

## RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	Medium
Price Target	<b>\$6.45</b>
Share Price	\$5.70

## SNAPSHOT

Monthly Turnover	\$1.2mn
Market Cap	\$235mn
Shares Issued	42.1mn
52-Week High	\$5.89
52-Week Low	\$5.07
Sector	Financials

## BUSINESS DESCRIPTION

Auswide Bank (ABA) is engaged in the provision of banking facilities 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 provides loans, savings and investments, insurance, foreign exchange and banking services in Australia.

## 12-MONTH PRICE & VOLUME



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## Disclosure

The author owns no shares in ABA.

Baillieu Holst Ltd has acted in a corporate advisory role in an underwriting for Auswide Bank and earned fees in relation to that activity in the past 12 months.

# Auswide Bank (ABA)

## COMPANY REPORT

### Balancing the books

- FY18 result:** Normalised NPAT of A\$17.1m (+9% pcp) versus our forecast of A\$17.6m. 2H18 dividend per share of A18cps, resulting in a total for FY18 of A34cps (FY17: A31cps) with a payout ratio of 83% (FY17: 78%).
- Key takeaways:** 1) A clean and in-line result which shows that ABA has effectively balanced loan growth and net interest margin (NIM) management; 2) after describing the 1H18 result as exhibiting good profit growth of 15% (pcp) based on only 2% annualised gross loan growth, ABA accelerated loan growth in 2H18 whilst holding good profit growth – gross loan growth of 8% (pcp) annualised in 2H18 resulted in annual loan growth for FY18 of 5% (pcp); 3) the consumer loan book (blended interest rate of 8-9%) has grown from A\$8m in FY15 to A\$44m in FY18 and is forecast to reach A\$60-\$70m in FY19; 4) FY18 NIM (including the benefit of free funds) of 1.93% (FY17: 1.90%) and compared to 1.96% in 1H18 – this is despite ABA citing a 21bps increase in wholesale funding costs for much of 2H18; 5) ABA increased its rates for owner-occupied and investor loans by 5bps and 13bps respectively in June 2018; 6) underlying cost to income ratio of 63.3% (FY17: 65.2%) – employee expenses held to 2.5% pcp growth in FY18; 7) credit environment remains benign with 30-60 day and 90+ day past due arrears reducing to A\$4.7m (-28%) and A\$9.4m (-18%) respectively at FY18; and 8) Tier 1 capital ratio at FY18 of 12.86% (FY17: 12.06%) – ABA has suspended its DRP and calculates that current capital will support loan growth of 15%.
- Outlook:** 1) targeting loan growth across all products, with mortgages aimed to be above system; 2) NIM targeted to remain stable from here; 3) targeting cost to income ratio of 60% over a three-year time horizon; 4) review existing product suite to simplify the portfolio and remove products that do not make an adequate return; 5) continue to invest in IT, focussed on “Branch 25” which is an end-to-end digital banking platform; and 6) industry regulatory issues to remain top of mind, including APRA review of capital and risk weights for ADI’s.
- Changes to forecasts:** Downgrade to FY19 and FY20 forecasts by 6% and 2% respectively after taking a more conservative view of non-interest income.
- Investment view:** BUY retained with revised DDM valuation of A\$6.43 (prev. \$6.11) and price target of A\$6.45 (prev. A\$6.10). FY18 looked to be another period of steady progress for ABA in a highly competitive market. We remain positive on the story due to: 1) the history of balancing loan growth and NIM management; 2) current industry trends to strong growth outside of the major banks; 3) steadily improving cost ratios after a period of business investment; 4) improving Queensland economy; and 5) yield attraction.

## INVESTMENT SUMMARY

Year End: 30 June		2017 (A)	2018 (A)	2019 (E)	2020 (E)	2021 (E)
Revenue	\$mn	68	70	73	79	84
Reported Profit	\$mn	15.0	17.7	18.7	21.4	23.7
Adjusted Profit	\$mn	15.6	17.1	18.7	21.4	23.7
EPS (Reported)	¢	37.0	42.3	44.5	50.7	56.2
EPS (Adjusted)	¢	38.5	41.0	44.5	50.7	56.2
EPS Growth	%	2.9	6.3	8.6	14.0	10.8
PER (Reported)	x	15.4	13.5	12.8	11.2	10.1
PER (Adjusted)	x	14.8	13.9	12.8	11.2	10.1
Dividend	¢	30.0	34.0	37.0	40.5	45.0
Yield	%	5.3	6.0	6.5	7.1	7.9
Franking	%	100	100	100	100	100

## Financial summary

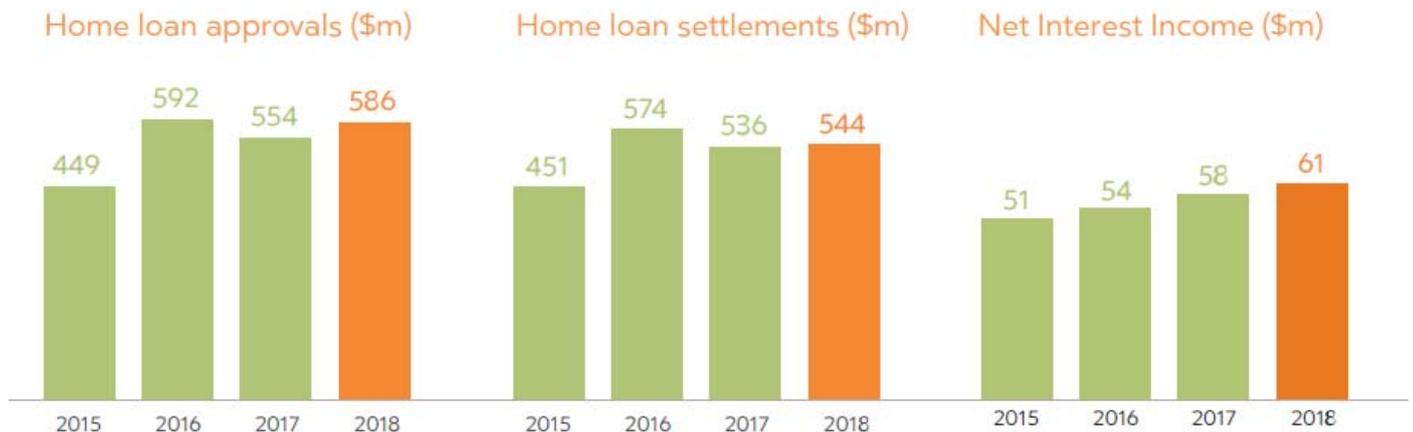
Auswide Bank Ltd											
<b>Analyst:</b>						<b>Rating:</b>	<b>BUY</b>				
<b>Date:</b>	24-August-2018					<b>Price Target:</b>	\$6.45				
<b>Market Capitalisation A\$m:</b>	\$235					<b>Valuation:</b>	\$6.43				
<b>Share Price (\$A):</b>	\$5.70					<b>Upside/(Downside):</b>	13%				
<b>Year End:</b>	30 June					<b>Risk:</b>	Medium				
<b>PROFIT &amp; LOSS (A\$m)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>EARNINGS</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Interest Income	125.9	128.9	135.8	147.3	158.5	EPS - Reported	37.0	42.3	44.5	50.7	56.2
Interest Expense	68.4	67.9	73.3	79.7	85.9	EPS - Normalised	38.5	41.0	44.5	50.7	56.2
<b>Net Interest Margin</b>	<b>57.5</b>	<b>61.0</b>	<b>62.5</b>	<b>67.6</b>	<b>72.6</b>	EPS Growth (%)	3%	6%	9%	14%	11%
Other Revenue	10.2	9.3	10.7	11.0	11.4	DPS	30.0	34.0	37.0	40.5	45.0
Bad & Doubtful Debts Expense	1.0	1.3	0.9	1.0	1.1	Franking (%)	100.0	100.0	100.0	100.0	100.0
Other Expenses	45.0	44.6	45.5	47.1	49.0	Payout Ratio (%)	78%	83%	83%	80%	80%
<b>Net Profit Before Tax</b>	<b>21.7</b>	<b>24.4</b>	<b>26.8</b>	<b>30.5</b>	<b>33.8</b>	<b>VALUATION</b>					
Income Tax Expense/(Benefit)	6.7	7.4	8.0	9.2	10.1	P/E (x)	14.8	13.9	12.8	11.2	10.1
Minority Interests	0.0	0.6	0.0	0.0	0.0	P/E (x)	5.3%	6.0%	6.5%	7.1%	7.9%
<b>NPAT - Reported</b>	<b>15.0</b>	<b>17.7</b>	<b>18.7</b>	<b>21.4</b>	<b>23.7</b>	Price/Book (x)	1.0	1.0	1.0	1.0	1.0
Normalisation Adjustments	0.6	-0.5	0.0	0.0	0.0	Price/NTA (x)	1.4	1.3	1.2	1.2	1.2
<b>NPAT - Normalised</b>	<b>15.6</b>	<b>17.1</b>	<b>18.7</b>	<b>21.4</b>	<b>23.7</b>	Price/Cash/Flow per Share (x)	12.0	6.2	12.8	11.2	10.1
<b>BALANCE SHEET (A\$m)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>GROWTH</b>					
<b>Assets</b>						Net Loan Growth (% pcp)	4%	5%	10%	8%	8%
Cash	120.1	86.4	89.0	92.7	96.9	Net Int. Margin Growth (% pcp)	7%	6%	2%	8%	7%
Due From Other Fin.Institutions	11.8	15.4	15.4	15.4	15.4	Exp.Growth - ex BDD(% pcp)	-3%	-1%	2%	3%	4%
Accrued Receivables	6.7	5.3	5.3	5.3	5.3	NPBT Growth (% pcp)	27%	12%	10%	14%	11%
Financial Assets	291.9	254.3	254.3	254.3	254.3	<b>MARGINS &amp; RETURNS</b>					
Loans & Advances	2,773.2	2,910.8	3,210.1	3,472.7	3,756.8	Net Interest Margin % (ex Int Free)	1.76%	1.79%	1.81%	1.81%	1.81%
Other Investments	1.1	1.1	1.1	1.1	1.1	Cost To Income %	67%	63%	62%	60%	58%
Property, Plant & Equipment	14.6	15.6	17.0	18.4	19.8	NPBT Margin %	32%	35%	37%	39%	40%
Deferred Tax Assets	5.3	4.6	4.6	4.6	4.6	Effective Tax Rate %	31%	30%	30%	30%	30%
Other Assets	8.4	8.5	8.5	8.5	8.5	ROIC %	6%	6%	7%	7%	8%
Goodwill	56.9	48.3	48.3	48.3	48.3	ROE %	7%	7%	8%	9%	10%
<b>Total Assets</b>	<b>3,290.0</b>	<b>3,350.3</b>	<b>3,653.5</b>	<b>3,921.3</b>	<b>4,210.9</b>	<b>OPERATIONAL DATA</b>					
<b>Liabilities</b>						Risk Weighted Assets A\$m	1,276	1,375	1,513	1,636	1,770
Dep.& Short Term Borrowings	2,304.6	2,446.8	2,746.1	3,008.7	3,292.8	Total Capital Ratio %	14.6%	7.6%	14.1%	13.3%	12.6%
Due To Other Fin.Institutions	0.0	0.0	0.0	0.0	0.0	Loan Book A\$m	2,778	2,919	3,219	3,481	3,765
Payables & Other Liabilities	18.6	26.0	26.0	26.0	26.0	Deposits/Loans %	83%	84%	86%	87%	88%
Securitized Loans	708.0	607.2	607.2	607.2	607.2	<b>Total Liabilities</b>	<b>3,066.3</b>	<b>3,113.5</b>	<b>3,412.8</b>	<b>3,675.4</b>	<b>3,959.5</b>
Income Tax Payable	1.2	0.7	0.7	0.7	0.7	Contributed Capital	184.8	191.6	191.6	191.6	191.6
Deferred Tax Liability	2.9	1.9	1.9	1.9	1.9	Reserves	14.0	15.2	15.2	15.2	15.2
Provisions	2.8	2.9	2.9	2.9	2.9	Retained Earnings	23.7	29.9	33.9	39.0	44.6
Subordinated Loans	28.0	28.0	28.0	28.0	28.0	Minority Interests	1.3	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3,066.3</b>	<b>3,113.5</b>	<b>3,412.8</b>	<b>3,675.4</b>	<b>3,959.5</b>	<b>Total Equity</b>	<b>223.7</b>	<b>236.7</b>	<b>240.7</b>	<b>245.9</b>	<b>251.4</b>
Contributed Capital	184.8	191.6	191.6	191.6	191.6	Book Value Per Share (cps)	549.8	562.2	571.7	583.9	597.1
Reserves	14.0	15.2	15.2	15.2	15.2	NTA Per Share (cps)	410.0	447.5	457.0	469.2	482.4
Retained Earnings	23.7	29.9	33.9	39.0	44.6	<b>CASH FLOW (A\$m)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Minority Interests	1.3	0.0	0.0	0.0	0.0	<b>Cash at Start</b>	<b>67.8</b>	<b>120.1</b>	<b>86.4</b>	<b>89.0</b>	<b>92.7</b>
<b>Total Equity</b>	<b>223.7</b>	<b>236.7</b>	<b>240.7</b>	<b>245.9</b>	<b>251.4</b>	Cash Flow from Operations	19.2	38.3	18.7	21.4	23.7
Book Value Per Share (cps)	549.8	562.2	571.7	583.9	597.1	Cash Flow From Investing	-175.2	-102.9	-300.6	-264.0	-285.5
NTA Per Share (cps)	410.0	447.5	457.0	469.2	482.4	Cash Flow From Financing	208.2	30.8	284.5	246.4	266.0
<b>CASH FLOW (A\$m)</b>	<b>FY17A</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>Net Cash Flow</b>	<b>208.2</b>	<b>30.8</b>	<b>284.5</b>	<b>246.4</b>	<b>266.0</b>
<b>Cash at Start</b>	<b>67.8</b>	<b>120.1</b>	<b>86.4</b>	<b>89.0</b>	<b>92.7</b>	Other Adj	52.3	-33.7	2.6	3.7	4.2
Cash Flow from Operations	19.2	38.3	18.7	21.4	23.7	<b>Cash At End</b>	<b>120.1</b>	<b>86.4</b>	<b>89.0</b>	<b>92.7</b>	<b>96.9</b>
Cash Flow From Investing	-175.2	-102.9	-300.6	-264.0	-285.5						
Cash Flow From Financing	208.2	30.8	284.5	246.4	266.0						

**FIG.1: ABA FY18 RESULT SUMMARY**

		FY18	FY17	Change
NPAT	Underlying	\$17.108m	\$15.691m	↑ 9.0%
NPAT	Statutory	\$17.886m	\$15.149m	↑ 18.1%
Loan Book		\$2.911b	\$2.773b	↑ 5.0%
Net Interest Revenue		\$61.020m	\$57.509m	↑ 6.1%
NIM		193bp	190bp	↑ 3bp
Final dividend per share (fully franked)		18.0c	17.0c	↑ 1.0c
Total dividend per share (fully franked)		34.0c	31.0c	↑ 3.0c
EPS	Underlying	41.0c	38.7c	↑ 2.3c
EPS	Statutory	42.8c	37.3c	↑ 5.5c
ROE	Underlying	7.5%	7.2%	↑ 0.3%
ROE	Statutory	7.8%	6.9%	↑ 0.9%
ROTE	Underlying	9.5%	9.2%	↑ 0.3%
ROTE	Statutory	9.9%	8.9%	↑ 1.0%
Underlying Cost to Income Ratio		63.3%	65.2%	↓ 1.9%

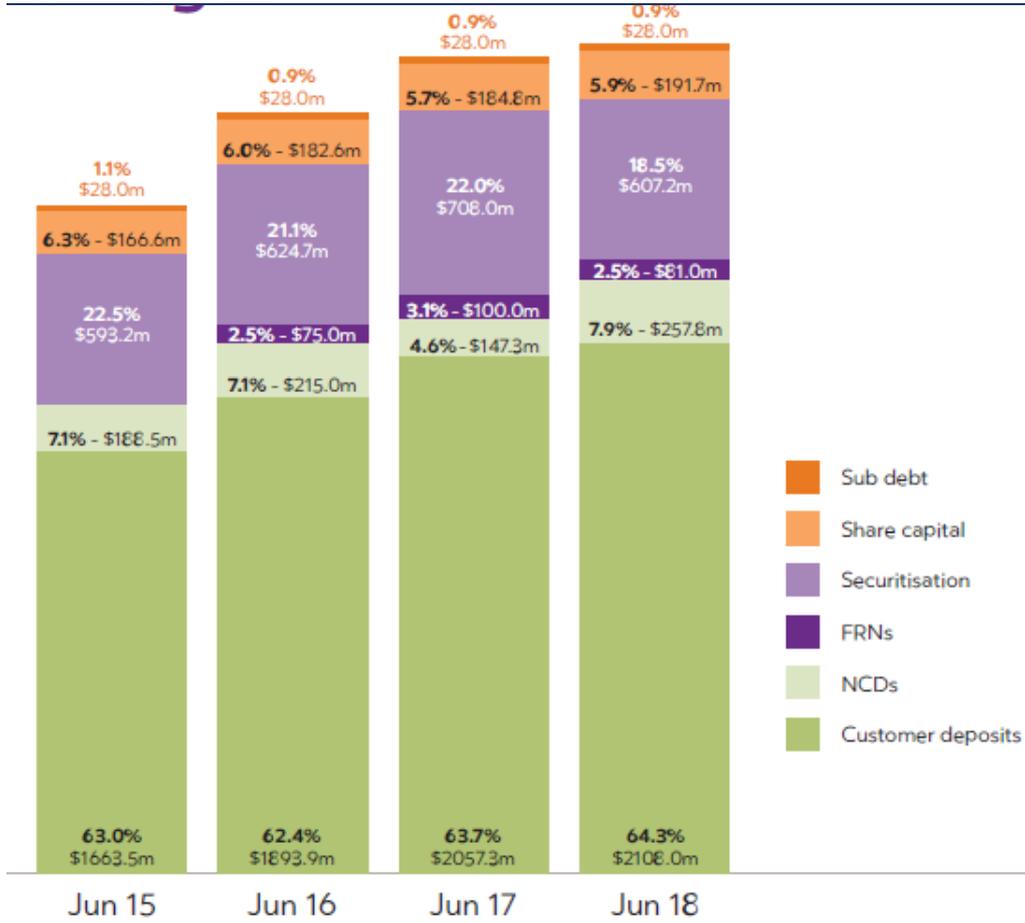
Source: ABA

**FIG.2: ABA LOAN APPROVALS, SETTLEMENTS & NET INTEREST INCOME**



Source: ABA

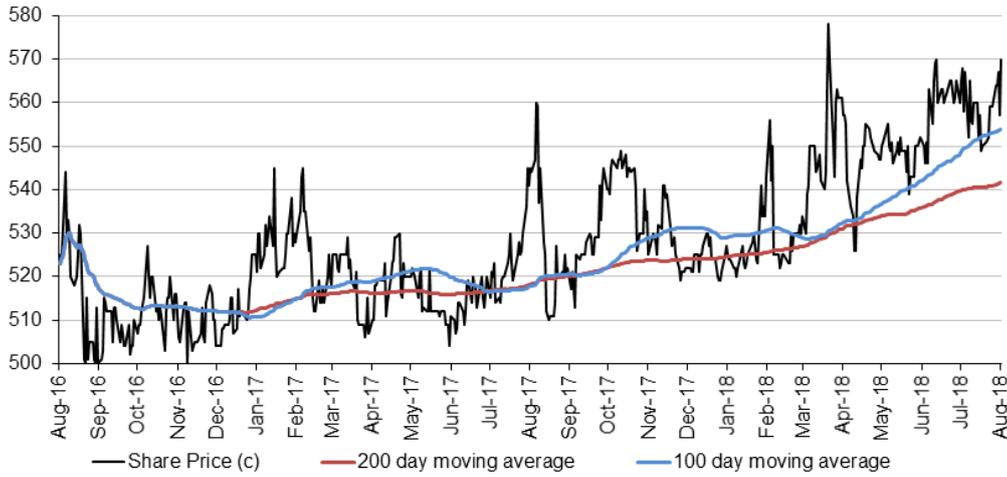
**FIG.3: ABA FUNDING MIX**



Source: ABA

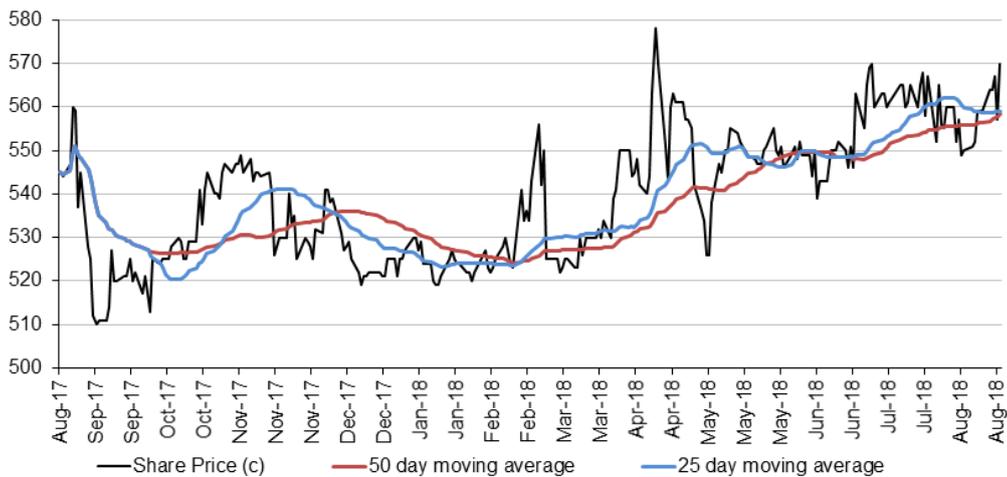
## Appendix

**FIG.4: LONG TERM MOMENTUM INDICATORS**



Source: Iress

**FIG.5: SHORT TERM MOMENTUM INDICATORS**



Source: Iress

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