payout (underlying basis; target 70-80%) | 84% | 63% | 50% | 55% | 60% |

### CAPITAL ADEQUACY

| **Y/e June 30** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| Risk weighted assets ($m) | 1,498.4 | 1,631.8 | 1,668.2 | 1,706.1 | 1,745.5 |
| Average risk weight | 43% | 45% | 45% | 45% | 45% |
| **Tier 1 ratio** | **11.8%** | **11.1%** | **11.5%** | **11.9%** | **12.2%** |
| **CET1 capital ratio** | **11.8%** | **11.1%** | **11.5%** | **11.9%** | **12.2%** |
| Total capital ratio | 13.8% | 13.0% | 13.3% | 13.7% | 14.0% |
| Equity ratio | 6.6% | 6.4% | 6.6% | 6.7% | 6.8% |

### PROFITABILITY RATIOS

| **Y/e June 30** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| Return on assets (underlying) | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| **Return on NTA (underlying)** | **9.2%** | **9.6%** | **9.5%** | **9.4%** | **9.3%** |
| Leverage ratio | 5.0% | 4.8% | 5.0% | 5.2% | 5.3% |
| **Net interest margin** | **1.87%** | **1.97%** | **1.99%** | **1.96%** | **1.93%** |
| Cost / income ratio | 65% | 62% | 61% | 61% | 62% |
| Cost / average assets | 1.33% | 1.33% | 1.30% | 1.29% | 1.28% |
| Growth in operating income | 3% | 11% | 2% | 1% | 1% |
| Growth in operating expenses | 5% | 7% | -1% | 2% | 2% |
| **Jaws** | **-2%** | **4%** | **3%** | **-1%** | **-1%** |
| Effective tax rate | 30% | 30% | 30% | 30% | 30% |

### ASSET QUALITY

| **Y/e June 30** | **2019** | **2020** | **2021e** | **2022e** | **2023e** |
|---|---|---|---|---|---|
| Impairment expense / GLA | 0.04% | 0.12% | 0.16% | 0.12% | 0.08% |
| Impairment expense / RWA | 0.08% | 0.24% | 0.32% | 0.24% | 0.16% |
| **Total provisions + GRCL ($m)** | **6.9** | **9.5** | **9.1** | **9.3** | **9.5** |
| Total provisions + GRCL / RWA | 0.46% | 0.58% | 0.55% | 0.55% | 0.55% |
| Total provisions + GRCL / loans | 0.22% | 0.29% | 0.27% | 0.28% | 0.28% |
| Indiv ass prov / gross imp assets | 0% | 0% | 0% | 0% | 0% |
| IBL / IEA | 97% | 98% | 97% | 97% | 97% |

### INTERIMS

| | **1H19** | **2H19** | **1H20** | **2H20** | **1H21e** |
|---|---|---|---|---|---|
| Net interest revenue | 31.1 | 32.1 | 34.5 | 36.0 | 36.1 |
| Fees and commissions | 5.0 | 4.0 | 5.0 | 4.2 | 4.6 |
| **Total banking income** | **36.1** | **36.0** | **39.5** | **40.2** | **40.7** |
| Premium revenue (MRM) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share of profit of FTSPL | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 |
| Sign up payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total operating income** | **36.4** | **36.3** | **39.9** | **40.6** | **41.0** |
| Fees and commissions | -4.5 | -5.5 | -5.0 | -6.5 | -5.4 |
| SAW | -9.2 | -11.4 | -9.6 | -12.0 | -9.8 |
| Depreciation expense | -1.1 | -0.8 | -2.5 | -0.8 | -2.5 |
| Amortisation expense (assume acquisition costs of $2,038,922) | -0.7 | 0.0 | 0.0 | -0.7 | -0.7 |
| G&A expenses | -7.5 | -6.2 | -8.2 | -4.8 | -7.8 |
| Underwriting expenses | -0.6 | 0.6 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Impairment expenses | -0.4 | -0.8 | -0.8 | -3.0 | -2.6 |
| **Net profit before income tax** | **12.4** | **12.3** | **13.6** | **12.9** | **12.1** |
| Corporate tax expense | -3.7 | -3.8 | -4.0 | -4.0 | -3.6 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **NPAT (statutory basis)** | **8.7** | **8.5** | **9.6** | **8.9** | **8.5** |
| Adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Sign up payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Impairment expenses/one-offs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - One-offs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **NPAT (underlying basis)** | **8.7** | **8.5** | **9.6** | **8.9** | **8.5** |

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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