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Auswide Bank (ABA)

Staying frosty

Recommendation
Buy (Hold)
Price
$4.65
Target (12 months)
$5.15 (previously $4.40)

GICS Sector

Banks

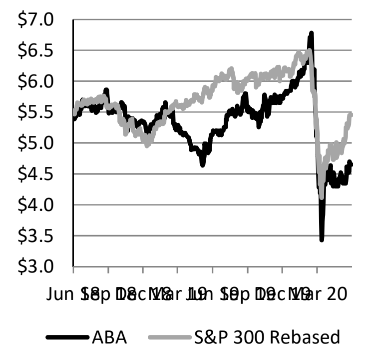
Expected Return	
Capital growth	**10.8%**
Dividend yield	**5.0%**
Total expected return	**15.8%**

Company Data & Ratios	
Enterprise value	**n/m**
Market cap	**$197m**
Issued capital	**42m**
Free float	**100%**
Avg. daily val. (52wk)	**$152,595**
12 month price range	**$3.30 - $6.83**

Price Performance

ABA	(1m)	(3m)	(12m)
Price (A$)	4.36	5.93	5.06
Absolute (%)	6.65	-21.59	-8.10
Rel market (%)	-4.91	-16.58	-2.67

Absolute Price



SOURCE: IRESS

Jump in COVID-19 provision inevitable

In line with peer group COVID-19 impact disclosures, we can only expect ABA's collective provisions to materially increase in 2H20. BOQ has suggested a possible overlay of $49-71m (10-15bp) that includes $10m (2bp) recognised in 1H20 (but has also indicated the overlay should not be seen as firm guidance or a forecast). While BOQ's overall credit expense in 1H20 was relatively low at $30m (13bp), we forecast this to increase to $66m (30bp) in 2H20 and result in a full year credit expense of $96m (22bp) – while total provisions (including specific provisions) and GRCL were 69bp at the end of 1H20 and could end up being 80-90bp by the end of FY20. BEN has indicated an overlay that will add almost $128m (~20bp) to its collective provision and FY20 credit expense (we forecast a full year credit expense of ~29bp) – and this overlay will increase collective provision and GRCL to 56bp and dent CET1 ratio by 40bp to 9.3% at the end of 3Q20. Including individually assessed provisions, we expect BEN's total provisions and GRCL to reach 82bp by the end of FY20. As for SUN, it has indicated a collective provision top-up of $133m (23bp) and we forecast a credit expense charge of 50bp in 2H20 (taking the full year charge to 25bp as the 1H20 charge was immaterial). Including specific provisions, we expect SUN's total provisions and GRCL to reach 70bp by the end of FY20.

Price target increased to $5.15, ABA back to a Buy

ABA's forecast credit expense in anticipation of COVID-19 was increased back in March and we have now fine-tuned overall provision expectations from 38bp to 43bp in light of peer group disclosures. While these are roughly half of the larger regional peers given lower SME lending, there is no material change to our underlying NPAT forecasts. The forecast 2H20 dividend is however, lowered from 18.5¢ to 10.5¢ (53% 2H20 underlying payout ratio, 66% full year) as per APRA's capital management guidance. However, sector discount rates have improved since March and 11.5% is now applied to ABA (previously 14.5%) in addition to a 4.5% dividend valuation yield. The price target is thus increased by 17% to $5.15 and ABA's Buy rating is reinstated.

Earnings Forecast

Year end 30 June	2019	2020e	2021e	2022e
NPAT (statutory) (A$m)	17.2	17.7	15.0	16.8
NPAT (underlying) (A$m)	17.2	17.7	15.0	16.8
EPS (underlying) (A¢)	41	42	36	40
EPS (underlying) growth (%)	0%	3%	-15%	12%
PER (x)	11.4	11.1	13.1	11.7
P/Book (x)	0.8	0.8	0.8	0.8
P/NTA (x)	1.0	1.0	1.0	1.0
Dividend (A¢)	34	27	23	26
Yield (%)	7.4%	5.9%	5.0%	5.7%
RONTA (%)	9.2%	9.2%	7.7%	8.4%
NIM (%)	1.87%	1.92%	1.84%	1.84%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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 (~$4.35 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 (~$5.20 based on 4.5% required yield, 30% weighting) and PB valuation (~$4.90 based on long term ROE of up to 9.0%, 30% weighting), plus value of surplus capital (~$0.40). 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 9 June 2020

Recommendation	Buy
Price	$4.65
Target (12 months)	$5.15

Table 1 – Financial summary

Auswide Bank		**Share Price (A$)**	**4.65**
As at	9-Jun-20	**Market Cap (A$M)**	**197**

PROFIT AND LOSS

Y/e June 30 ($m)	**2018**	**2019**	**2020e**	**2021e**	**2022e**
Net interest revenue	61.0	63.2	68.6	67.6	69.7
Fees and commissions	8.9	9.0	10.1	10.4	10.7
Total banking income	**69.9**	**72.1**	**78.7**	**78.0**	**80.4**
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	0.5	0.0	0.0	0.0
Sign up payment	0.0	0.0	0.0	0.0	0.0
Total operating income	**70.4**	**72.6**	**78.7**	**78.0**	**80.4**
Fees and commissions	-8.8	-9.9	-10.2	-10.5	-10.7
SAW	-19.4	-20.3	-21.1	-21.7	-22.4
Depreciation expense	-2.0	-1.9	-3.3	-3.3	-3.3
Amortisation expense (assume acquisition costs of $2,038,922)	-0.7	-0.7	0.0	0.0	0.0
G&A expenses	-13.7	-14.1	-15.4	-15.9	-16.4
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	-1.3	-1.1	-3.3	-5.0	-3.4
Net profit before income tax	**24.4**	**24.6**	**25.3**	**21.5**	**24.1**
Corporate tax expense	-7.4	-7.4	-7.6	-6.5	-7.3
Other	0.8	0.0	0.0	0.0	0.0
NPAT (statutory basis)	**17.9**	**17.2**	**17.7**	**15.0**	**16.8**
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	-0.8	0.0	0.0	0.0	0.0
NPAT (underlying basis)	**17.1**	**17.2**	**17.7**	**15.0**	**16.8**

CASHFLOW

Y/e June 30 ($m)	**2018**	**2019**	**2020e**	**2021e**	**2022e**
NPAT (statutory basis)	17.9	17.2	17.7	15.0	16.8
Increase in loans	-132.3	-218.9	-132.5	-84.6	-74.3
Increase in other assets	30.7	-17.6	-51.5	-33.3	-36.0
Capital expenditure	-1.0	1.2	-2.9	0.0	0.0
Investing cashflow	**-102.6**	**-235.3**	**-186.9**	**-117.9**	**-110.3**
Increase in deposits & borrowings	142.2	355.8	240.1	91.3	94.0
Increase in other liabilities	-95.0	-104.4	-51.4	22.3	10.0
Ordinary equity raised	0.0	0.0	0.0	0.0	0.0
Other	3.7	-15.3	-15.5	-10.7	-10.5
Financing cashflow	**51.0**	**236.1**	**173.3**	**102.9**	**93.5**
Net change in cash	-33.7	18.0	4.0	0.0	0.0
Cash at end of period	**86.4**	**104.4**	**108.4**	**108.4**	**108.4**

BALANCE SHEET

Y/e June 30 ($m)	**2018**	**2019**	**2020e**	**2021e**	**2022e**
Cash and liquid assets	86.4	104.4	108.4	108.4	108.4
Divisional gross loans	2,910.8	3,131.0	3,268.5	3,353.9	3,428.8
Provisions	-5.3	-6.5	-11.5	-12.3	-12.9
Other gross loans / inter div.	0.0	-38.3	-58.1	-58.1	-58.1
Other IEA	275.0	338.1	408.0	441.3	477.4
Intangibles	48.3	48.1	47.9	47.9	47.9
PP&E	15.6	14.4	17.3	17.3	17.3
Insurance assets	0.0	0.0	0.0	0.0	0.0
Other assets	19.5	12.3	13.6	13.6	13.6
Total assets	**3,350.3**	**3,603.4**	**3,794.1**	**3,912.0**	**4,022.3**
Divisional deposits	2,446.8	2,802.6	3,042.7	3,134.0	3,228.0
Other borrowings	635.2	518.4	483.7	506.0	516.0
Other liabilities	31.5	43.9	27.3	27.3	27.3
Total liabilities	**3,113.5**	**3,364.9**	**3,553.7**	**3,667.3**	**3,771.3**
Ordinary share capital	191.6	191.9	192.0	192.0	192.0
Other equity instruments	0.0	0.0	0.0	0.0	0.0
Reserves	12.8	12.8	12.6	12.6	12.6
GRCL	2.4	2.4	2.4	2.5	2.6
Retained profits	29.9	31.4	33.5	37.7	43.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	**236.7**	**238.5**	**240.4**	**244.7**	**251.0**
Total sh. equity & liabs.	**3,350.3**	**3,603.4**	**3,794.1**	**3,912.0**	**4,022.3**
WANOS - statutory (m)	**41.8**	**42.1**	**42.2**	**42.2**	**42.2**
WANOS - normalised (m)	**41.8**	**42.1**	**42.2**	**42.2**	**42.2**
ROE	**7.4%**	**7.3%**	**7.4%**	**6.2%**	**6.8%**

VALUATION DATA

Y/e June 30	**2018**	**2019**	**2020e**	**2021e**	**2022e**
NPAT (underlying basis) ($m)	17.1	17.2	17.7	15.0	16.8
EPS (statutory basis) (¢)	43	41	42	36	40
- Growth	15%	-5%	3%	-15%	12%
EPS (underlying basis) (¢)	41	41	42	36	40
- Growth	6%	0%	3%	-15%	12%
P / E ratio (times)	11.4	11.4	11.1	13.1	11.7
P / Book ratio (times)	0.8	0.8	0.8	0.8	0.8
P / NTA ratio (times)	1.0	1.0	1.0	1.0	1.0
Net DPS (¢)	34	34	27	23	26
Yield	7.3%	7.4%	5.9%	5.0%	5.7%
Franking	100%	100%	100%	100%	100%
Payout (underlying basis; target 70-80%)	83%	84%	66%	66%	66%

CAPITAL ADEQUACY

Y/e June 30	**2018**	**2019**	**2020e**	**2021e**	**2022e**
Risk weighted assets ($m)	1,375.4	1,498.4	1,623.2	1,676.0	1,725.3
Average risk weight	43%	43%	44%	44%	44%
Tier 1 ratio	**12.7%**	**11.8%**	**11.2%**	**11.1%**	**11.1%**
CET1 capital ratio	**12.7%**	**11.8%**	**11.2%**	**11.1%**	**11.1%**
Total capital ratio	14.9%	13.8%	13.0%	12.9%	12.9%
Equity ratio	7.1%	6.6%	6.3%	6.3%	6.2%

PROFITABILITY RATIOS

Y/e June 30	**2018**	**2019**	**2020e**	**2021e**	**2022e**
Return on assets (underlying)	0.5%	0.5%	0.5%	0.4%	0.4%
Return on NTA (underlying)	**9.5%**	**9.2%**	**9.2%**	**7.7%**	**8.4%**
Leverage ratio	5.3%	5.0%	4.8%	4.8%	4.8%
Net interest margin	**1.93%**	**1.87%**	**1.92%**	**1.84%**	**1.84%**
Cost / income ratio	63%	65%	64%	66%	66%
Cost / average assets	1.35%	1.33%	1.33%	1.33%	1.32%
Growth in operating income	5%	3%	8%	-1%	3%
Growth in operating expenses	1%	5%	7%	3%	3%
Jaws	**4%**	**-2%**	**1%**	**-4%**	**0%**
Effective tax rate	30%	30%	30%	30%	30%

ASSET QUALITY

Y/e June 30	**2018**	**2019**	**2020e**	**2021e**	**2022e**
Impairment expense / GLA	0.05%	0.04%	0.10%	0.15%	0.10%
Impairment expense / RWA	0.10%	0.08%	0.20%	0.30%	0.20%
Total provisions + GRCL ($m)	**7.7**	**8.9**	**13.9**	**14.8**	**15.4**
Total provisions + GRCL / RWA	0.56%	0.59%	0.86%	0.88%	0.90%
Total provisions + GRCL / loans	0.26%	0.28%	0.43%	0.44%	0.45%
Indiv ass prov / gross imp assets	31%	31%	59%	59%	59%
IBL / IEA	97%	97%	98%	98%	98%

INTERIMS

	1H18	**2H18**	**1H19**	**2H19**	**1H20**
Net interest revenue	30.7	30.3	31.1	32.1	34.5
Fees and commissions	4.4	4.5	5.0	4.0	5.0
Total banking income	**35.1**	**34.8**	**36.1**	**36.0**	**39.5**
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	0.0	0.5	0.0	0.5	0.0
Sign up payment	0.0	0.0	0.0	0.0	0.0
Total operating income	**35.1**	**35.3**	**36.1**	**36.6**	**39.5**
Fees and commissions	-6.7	-2.2	-4.5	-5.4	-5.0
SAW	-8.5	-10.9	-9.2	-11.1	-9.6
Depreciation expense	-0.9	-1.1	-1.1	-0.8	-2.5
Amortisation expense (assume acquisition costs of $2,038,922)	0.0	-0.7	-0.7	0.0	0.0
G&A expenses	-6.2	-7.5	-7.5	-6.6	-8.2
Underwriting expenses	0.0	0.0	-0.6	0.6	0.0
Other	-0.7	0.7	0.0	0.0	0.0
Impairment expenses	-0.7	-0.6	-0.4	-0.8	-0.8
Net profit before income tax	**11.4**	**13.0**	**12.1**	**12.5**	**13.3**
Corporate tax expense	-3.6	-3.8	-3.7	-3.8	-4.0
Other	0.2	0.6	0.0	0.0	0.0
NPAT (statutory basis)	**8.1**	**9.8**	**8.5**	**8.7**	**9.3**
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	-0.8	0.0	0.0	0.0
NPAT (underlying basis)	**8.1**	**9.0**	**8.5**	**8.7**	**9.3**

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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T S Lim, authoring analyst, holds a long position in ABA.

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