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## Auswide Bank (ABA)

### 1H20 result preview

#### Recommendation

**Buy** (unchanged)

Price

**\$6.17**

Target (12 months)

**\$6.70** (previously \$6.20)

#### GICS Sector

Banks

#### Expected Return

Capital growth	<b>8.6%</b>
Dividend yield	<b>5.9%</b>
Total expected return	<b>14.5%</b>

#### Company Data & Ratios

Enterprise value	n/m
Market cap	<b>\$260m</b>
Issued capital	<b>42m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$149,889</b>
12 month price range	<b>\$4.55 - \$6.24</b>

#### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.90	5.43	5.58
Absolute (%)	4.58	13.63	10.57
Rel market (%)	1.07	9.07	-8.71

#### Absolute Price



SOURCE: IRESS

### Expecting underlying NPAT \$9.6m, interim dividend 17¢

ABA will report its 1H20 result on Wednesday 19 February. Our forecasts are: (1) statutory NPAT \$9.6m, +14% pcp; (2) statutory EPS 23¢, +14% pcp; (3) underlying NPAT \$9.6m, +14% pcp; (4) underlying EPS 23¢, +14% pcp; (5) fully franked interim dividend 17¢, +1¢ pcp (underlying payout 74%); (6) underlying RONTA 10.2% (vs. 9.3% in 2H19 and 9.1% in 1H19); (7) NIM 1.91% (vs. 1.87% in 2H19 and 1.88% in 1H19); (8) underlying CIR 61%; (9) impairment expenses \$0.8m/5bp GLA (vs. \$0.8m/5bp in 2H19 and \$0.4m/3bp in 1H19); and (10) CET1 ratio 11.6% (vs. 11.8% at the end of 2H19 and 12.3% at the end of 1H19).

Assuming no one-off items, statutory NPAT should be the same as underlying NPAT at \$9.6m. ABA indicated at the November AGM that overall sentiment continues to be upbeat in its patch and 1H20 trends remain in line with expectations. NIM improved by 4bp to 1.91% in the four months to 31 October (largely from lower retail and wholesale funding costs) and is expected to be stable in the last two months of 1H20. We expect ongoing tight cost control and ABA has targeted an aggressive FY20 CIR of 60%. We expect robust regional economic activity (including large projects and investments occurring in the key catchment areas of Rockhampton, Mackay, Bundaberg and Townsville) to underpin overall lending growth that should remain ahead of system.

### Price target increased to \$6.70, Buy rating maintained

Looking ahead, 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% and system growth of ~3%). While our forecasts are unchanged, we have increased the price target by 8% to \$6.70 (previously \$6.20) as follows: (1) required valuation dividend yield lowered from 6.0% to 5.0%, consistent with the general direction of interest rates – price target increased by \$0.30; and (2) cost of equity lowered from 11.0% to 10.5%, consistent with lower hurdle rates in the present environment – price target further increased by \$0.20. ABA's Buy rating is maintained based on a 12-month total expected return of >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)	15.1	13.5	12.8	12.0
P/Book (x)	1.1	1.1	1.1	1.0
P/NTA (x)	1.4	1.3	1.3	1.3
Dividend (A¢)	34	36	38	40
Yield (%)	5.6%	5.9%	6.2%	6.6%
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

# 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 (~\$6.40 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 5.0% required yield, 30% weighting) and PB valuation (~\$5.30 based on long term ROE of 9-10%, 30% weighting), plus value of surplus capital (~\$0.50). To be conservative, 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\$)					6.17
As at						Market Cap (A\$M)					260
6-Feb-20											
<b>PROFIT AND LOSS</b>						<b>VALUATION DATA</b>					
<b>Y/e June 30 (\$m)</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>Y/e June 30</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Net interest revenue	61.0	63.2	67.2	70.1	73.1	NPAT (underlying basis) (\$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) (c)	43	41	46	48	51
<b>Total banking income</b>	<b>69.9</b>	<b>72.1</b>	<b>75.4</b>	<b>78.5</b>	<b>81.9</b>	- Growth	15%	-5%	12%	6%	6%
Premium revenue (MRM)	0.0	0.0	0.0	0.0	0.0	EPS (underlying basis) (c)	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)	15.1	15.1	13.5	12.8	12.0
Sign up payment	0.0	0.0	0.0	0.0	0.0	P / Book ratio (times)	1.1	1.1	1.1	1.1	1.0
<b>Total operating income</b>	<b>70.4</b>	<b>72.6</b>	<b>76.4</b>	<b>79.5</b>	<b>82.9</b>	P / NTA ratio (times)	1.4	1.4	1.3	1.3	1.3
Fees and commissions	-8.8	-9.9	-11.1	-11.5	-11.9	Net DPS (c)	34	34	36	38	40
SAW	-19.4	-20.3	-20.9	-21.6	-22.2	Yield	5.5%	5.6%	5.9%	6.2%	6.6%
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	<b>CAPITAL ADEQUACY</b>					
Underwriting expenses	0.0	0.0	1.2	1.2	1.2	<b>Y/e June 30</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Other	0.0	0.0	0.0	0.0	0.0	Risk weighted assets (\$m)	1,375.4	1,498.4	1,571.5	1,642.8	1,711.7
Impairment expenses	-1.3	-1.1	-1.6	-1.7	-1.8	Average risk weight	43%	43%	43%	43%	43%
<b>Net profit before income tax</b>	<b>24.4</b>	<b>24.6</b>	<b>27.6</b>	<b>29.2</b>	<b>30.9</b>	<b>Tier 1 ratio</b>	<b>12.7%</b>	<b>11.8%</b>	<b>11.5%</b>	<b>11.2%</b>	<b>11.0%</b>
Corporate tax expense	-7.4	-7.4	-8.3	-8.7	-9.3	<b>CET1 capital ratio</b>	<b>12.7%</b>	<b>11.8%</b>	<b>11.5%</b>	<b>11.2%</b>	<b>11.0%</b>
Other	0.8	0.0	0.0	0.0	0.0	Total capital ratio	14.9%	13.8%	13.4%	13.1%	12.8%
<b>NPAT (statutory basis)</b>	<b>17.9</b>	<b>17.2</b>	<b>19.3</b>	<b>20.4</b>	<b>21.7</b>	Equity ratio	7.1%	6.6%	6.4%	6.3%	6.2%
Adjustments						<b>PROFITABILITY RATIOS</b>					
- Sign up payment	0.0	0.0	0.0	0.0	0.0	<b>Y/e June 30</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
- 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	<b>Return on NTA (underlying)</b>	<b>9.5%</b>	<b>9.2%</b>	<b>10.1%</b>	<b>10.5%</b>	<b>10.8%</b>
<b>NPAT (underlying basis)</b>	<b>17.1</b>	<b>17.2</b>	<b>19.3</b>	<b>20.4</b>	<b>21.7</b>	Leverage ratio	5.3%	5.0%	4.8%	4.7%	4.7%
<b>CASHFLOW</b>						<b>Net interest margin</b>	<b>1.93%</b>	<b>1.87%</b>	<b>1.91%</b>	<b>1.90%</b>	<b>1.90%</b>
<b>Y/e June 30 (\$m)</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	Cost / income ratio	63%	65%	62%	61%	61%
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	<b>Jaws</b>	<b>4%</b>	<b>-2%</b>	<b>4%</b>	<b>1%</b>	<b>1%</b>
<b>Investing cashflow</b>	<b>-102.6</b>	<b>-235.3</b>	<b>-168.5</b>	<b>-164.0</b>	<b>-158.7</b>	Effective tax rate	30%	30%	30%	30%	30%
Increase in deposits & borrowings	142.2	355.8	84.1	86.6	89.2	<b>ASSET QUALITY</b>					
Increase in other liabilities	-95.0	-104.4	80.1	72.8	64.5	<b>Y/e June 30</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
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%
<b>Financing cashflow</b>	<b>51.0</b>	<b>236.1</b>	<b>149.2</b>	<b>143.6</b>	<b>137.1</b>	<b>Total provisions + GRCL (\$m)</b>	<b>7.7</b>	<b>6.9</b>	<b>7.2</b>	<b>7.5</b>	<b>7.9</b>
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%
<b>Cash at end of period</b>	<b>86.4</b>	<b>104.4</b>	<b>104.4</b>	<b>104.4</b>	<b>104.4</b>	Total provisions + GRCL / loans	0.26%	0.22%	0.22%	0.22%	0.22%
<b>BALANCE SHEET</b>						Indiv ass prov / gross imp assets	31%	0%	0%	0%	0%
<b>Y/e June 30 (\$m)</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	IBL / IEA	97%	97%	97%	97%	97%
Cash and liquid assets	86.4	104.4	104.4	104.4	104.4	<b>INTERIMS</b>					
Divisional gross loans	2,910.8	3,090.6	3,231.8	3,366.2	3,492.9	<b>1H18</b>	<b>2H18</b>	<b>1H19</b>	<b>2H19</b>	<b>1H20e</b>	
Provisions	-5.3	-4.5	-4.7	-4.9	-5.1	Net interest revenue	30.7	30.3	31.1	32.1	33.2
Other gross loans / inter div.	0.0	0.0	0.0	0.0	0.0	Fees and commissions	4.4	4.5	5.0	4.0	4.0
Other IEA	275.0	338.1	365.6	395.5	427.7	<b>Total banking income</b>	<b>35.1</b>	<b>34.8</b>	<b>36.1</b>	<b>36.0</b>	<b>37.3</b>
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	0.0	0.5	0.0	0.5	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
<b>Total assets</b>	<b>3,350.3</b>	<b>3,603.4</b>	<b>3,771.9</b>	<b>3,935.9</b>	<b>4,094.7</b>	<b>Total operating income</b>	<b>35.1</b>	<b>35.3</b>	<b>36.1</b>	<b>36.6</b>	<b>37.8</b>
Divisional deposits	2,446.8	2,802.6	2,886.7	2,973.3	3,062.5	Fees and commissions	-6.7	-2.2	-4.5	-5.4	-5.5
Other borrowings	635.2	518.4	598.5	671.3	735.8	SAW	-8.5	-10.9	-9.2	-11.1	-9.5
Other liabilities	31.5	43.9	43.9	43.9	43.9	Depreciation expense	-0.9	-1.1	-1.1	-0.8	-1.1
<b>Total liabilities</b>	<b>3,113.5</b>	<b>3,364.9</b>	<b>3,529.1</b>	<b>3,688.4</b>	<b>3,842.2</b>	Amortisation expense (assume acquisition costs of \$2,038,922)	0.0	-0.7	-0.7	0.0	0.0
Ordinary share capital	191.6	191.9	191.9	191.9	191.9	G&A expenses	-6.2	-7.5	-7.5	-6.6	-7.7
Other equity instruments	0.0	0.0	0.0	0.0	0.0	Underwriting expenses	0.0	0.0	-0.6	0.6	0.6
Reserves	12.8	12.8	12.8	12.8	12.8	Other	-0.7	0.7	0.0	0.0	0.0
GRCL	2.4	2.4	2.5	2.6	2.7	Impairment expenses	-0.7	-0.6	-0.4	-0.8	-0.8
Retained profits	29.9	31.4	35.7	40.2	45.1	<b>Net profit before income tax</b>	<b>11.4</b>	<b>13.0</b>	<b>12.1</b>	<b>12.5</b>	<b>13.8</b>
Minority interests	0.0	0.0	0.0	0.0	0.0	Corporate tax expense	-3.6	-3.8	-3.7	-3.8	-4.1
<b>Total shareholders' equity</b>	<b>236.7</b>	<b>238.5</b>	<b>242.9</b>	<b>247.5</b>	<b>252.5</b>	Other	0.2	0.6	0.0	0.0	0.0
<b>Total sh. equity &amp; liabs.</b>	<b>3,350.3</b>	<b>3,603.4</b>	<b>3,771.9</b>	<b>3,935.9</b>	<b>4,094.7</b>	<b>NPAT (statutory basis)</b>	<b>8.1</b>	<b>9.8</b>	<b>8.5</b>	<b>8.7</b>	<b>9.6</b>
<b>WANOS - statutory (m)</b>	<b>41.8</b>	<b>42.1</b>	<b>42.2</b>	<b>42.2</b>	<b>42.2</b>	Adjustments	0.0	0.0	0.0	0.0	0.0
<b>WANOS - normalised (m)</b>	<b>41.8</b>	<b>42.1</b>	<b>42.2</b>	<b>42.2</b>	<b>42.2</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	-0.8	0.0	0.0	0.0
						<b>NPAT (underlying basis)</b>	<b>8.1</b>	<b>9.0</b>	<b>8.5</b>	<b>8.7</b>	<b>9.6</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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T S Lim, authoring analyst, holds a long position in ABA.

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