

Auswide Bank ^{ABA} MyState ^{MYS}

Recommendations Auswide Bank (ABA)

Rating	HOLD
Risk	Medium
Price Target	\$6.25
Share Price	\$5.96

MyState (MYS)

Rating	HOLD
Risk	Medium
Price Target	\$5.15
Share Price	\$5.17

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.

MyState Limited (MYS) is a non-operating holding company and listed diversified financial products and services group. MYS provides a range of financial products and services through two wholly owned subsidiaries MyState Financial and Tasmanian Perpetual Trustees in Australia.

Research Analyst

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Disclosure

The author owns no shares in ABA or MYS.

Company Report

ABA and MYS break ranks

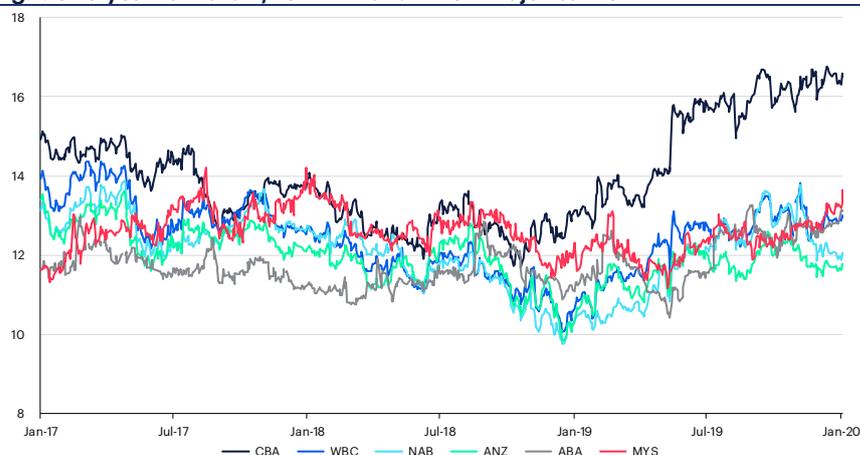
Synopsis: The ABA and MYS share prices have appreciated 9% and 13% respectively since the release of FY19 results, at which point we upgraded our call for MYS to Buy and maintained our Buy call on ABA. Both stocks have now moved within proximity of our price targets. In the absence of new information, we now downgrade our ratings for both ABA and MYS to HOLD. Our price targets remain unchanged at A\$6.25 and A\$5.15 respectively.

NHFIC to augment growth?: ABA and MYS recently announced they are now an approved panel lender for the Federal Government's First Home Loan Deposit Scheme, administered by the National Housing Finance Investment Corporation (NHFIC). Under the scheme, panel lenders provide mortgage funding to first home buyers (subject to state-based property price caps) with the borrower providing minimum equity of 5% of the purchase price, with no mortgage insurance and the NHFIC providing a guarantee of up to 15% of the purchase price. The scheme is designed to provide up to 10k loans per annum from January 2020. The lending panel consists of 25 lenders, of which CBA and NAB are the only major banks. The borrower selects the lender under the scheme.

MYS CEO steps down: In what we view as an unexpected development, the CEO of MYS has resigned after a tenure of six years. A search for a new CEO will commence immediately. We do not believe there is a connection between the resignation and the quality of the upcoming 1H20 result which should show strong growth.

Overall: The investment view for ABA and MYS remains a balancing act at present. The clear positives are: 1) superior loan growth relative to the major banks – we expect this to be evident at their respective 1H20 results; 2) a level of NIM insulation from strong retail deposit bases – both ABA (National Seniors Australia) and MYS (CRC Association) have recently announced deposit product alliances; 3) reducing cost bases relative to revenue; 4) absence of exposure to product remediation costs; 5) yield attraction; and 6) M&A leverage, which could ultimately be between ABA and MYS. The negatives are the continuance of unequal regulatory conditions in terms of uneven mortgage capital risk weighting versus the majors, exposure to further rate cuts (although this applies to all banks) and a current inability to participate in industry consolidation.

Fig.1: One-year forward P/Es – ABA and MYS v major banks



Source: Bloomberg

Financial Summary

Auswide Bank Ltd

Analyst	Nick Caley
Date	10-January-2020
Market Capitalisation (A\$m)	\$251
Share Price (\$A)	\$5.96
Year End	30 June

Rating	HOLD
Price Target	\$6.25
Valuation	\$6.27
Upside/(Downside)	5%
Risk	Medium

Profit & Loss (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	128.9	136.4	141.4	150.5	159.5
Interest Expense	67.9	73.2	76.5	81.6	86.6
Net Interest Margin	61.0	63.2	64.9	68.9	72.9
Other Revenue	9.3	9.5	9.6	10.0	10.4
Bad & Doubtful Debts Expense	1.3	1.1	0.8	1.0	1.0
Other Expenses	44.6	46.9	48.3	50.0	51.7
Net Profit Before Tax	24.4	24.6	25.4	28.0	30.6
Income Tax Expense/(Benefit)	7.4	7.4	7.6	8.4	9.2
Minority Interests	0.6	0.0	0.0	0.0	0.0
NPAT - Reported	17.7	17.2	17.8	19.6	21.4
Normalisation Adjustments	-0.5	0.0	0.0	0.0	0.0
NPAT - Normalised	17.1	17.2	17.8	19.6	21.4
Balance Sheet (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Assets					
Cash	86.4	104.4	106.0	108.8	112.1
Due From Other Fin.Institutions	15.4	21.0	21.0	21.0	21.0
Accrued Receivables	5.3	0.0	0.0	0.0	0.0
Financial Assets	254.3	317.1	317.1	317.1	317.1
Loans & Advances	2,910.8	3,086.2	3,306.3	3,542.1	3,758.1
Other Investments	1.1	1.3	1.3	1.3	1.3
Property, Plant & Equipment	15.6	14.4	15.8	17.2	18.6
Deferred Tax Assets	4.6	6.5	6.5	6.5	6.5
Other Assets	8.5	4.5	4.5	4.5	4.5
Goodwill	48.3	48.1	48.1	48.1	48.1
Total Assets	3,350.3	3,603.4	3,826.5	4,066.5	4,287.2
Liabilities					
Dep.& Short Term Borrowings	2,446.8	2,802.6	3,022.7	3,258.5	3,474.5
Due To Other Fin.Institutions	0.0	0.0	0.0	0.0	0.0
Payables & Other Liabilities	26.0	39.1	39.1	39.1	39.1
Securitised Loans	607.2	490.4	490.4	490.4	490.4
Income Tax Payable	0.7	0.0	0.0	0.0	0.0
Deferred Tax Liability	1.9	1.8	1.8	1.8	1.8
Provisions	2.9	3.0	3.0	3.0	3.0
Subordinated Loans	28.0	28.0	28.0	28.0	28.0
Total Liabilities	3,113.5	3,364.9	3,585.0	3,820.8	4,036.8
Contributed Capital	191.6	191.9	191.9	191.9	191.9
Reserves	15.2	15.1	15.1	15.1	15.1
Retained Earnings	29.9	31.4	34.4	38.6	43.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	236.7	238.5	241.5	245.7	250.4
Book Value Per Share (cps)	562.2	565.5	572.6	582.6	593.8
NTA Per Share (cps)	447.5	451.4	458.5	468.4	479.7
Cash Flow (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash at Start	120.1	86.4	104.4	106.0	108.8
Cash Flow from Operations	38.3	35.6	17.8	19.6	21.4
Cash Flow From Investing	-102.9	-237.4	-221.5	-237.2	-217.4
Cash Flow From Financing	30.8	219.8	205.4	220.4	199.3
Net Cash Flow	30.8	219.8	205.4	220.4	199.3
Other Adj	-33.7	18.0	1.6	2.8	3.3
Cash At End	86.4	104.4	106.0	108.8	112.1

Earnings	FY18A	FY19A	FY20E	FY21E	FY22E
EPS - Reported	42.3	40.8	42.1	46.4	50.7
EPS - Normalised	41.0	40.8	42.1	46.4	50.7
EPS Growth (%)	6%	0%	3%	10%	9%
DPS	34.0	34.5	35.0	38.0	42.0
Franking (%)	100.0	100.0	100.0	100.0	100.0
Payout Ratio (%)	83%	85%	83%	82%	83%

Valuation	FY18A	FY19A	FY20E	FY21E	FY22E
P/E (x)	14.6	14.6	14.1	12.8	11.8
Dividend Yield (%)	5.7%	5.8%	5.9%	6.4%	7.0%
Price/Book (x)	1.1	1.1	1.0	1.0	1.0
Price/NTA (x)	1.3	1.3	1.3	1.3	1.2
Price/Cash/Flow per Share (x)	6.5	7.0	14.1	12.8	11.8

Growth	FY18A	FY19A	FY20E	FY21E	FY22E
Net Loan Growth (% pcp)	5%	6%	7%	7%	6%
Net Int. Margin Growth (% pcp)	6%	4%	3%	6%	6%
Exp.Growth - ex BDD(% pcp)	-1%	5%	3%	4%	4%
NPBT Growth (% pcp)	12%	1%	3%	10%	9%

Margins & Returns	FY18A	FY19A	FY20E	FY21E	FY22E
Net Interest Margin % (ex Int Free)	1.79%	1.74%	1.77%	1.77%	1.77%
Cost To Income %	63%	65%	65%	63%	62%
NPBT Margin %	35%	34%	34%	35%	37%
Effective Tax Rate %	30%	30%	30%	30%	30%
ROIC %	6%	6%	6%	7%	7%
ROE %	7%	7%	7%	8%	9%

Operational Data	FY18A	FY19A	FY20E	FY21E	FY22E
Risk Weighted Assets A\$m	1,375	1,498	1,556	1,667	1,768
Total Capital Ratio %	14.9%	13.8%	13.7%	13.1%	12.6%
Loan Book A\$m	2,919	3,091	3,311	3,547	3,763
Deposits/Loans %	84%	91%	91%	92%	92%

MyState (MYS)

Analyst Nick Caley
Date 10-January-2020
Share Price (\$) \$5.17
Year End 30 June

Rating **HOLD**
Price Target \$5.15
Valuation \$5.14
Risk Medium
Market Capitalisation (A\$m) \$473

Profit & Loss (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	188.3	202.1	222.8	235.3	248.0
Interest Expense	97.4	112.7	126.2	133.5	140.9
Net Interest Margin	90.8	89.4	96.6	101.8	107.2
Other Revenue	35.5	31.0	31.1	32.6	34.1
Total Net Revenue	126.3	120.4	127.7	134.4	141.2
Expenses	80.9	78.0	80.3	83.9	87.6
Net Prof. B. Tax/Doubt. Debts	45.4	42.4	47.4	50.5	53.7
Bad & Doubtful Debts Expense	0.5	-0.2	1.0	1.1	1.2
Net Profit Before Tax	45.0	42.6	46.3	49.4	52.5
Income Tax Expense/(Benefit)	13.5	12.8	13.9	14.8	15.7
NPAT - Reported	31.5	29.8	32.4	34.5	36.7
Normalisation Adjustments	0.0	0.0	0.0	0.0	0.0
Normalised Net Profit After Tax	31.5	31.0	32.4	34.5	36.7

Earnings	FY18A	FY19A	FY20E	FY21E	FY22E
EPS - Diluted	35.0	32.8	35.6	37.9	40.4
EPS - Normalised	35.0	34.2	35.6	37.9	40.4
EPS Growth (%)	3%	-2%	4%	7%	6%
DPS	28.8	28.8	29.3	31.0	33.0
Franking (%)	100	100	100	100	100
Payout Ratio (%) - Normalised	82%	84%	82%	82%	82%

Valuation	FY18A	FY19A	FY20E	FY21E	FY22E
P/E (x)	14.8	15.1	14.5	13.6	12.8
Dividend Yield (%)	5.6%	5.6%	5.7%	6.0%	6.4%
Price/Book (x)	1.5	1.4	1.4	1.4	1.4
Price/NTA (x)	2.0	1.9	1.9	1.8	1.8

Balance Sheet (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Assets					
Cash	67.9	80.0	85.2	91.4	98.7
Financial Assets	406.9	450.3	450.3	450.3	450.3
Receivables	25.8	27.2	27.2	27.2	27.2
Loans at Amortised Cost	4,565.3	5,053.1	5,394.2	5,710.2	6,045.2
Other Investments	0.0	0.0	0.0	0.0	0.0
Assets Held for Sale	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equipment	7.0	5.8	6.6	7.4	8.2
Tax Assets	3.9	4.1	4.1	4.1	4.1
Other Assets	7.0	7.4	7.4	7.4	7.4
Intangible Assets	89.6	85.0	85.0	85.0	85.0
Total Assets	5,173.3	5,712.9	6,060.0	6,383.1	6,726.1
Liabilities					
Deposits	4,801.4	5,331.5	5,587.4	5,824.4	6,075.6
Borrowings	33.3	38.2	123.5	202.5	286.2
Payables & Other Liabilities	7.7	7.1	7.1	7.1	7.1
Tax Liabilities	4.9	3.2	3.2	3.2	3.2
Provisions	5.3	5.4	5.4	5.4	5.4
Total Liabilities	4,852.7	5,385.4	5,726.5	6,042.5	6,377.5
Equity					
Contributed Capital	145.4	148.7	148.7	148.7	148.7
Retained Earnings	170.6	175.9	181.9	188.9	197.0
Asset Revaluation Reserve	4.7	2.9	2.9	2.9	2.9
Emp. Equity Benefits Reserve	0.0	0.0	0.0	0.0	0.0
Hedging Reserve	0.0	0.0	0.0	0.0	0.0
Other Reserves	0.0	0.0	0.0	0.0	0.0
Total Equity	320.7	327.5	333.5	340.5	348.6
Book Value per Share (cps)	355.1	359.7	366.4	374.1	382.9
NTA per Share (cps)	255.9	266.4	273.0	280.7	289.6

Growth	FY18A	FY19A	FY20E	FY21E	FY22E
Net Loan Growth (% pcp)	7%	11%	7%	6%	6%
Revenue Growth (% pcp)	1%	-5%	6%	5%	5%
Expense Growth (% pcp)	-2%	-4%	3%	4%	4%
NPBT Growth (% pcp)	7%	-5%	9%	7%	6%
NPAT Growth (% pcp) - Normalised	5%	-2%	5%	7%	6%

Margins & Returns	FY18A	FY19A	FY20E	FY21E	FY22E
Net Interest Margin %	1.79%	1.69%	1.67%	1.67%	1.67%
Cost To Income % - Reported	64%	65%	63%	62%	62%
Cost To Income % - Underlying	64%	65%	63%	62%	62%
NPBT Margin %	50%	48%	48%	48%	49%
Effective Tax Rate %	30%	30%	30%	30%	30%
ROIC %	14%	13%	13%	14%	14%
ROE %	10%	9%	10%	10%	11%
ROA %	1%	1%	1%	1%	1%

Gearing	FY18A	FY19A	FY20E	FY21E	FY22E
Deposits/Loans %	105%	106%	104%	102%	101%
Total Capital Ratio %	13.5%	12.9%	11.7%	11.0%	10.4%

Segmental	FY18A	FY19A	FY20E	FY21E	FY22E
Banking	26.9	25.9	28.7	30.6	32.5
Wealth Management	4.6	3.9	3.7	4.0	4.2
Corporate	0.0	0.0	0.0	0.0	0.0
Total Reported NPAT	31.5	29.8	32.4	34.5	36.7

Divisional & Operating Data	FY18A	FY19A	FY20E	FY21E	FY22E
Banking					
Net Loans A\$m	4,565	5,053	5,394	5,710	6,045
					0.00%

Wealth Management	FY18A	FY19A	FY20E	FY21E	FY22E
Funds Under Management A\$m	1,153	1,170	1,241	1,317	1,397
Funds Under Advice A\$m	809	438	465	493	523

Fig.2: Federal Government First Home Loan Scheme panel lenders

Major bank lenders (available from 1 January 2020)



Non-major lenders (available from 1 February 2020)



Source: NHFC

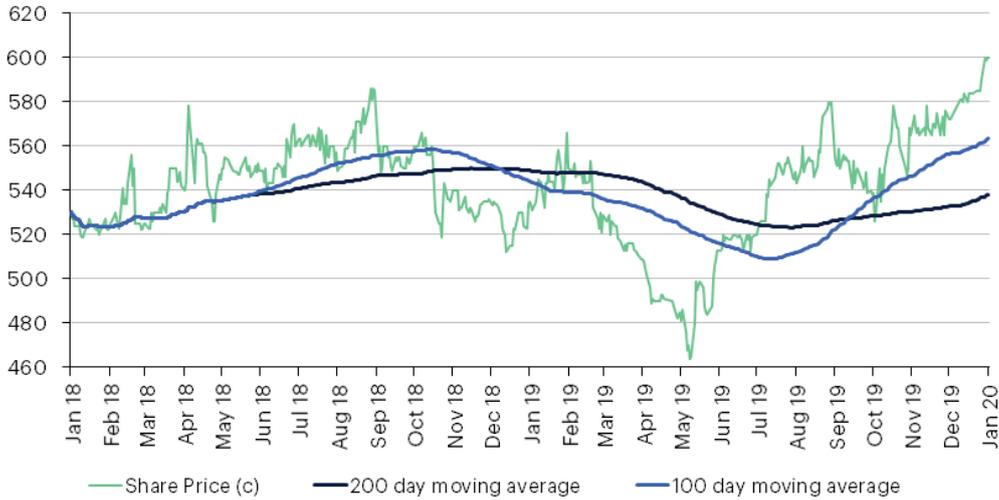
Fig.3: Federal Government First Home Loan Scheme – property price caps

State/territory	Capital city and regional centres	Rest of state	Other
NSW	\$700,000	\$450,000	
VIC	\$600,000	\$375,000	
QLD	\$475,000	\$400,000	
WA	\$400,000	\$300,000	
SA	\$400,000	\$250,000	
TAS	\$400,000	\$300,000	
ACT	\$500,000	-	
NT	\$375,000	-	
Jervis Bay Territory and Norfolk Island	-	-	\$450,000
Christmas Island and Cocos (Keeling) Islands	-	-	\$300,000

Source: NHFC

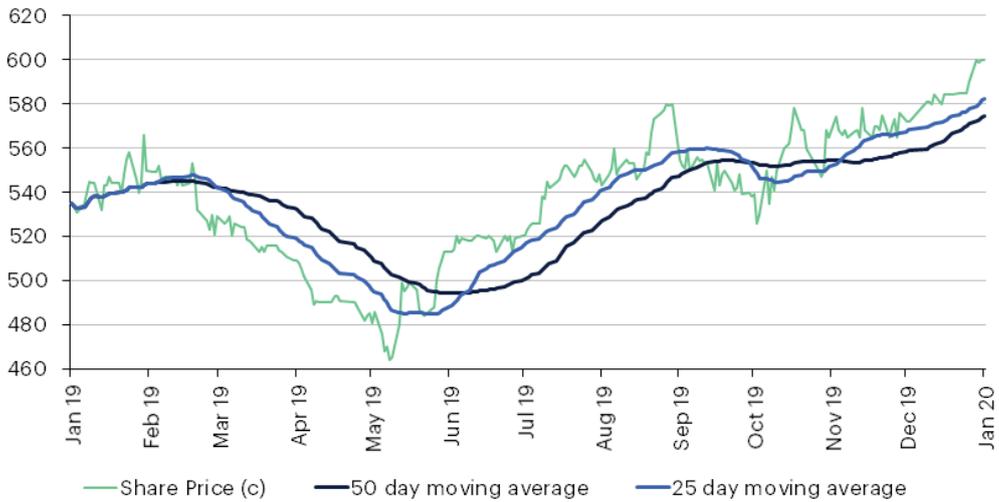
Appendix

Fig.4: Long term momentum indicators – ABA



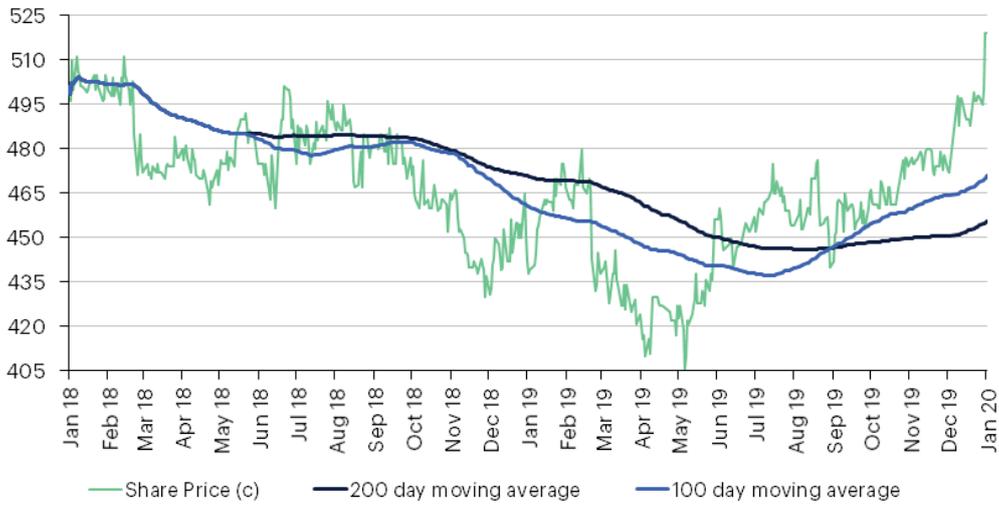
Source: Iress

Fig.5: Short term momentum indicators – ABA



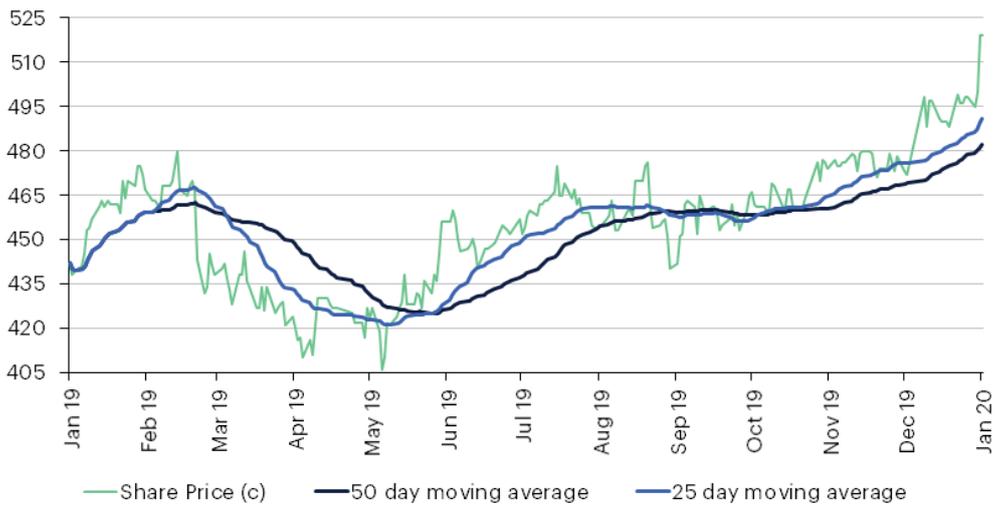
Source: Iress

Fig.6: Long term momentum indicators – MYS



Source: Iress

Fig.7: Short term momentum indicators – MYS



Source: Iress

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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 ±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.

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Hold: 49%

Sell: 4%

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