AUSWIDE BANK (ASX:ABA)

1H24 Interim Results

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Executive Summary

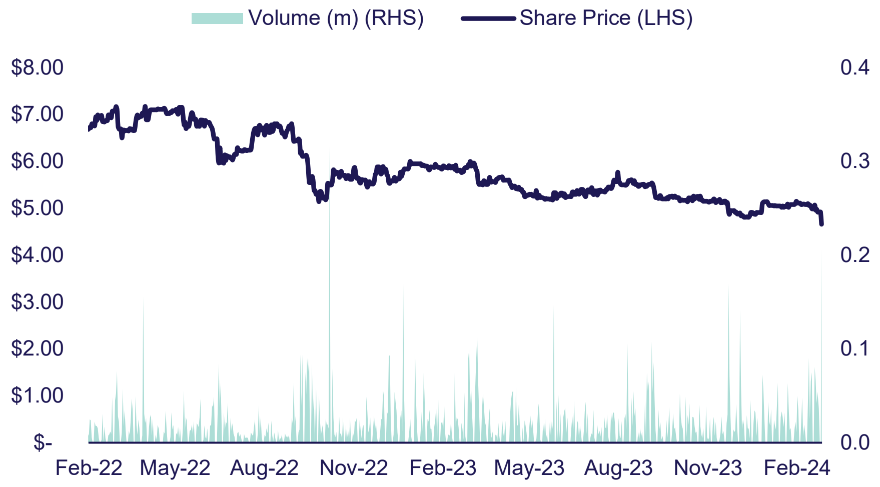
ASX Code	ABA
Share Price	$4.65
Market Cap	$215.8m
Price to Book	0.74x

Issued Capital	46.4m
Free Float	85.5%
Avg Daily Volume (Yr Rolling)	0.03m
52 Week High/Low	$6.00 - $4.63

(A$m)	**FY23A**	**FY24F**	**FY25F**
Net Revenue	100.5	87.4	96.5
NPAT	25.1	15.8	20.1
Net Loan Growth	*14.4%*	*3.8%*	*10.3%*
Net Interest Margin	*1.88%*	*1.60%*	*1.76%*
Diluted EPS (cps)	*55.6*	*32.0*	*43.3*
DPS (cps)	*43.0*	*23.0*	*31.0*
Dividend Yield	*9.2%*	*4.9%*	*6.7%*
PE	*8.4x*	*14.5x*	*10.7x*

Our View

- **Overall:** The weakness of the 1H24 result has been well-known since ABA's trading update in November 2023. The quantum of the deterioration in ABA's NIM since 2H23 has happened rapidly and, in some respects, highlights the vulnerability of 3rd tier banks when market competition intensifies. Clearly, there have been a number of unique sets of factors that have simultaneously combined to re-base ABA's earnings. Overall, ABA would not be alone in feeling the impacts of intense competition and subsequent NIM compression, which may result in M&A opportunities amongst smaller banks. Nonetheless, the material reduction in NIM in 1H24 is a clear re-basing of earnings and hence, dividends – triggers to improve NIM are likely to be more gradual than in the near term.



1H24 Result Highlights

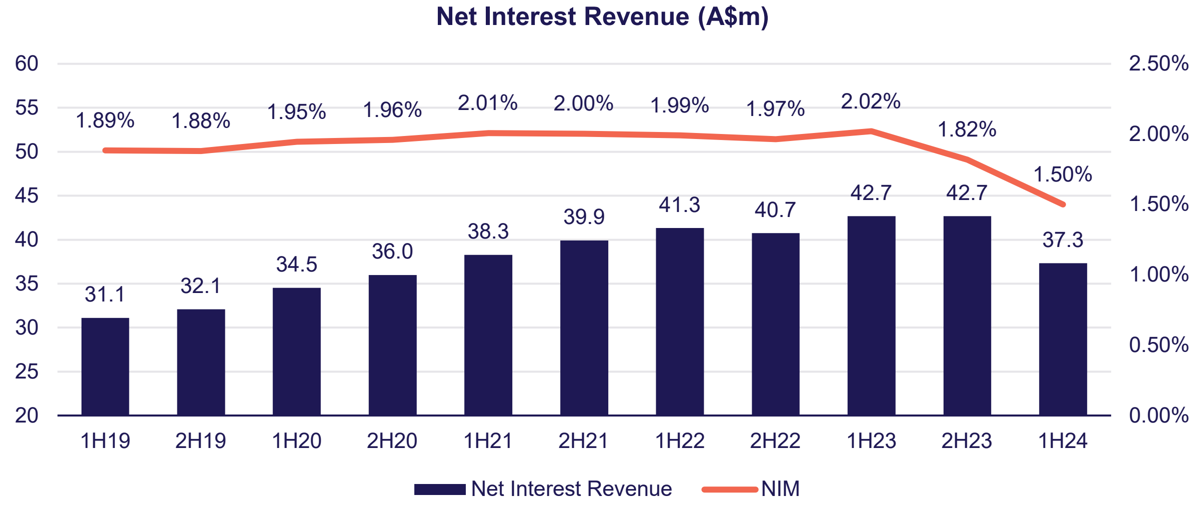
- **Interest Income & Expense:** Interest income of $121.5m (+48% pcp), expense of $84.2m (+136% pcp) – hence compression in NIM.
- **Net Revenue:** $43.8m (-20% pcp).
- **U.NPAT:** $6.6m (-53.1% pcp) versus our forecast of $7.8m. Interim dividend of 11cps (1H23:22cps) with a payout ratio of 79% (1H23: 69%).
- **Net Interest margin (NIM):** 1.50% (v 1.77% in 2H23).ABA previously advised FYTD NIM of 1.52% in the 4 months to end October 2023.
- **Credit Quality:** Loan loss provision of $0.027m, versus a loan loss reversal of $822k in 1H23 and charge of $1.55m in 2H23. Loan book arrears (90 days +) equated to 14bp at 1H24 (v 10bp at FY23 and 11bp at the end of October 2023).
- **Loan book:** Loan book of $4.3bn (-4.2% annualised v FY23).
- **Deposits:** Deposits of $3.4bn (0.8% annualised v FY23) with a ratio of deposits/loans of 80% (1H23: 78%).
- **Capital Adequacy:** Capital ratio of 15.34% (v 13.70% at the end of FY23).
- **Changes to forecasts:** FY24/25 Underlying NPAT forecasts by 18%/23% respectively. We have taken an even more conservative approach to forecasting near-term interest margins, with any rebound expected to be gradual.

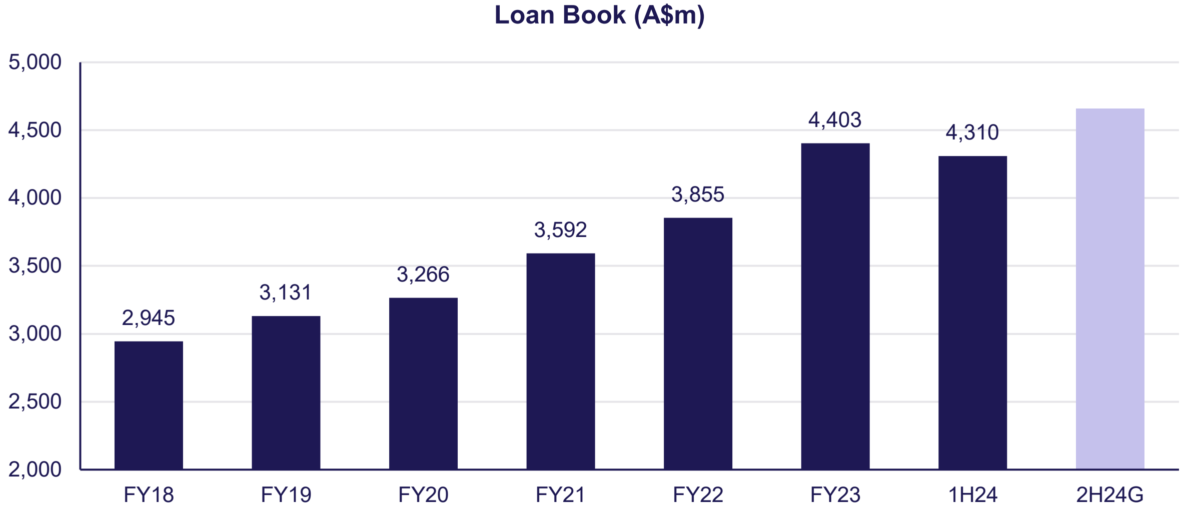
Key Takeaways

Fixed to floating loan transition provides scope for a gradual rebound in NIM.

Key takeaways:

- **1H24 result well flagged:** The likely weakness of the 1H24 result has been well-known since ABA's trading update in November 2023. Clearly, there have been a number of unique sets of factors that have simultaneously combined to effectively re-base ABA's earnings:
  1) Intense competition in both the mortgage loan market largely driven by the unprecedented level of fixed loan maturations in the market – many banks (not ABA) provided cashbacks to lure new business;
  2) Intense competition for deposits as customers sought to offset the cost-of-living pressures; and
  3) The replacement of low-cost RBA funding undertaken during COVID-19.
- **The good news:** ABA's NIM contraction after the YTD October 2023 update has been muted at 2 bp. ABA cites an easing of competition in 2Q24, which has seen it re-enter the mortgage market after an intentional pause. The other positive features are that expenses have been well controlled, credit quality remains strong despite cost-of-living pressures, and capital ratios leave material scope for a return to lending growth.
- **Earnings rebased:** Despite some good news in the 1H24 result, the NIM contraction clearly results in a rebasing of earnings and, hence, dividends in the short to medium term. ABA expects NIM improvement from here but recognises it will be gradual rather than immediate. ABA cited c$1bn in fixed to floating loans (at 300bp benefit) retained in c.2023 and a further $1bn of like refinancings to be sought in c2024.
- **ABA is not alone:** ABA would not be alone in feeling the impacts of intense competition and subsequent NIM compression, which may result in long-awaited M&A opportunities amongst smaller banks.
- **Outlook:** No numerical earnings guidance for FY24. The loan growth target is 5.8% in 2H24 versus FY23 as ABA re-enters the market. Costs and credit quality will remain a focus. M&A remains on the agenda, noting that the newly appointed CEO doesn't commence duties until late April.


Net Interest Revenue (A$m)


Loan Book (A$m)

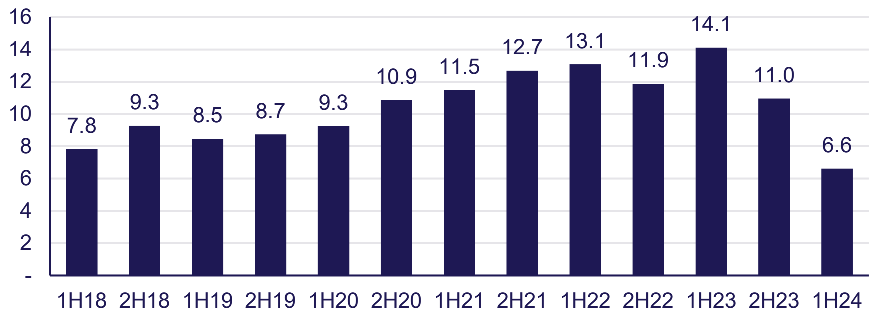
Profit & Loss

Material decrease in NIM driven by intense competition for mortgage loans and deposits.

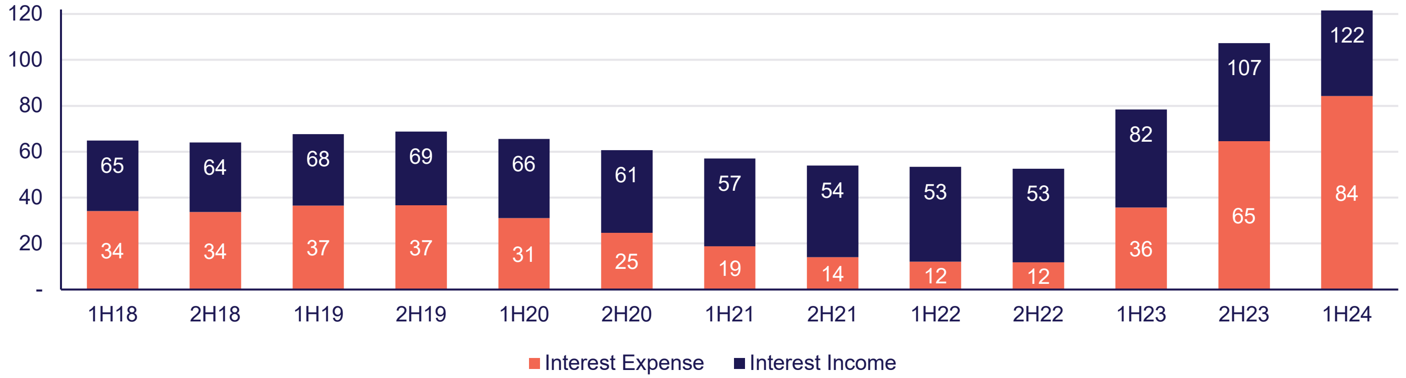
(A$m)	1H23	2H23	1H24	pcp	Note
Interest Income	82.3	107.3	121.5	*48%*	
Interest Expense	(35.7)	(64.6)	(84.2)	*136%*	
Net Interest Revenue	**46.5**	**42.7**	**37.3**	***(20%)***	*3*
Non Interest Income	5.6	5.8	6.5	*17%*	
Total Net Revenue	**52.1**	**48.4**	**43.8**	***(16%)***	
Loan Impairment	0.8	(1.6)	(0.0)		*5*
OPEX	(32.7)	(31.2)	(32.8)	*0.2%*	*4*
NPBT	**20.2**	**15.7**	**11.0**	***(45%)***	
Income Tax	(6.1)	(4.8)	(3.4)	(0.4)	
Reported NPAT	**14.1**	**11.0**	**7.7**	***(46%)***	
Adjustments (Post Tax)	-	-	(1.0)		
Normalised NPAT	**14.1**	**11.0**	**6.6**	***(53%)***	*1*
Net Loan Growth	*10%*	*7%*	*5%*		
NIM	*2.02%*	*1.82%*	*1.50%*		*3*
Cost To Income Ratio	*62%*	*64%*	*75%*		*4*
Diluted EPS (cps)	*31.7*	*23.9*	*14.3*	*(55%)*	
DPS (cps)	*22.0*	*21.0*	*11.0*	*(50%)*	*2*

1. **Underlying NPAT:** $6.6m (-53.1% pcp and -30% v 2H23) versus our forecast of $7.8m. A material decline in 1H24 earnings was expected after ABA's trading update in late November, featuring a quantum reduction in NIM. The pcp also included a loan loss provision reversal of $822k.
2. **Interim dividend** of 11cps (1H23: 22cps) with a payout ratio of 79% (1H23: 69%) versus the board's traditional target range of 70-80%.
3. **Net Interest margin (NIM):** Reduced to 1.50% (v 1.77% in 2H23). In its trading update in November 2022, ABA cited a reduction in NIM to 1.52% at the end of October 2023 due to intense competition for home lending and deposits, a high level of mortgage refinancing across the industry and the replacement of the subsidised RBA Term Funding Facility.
4. **Cost ratio:** Cost to income ratio of 74.5% (1H23: 62.3%) with net operating revenue decreasing by 16% pcp versus an increase in operating expenses by 0.2%. A material increase in ABA's CTI was expected due to the NIM-related fall in revenue. ABA had previously flagged that operating expenses were held to a 3% pcp increase in the four months to the end of October 2023.
5. **Credit quality:** 1H24 loan loss provision of $0.027m, versus a loan loss reversal of $822k in 1H23 and charge of $1.55m in 2H23. Loan book arrears (90 days +) equated to 14bp at 1H24 (v 10bp at FY23 and 11bp at the end of October 2023). Actual bad debts written off in 1H24 were nominal.

Underlying NPAT (A$m)



Interest Revenue vs Expense (A$m)

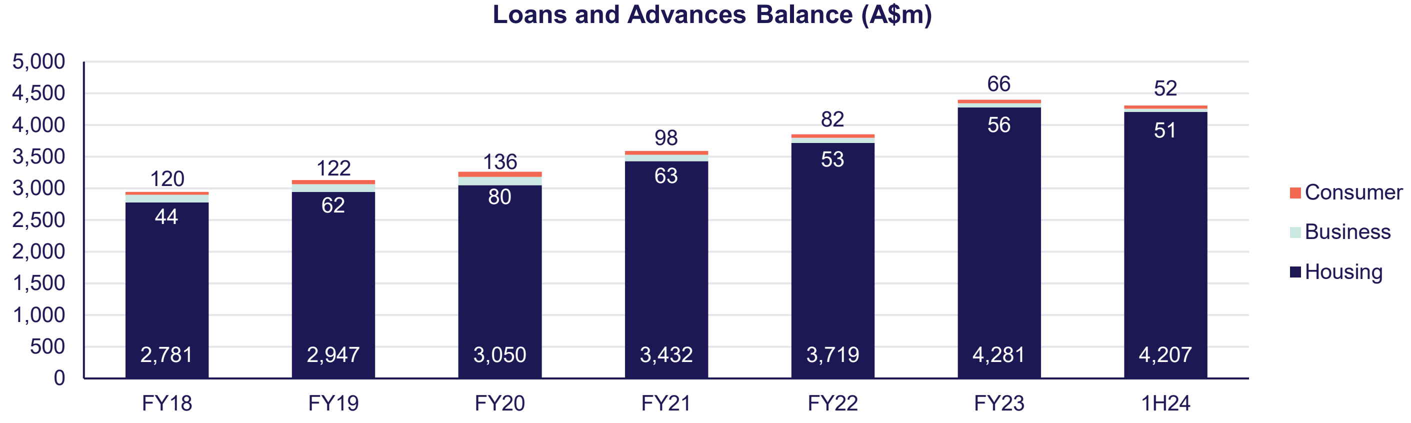


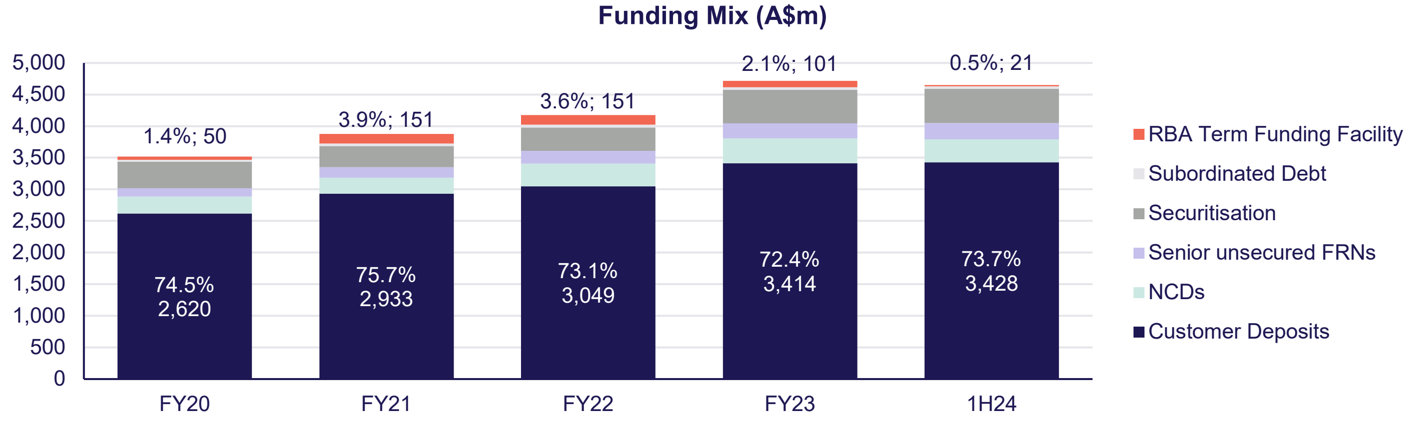
Balance Sheet

Negative loan growth in 1H24 after robust growth in FY23.

(A$m)	1H23	FY23	1H24	Note
Cash	265	203	212	
Due From Other Financial Institutions	5	3	16	
Financial Assets	430	402	402	
Loans & Advances	4,080	4,378	4,287	2
Other Investments	1	1	1	
Property, Plant & Equipment	19	19	20	
Other Assets	4	3	7	
Goodwill	50	49	49	
Total Assets	**4,854**	**5,060**	**4,993**	
Deposits & Short Term Borrowings	3,843	4,043	4,048	*1*
Due To Other Financial Institutions	151	101	21	
Payables & Other Liabilities	21	43	47	
Securitised Loans	496	531	541	
Income Tax Payable	0	0	-	
Deferred Tax Liability	4	2	0	
Provisions	4	4	4	
Subordinated Loans	42	42	42	
Total Liabilities	**4,560**	**4,766**	**4,703**	
Net Assets	**294**	**294**	**290**	
Contributed equity	209	212	215	
Reserves	26	22	18	
Accumulated losses	59	60	58	
Equity	**294**	**294**	**290**	
Deposits/Net Loans	*94%*	*92%*	*94%*	
Capital Adequacy Ratio	*12.9%*	*13.7%*	*15.3%*	*3*

1. **Loan book:** Gross loan book of $4.3bn (-4.2% annualised v FY23). ABA grew its loan book at 3X+ system in FY23.
2. **Deposits:** $3.4bn (0.8% annualised v FY23) with a customer deposit-to-loan ratio of 80% (1H23: 78%).
3. **Capital:** The total capital ratio of 15.34% (v 13.70% at the end of FY23 and 14.18% at the end of October 2023) remains unquestionably strong.





Forecasts & Sensitivity

1H24 represents a clear re-basing of earnings.

			Previous	Revised	Previous	Revised
(A$m)	**FY23A**	**1H24A**	**FY24F**	**FY24F**	**FY25F**	**FY25F**
Interest Income	189.6	121.5	217.0	243.8	240.5	266.2
Interest Expense	(100.4)	(84.2)	(137.1)	(169.5)	(147.2)	(183.5)
Net Interest Revenue	**89.2**	**37.3**	**79.9**	**74.3**	**93.3**	**82.7**
Non Interest Income	11.3	6.5	11.9	13.1	12.5	13.8
Total Net Revenue	**100.5**	**43.8**	**91.8**	**87.4**	**105.8**	**96.5**
Loan Impairment	(0.7)	(0.0)	(0.9)	(0.5)	(1.0)	(1.0)
Opex	(63.9)	(32.8)	(65.2)	(64.2)	(67.8)	(66.8)
NPBT	**35.9**	**11.0**	**25.8**	**22.7**	**37.1**	**28.7**
Income Tax	(10.9)	(3.4)	(7.7)	(6.9)	(11.1)	(8.6)
Reported NPAT	**25.1**	**7.7**	**18.0**	**15.8**	**25.9**	**20.1**
Adjustments (Post Tax)	-	(1.0)	-	(1.0)	-	-
Normalised NPAT	**25.1**	**6.6**	**18.0**	**14.8**	**25.9**	**20.1**
Net Loan Growth	*14%*	*5%*	*3%*	*4%*	*10%*	*10%*
NIM	*1.88%*	*1.50%*	*1.68%*	*1.60%*	*1.83%*	*1.76%*
Cost To Income Ratio	*63.5%*	*74.8%*	*71.0%*	*73.5%*	*64.1%*	*69.3%*
Diluted EPS (cps)	*55.6*	*14.3*	*39.3*	*32.0*	*56.6*	*43.3*
DPS (cps)	*43.0*	*11.0*	*30.0*	*23.0*	*43.0*	*31.0*

- **Forecast changes:** FY24/25 Underlying NPAT forecasts by 18%/23% respectively. We have taken an even more conservative approach to forecasting near-term interest margins, with any rebound expected to be gradual.

Average Interest Earning Assets

NPAT (A$m)

Cost To Income Ratio	4,697	4,795	**4,892**	4,990	5,088
75%	12.7	13.6	14.6	15.6	16.5
74%	13.2	14.2	15.2	16.2	17.2
73%	13.7	14.8	**15.8**	16.9	17.9
72%	14.2	15.3	16.4	17.5	18.6
71%	14.8	15.9	17.0	18.2	19.3

- 2% ↑↓ Avg Int Assets = ~7% ↑↓ NPAT
- 1% ↑↓ CTI Ratio = ~4 % ↑↓ NPAT

Average Interest Earning Assets

Dividend Yeild

Cost To Income Ratio	4,697	4,795	**4,892**	4,990	5,088
75%	4.2%	4.6%	4.9%	5.2%	5.5%
74%	4.4%	4.8%	5.1%	5.4%	5.8%
73%	4.6%	4.9%	**5.3%**	5.6%	6.0%
72%	4.8%	5.1%	5.5%	5.9%	6.2%
71%	4.9%	5.3%	5.7%	6.1%	6.5%

- 2% ↑↓ Avg Int Assets = ~7% ↑↓ Div Yield
- 1% ↑↓ CTI Ratio = ~4 % ↑↓ Div Yield

Comparable Analysis

ABA BV and NTA of $6.25ps and $5.19ps at 1H24.

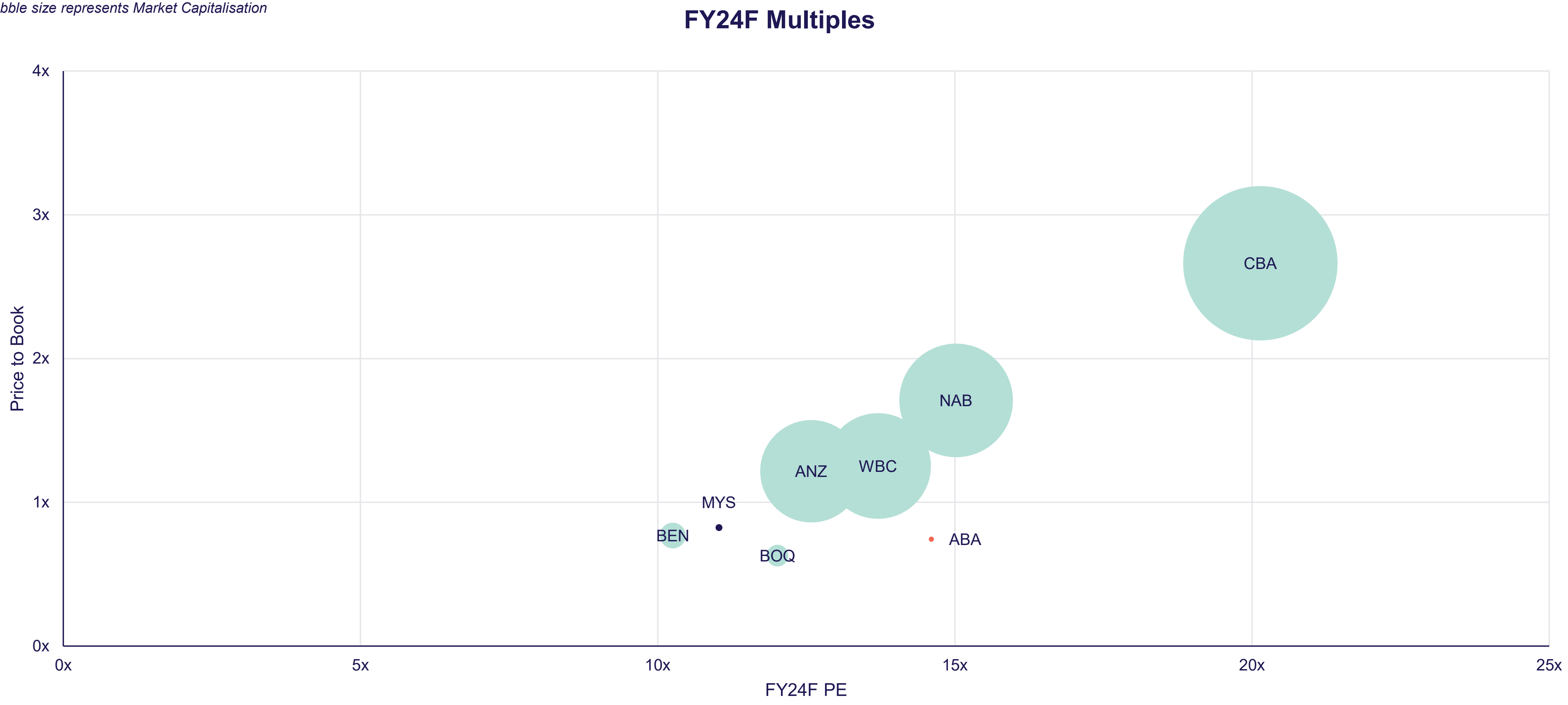
				NPAT			PE			Price/Book		Div Yield
	Company name	**SP**	**Mkt Cap**	**FY23A**	**FY24F**	**FY25F**	**FY23A**	**FY24F**	**FY25F**	**BV**	**TBV**	
	ASX Banking Peers											
ANZ	ANZ Group Holdings Limited	$28.4	85,208	7,098	6,771	6,673	12.0x	12.6x	12.8x	1.2x	1.3x	5.7%
BEN	Bendigo and Adelaide Bank Limited	$9.5	5,390	497	526	488	10.8x	10.3x	11.1x	0.8x	1.1x	6.7%
BOQ	Bank of Queensland Limited	$5.9	3,860	124	321	328	31.1x	12.0x	11.8x	0.6x	0.8x	7.0%
CBA	Commonwealth Bank of Australia	$115.9	193,960	10,090	9,631	9,333	19.2x	20.1x	20.8x	2.7x	3.0x	4.0%
NAB	National Australia Bank Limited	$33.9	105,117	7,414	6,999	6,999	14.2x	15.0x	15.0x	1.7x	1.9x	5.0%
WBC	Westpac Banking Corporation	$26.0	90,857	7,195	6,628	6,478	12.6x	13.7x	14.0x	1.3x	1.5x	5.6%
MYS	MyState Limited	$3.5	380	39	34	38	9.9x	11.0x	10.0x	0.8x	1.0x	6.7%
						Mean	**15.7x**	**13.5x**	**13.6x**	**1.3x**	**1.5x**	**5.8%**
ABA	Auswide Bank Ltd	$4.7	216	25	15	20	8.6x	14.6x	10.7x	0.7x	0.9x	8.7%
				Premium/(Discount) to Mean			*(45%)*	*8%*	*(21%)*	*(43%)*	*(40%)*	*51%*

1. *Source: CapitalIQ & Henslow Analysis*

Comparable Analysis

ABA trades at a 0.74x Price to Book Value.

Bubble size represents Market Capitalisation



1. Source: CapitalIQ & Henslow Analysis

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