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Auswide Bank (ABA)

We are not done yet

Recommendation

Buy (unchanged)

Price

\$5.80

Target (12 months)

\$6.50 (previously \$5.70)

GICS Sector

Banks

Expected Return

Capital growth	12.1%
Dividend yield	4.2%
Total expected return	16.3%

Company Data & Ratios

Enterprise value	n/m
Market cap	\$248m
Issued capital	43m
Free float	100%
Avg. daily val. (52wk)	\$128,447
12 month price range	\$3.30 - \$6.83

Price Performance

ABA	(1m)	(3m)	(12m)
Price (A\$)	4.90	4.58	5.66
Absolute (%)	19.39	27.73	3.36
Rel market (%)	14.03	21.13	5.80

Absolute Price



SOURCE: IRESS

4m to 31 October 2020: Statutory NPAT \$7.44m, productivity up

ABA provided another upbeat trading update at today's AGM. For the four months to 31 October 2020, the unaudited components included: a) \$7.4m statutory NPAT (+34% pcp); b) \$25.2m net interest revenue (+12% pcp); c) 1.99% NIM (+8bp); d) 60.2% CIR; e) \$3.4bn loan book (+8% pcp); and f) COVID-19 loan assistance 1.5% of loan book (vs. 3.3% at the end of 1Q21 and 9.0% at the end of FY20). ABA's strong earnings momentum has further strengthened since the end of 1Q21, driven by stable NIM, volume growth in loans and deposits ahead of system growth, ongoing cost discipline, what we assume to be lower provisions for COVID-19 impacts (following a higher \$2.3m overlay in FY20) and a resilient QLD economy. Incremental performance per work day has also improved, e.g. statutory NPAT up from ~\$86k in 1Q21 to ~\$87k in the four months to 30 October 2020 while net interest revenue is up from ~\$288k to ~\$293k. The same can be said of loan book and deposit productivity per day, the former up from \$1.77m to \$1.95m and the latter from \$1.37m to \$2.27m. Today's trading update represents a dream start to FY21 and should comfortably ensure an unbroken track record for ABA in generating profitable growth. NIM is already ahead of the FY21 target of 1.97% (BP forecast 1.99%) while the 60% target CIR is very close to being exceeded (BP forecast 59%). Given strong momentum, we would also expect the 10% RONTA target to be exceeded (BP forecast 10.5%).

Price target increased to \$6.50, Buy rating unchanged

Statutory NPAT forecasts are increased (FY21 +6%, FY22 +7%, FY23 +5% and FY24 +3%) based on better volume growth, broadly stable NIM and ongoing cost discipline targeting CIR of slightly below 60%. The forecast payout ratio in each of these years is unchanged, resulting in expected dividend increases of 4-5%. In keeping with the recent direction of interest rates, we have lowered the discount rate by 100bp to 10.5% and the dividend valuation yield from 4.0% to 3.5%. ABA's composite valuation/price target is thus increased by 14% to \$6.50 per share while its Buy rating is unchanged.

Earnings Forecast

Year end 30 June	2020	2021e	2022e	2023e
NPAT (statutory) (A\$m)	18.5	21.0	22.6	23.2
NPAT (underlying) (A\$m)	18.5	21.0	22.6	23.2
EPS (underlying) (A¢)	44	50	53	54
EPS (underlying) growth (%)	7%	13%	6%	2%
PER (x)	13.2	11.7	11.0	10.8
P/Book (x)	1.0	1.0	0.9	0.9
P/NTA (x)	1.3	1.2	1.1	1.1
Dividend (A¢)	28	24	28	31
Yield (%)	4.8%	4.2%	4.9%	5.4%
RONTA (%)	9.6%	10.5%	10.5%	10.2%
NIM (%)	1.97%	1.99%	1.96%	1.92%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

We are not done yet

4m to 31 October 2020: Statutory NPAT \$7.44m, productivity up

ABA provided another upbeat trading update at today's AGM (following its 1Q21 update on 3 November 2020). For the four months to 31 October 2020, the unaudited components were:

- Statutory NPAT \$7.44m (+34% pcp);
- Net interest revenue \$25.19m (+12% pcp);
- NIM 1.99% (+8bp);
- CIR 60.2%;
- Loan book \$3.43bn (+8% pcp);
- Deposits \$2.82bn (+15% pcp); and
- COVID-19 loan assistance 1.5% of loan book (vs. 3.3% at the end of 1Q21 and 9.0% at the end of FY20).

ABA's strong earnings momentum has further strengthened since the end of 1Q21, driven by stable NIM, volume growth in loans and deposits ahead of system growth, ongoing cost discipline, what we assume to be lower provisions for COVID-19 impacts (following a higher \$2.3m overlay in FY20) and a resilient QLD economy. Incremental performance per work day has also improved, e.g. statutory NPAT up from ~\$86k in 1Q21 to ~\$87k in the four months to 30 October 2020 while net interest revenue is up from ~\$288k to ~\$293k. The same can be said of loan book and deposit productivity per day, the former up from \$1.77m to \$1.95m and the latter from \$1.37m to \$2.27m.

Table 1 – Incremental improvements in YTD performance

Auswide Bank	1Q21	Change (pcp)	Work days	Per work day (\$m)	4m to 31 Oct 2020	Change (pcp)	Work days	Per work day (\$m)
Statutory NPAT (\$m)	5.57	36%	65	0.086	7.44	34%	86	0.087
Net interest revenue (\$m)	18.72	12%	65	0.288	25.19	12%	86	0.293
NIM *	1.99%	0.10%	-	-	1.99%	0.08%	-	-
CIR **	-	-	-	-	60.2%	-	-	-
Loan book (\$bn) ***	3.38	7%	65	1.769	3.43	8%	86	1.953
Deposits (\$bn) ****	2.71	11%	65	1.369	2.82	15%	86	2.267
COVID-19 loan assistance (% of loan book) *****	3.3%	-	-	-	1.5%	-	-	-

* 1.97% in FY20

** 62.5% in FY20

*** \$3.27bn at the end of FY20

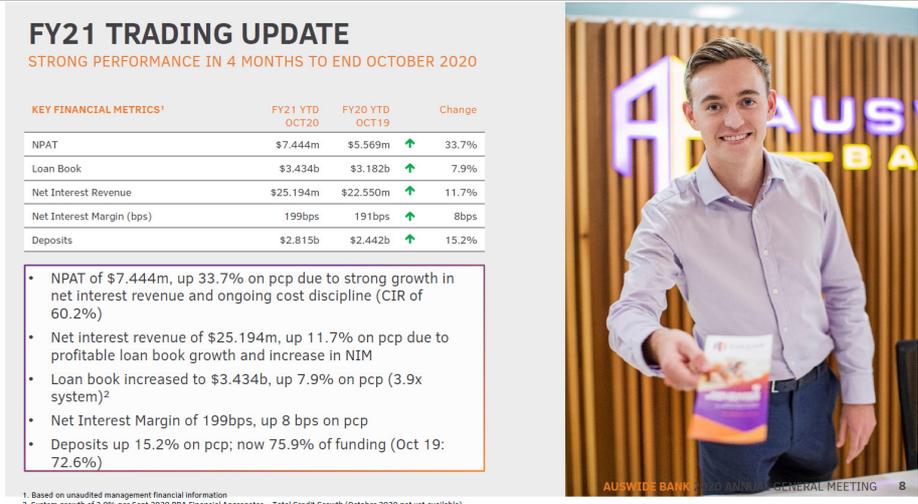
**** \$2.62bn at the end of FY20

***** 9% at the end of FY20

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

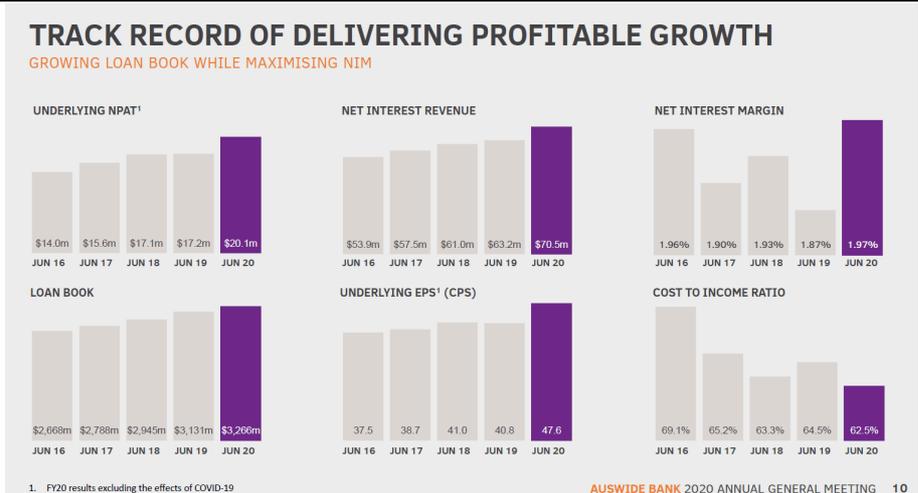
Today's trading update represents a dream start to FY21 and should comfortably ensure an unbroken track record for ABA in generating profitable growth. NIM is already ahead of the FY21 target of 1.97% (BP forecast 1.99%) while the 60% target CIR is very close to being exceeded (BP forecast 59%). Given strong momentum, we would also expect the 10% RONTA target to be exceeded (BP forecast 10.5%). We also expect ABA's CET1 ratio to be steady at around 11.0%, sufficient to grow the loan book and at the same time support further growth in dividend payments to shareholders.

Figure 1 – Dream start to FY21



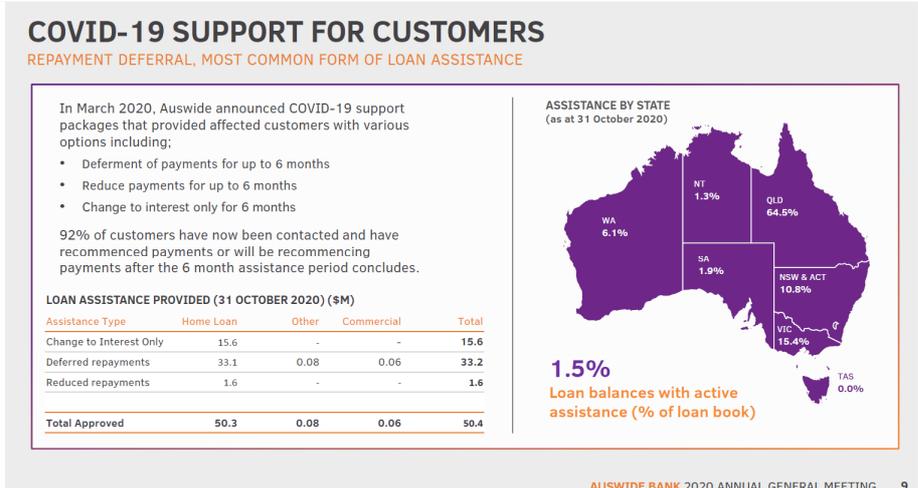
SOURCE: COMPANY DATA

Figure 2 – Enviably track record



SOURCE: COMPANY DATA

Figure 3 – Loan repayment deferrals one of the lowest in the sector



SOURCE: COMPANY DATA

Price target increased to \$6.50, Buy rating unchanged

Statutory NPAT forecasts are increased (FY21 +6%, FY22 +7%, FY23 +5% and FY24 +3%) based on better volume growth, broadly stable NIM and ongoing cost discipline targeting CIR of slightly below 60%. The forecast payout ratio in each of these years is unchanged, resulting in expected dividend increases of 4-5%. In keeping with the recent direction of interest rates, we have lowered ABA's discount rate by 100bp to 10.5% and the dividend valuation yield from 4.0% to 3.5%.

Net of these adjustments, the composite valuation/price target is increased by 14% to \$6.50 per share. ABA's Buy rating is unchanged.

Table 2 – Estimate changes

	FY21e		FY22e		FY23e		FY24e	
	New	Change	New	Change	New	Change	New	Change
NPAT (statutory) (A\$m)	21.0	6%	22.6	7%	23.2	5%	23.6	3%
NPAT (underlying) (A\$m)	21.0	6%	22.6	7%	23.2	5%	23.6	3%
EPS (underlying) (cps)	50	6%	53	7%	54	5%	54	3%
EPS growth (%)	13%	7%	6%	0%	2%	-2%	1%	-2%
DPS (cps)	24	5%	28	5%	31	4%	34	4%
RONTA (%)	10.5%	0.6%	10.5%	0.6%	10.2%	0.3%	9.8%	0.2%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 – FY21 targets

FY2021 OUTLOOK

QLD ECONOMY RESILIENT, ON TRACK TO EXCEED FINANCIAL TARGETS

FINANCIAL TARGETS

3-year strategic objectives achieved in 18 months

-  **Cost to Income ratio of 60%**
-  **Stable trend in NIM across FY21**
-  **Return on Net Tangible Assets of 10%**
-  **Above system loan growth**

COVID-19

- COVID-19 recovery plan completed
- Continue review of customers that required support
- Establish plans for customers that require further support beyond September
- Continue to review economic data, credit policies, adequacy of provisioning

AUSWIDE BANK 2020 ANNUAL GENERAL MEETING 15

SOURCE: COMPANY DATA

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) Scott Johnson (Chief Information Officer).

Investment strategy

This is largely based on ABA as a challenger regional bank based in Central QLD.

Valuation

ABA's price target is a blended valuation broadly based on the company's DCF value (~\$6.70 incorporating 10.5% cost of equity, 3% terminal growth rate and 10.0% target CET1 requirement as opposed to APRA's 8.5% minimum, 40% weighting), dividend yield valuation (~\$6.90 based on 3.5% required yield, 30% weighting) and PB valuation (~\$6.00 based on long term ROE of up to 9-10%, 30% weighting). 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 Bank, 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\$)					5.80
As at						Market Cap (A\$M)					247
17-Nov-20											
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e	Y/e June 30	2019	2020	2021e	2022e	2023e
Net interest revenue	63.2	70.5	76.0	77.7	77.8	NPAT (underlying basis) (\$m)	17.2	18.5	21.0	22.6	23.2
Fees and commissions	9.0	9.2	9.6	9.8	10.1	EPS (statutory basis) (c)	41	44	50	53	54
Total banking income	72.1	79.7	85.6	87.5	87.9	- Growth	-5%	7%	13%	6%	2%
Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0	EPS (underlying basis) (c)	41	44	50	53	54
Share of profit of FTSP	0.0	0.0	0.0	0.0	0.0	- Growth	0%	7%	13%	6%	2%
Other revenue	0.5	0.8	0.5	0.5	0.5	P / E ratio (times)	14.2	13.2	11.7	11.0	10.8
Sign up payment	0.0	0.0	0.0	0.0	0.0	P / Book ratio (times)	1.0	1.0	1.0	0.9	0.9
Total operating income	72.6	80.5	86.1	88.0	88.4	P / NTA ratio (times)	1.3	1.3	1.2	1.1	1.1
Fees and commissions	-10.0	-11.5	-11.1	-11.4	-11.7	Net DPS (c)	34	28	24	28	31
SAW	-20.6	-21.6	-22.7	-23.3	-23.8	Yield	5.9%	4.8%	4.2%	4.9%	5.4%
Depreciation expense	-1.9	-3.3	-3.3	-3.3	-3.3	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 (underlying basis; target 70-80%)	84%	63%	49%	54%	58%
G&A expenses	-13.7	-13.0	-11.9	-12.1	-12.2	CAPITAL ADEQUACY					
Underwriting expenses	0.0	0.0	0.1	0.1	0.1	Y/e June 30	2019	2020	2021e	2022e	2023e
Other	0.0	0.0	0.0	0.0	0.0	Risk weighted assets (\$m)	1,498.4	1,631.8	1,777.3	1,816.8	1,857.9
Impairment expenses	-1.1	-3.8	-5.7	-4.3	-2.9	Average risk weight	43%	45%	45%	45%	45%
Net profit before income tax	24.6	26.5	30.0	32.2	33.1	Tier 1 ratio	11.8%	11.1%	10.9%	11.3%	11.7%
Corporate tax expense	-7.4	-8.0	-9.0	-9.7	-9.9	CET1 capital ratio	11.8%	11.1%	10.9%	11.3%	11.7%
Other	0.0	0.0	0.0	0.0	0.0	Total capital ratio	13.8%	13.0%	12.6%	13.0%	13.4%
NPAT (statutory basis)	17.2	18.5	21.0	22.6	23.2	Equity ratio	6.6%	6.4%	6.2%	6.4%	6.6%
Adjustments						PROFITABILITY RATIOS					
- Sign up payment	0.0	0.0	0.0	0.0	0.0	Y/e June 30	2019	2020	2021e	2022e	2023e
- 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	0.0	0.0	0.0	0.0	0.0	Return on NTA (underlying)	9.2%	9.6%	10.5%	10.5%	10.2%
NPAT (underlying basis)	17.2	18.5	21.0	22.6	23.2	Leverage ratio	5.0%	4.8%	4.8%	5.0%	5.1%
CASHFLOW						Net interest margin	1.87%	1.97%	1.99%	1.96%	1.92%
Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e	Cost / income ratio	65%	62%	59%	59%	59%
NPAT (statutory basis)	17.2	18.5	21.0	22.6	23.2	Cost / average assets	1.33%	1.33%	1.23%	1.24%	1.23%
Increase in loans	-221.0	-132.4	-292.5	-53.2	-54.0	Growth in operating income	3%	11%	7%	2%	0%
Increase in other assets	-15.5	-45.1	-32.2	-34.8	-37.7	Growth in operating expenses	5%	7%	0%	2%	2%
Capital expenditure	1.2	-7.0	0.0	0.0	0.0	Jaws	-2%	4%	6%	0%	-1%
Investing cashflow	-235.3	-184.5	-324.7	-88.0	-91.7	Effective tax rate	30%	30%	30%	30%	30%
Increase in deposits & borrowings	355.8	215.9	114.5	118.7	110.3	ASSET QUALITY					
Increase in other liabilities	-104.4	-33.4	196.6	-44.2	-31.5	Y/e June 30	2019	2020	2021e	2022e	2023e
Ordinary equity raised	0.0	0.0	0.0	0.0	0.0	Impairment expense / GLA	0.04%	0.12%	0.16%	0.12%	0.08%
Other	-15.3	-14.4	-7.4	-9.0	-10.3	Impairment expense / RWA	0.08%	0.24%	0.32%	0.24%	0.16%
Financing cashflow	236.1	168.1	303.7	65.5	68.5	Total provisions + GRCL (\$m)	6.9	9.5	9.7	9.9	10.2
Net change in cash	18.0	2.1	0.0	0.0	0.0	Total provisions + GRCL / RWA	0.46%	0.58%	0.55%	0.55%	0.55%
Cash at end of period	104.4	106.5	106.5	106.5	106.5	Total provisions + GRCL / loans	0.22%	0.29%	0.27%	0.27%	0.28%
BALANCE SHEET						Indiv ass prov / gross imp assets	0%	0%	0%	0%	0%
Y/e June 30 (\$m)	2019	2020	2021e	2022e	2023e	IBL / IEA	97%	98%	98%	97%	97%
Cash and liquid assets	104.4	106.5	106.5	106.5	106.5	INTERIMS					
Divisional gross loans	3,131.0	3,266.0	3,558.5	3,611.9	3,666.1	1H19	2H19	1H20	2H20	1H21e	
Provisions	-4.5	-7.1	-7.1	-7.3	-7.4	Net interest revenue	31.1	32.1	34.5	36.0	37.2
Other gross loans / inter div.	-40.4	-53.1	-53.1	-53.1	-53.1	Fees and commissions	5.0	4.0	5.0	4.2	4.7
Other IEA	338.1	394.6	426.8	461.6	499.2	Total banking income	36.1	36.0	39.5	40.2	41.9
Intangibles	48.1	47.6	47.6	47.6	47.6	Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0
PP&E	14.4	21.4	21.4	21.4	21.4	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	0.3	0.3	0.4	0.4	0.3
Other assets	12.3	13.7	13.7	13.7	13.7	Sign up payment	0.0	0.0	0.0	0.0	0.0
Total assets	3,603.4	3,789.5	4,114.2	4,202.2	4,293.9	Total operating income	36.4	36.3	39.9	40.6	42.1
Divisional deposits	2,802.6	3,018.5	3,133.0	3,251.7	3,362.0	Fees and commissions	-4.5	-5.5	-5.0	-6.5	-5.5
Other borrowings	518.4	498.5	695.1	650.9	619.5	SAW	-9.2	-11.4	-9.6	-12.0	-10.1
Other liabilities	43.9	30.4	30.4	30.4	30.4	Depreciation expense	-1.1	-0.8	-2.5	-0.8	-2.5
Total liabilities	3,364.9	3,547.4	3,858.5	3,933.1	4,011.9	Amortisation expense (assume acquisition costs of \$2,038,922)	-0.7	0.0	0.0	-0.7	-0.7
Ordinary share capital	191.9	193.3	195.1	197.3	199.8	G&A expenses	-7.5	-6.2	-8.2	-4.8	-7.0
Other equity instruments	0.0	0.0	0.0	0.0	0.0	Underwriting expenses	-0.6	0.6	0.0	0.0	0.0
Reserves	12.8	12.0	12.0	12.0	12.0	Other	0.0	0.0	0.0	0.0	0.0
GRCL	2.4	2.4	2.6	2.7	2.7	Impairment expenses	-0.4	-0.8	-0.8	-3.0	-2.8
Retained profits	31.4	34.3	45.9	57.2	67.5	Net profit before income tax	12.4	12.3	13.6	12.9	13.6
Minority interests	0.0	0.0	0.0	0.0	0.0	Corporate tax expense	-3.7	-3.8	-4.0	-4.0	-4.1
Total shareholders' equity	238.5	242.0	255.6	269.2	282.0	Other	0.0	0.0	0.0	0.0	0.0
Total sh. equity & liabs.	3,603.4	3,789.5	4,114.2	4,202.2	4,293.9	NPAT (statutory basis)	8.7	8.5	9.6	8.9	9.5
WANOS - statutory (m)	42.2	42.2	42.5	42.8	43.2	Adjustments	0.0	0.0	0.0	0.0	0.0
WANOS - normalised (m)	42.2	42.2	42.5	42.8	43.2	- Sign up payment	0.0	0.0	0.0	0.0	0.0
ROE	7.3%	7.7%	8.5%	8.6%	8.4%	- Impairment expenses/one-offs	0.0	0.0	0.0	0.0	0.0
						- One-offs	0.0	0.0	0.0	0.0	0.0
						NPAT (underlying basis)	8.7	8.5	9.6	8.9	9.5

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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