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## Auswide Bank (ABA)

My cup runneth over

### Recommendation

**Buy** (unchanged)

Price

**\$4.98**

Target (12 months)

**\$5.70** (previously \$5.50)

### GICS Sector

Banks

### Expected Return

Capital growth	<b>14.5%</b>
Dividend yield	<b>4.6%</b>
Total expected return	<b>19.1%</b>

### Company Data & Ratios

Enterprise value	n/m
Market cap	<b>\$212m</b>
Issued capital	<b>43m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$124,389</b>
12 month price range	<b>\$3.30 - \$6.83</b>

### Price Performance

ABA	(1m)	(3m)	(12m)
Price (A\$)	4.83	4.60	5.52
Absolute (%)	3.11	8.26	-9.78
Rel market (%)	0.90	8.98	1.05

### Absolute Price



SOURCE: IRESS

### Strong 1Q21, dream start to FY21

ABA provided an upbeat 1Q21 trading update today. Statutory NPAT increased by 36% to \$5.57m in the quarter due to strong loan book growth of 7% (to \$3.38bn), tighter funding costs leading to a 10bp improvement in NIM (to 1.99%), 12% higher net interest revenue of \$18.72m and strong overall expense management. While no data is provided on asset quality, COVID-19 loan assistance decreased to only 3% of the total portfolio at the end of 1Q21 compared with 9% at the end of 4Q20 and this is regarded as a very positive outcome despite all the pandemic challenges. Note we still (conservatively) forecast impairment expenses of 16bp in FY21 given the current economic setting but expect this to improve to below 10bp from FY22.

Today's trading update represents a dream start to FY21 and should comfortably ensure an unbroken track record for ABA in generating profitable growth. ABA's August outlook for FY21 targeted stable NIM (of around 1.97% at that time) and this has now been exceeded – that appears to put some of the major banks' NIM management to shame. The August outlook also targeted 60% CIR and 10% RONTA – that are both in line with our revised forecasts. As a result of strong organic capital generation and profitable RWA growth, we expect ABA's CET1 ratio to improve to around 11.2% at the end of 1H21 – that would be sufficient to support further growth in dividend payments to shareholders.

### Price target increased to \$5.70, Buy rating unchanged

Statutory NPAT forecasts are increased (FY21 +4%, FY22 +6%, FY23 +7% and FY24 +6%) based on better expected top line outcomes (1Q21 trends expected to continue, including stronger lending growth and improved NIM of 2.00% in FY21), ongoing cost discipline targeting 60% CIR in the medium term and stable asset quality (with sequential improvements post FY21). Net of a lower required dividend yield for valuation purposes of 4.0% (-50bp) that is in line with a low interest rate setting, the price target is increased by 4% to \$5.70. ABA's Buy rating is left unchanged.

### Earnings Forecast

Year end 30 June	2020	2021e	2022e	2023e
NPAT (statutory) (A\$m)	18.5	19.8	21.1	22.2
NPAT (underlying) (A\$m)	18.5	19.8	21.1	22.2
EPS (underlying) (A¢)	44	47	49	51
EPS (underlying) growth (%)	7%	6%	6%	4%
PER (x)	11.4	10.7	10.1	9.7
P/Book (x)	0.9	0.8	0.8	0.8
P/NTA (x)	1.1	1.0	1.0	0.9
Dividend (A¢)	28	23	27	30
Yield (%)	5.6%	4.6%	5.4%	6.0%
RONTA (%)	9.6%	9.9%	9.9%	9.8%
NIM (%)	1.97%	2.00%	1.96%	1.92%
Franking (%)	100.0%	100.0%	100.0%	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Auswide Bank

## Company description

ABA, formerly Wide Bay Australia Ltd, is Australia's 10<sup>th</sup> and QLD's 3<sup>rd</sup> 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

ABA's price target is a blended valuation broadly based on the company's DCF value (~\$5.70 incorporating 11.5% 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 (~\$5.75 based on 4.0% required yield, 30% weighting) and PB valuation (~\$4.80 based on long term ROE of up to 9-10%, 30% weighting), plus value of surplus capital (~\$0.30). 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 1 – Financial summary

Auswide Bank						Share Price (A\$)					4.98
As at						Market Cap (A\$M)					212
3-Nov-20											
<b>PROFIT AND LOSS</b>											
<b>Y/e June 30 (\$m)</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>	<b>VALUATION DATA</b>					
Net interest revenue	63.2	70.5	73.6	75.0	75.9	<b>Y/e June 30</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Fees and commissions	9.0	9.2	9.3	9.7	9.9	NPAT (underlying basis) (\$m)	17.2	18.5	19.8	21.1	22.2
<b>Total banking income</b>	<b>72.1</b>	<b>79.7</b>	<b>83.0</b>	<b>84.7</b>	<b>85.8</b>	EPS (statutory basis) (c)	41	44	47	49	51
Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0	- Growth	-5%	7%	6%	6%	4%
Share of profit of FTSP	0.0	0.0	0.0	0.0	0.0	EPS (underlying basis) (c)	41	44	47	49	51
Other revenue	0.5	0.8	0.5	0.5	0.5	- Growth	0%	7%	6%	6%	4%
Sign up payment	0.0	0.0	0.0	0.0	0.0	P / E ratio (times)	12.2	11.4	10.7	10.1	9.7
<b>Total operating income</b>	<b>72.6</b>	<b>80.5</b>	<b>83.5</b>	<b>85.2</b>	<b>86.3</b>	P / Book ratio (times)	0.9	0.9	0.8	0.8	0.8
Fees and commissions	-10.0	-11.5	-10.8	-11.2	-11.5	P / NTA ratio (times)	1.1	1.1	1.0	1.0	0.9
SAW	-20.6	-21.6	-22.0	-22.5	-22.9	Net DPS (c)	34	28	23	27	30
Depreciation expense	-1.9	-3.3	-3.3	-3.3	-3.3	Yield	6.9%	5.6%	4.6%	5.4%	6.0%
Amortisation expense (assume acquisition costs of \$2,038,922)	-0.7	-0.7	-1.4	-1.4	-1.4	Franking	100%	100%	100%	100%	100%
G&A expenses	-13.7	-13.0	-12.3	-12.5	-12.7	Payout (underlying basis; target 70-80%)	84%	63%	49%	55%	59%
Underwriting expenses	0.0	0.0	0.1	0.1	0.1	<b>CAPITAL ADEQUACY</b>					
Other	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Impairment expenses	-1.1	-3.8	-5.4	-4.2	-2.8	Risk weighted assets (\$m)	1,498.4	1,631.8	1,695.5	1,761.4	1,815.8
<b>Net profit before income tax</b>	<b>24.6</b>	<b>26.5</b>	<b>28.3</b>	<b>30.2</b>	<b>31.7</b>	Average risk weight	43%	45%	45%	45%	45%
Corporate tax expense	-7.4	-8.0	-8.5	-9.1	-9.5	<b>Tier 1 ratio</b>	<b>11.8%</b>	<b>11.1%</b>	<b>11.4%</b>	<b>11.6%</b>	<b>11.9%</b>
Other	0.0	0.0	0.0	0.0	0.0	<b>CET1 capital ratio</b>	<b>11.8%</b>	<b>11.1%</b>	<b>11.4%</b>	<b>11.6%</b>	<b>11.9%</b>
<b>NPAT (statutory basis)</b>	<b>17.2</b>	<b>18.5</b>	<b>19.8</b>	<b>21.1</b>	<b>22.2</b>	Total capital ratio	13.8%	13.0%	13.2%	13.3%	13.5%
Adjustments						Equity ratio	6.6%	6.4%	6.5%	6.5%	6.7%
- Sign up payment	0.0	0.0	0.0	0.0	0.0	<b>PROFITABILITY RATIOS</b>					
- Impairment expenses/one-offs	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
- 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%
<b>NPAT (underlying basis)</b>	<b>17.2</b>	<b>18.5</b>	<b>19.8</b>	<b>21.1</b>	<b>22.2</b>	<b>Return on NTA (underlying)</b>	<b>9.2%</b>	<b>9.6%</b>	<b>9.9%</b>	<b>9.9%</b>	<b>9.8%</b>
<b>CASHFLOW</b>						Leverage ratio	5.0%	4.8%	5.0%	5.1%	5.2%
<b>Y/e June 30 (\$m)</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>	<b>Net interest margin</b>	<b>1.87%</b>	<b>1.97%</b>	<b>2.00%</b>	<b>1.96%</b>	<b>1.92%</b>
NPAT (statutory basis)	17.2	18.5	19.8	21.1	22.2	Cost / income ratio	65%	62%	60%	60%	60%
Increase in loans	-221.0	-132.4	-110.2	-112.2	-83.5	Cost / average assets	1.33%	1.33%	1.28%	1.26%	1.24%
Increase in other assets	-15.5	-45.1	-32.2	-34.8	-37.7	Growth in operating income	3%	11%	4%	2%	1%
Capital expenditure	1.2	-7.0	0.0	0.0	0.0	Growth in operating expenses	5%	7%	-1%	2%	2%
<b>Investing cashflow</b>	<b>-235.3</b>	<b>-184.5</b>	<b>-142.4</b>	<b>-147.0</b>	<b>-121.1</b>	<b>Jaws</b>	<b>-2%</b>	<b>4%</b>	<b>4%</b>	<b>0%</b>	<b>-1%</b>
Increase in deposits & borrowings	355.8	215.9	114.5	118.7	110.3	Effective tax rate	30%	30%	30%	30%	30%
Increase in other liabilities	-104.4	-33.4	15.3	15.8	-1.4	<b>ASSET QUALITY</b>					
Ordinary equity raised	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
Other	-15.3	-14.4	-7.3	-8.6	-9.9	Impairment expense / GLA	0.04%	0.12%	0.16%	0.12%	0.08%
<b>Financing cashflow</b>	<b>236.1</b>	<b>168.1</b>	<b>122.6</b>	<b>125.9</b>	<b>99.0</b>	Impairment expense / RWA	0.08%	0.24%	0.32%	0.24%	0.16%
Net change in cash	18.0	2.1	0.0	0.0	0.0	<b>Total provisions + GRCL (\$m)</b>	<b>6.9</b>	<b>9.5</b>	<b>9.3</b>	<b>9.6</b>	<b>9.9</b>
<b>Cash at end of period</b>	<b>104.4</b>	<b>106.5</b>	<b>106.5</b>	<b>106.5</b>	<b>106.5</b>	Total provisions + GRCL / RWA	0.46%	0.58%	0.55%	0.55%	0.55%
<b>BALANCE SHEET</b>						Total provisions + GRCL / loans	0.22%	0.29%	0.27%	0.28%	0.28%
<b>Y/e June 30 (\$m)</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>	Indiv ass prov / gross imp assets	0%	0%	0%	0%	0%
Cash and liquid assets	104.4	106.5	106.5	106.5	106.5	IBL / IEA	97%	98%	97%	97%	97%
Divisional gross loans	3,131.0	3,266.0	3,375.9	3,488.3	3,572.0	<b>INTERIMS</b>					
Provisions	-4.5	-7.1	-6.8	-7.0	-7.3	<b>1H19</b>	<b>2H19</b>	<b>1H20</b>	<b>2H20</b>	<b>1H21e</b>	
Other gross loans / inter div.	-40.4	-53.1	-53.1	-53.1	-53.1	Net interest revenue	31.1	32.1	34.5	36.0	36.5
Other IEA	338.1	394.6	426.8	461.6	499.2	Fees and commissions	5.0	4.0	5.0	4.2	4.6
Intangibles	48.1	47.6	47.6	47.6	47.6	<b>Total banking income</b>	<b>36.1</b>	<b>36.0</b>	<b>39.5</b>	<b>40.2</b>	<b>41.0</b>
PP&E	14.4	21.4	21.4	21.4	21.4	Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0	Share of profit of FTSP	0.0	0.0	0.0	0.0	0.0
Other assets	12.3	13.7	13.7	13.7	13.7	Other revenue	0.3	0.3	0.4	0.4	0.3
<b>Total assets</b>	<b>3,603.4</b>	<b>3,789.5</b>	<b>3,931.9</b>	<b>4,078.9</b>	<b>4,200.0</b>	Sign up payment	0.0	0.0	0.0	0.0	0.0
Divisional deposits	2,802.6	3,018.5	3,133.0	3,251.7	3,362.0	<b>Total operating income</b>	<b>36.4</b>	<b>36.3</b>	<b>39.9</b>	<b>40.6</b>	<b>41.3</b>
Other borrowings	518.4	498.5	513.9	529.6	528.2	Fees and commissions	-4.5	-5.5	-5.0	-6.5	-5.3
Other liabilities	43.9	30.4	30.4	30.4	30.4	SAW	-9.2	-11.4	-9.6	-12.0	-9.8
<b>Total liabilities</b>	<b>3,364.9</b>	<b>3,547.4</b>	<b>3,677.3</b>	<b>3,811.8</b>	<b>3,920.6</b>	Depreciation expense	-1.1	-0.8	-2.5	-0.8	-2.5
Ordinary share capital	191.9	193.3	195.0	197.2	199.6	Amortisation expense (assume acquisition costs of \$2,038,922)	-0.7	0.0	0.0	-0.7	-0.7
Other equity instruments	0.0	0.0	0.0	0.0	0.0	G&A expenses	-7.5	-6.2	-8.2	-4.8	-7.8
Reserves	12.8	12.0	12.0	12.0	12.0	Underwriting expenses	-0.6	0.6	0.0	0.0	0.0
GRCL	2.4	2.4	2.5	2.6	2.7	Other	0.0	0.0	0.0	0.0	0.0
Retained profits	31.4	34.3	45.0	55.3	65.1	Impairment expenses	-0.4	-0.8	-0.8	-3.0	-2.7
Minority interests	0.0	0.0	0.0	0.0	0.0	<b>Net profit before income tax</b>	<b>12.4</b>	<b>12.3</b>	<b>13.6</b>	<b>12.9</b>	<b>12.5</b>
<b>Total shareholders' equity</b>	<b>238.5</b>	<b>242.0</b>	<b>254.6</b>	<b>267.1</b>	<b>279.4</b>	Corporate tax expense	-3.7	-3.8	-4.0	-4.0	-3.8
<b>Total sh. equity &amp; liabs.</b>	<b>3,603.4</b>	<b>3,789.5</b>	<b>3,931.9</b>	<b>4,078.9</b>	<b>4,200.0</b>	Other	0.0	0.0	0.0	0.0	0.0
<b>WANOS - statutory (m)</b>	<b>42.2</b>	<b>42.2</b>	<b>42.5</b>	<b>42.9</b>	<b>43.3</b>	<b>NPAT (statutory basis)</b>	<b>8.7</b>	<b>8.5</b>	<b>9.6</b>	<b>8.9</b>	<b>8.8</b>
<b>WANOS - normalised (m)</b>	<b>42.2</b>	<b>42.2</b>	<b>42.5</b>	<b>42.9</b>	<b>43.3</b>	Adjustments	0.0	0.0	0.0	0.0	0.0
<b>ROE</b>	<b>7.3%</b>	<b>7.7%</b>	<b>8.0%</b>	<b>8.1%</b>	<b>8.1%</b>	- 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	0.0	0.0	0.0	0.0
						<b>NPAT (underlying basis)</b>	<b>8.7</b>	<b>8.5</b>	<b>9.6</b>	<b>8.9</b>	<b>8.8</b>

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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