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Auswide Bank (ABA)

Warding off the coldest southern chills

Recommendation

Buy (unchanged)

Price

\$5.47

Target (12 months)

\$5.95 (previously \$6.20)

GICS Sector

Banks

Expected Return

Capital growth	8.8%
Dividend yield	6.4%
Total expected return	15.2%

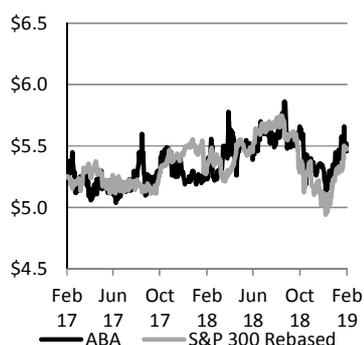
Company Data & Ratios

Enterprise value	n/m
Market cap	\$231m
Issued capital	42m
Free float	100%
Avg. daily val. (52wk)	\$80,420
12 month price range	\$5.04 - \$5.90

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.35	5.40	5.28
Absolute (%)	2.06	1.11	3.41
Rel market (%)	-2.91	-0.76	-0.48

Absolute Price



SOURCE: IRESS

1H19: Statutory NPAT \$8.5m, interim dividend 16cps

ABA's 1H19 result components are: (1) statutory NPAT \$8.5m (BP \$10.6m), +5% pcp; (2) statutory EPS 20cps (BP 25cps), +3% pcp; (3) fully franked interim dividend 16cps (BP 17cps), unchanged pcp and implying ~80% payout ratio; (4) statutory ROE 7.2% (BP 9.0%), +10bp pcp; (5) NIM 1.88% (BP 1.91%), -8bp pcp; (6) CIR 65% (BP 58%); (7) BDD charge \$0.3m/3bp GLA (BP \$0.7m/5bp GLA); and (8) total capital ratio 14.4% (BP 15.0%), -46bp pcp. Underlying NPAT (i.e. continuing operations) is the same as statutory NPAT in 1H19 and ABA maintained earnings despite turbulent conditions.

While the NPAT miss was largely due to higher operating expenses (\$23.6m vs. our \$20.3m forecast as a result of investments in more front-line staff and IT), underlying operating income was 3% pcp higher (unchanged hoh) and 2% ahead of our forecast given stronger home loan growth (ahead of system growth) and better non-interest income more than offsetting NIM decline of 8bp on a pcp basis to 1.88%. However, NIM contraction did slow down on a hoh basis given some repricing benefit and ABA continues to target stable NIM of around 1.88% in 2H19 based on further repricing to counter elevated wholesale and retail term funding costs. Asset quality remained in good shape with a lower BDD charge of only \$384k (consistent with downward trend in arrears) and the recent Townsville floods should not have a material impact in 2H19. Overall, another clean result from ABA. Both CET1 and Tier 1 ratios remain strong at 12.3% and ABA has reaffirmed its target payout ratio of 70-80%.

Price target \$5.95, Buy rating maintained

Our outer year earnings are lowered by 4-5% to reflect higher staff and IT costs but we are still targeting CIR to trend towards 60% and ROE to trend towards 10% in the longer term. Including some benefit from valuation time creep, ABA's price target is revised downwards by 4% to \$5.95 although its Buy rating is maintained based on relative capital strength (CET1 ratio ahead of majors and regionals), further cost initiatives and a healthy lending pipeline that is targeting above system growth in home loan volumes.

Earnings Forecast

Year end 30 June	2018	2019e	2020e	2021e
NPAT (statutory) (A\$m)	17.9	17.2	18.5	19.8
NPAT (underlying) (A\$m)	17.1	17.2	18.5	19.8
EPS (underlying) (A¢)	41	41	44	47
EPS (underlying) growth (%)	6%	0%	8%	7%
PER (x)	13.4	13.4	12.4	11.7
P/Book (x)	1.0	1.0	1.0	0.9
P/NTA (x)	1.2	1.2	1.2	1.2
Dividend (A¢)	34	34	36	38
Yield (%)	6.2%	6.2%	6.5%	6.9%
ROE (%)	7.5%	7.3%	7.8%	8.2%
NIM (%)	1.93%	1.87%	1.86%	1.85%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Table 1 – Estimate changes

	2019e		2020e		2021e		2022e	
	New	Change	New	Change	New	Change	New	Change
NPAT (statutory) (A\$m)	17.2	-8%	18.5	-5%	19.8	-4%	20.7	-5%
NPAT (underlying) (A\$m)	17.2	-8%	18.5	-5%	19.8	-4%	20.7	-5%
EPS (underlying) (cps)	41	-8%	44	-5%	47	-4%	49	-5%
EPS growth (%)	0%	-9%	8%	3%	7%	1%	5%	-1%
DPS (cps)	34	-6%	36	-7%	38	-7%	40	-8%
ROE (%)	7.3%	-0.6%	7.8%	-0.3%	8.2%	-0.2%	8.4%	-0.3%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 – Variance analysis

Auswide Bank				
Y/e June 30 (\$m)	1H19	BP	Variance	Comments
Net interest income	31.1	30.7	1%	Broadly in line, higher volumes offset lower NIM
Other income	5.0	4.6	9%	Better package fees and insurance commissions
Total operating income	36.1	35.3	2%	
Operating expenses	-23.6	-20.3	-14%	Higher front-line staff, IT and volume based costs
BDD charge	-0.4	-0.7	92%	Below peer trends, in line with lower arrears
Net profit before income tax	12.1	14.2	-15%	Variance largely due to higher costs
Corporate tax expense	-3.7	-4.3	17%	Function of NPBT
Other	0.0	0.6	nm	
Investment experience	0.0	0.0	nm	
NPAT (statutory basis)	8.5	10.6	-20%	Variance largely due to higher costs
Adjustments	0.0	0.0	nm	
NPAT (underlying basis)	8.5	10.6	-20%	Variance largely due to higher costs
DPS (cps)	16	17	-6%	Function of target payout ratio
EPS (underlying basis) (cps)	20	25	-20%	Variance largely due to higher costs
ROE	7.2%	9.0%	-1.7%	Variance largely due to higher costs

SOURCE: COMPANY DATA AND 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

The price target reflects a blended valuation per share comprising the company's DCF value (\$5.21 incorporating 11.0% cost of equity, 3% terminal growth rate and 10.0% target Tier 1 requirement, 40% weighting), dividend yield valuation (\$5.40 based on 6.25% required yield, 30% weighting) and PB valuation (\$5.18 based on long term ROE of 9-10%, 30% weighting), plus value of surplus capital (\$0.68). 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, BEN, BOQ and any of the majors on the domestic front (e.g. in retail and wholesale banking and wealth management).

Table 3 – Financial summary

Auswide Bank						Share Price (A\$)					5.47
As at						Market Cap (A\$m)					231
15-Feb-19											
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$m)	2017	2018	2019e	2020e	2021e	Y/e June 30	2017	2018	2019e	2020e	2021e
Net interest income	57.5	61.0	62.3	65.5	68.3	NPAT (normalised) (\$m)	15.7	17.1	17.2	18.5	19.8
Fees and commissions	9.1	8.9	10.1	10.6	11.0	EPS (statutory basis) (cps)	37	43	41	44	47
Total banking income	66.6	69.9	72.4	76.1	79.3	- Growth	20%	15%	-5%	8%	7%
Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0	EPS (underlying basis) (cps)	39	41	41	44	47
Share of profit of FTSP	0.0	0.0	0.0	0.0	0.0	- Growth	3%	6%	0%	8%	7%
Other revenue	0.7	0.5	0.0	0.0	0.0	P / E ratio (times)	14.1	13.4	13.4	12.4	11.7
Sign up payment	0.0	0.0	0.0	0.0	0.0	P / Book ratio (times)	1.0	1.0	1.0	1.0	0.9
Total operating income	67.3	70.4	72.4	76.1	79.3	P / NTA ratio (times)	1.4	1.2	1.2	1.2	1.2
Fees and commissions	-9.6	-8.8	-9.1	-9.9	-10.2	Net DPS (cps)	31	34	34	36	38
SAW	-18.9	-19.4	-18.4	-19.0	-19.6	Yield	5.6%	6.2%	6.2%	6.5%	6.9%
Depreciation expense	-1.9	-2.0	-2.2	-2.2	-2.2	Franking	100%	100%	100%	100%	100%
Amortisation expense (assume acquisition costs of \$2,038,922)	-0.7	-0.7	-1.4	-1.4	-1.4	Payout (cash basis)	80%	82%	83%	81%	81%
G&A expenses	-13.3	-13.7	-14.7	-15.1	-15.6	CAPITAL ADEQUACY					
Underwriting expenses	0.0	0.0	-1.2	-1.2	-1.2	Y/e June 30	2017	2018	2019e	2020e	2021e
Impairment expenses/one-offs	0.0	0.0	0.0	0.0	0.0	Risk weighted assets (\$m)	1,289.9	1,375.4	1,474.6	1,570.5	1,624.5
Bad and doubtful debts expense	-1.0	-1.3	-0.8	-0.9	-0.9	Average risk weight	41%	43%	43%	43%	43%
Net profit before income tax	21.9	24.4	24.6	26.5	28.2	Tier 1 ratio	12.1%	12.7%	11.9%	11.4%	11.3%
Corporate tax expense	-6.7	-7.4	-7.4	-7.9	-8.5	CET1 capital ratio	12.1%	12.7%	11.9%	11.4%	11.3%
Other	-0.1	0.8	0.0	0.0	0.0	Total capital ratio	14.4%	14.9%	14.0%	13.4%	13.1%
NPAT (statutory basis)	15.1	17.9	17.2	18.5	19.8	Equity ratio	6.8%	7.1%	6.7%	6.4%	6.3%
Adjustments						PROFITABILITY RATIOS					
- Sign up payment	0.0	0.0	0.0	0.0	0.0	Y/e June 30	2017	2018	2019e	2020e	2021e
- Impairment expenses/one-offs	0.0	0.0	0.0	0.0	0.0	Return on assets (underlying)	0.5%	0.5%	0.5%	0.5%	0.5%
- One-offs	0.5	-0.8	0.0	0.0	0.0	Return on equity (underlying)	7.2%	7.5%	7.3%	7.8%	8.2%
NPAT (underlying basis)	15.7	17.1	17.2	18.5	19.8	Leverage ratio	4.8%	5.3%	5.0%	4.8%	4.7%
CASHFLOW						Net interest margin	1.90%	1.93%	1.87%	1.86%	1.85%
Y/e June 30 (\$m)	2017	2018	2019e	2020e	2021e	Cost / income ratio	66%	63%	65%	64%	63%
NPAT (statutory basis)	15.1	17.9	17.2	18.5	19.8	Cost / average assets	1.39%	1.35%	1.34%	1.30%	1.29%
Increase in loans	-106.8	-132.3	-185.2	-198.1	-98.7	Growth in operating income	7%	5%	3%	5%	4%
Increase in other assets	-51.2	30.7	-22.4	-24.3	-26.2	Growth in operating expenses	-4%	1%	5%	4%	3%
Capital expenditure	0.9	-1.0	-0.5	-0.5	-0.5	Jaws	11%	4%	-2%	1%	1%
Investing cashflow	-157.1	-102.6	-208.2	-222.8	-125.4	Effective tax rate	31%	30%	30%	30%	30%
Increase in deposits & borrowings	120.7	142.2	190.9	79.1	81.5	ASSET QUALITY					
Increase in other liabilities	89.4	-95.0	15.3	139.8	39.6	Y/e June 30	2017	2018	2019e	2020e	2021e
Ordinary equity raised	0.0	0.0	0.0	0.0	0.0	Impairment expense / GLA	0.04%	0.05%	0.03%	0.03%	0.03%
Other	-15.9	3.7	-15.3	-14.7	-15.5	Impairment expense / RWA	0.08%	0.10%	0.05%	0.06%	0.06%
Financing cashflow	194.2	51.0	190.9	204.3	105.6	Total provisions + GRCL (\$m)	6.7	7.7	6.6	6.9	7.2
Net change in cash	52.3	-33.7	0.0	0.0	0.0	Total provisions + GRCL / RWA	0.52%	0.56%	0.45%	0.44%	0.44%
Cash at end of period	120.1	86.4	86.4	86.4	86.4	Total provisions + GRCL / loans	0.24%	0.26%	0.21%	0.21%	0.21%
BALANCE SHEET						Indiv ass prov / gross imp assets	62%	31%	30%	30%	30%
Y/e June 30 (\$m)	2017	2018	2019e	2020e	2021e	IBL / IEA	99%	97%	97%	97%	97%
Cash and liquid assets	120.1	86.4	86.4	86.4	86.4	INTERIMS					
Divisional gross loans	2,777.5	2,910.8	3,094.9	3,293.2	3,392.0	1H17	2H17	1H18	2H18	1H19	
Provisions	-4.3	-5.3	-4.1	-4.3	-4.5	Net interest income	28.3	29.2	30.7	30.3	31.1
Other gross loans / inter div.	0.0	0.0	0.0	0.0	0.0	Fees and commissions	4.6	4.4	4.4	4.5	5.0
Other IEA	310.4	275.0	297.4	321.7	347.9	Total banking income	32.9	33.7	35.1	34.8	36.1
Intangibles	56.9	48.3	48.3	48.3	48.3	Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0
PP&E	14.6	15.6	16.0	16.5	17.0	Share of profit of FTSP	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0	Other revenue	0.0	0.7	0.0	0.5	0.0
Other assets	14.7	19.5	19.5	19.5	19.5	Sign up payment	0.0	0.0	0.0	0.0	0.0
Total assets	3,290.0	3,350.3	3,558.4	3,781.3	3,906.7	Total operating income	32.9	34.4	35.1	35.3	36.1
Divisional deposits	2,304.6	2,446.8	2,637.8	2,716.9	2,798.4	Fees and commissions	-3.1	-6.5	-6.7	-2.2	-4.5
Other borrowings	736.0	635.2	650.4	790.2	829.9	SAW	-8.5	-10.4	-8.5	-10.9	-9.2
Other liabilities	25.6	31.5	31.5	31.5	31.5	Depreciation expense	-0.9	-1.0	-0.9	-1.1	-1.1
Total liabilities	3,066.3	3,113.5	3,319.7	3,538.7	3,659.8	Amortisation expense (assume acquisition costs of \$2,038,922)	0.0	-0.7	0.0	-0.7	-0.7
Ordinary share capital	184.8	191.6	191.9	191.9	191.9	G&A expenses	-9.4	-3.9	-6.2	-7.5	-7.5
Other equity instruments	0.0	0.0	0.0	0.0	0.0	Underwriting expenses	0.0	0.0	0.0	0.0	-0.6
Reserves	11.6	12.8	12.8	12.8	12.8	Impairment expenses/one-offs	0.0	0.0	-0.7	0.7	0.0
GRCL	2.4	2.4	2.5	2.6	2.7	Bad and doubtful debts expense	-0.4	-0.6	-0.7	-0.6	-0.4
Retained profits	23.7	29.9	31.4	35.2	39.3	Net profit before income tax	10.6	11.3	11.4	13.0	12.1
Minority interests	1.3	0.0	0.0	0.0	0.0	Corporate tax expense	-3.3	-3.4	-3.6	-3.8	-3.7
Total shareholders' equity	223.7	236.7	238.7	242.6	246.8	Other	0.0	-0.1	0.2	0.6	0.0
Total sh. equity & liabs.	3,290.0	3,350.3	3,558.4	3,781.3	3,906.7	NPAT (statutory basis)	7.3	7.8	8.1	9.8	8.5
WANOS - statutory (m)	40.6	41.8	42.1	42.2	42.2	Adjustments	0.0	0.0	0.0	0.0	0.0
WANOS - normalised (m)	40.6	41.8	42.1	42.2	42.2	- 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	0.5	0.0	-0.8	0.0
						NPAT (underlying basis)	7.3	8.4	8.1	9.0	8.5

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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