

Auswide Bank ^{ABA}

Recommendations

Rating	BUY
Risk	Medium
Price Target	\$5.80
Share Price	\$4.81

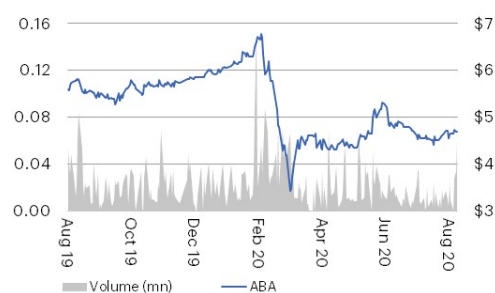
Snapshot

Monthly Turnover	\$1.6mn
Market Cap	\$199mn
Shares Issued	42.4mn
52-Week High	\$6.83
52-Week Low	\$3.30
Sector	Financials

Business Description

Auswide Bank (ABA) is engaged in the provision of banking and financial services, focusing on the raising of funds on deposits and the provision of finance for housing over mortgages secured by residential property. ABA is based in Bundaberg in Queensland.

12-Month Price & Volume



Research Analyst

Nick Caley
+ 613 9602 9283
ncaley@baillieu.com.au

Nicolas Burgess, CFA
+ 613 9602 9379
nburgess@baillieu.com.au

Disclosure

The author owns no shares in ABA.

Company Report

Clean, lean but not mean

FY20 result: 1) FY20 NPAT of A\$18.5m (+8% pcp) versus our forecast of A\$18.1m; 2) operating income of A\$80.5m (+11% pcp) versus operating expenses of A\$50.1m (+4% pcp); 3) loan book growth of 4.3% pcp; 4) net interest margin (NIM) of 1.97% (FY19: 1.87%) – NIM of 1.99% in 2H20; 5) loan loss impairment expense of A\$3.8m versus our forecast of A\$2.1m; 6) final dividend of A10.75cps, resulting in a total of A27.75cps (FY19: A34.5cps); and 7) total capital ratio of 12.95% (FY19: 13.79%).

Key takeaways: 1) A very clean result which was a beat to our forecast despite ABA increasing loan loss provisions by A\$1.7m more than we expected; 2) material increase in loan loss provisions was expected due to a requirement to consider the outlook as a result of COVID, despite ABA citing current arrears (excluding deferrals) at historical lows; 3) excluding provisioning relating to COVID-19, ABA estimate it would have delivered an FY20 NPAT of A\$20.1m (+17% pcp); 4) loan book growth of 4.3% pcp equates to 1.5 times system, but it was more subdued in 2H20 after the 6% annualised growth delivered in 1H20 – ABA cited that it regained momentum in 4Q20, which has continued into FY21; 5) loan book growth, improved NIM and good cost control has seen ABA's cost-to-income ratio improve to 60.3% in 2H20 – a ratio of 60% has been an aspirational target for some time; 6) at FY20, ABA had provided COVID-19-related loan assistance (repayment deferrals) for up to six months from March 2020, equating to 9% of its loan book – only 8% of loan assistance at FY20 was domiciled in Victoria; 7) ABA cited that over 85% of loan assistance customers contacted in August had indicated that repayments had already or would recommence after the assistance period ended; and 8) ABA took a different interpretation to MyState (ASX:MYS) as to APRA's guidance and declared a 2H20 dividend in line with our forecast, equating to 49% of statutory 2H20 earnings.

Changes to forecasts: We have upgraded FY21/22 EPS forecasts by 20% and 12% respectively due to a combination of stronger exit NIM and higher loan loss provisioning than we expected in FY20, which now eases future provisioning pain in our forward forecasts.

Investment view: BUY maintained with revised DDM valuation of A\$5.80 (prev. A\$5.72) and price target of A\$5.80 (prev. A\$5.70). The strength of ABA's 2H20 result makes for a sharp contrast to the lacklustre results recently delivered by the major and second-tier banks. We continue to like ABA in the current environment due to: 1) loan books are heavily biased to secured residential housing with generally conservative LVRs; 2) growth has been augmented by participation in the Federal Government's First Home Loan panel; 3) we expect NIMs to hold; 4) expenses continue to decline relative to revenue, amid an absence of royal commission remediation costs; and 5) capital ratio remains strongly positioned for growth.

Investment Summary

Year End: 30 June		2019 (A)	2020 (A)	2021 (E)	2022 (E)	2023 (E)
Revenue	\$mn	73	80	86	91	96
Reported Profit	\$mn	17.2	18.5	22.0	24.2	26.7
Adjusted Profit	\$mn	17.2	20.1	22.0	24.2	26.7
EPS (Reported)	¢	40.8	43.8	51.8	57.2	62.9
EPS (Adjusted)	¢	40.8	47.6	51.8	57.2	62.9
EPS Growth	%	-0.4	16.7	8.8	10.4	10.0
PER (Adjusted)	x	11.8	10.1	9.3	8.4	7.7
Dividend	¢	34.5	27.8	36.5	40.0	44.0
Yield	%	7.2	5.8	7.6	8.3	9.1
Franking	%	100	100	100	100	100

Financial Summary

Auswide Bank Ltd

Analyst	Nick Caley
Date	27-August-2020
Market Capitalisation (A\$m)	\$199
Share Price (\$A)	\$4.81
Year End	30 June

Rating	BUY
Price Target	\$5.80
Valuation	\$5.80
Upside/(Downside)	21%
Risk	Medium

Profit & Loss (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Interest Income	136.4	126.3	125.5	133.8	143.6
Interest Expense	73.2	55.7	49.8	53.9	58.8
Net Interest Margin	63.2	70.5	75.7	79.9	84.8
Other Revenue	9.5	10.0	10.5	10.9	11.3
Bad & Doubtful Debts Expense	1.1	3.8	2.9	2.2	2.0
Other Expenses	46.9	50.1	51.9	54.0	56.1
Net Profit Before Tax	24.6	26.5	31.4	34.6	38.1
Income Tax Expense/(Benefit)	7.4	8.0	9.4	10.4	11.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
NPAT - Reported	17.2	18.5	22.0	24.2	26.7
Normalisation Adjustments	0.0	1.6	0.0	0.0	0.0
NPAT - Normalised	17.2	20.1	22.0	24.2	26.7
Balance Sheet (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Assets					
Cash	104.4	106.5	115.1	121.8	129.2
Due From Other Fin.Institutions	21.0	16.3	16.3	16.3	16.3
Accrued Receivables	0.0	0.0	0.0	0.0	0.0
Financial Assets	317.1	378.3	378.3	378.3	378.3
Loans & Advances	3,086.2	3,205.8	3,401.3	3,679.4	3,980.2
Other Investments	1.3	1.4	1.4	1.4	1.4
Property, Plant & Equipment	14.4	21.4	22.8	24.2	25.6
Deferred Tax Assets	6.5	9.1	9.1	9.1	9.1
Other Assets	4.5	3.3	3.3	3.3	3.3
Goodwill	48.1	47.6	47.6	47.6	47.6
Total Assets	3,603.4	3,789.5	3,995.0	4,281.2	4,590.9
Liabilities					
Dep.& Short Term Borrowings	2,802.6	3,018.5	3,214.1	3,492.2	3,793.0
Due To Other Fin.Institutions	0.0	49.8	49.8	49.8	49.8
Payables & Other Liabilities	39.1	25.6	25.6	25.6	25.6
Securitised Loans	490.4	420.7	420.7	420.7	420.7
Income Tax Payable	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	1.8	1.4	1.4	1.4	1.4
Provisions	3.0	3.3	3.3	3.3	3.3
Subordinated Loans	28.0	28.0	28.0	28.0	28.0
Total Liabilities	3,364.9	3,547.4	3,743.0	4,021.1	4,321.9
Contributed Capital	191.9	193.3	193.3	193.3	193.3
Reserves	15.1	14.4	14.4	14.4	14.4
Retained Earnings	31.4	34.3	44.3	52.4	61.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	238.5	242.0	252.0	260.1	269.0
Book Value Per Share (cps)	565.5	570.7	594.2	613.4	634.2
NTA Per Share (cps)	451.4	458.6	482.1	501.2	522.1
Cash Flow (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash at Start	86.4	104.4	106.5	115.1	121.8
Cash Flow from Operations	35.6	7.2	22.0	24.2	26.7
Cash Flow From Investing	-237.4	-184.0	-197.0	-279.5	-302.2
Cash Flow From Financing	219.8	178.9	183.6	262.0	283.0
Net Cash Flow	219.8	178.9	183.6	262.0	283.0
Other Adj	18.0	2.1	8.6	6.7	7.4
Cash At End	104.4	106.5	115.1	121.8	129.2

Earnings	FY19A	FY20A	FY21E	FY22E	FY23E
EPS - Reported	40.8	43.8	51.8	57.2	62.9
EPS - Normalised	40.8	47.6	51.8	57.2	62.9
EPS Growth (%)	0%	17%	9%	10%	10%
DPS	34.5	27.8	36.5	40.0	44.0
Franking (%)	100.0	100.0	100.0	100.0	100.0
Payout Ratio (%)	85%	58%	70%	70%	70%

Valuation	FY19A	FY20A	FY21E	FY22E	FY23E
P/E (x)	11.8	10.1	9.3	8.4	7.7
Dividend Yield (%)	7.2%	5.8%	7.6%	8.3%	9.1%
Price/Book (x)	0.9	0.8	0.8	0.8	0.8
Price/NTA (x)	1.1	1.0	1.0	1.0	0.9
Price/Cash/Flow per Share (x)	5.7	28.4	9.3	8.4	7.7

Growth	FY19A	FY20A	FY21E	FY22E	FY23E
Net Loan Growth (% pcp)	6%	4%	6%	8%	8%
Net Int. Margin Growth (% pcp)	4%	12%	7%	5%	6%
Exp.Growth - ex BDD(% pcp)	5%	7%	3%	4%	4%
NPBT Growth (% pcp)	1%	8%	18%	10%	10%

Margins & Returns	FY19A	FY20A	FY21E	FY22E	FY23E
Net Interest Margin % (ex Int Free)	1.74%	1.88%	2.02%	2.00%	1.98%
Cost To Income %	65%	62%	60%	59%	58%
NPBT Margin %	34%	33%	36%	38%	40%
Effective Tax Rate %	30%	30%	30%	30%	30%
ROIC %	6%	7%	7%	8%	8%
ROE %	7%	8%	9%	9%	10%

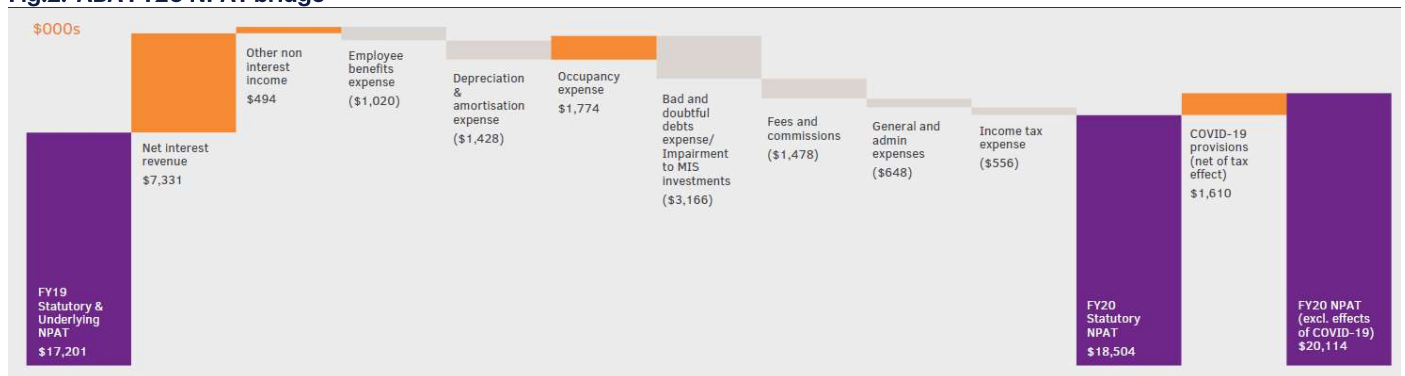
Operational Data	FY19A	FY20A	FY21E	FY22E	FY23E
Risk Weighted Assets A\$m	1,498	1,632	1,738	1,880	2,033
Total Capital Ratio %	13.8%	13.0%	12.9%	12.3%	11.9%
Loan Book A\$m	3,131	3,213	3,408	3,686	3,987
Deposits/Loans %	91%	94%	94%	95%	95%

Fig.1: ABA FY20 result summary

	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%

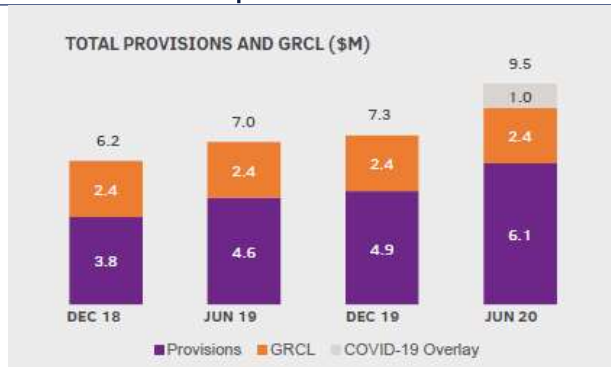
Source: Company reports

Fig.2: ABA FY20 NPAT bridge



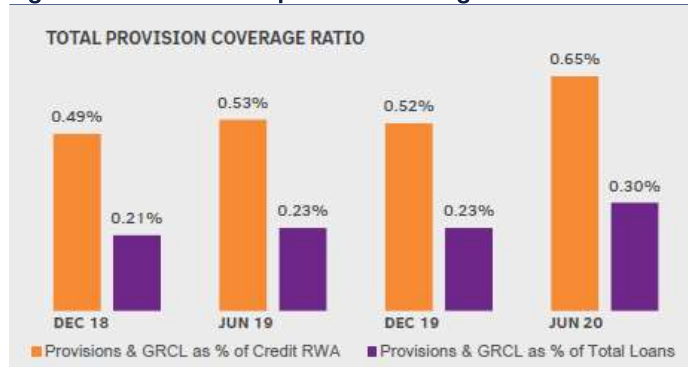
Source: Company reports

Fig.3: ABA total loan loss provisions



Source: Company reports

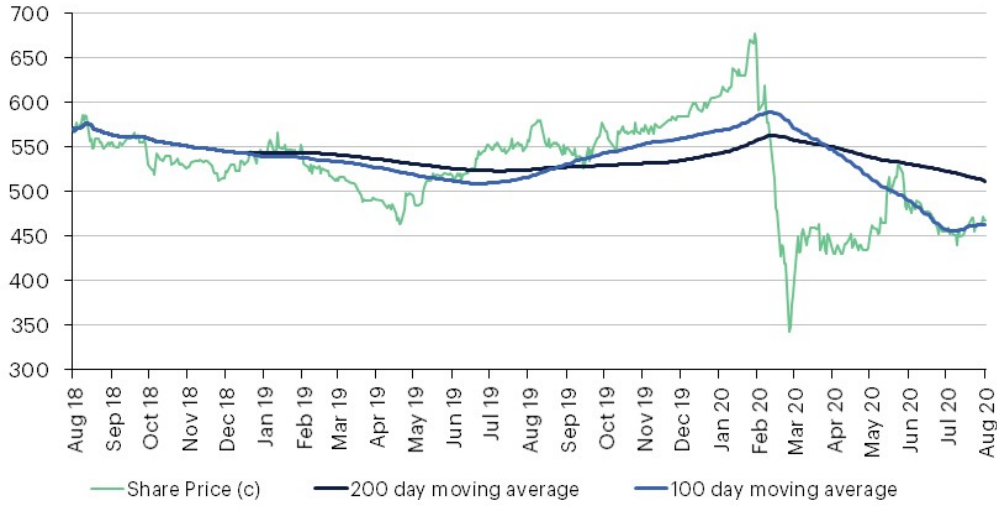
Fig.4: ABA total loan loss provision coverage



Source: Company reports

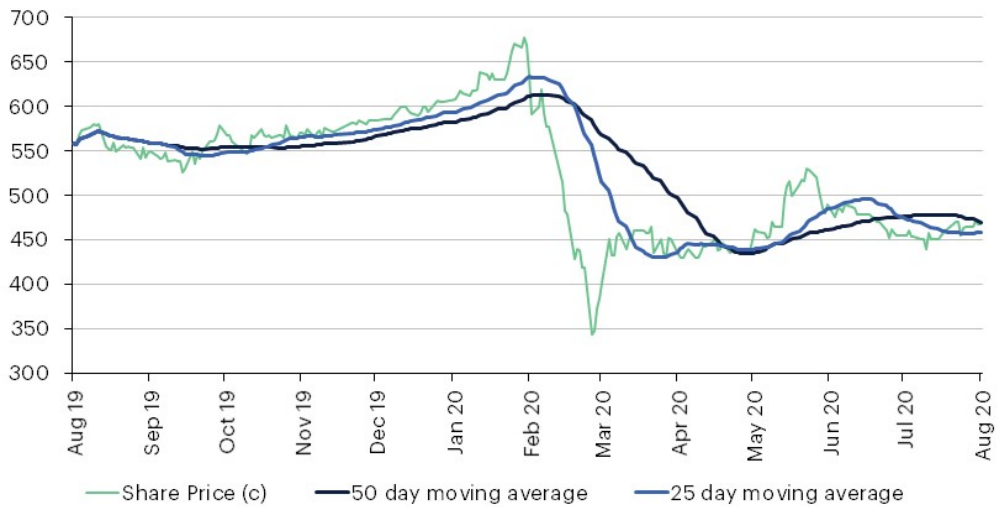
Appendix

Fig.5: Long-term momentum indicators



Source: Iress

Fig.6: Short-term momentum indicators



Source: Iress

This document has been prepared and issued by:

E.L. & C. Baillieu Limited

ABN 74 006 519 393
Australian Financial Service Licence No. 245421

Participant of ASX Group
Participant of NSX Ltd
Participant of Chi-X Australia Pty Ltd

Analysts' stock ratings are defined as follows:

Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

EL&C Baillieu Analysts' stock ratings distribution as of 06 August 2020:

Buy: 66%

Hold: 25%

Sell: 9%

Disclosure of potential interest and disclaimer:

E.L. & C. Baillieu Limited (EL&C Baillieu) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by EL&C Baillieu.

Save for any statutory liability that cannot be excluded, EL&C Baillieu and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

EL&C Baillieu assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

E.L. & C. Baillieu Limited

ABN 74 006 519 393
Australian Financial Service Licence No. 245421

Participant of ASX Group
Participant of NSX Ltd
Participant of Chi-X Australia Pty Ltd

www.baillieu.com.au

Melbourne (Head Office)

Address Level 22, 35 Collins Street
Melbourne, VIC 3000 Australia
Postal PO Box 48, Collins Street West
Melbourne, VIC 8007 Australia
Phone +61 3 9602 9222
Facsimile +61 3 9602 2350
Email melbourne@baillieu.com.au

Adelaide Office

Address Ground Floor, 226 Greenhill Road,
Eastwood SA 5063
Postal PO Box 171
Fullarton SA 5063
Phone +61 8 7074 8400
Facsimile +61 8 8362 3942
Email adelaide@baillieu.com.au

Bendigo Office

Address Level 1, 103 Mitchell Street
Bendigo, VIC 3550
Postal PO Box 84
Bendigo, VIC 3552
Phone +61 3 4433 3400
Facsimile +61 3 4433 3400
Email bendigo@baillieu.com.au

Geelong Office

Address 16 Aberdeen Street
Geelong West Vic 3218
Postal PO Box 364
Geelong Vic 3220 Australia
Phone +61 3 5229 4637
Facsimile +61 3 4229 4142
Email geelong@baillieu.com.au

Gold Coast Office

Address Suite 202 Level 2, Eastside Building
6 Waterfront Place, Robina QLD 4226
Phone +61 7 5628 2670
Facsimile +61 7 5677 0258
Email goldcoast@baillieu.com.au

Newcastle Office

Address Level 1, 120 Darby Street
Cooks Hill, NSW 2300 Australia
Postal PO Box 111
The Junction, NSW 2291 Australia
Phone +61 2 4037 3500
Facsimile +61 2 4037 3511
Email newcastle@baillieu.com.au

Perth Office

Address Level 9, 216 St Georges Terrace
Perth WA 6000 Australia
Postal PO Box 7662, Cloisters Square
Perth, WA 6850 Australia
Phone +61 8 6141 9450
Facsimile +61 8 6141 9499
Email perth@baillieu.com.au

Sydney Office

Address Level 40, 259 George Street
Sydney, NSW 2000 Australia
Postal PO Box R1797
Royal Exchange, NSW 1225 Australia
Phone +61 2 9250 8900
Facsimile +61 2 9247 4092
Email sydney@baillieu.com.au