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Auswide Bank (ABA)

Taste takes time

Recommendation

Buy (unchanged)

Price

\$5.70

Target (12 months)

\$6.20 (previously \$6.00)

GICS Sector

Banks

Expected Return

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

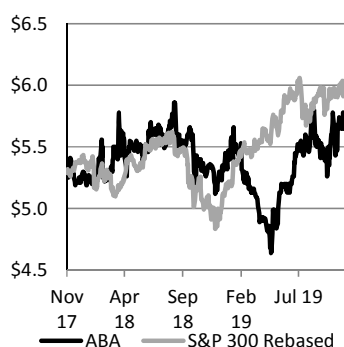
Company Data & Ratios

Enterprise value	n/m
Market cap	\$240m
Issued capital	42m
Free float	100%
Avg. daily val. (52wk)	\$135,212
12 month price range	\$4.55 - \$5.86

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.69	5.53	5.32
Absolute (%)	0.18	3.07	7.14
Rel market (%)	-1.65	-1.77	-12.82

Absolute Price



SOURCE: IRESS

2019 AGM: Outlook positive

ABA held its AGM today, wrapping up a good FY19 given better underlying performance. Sentiment remains upbeat, thanks to improving regional economic activity and large projects and investments occurring in ABA's key catchment areas such as Rockhampton, Mackay, Bundaberg and Townsville. In terms of the FY20 outlook, first half trends are in line with expectations although NIM pleasingly increased by 4bp to 1.91% in the four months to 31 October 2019 due to lower funding costs (as BBSW normalised and given an increase in customer deposits). NIM is expected to be stable at 1.91% for the rest of 1H20 and costs continue to be managed tightly. While 1H20 CIR should be ~65%, ABA is targeting 60% for the full year. ABA's FY20 targets relative to our forecasts are: (1) 60% CIR (BP forecast 62%); (2) 10% RONTA (BP forecast 10.1%); and (3) strong loan book growth [BP forecast 5% vs. YTD annualised growth of 5.1% and system growth of ~3%].

The bank has also reaffirmed its three-year strategy and medium term guidance despite ongoing sector challenges. We continue to like the inclusion of hard targets that are supported by above system volume growth in core offerings, stable NIM, ongoing cost discipline and adequate capital management to ensure increasing shareholder returns. The medium term targets relative to our forecasts are: (1) CIR of 60% by FY22 (BP forecast 60% in FY22); (2) RONTA of 10% by FY22 (BP forecast 10.8% in FY22); (3) above system loan growth (BP forecast 4% in FY22 vs. system growth of 3%); and (4) stable NIM (FY19 exit NIM 1.94%, 1H20 expected NIM 1.91% that reflects some pressure from recent RBA cash rate cuts; BP forecast 1.91% in FY20 and 1.90% thereafter assuming further repricing to offset competition effects).

Price target increased to \$6.20, Buy rating maintained

ABA's underlying NPAT is increased by 3% mainly due to a better NIM prospects given lower wholesale and retail funding costs. The flow on effect is a 3% higher price target of \$6.20 (previously \$6.00) and ABA's Buy rating is thus maintained based on a 12-month total expected return of around 15%.

Earnings Forecast

Year end 30 June	2019	2020e	2021e	2022e
NPAT (statutory) (A\$m)	17.2	19.3	20.4	21.7
NPAT (underlying) (A\$m)	17.2	19.3	20.4	21.7
EPS (underlying) (A¢)	41	46	48	51
EPS (underlying) growth (%)	0%	12%	6%	6%
PER (x)	14.0	12.4	11.8	11.1
P/Book (x)	1.0	1.0	1.0	1.0
P/NTA (x)	1.3	1.2	1.2	1.2
Dividend (A¢)	34	36	38	40
Yield (%)	6.0%	6.4%	6.7%	7.1%
RONTA (%)	9.2%	10.1%	10.5%	10.8%
NIM (%)	1.87%	1.91%	1.90%	1.90%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Taste takes time



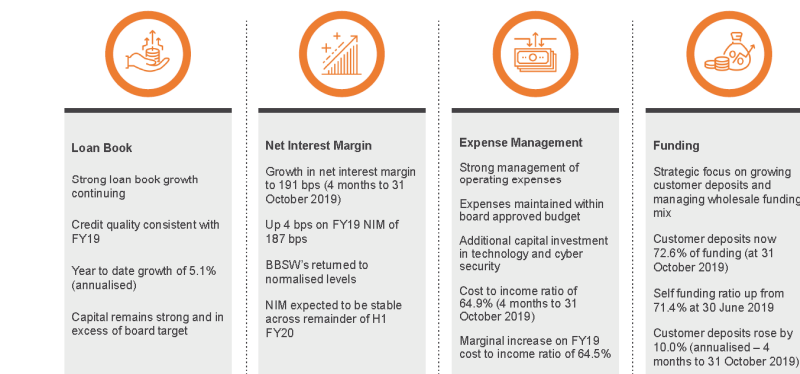
2019 AGM: Outlook positive

ABA held its AGM today, wrapping up a good FY19 given better underlying performance including strong volume growth, good overall risk management and a turnaround in second half performance across most KPIs. Sentiment remains upbeat, thanks to improving regional economic activity and large projects and investments occurring in ABA's key catchment areas such as Rockhampton, Mackay, Bundaberg and Townsville.

In terms of the FY20 outlook, first half trends are in line with expectations although NIM pleasingly increased by 4bp to 1.91% in the four months to 31 October 2019 due to lower funding costs (as BBSW normalised and given an increase in customer deposits). NIM is expected to be stable at 1.91% for the rest of 1H20 and costs continue to be managed tightly. While 1H20 CIR should be ~65%, ABA is targeting 60% for the full year.

Figure 1 – 1H20 outlook

FY20 OUTLOOK – H1 FINANCIAL RESULTS

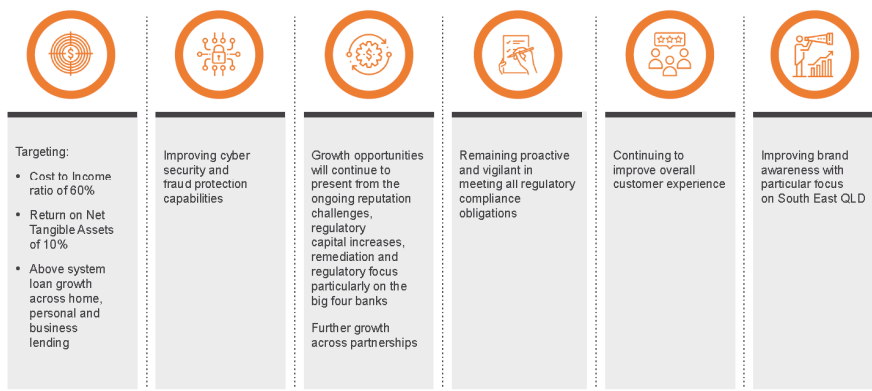


AUSWIDE BANK 2019 ANNUAL GENERAL MEETING 11

SOURCE: COMPANY DATA

Figure 2 – FY20 outlook

FY20 OUTLOOK



AUSWIDE BANK 2019 ANNUAL GENERAL MEETING 15

SOURCE: COMPANY DATA

ABA's FY20 targets relative to our forecasts are:

1. 60% CIR (BP forecast 62%);
2. 10% RONTA (BP forecast 10.1%); and
3. Strong loan book growth [BP forecast 5% vs. YTD annualised growth of 5.1% and system growth of ~3%].

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Table 1 – Estimate changes

	FY20e		FY21e		FY22e		FY23e	
	New	Change	New	Change	New	Change	New	Change
NPAT (statutory) (A\$m)	19.3	4%	20.4	3%	21.7	3%	22.7	3%
NPAT (underlying) (A\$m)	19.3	4%	20.4	3%	21.7	3%	22.7	3%
EPS (underlying) (cps)	46	4%	48	3%	51	3%	54	3%
EPS growth (%)	12%	4%	6%	-1%	6%	0%	5%	0%
DPS (cps)	36	0%	38	0%	40	0%	42	0%
RONTA (%)	10.1%	0.4%	10.5%	0.2%	10.8%	0.2%	11.1%	0.2%

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 (\$5.73 incorporating 11.0% 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 (\$5.74 based on 6.0% required yield, 30% weighting) and PB valuation (\$5.47 based on long term ROE of 9-10%, 30% weighting), plus value of surplus capital (\$0.50). 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 2 – Financial summary

Auswide Bank						Share Price (A\$)					5.70
As at						Market Cap (A\$M)					240
27-Nov-19											
PROFIT AND LOSS						VALUATION DATA					
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Y/e June 30	2018	2019	2020e	2021e	2022e
Net interest revenue	61.0	63.2	67.2	70.1	73.1	NPAT (normalised) (\$m)	17.1	17.2	19.3	20.4	21.7
Fees and commissions	8.9	9.0	8.2	8.5	8.8	EPS (statutory basis) (cps)	43	41	46	48	51
Total banking income	69.9	72.1	75.4	78.5	81.9	- Growth	15%	-5%	12%	6%	6%
Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0	EPS (underlying basis) (cps)	41	41	46	48	51
Share of profit of FTSP	0.0	0.0	0.0	0.0	0.0	- Growth	6%	0%	12%	6%	6%
Other revenue	0.5	0.5	1.0	1.0	1.0	P / E ratio (times)	13.9	14.0	12.4	11.8	11.1
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	1.0
Total operating income	70.4	72.6	76.4	79.5	82.9	P / NTA ratio (times)	1.3	1.3	1.2	1.2	1.2
Fees and commissions	-8.8	-9.9	-11.1	-11.5	-11.9	Net DPS (cps)	34	34	36	38	40
SAW	-19.4	-20.3	-20.9	-21.6	-22.2	Yield	6.0%	6.0%	6.4%	6.7%	7.1%
Depreciation expense	-2.0	-1.9	-1.9	-1.9	-1.9	Franking	100%	100%	100%	100%	100%
Amortisation expense (assume acquisition costs of \$2,038,922)	-0.7	-0.7	0.0	0.0	0.0	Payout (cash basis)	83%	84%	80%	79%	79%
G&A expenses	-13.7	-14.1	-14.5	-14.9	-15.4	CAPITAL ADEQUACY					
Underwriting expenses	0.0	0.0	1.2	1.2	1.2	Y/e June 30	2018	2019	2020e	2021e	2022e
Other	0.0	0.0	0.0	0.0	0.0	Risk weighted assets (\$m)	1,375.4	1,498.4	1,571.5	1,642.7	1,711.7
Impairment expenses	-1.3	-1.1	-1.6	-1.7	-1.8	Average risk weight	43%	43%	43%	43%	43%
Net profit before income tax	24.4	24.6	27.6	29.2	30.9	Tier 1 ratio	12.7%	11.8%	11.5%	11.2%	11.0%
Corporate tax expense	-7.4	-7.4	-8.3	-8.7	-9.3	CET1 capital ratio	12.7%	11.8%	11.5%	11.2%	11.0%
Other	0.8	0.0	0.0	0.0	0.0	Total capital ratio	14.9%	13.8%	13.4%	13.1%	12.8%
NPAT (statutory basis)	17.9	17.2	19.3	20.4	21.7	Equity ratio	7.1%	6.6%	6.4%	6.3%	6.2%
Adjustments						PROFITABILITY RATIOS					
- Sign up payment	0.0	0.0	0.0	0.0	0.0	Y/e June 30	2018	2019	2020e	2021e	2022e
- 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	-0.8	0.0	0.0	0.0	0.0	Return on NTA (underlying)	9.5%	9.2%	10.1%	10.5%	10.8%
NPAT (underlying basis)	17.1	17.2	19.3	20.4	21.7	Leverage ratio	5.3%	5.0%	4.8%	4.7%	4.7%
CASHFLOW						Net interest margin	1.93%	1.87%	1.91%	1.90%	1.90%
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	Cost / income ratio	63%	65%	62%	61%	60%
NPAT (statutory basis)	17.9	17.2	19.3	20.4	21.7	Cost / average assets	1.35%	1.33%	1.26%	1.25%	1.23%
Increase in loans	-132.3	-180.6	-140.9	-134.2	-126.5	Growth in operating income	5%	3%	5%	4%	4%
Increase in other assets	30.7	-55.9	-27.6	-29.8	-32.3	Growth in operating expenses	1%	5%	1%	3%	3%
Capital expenditure	-1.0	1.2	0.0	0.0	0.0	Jaws	4%	-2%	4%	1%	1%
Investing cashflow	-102.6	-235.3	-168.5	-164.0	-158.7	Effective tax rate	30%	30%	30%	30%	30%
Increase in deposits & borrowings	142.2	355.8	84.1	86.6	89.2	ASSET QUALITY					
Increase in other liabilities	-95.0	-104.4	80.1	72.8	64.5	Y/e June 30	2018	2019	2020e	2021e	2022e
Ordinary equity raised	0.0	0.0	0.0	0.0	0.0	Impairment expense / GLA	0.05%	0.04%	0.05%	0.05%	0.05%
Other	3.7	-15.3	-15.0	-15.8	-16.6	Impairment expense / RWA	0.10%	0.08%	0.10%	0.10%	0.11%
Financing cashflow	51.0	236.1	149.2	143.6	137.1	Total provisions + GRCL (\$m)	7.7	6.9	7.2	7.5	7.9
Net change in cash	-33.7	18.0	0.0	0.0	0.0	Total provisions + GRCL / RWA	0.56%	0.46%	0.46%	0.46%	0.46%
Cash at end of period	86.4	104.4	104.4	104.4	104.4	Total provisions + GRCL / loans	0.26%	0.22%	0.22%	0.22%	0.22%
BALANCE SHEET						Indiv ass prov / gross imp assets	31%	0%	0%	0%	0%
Y/e June 30 (\$m)	2018	2019	2020e	2021e	2022e	IBL / IEA	97%	97%	97%	97%	97%
Cash and liquid assets	86.4	104.4	104.4	104.4	104.4	INTERIMS					
Divisional gross loans	2,910.8	3,090.6	3,231.8	3,366.2	3,492.8	2H17	1H18	2H18	1H19	2H19	
Provisions	-5.3	-4.5	-4.7	-4.9	-5.1	Net interest revenue	29.2	30.7	30.3	31.1	32.1
Other gross loans / inter div.	0.0	0.0	0.0	0.0	0.0	Fees and commissions	4.4	4.4	4.5	5.0	4.0
Other IEA	275.0	338.1	365.6	395.5	427.7	Total banking income	33.7	35.1	34.8	36.1	36.0
Intangibles	48.3	48.1	48.1	48.1	48.1	Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0
PP&E	15.6	14.4	14.4	14.4	14.4	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	0.7	0.0	0.5	0.0	0.5
Other assets	19.5	12.3	12.3	12.3	12.3	Sign up payment	0.0	0.0	0.0	0.0	0.0
Total assets	3,350.3	3,603.4	3,771.9	3,935.9	4,094.6	Total operating income	34.4	35.1	35.3	36.1	36.6
Divisional deposits	2,446.8	2,802.6	2,886.7	2,973.3	3,062.5	Fees and commissions	-6.5	-6.7	-2.2	-4.5	-5.4
Other borrowings	635.2	518.4	598.5	671.2	735.8	SAW	-10.4	-8.5	-10.9	-9.2	-11.1
Other liabilities	31.5	43.9	43.9	43.9	43.9	Depreciation expense	-1.0	-0.9	-1.1	-1.1	-0.8
Total liabilities	3,113.5	3,364.9	3,529.0	3,688.4	3,842.1	Amortisation expense (assume acquisition costs of \$2,038,922)	-0.7	0.0	-0.7	-0.7	0.0
Ordinary share capital	191.6	191.9	191.9	191.9	191.9	G&A expenses	-3.9	-6.2	-7.5	-7.5	-6.6
Other equity instruments	0.0	0.0	0.0	0.0	0.0	Underwriting expenses	0.0	0.0	0.0	-0.6	0.6
Reserves	12.8	12.8	12.8	12.8	12.8	Other	0.0	-0.7	0.7	0.0	0.0
GRCL	2.4	2.4	2.5	2.6	2.7	Impairment expenses	-0.6	-0.7	-0.6	-0.4	-0.8
Retained profits	29.9	31.4	35.7	40.2	45.1	Net profit before income tax	11.3	11.4	13.0	12.1	12.5
Minority interests	0.0	0.0	0.0	0.0	0.0	Corporate tax expense	-3.4	-3.6	-3.8	-3.7	-3.8
Total shareholders' equity	236.7	238.5	242.9	247.5	252.5	Other	-0.1	0.2	0.6	0.0	0.0
Total sh. equity & liabs.	3,350.3	3,603.4	3,771.9	3,935.9	4,094.6	NPAT (statutory basis)	7.8	8.1	9.8	8.5	8.7
WANOS - statutory (m)	41.8	42.1	42.2	42.2	42.2	Adjustments	0.0	0.0	0.0	0.0	0.0
WANOS - normalised (m)	41.8	42.1	42.2	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	0.5	0.0	-0.8	0.0	0.0
						NPAT (underlying basis)	8.4	8.1	9.0	8.5	8.7

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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T S Lim, authoring analyst, holds a long position in ABA.

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