

30<sup>th</sup> August 2017

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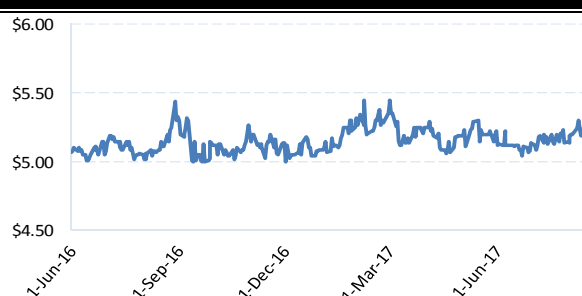
## **Auswide Bank (ABA): Taking us to the place of higher fintech margins**

**Recommendation: BUY, target price \$5.85**

Share price: **\$5.60**

Market Cap: **\$227.8m**

Y/E 30 June	2016A	2017A	2018E	2019E	2020E
Gross Income (\$m)	63.0	67.7	70.3	74.3	77.6
EBIT (\$m)	20.1	23.2	23.9	26.5	28.2
Adj NPAT (\$m)	13.7	15.5	16.1	17.8	19.0
EPS adj (cps)	<b>36.4</b>	<b>38.1</b>	<b>39.5</b>	<b>43.9</b>	<b>46.7</b>
EPS growth	2%	5%	3%	11%	6%
PER (x)	15.4	14.7	14.2	12.8	12.0
DPS (cps)	30.0	31.0	32.0	33.0	34.0
Yield %	5.4%	5.5%	5.7%	5.9%	6.1%
Price/Book x	0.97	1.02	1.00	0.98	0.96



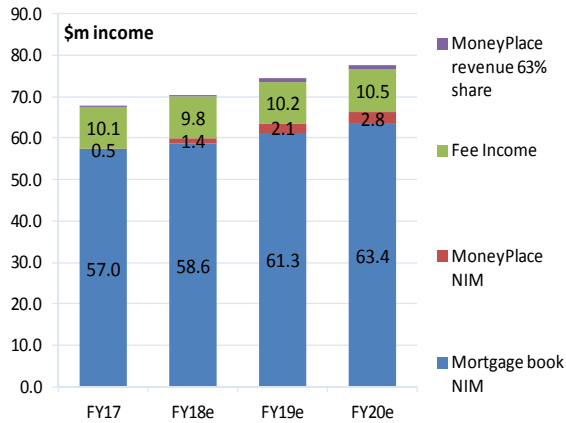
**Adjusted EPS of 39.5 cents (+5%) is ahead of the growth rates reported by BEN (+1%) and MYS (+1%).** 4.2% loans growth was supported by cost/income reduction, offsetting mild NIM compression to 1.85% (from 1.91%). Strong 2H loans growth, 8% annualised, is likely to be tempered by Auswide hitting the rolling 12 month, 10% limit on investor and interest only loans. We expect relatively flat 1H loan book growth, followed by 6% annualised 2H, overall 3.5% book growth. Loan book is still ~78% QLD denominated with growth increasingly driven by the SE QLD corridors and an estimated 50% of the \$96m new loan origination generated (ex MoneyPlace) through 3<sup>rd</sup> party channels.

**Auswide acquired a further 44% equity in peer to peer lending Platform, MoneyPlace, earlier in 2017.** ABA has taken effective control with a 63.3% stake. MoneyPlace recorded an FY17 NPAT loss of \$0.7m (100%) on revenues of \$0.55m on our estimates. In the current growth phase, we expect a loss of (\$0.33m) in FY18 and (\$0.12m) in FY19 before modest profit contribution in FY20. Extension of the funding platform to include other major ADI's outside of Auswide may fast track this profitability.

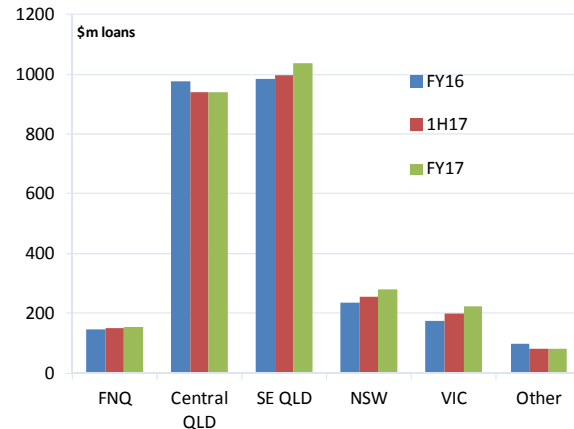
**The more immediate value for Auswide is a rapidly growing book of high NIM loans channelled through the platform.** 30 June 2017 closed with \$14m of the initial \$60m lending commitment being drawn down and guidance is for this to roughly double to \$26m by 30 June 2018. This represents a monthly compounded growth rate of 5%. Auswide's net interest margins to date have averaged 7.4% on the platform. We estimate that this is inclusive of an average 200 BP's of provisioning per loan. Although interest rates may normalise over a 3-5 year period as more entrants add capacity to the P2P market, the MoneyPlace/Auswide partnership has a first mover advantage and during this time can continue to capture share and margins. **We expect Auswide's lending facility to reach \$46m by FY20, generating close to \$3m NIM / \$2m PBT, with minimal addition to the fixed cost infrastructure through the bank.**

We re-issue forecasts on the back of early success through the MoneyPlace investment and signs that the loan book can sustainably grow without overly diluting NIM and also positive result from the cost out and efficiency programs and acquisition synergies. **Rolling forward a P/Book target of 1.1x, based on improving ROE and access to a higher NIM channel justifies a \$5.85 valuation and BUY recommendation.**

**Growing non interest fee portion**



**~78% of the loan book resides in QLD**

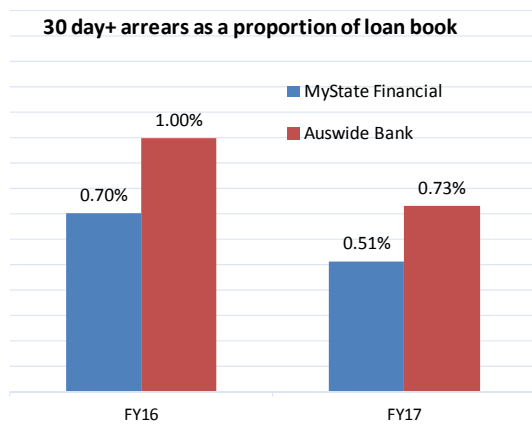


Source: CCZ Equities

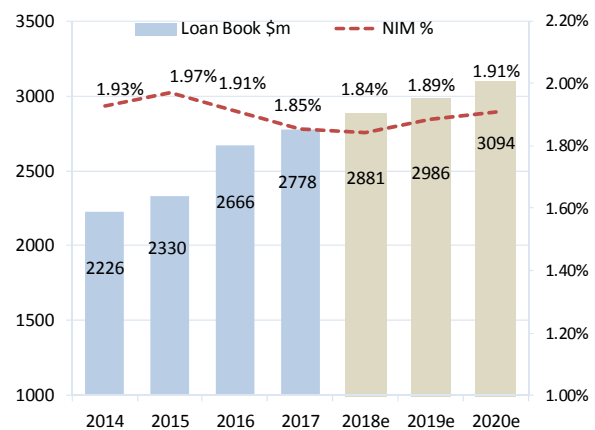
**Result Scorecard**

- Diversification of the funding base, re-pricing of term deposits and inclusion of higher NIM contribution from MoneyPlace restricted the NIM compression to 6 basis points during FY17.
- Cost/Income (ex D&A) reduced to 61.6% (from 64.7%) during FY17. Branch numbers have been rationalised down to 23 and overall cost control, operating leverage and technology investment such as the LoanFast system all contribute to net efficiency gains.
- Outlook for QLD housing and banking system growth is broadly positive, supported by population growth, horticultural/mining sector rebound and other established GDP drivers such as tourism.

**Arrears levels reduced in FY17**



**Expect modest NIM contraction in FY18e**



Source: CCZ Equities

## MoneyPlace

MoneyPlace was founded in 2015 and has developed a peer to peer (P2P) lending platform utilising risk based pricing. Risk modelling is consistent with major Australian financial institutions, likely with a bias to digital information sources and soft data, such as social media.

Auswide's initial equity stake of 19.3% was secured in January 2016 for \$2.26m (\$11.7m valuation) with a follow up purchase of 44.0% equity for \$4.34m (\$9.9m valuation) executed in February 2017. The top 5 international P2P lending companies has grown by compound rates in excess of 100% since 2009, with 2016 loan books estimated at over US\$20b. Industry estimates place the potential marketplace for personal lending at \$10b in Australia by 2020-2021.

MoneyPlace holds an AFSL. The primary function is to facilitate the transfer of wholesale funding to retail lending, with loan values ranging from \$5,000 to \$35,000. Customer applications are accepted and assessed online drawing on bank data and customer activity. Interest rates to the borrower likely vary from an estimated 8% through to 14%+. Average returns across the asset classes are likely to be in the range of 11%-12%, inclusive of the MoneyPlace commission and the lender's margin.

Initial Auswide commitment is for \$60m over 5 years and we estimate that close to \$50m will have been drawn down by FY20, with upside risk. The platform can capture loan commitments from wholesale investors and ADI's. We estimate that Auswide currently accounts for 90% of the platforms funding source. Extended period of due diligence and assumed testing and input into the risk modelling gives us confidence that Auswide can track at least to the FY18 guidance level of \$26m worth of new lending on the platform by 30 June 2017.

### ***MoneyPlace wholesale facility contribution to Auswide NIM***

	<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>	<b>FY20e</b>
Auswide Facility to MoneyPlace	14.0	26.0	36.0	46.0
NIM %	7.4%	7.2%	7.1%	7.0%
NIM \$m	0.52	1.44	2.13	2.80
Estimated PBT contribution \$m	0.31	0.86	1.28	1.68

Source: CCZ Equities

## Commission structure is likely to be split as follows

### Lending institution

Provides a wholesale facility with specifications directing into which categories to lend. In the case of Auswide, we suspect a focus on A, B, C based categories providing an estimated net lending return of 11%, before adjusting for internal funding costs and provisions. Post settlement of the loan, the lending institution retains the customer as a loan account / balance sheet assets and derives net interest margin over the life of the loan. All provisioning is born by the lending institution. There is restricted access for Auswide to re-market to customers' upon completion of the loan.

### Money Place

Likely commission % tied with the lending category and as per industry standard, we expect a fixed application and annual fee are also charged to the end borrower. Money Place's value is derived as a function of the size of the platform i.e. the number of loans and users.

### Borrower

Depending on the risk category, the net interest rate payable by the lender ranges from 8% to 18% over the term of the loan. Average loan terms are 1-3 years, likely averaging 2 years.

### **MoneyPlace equity investment contribution to ABA profit (loss)**

		<b>FY17</b>	<b>FY18e</b>	<b>FY19e</b>	<b>FY20e</b>
ABA Ownership	%	0.37	0.63	0.63	0.63
MoneyPlace revenue \$m @ 100%	\$m	0.35	0.61	1.05	1.50
% growth	%		75%	72%	43%
<b>ABA Share of Income</b>	<b>\$m</b>	<b>0.13</b>	<b>0.39</b>	<b>0.66</b>	<b>0.95</b>
Expenses \$m: (fixed/variable) @ 100%	\$m	-1.05	-1.13	-1.25	-1.37
% growth in expenses	%		8%	10%	10%
<b>ABA share of expenses</b>	<b>\$m</b>	<b>-0.27</b>	<b>-0.71</b>	<b>-0.79</b>	<b>-0.86</b>
MoneyPlace Net Profit @ 100%	\$m	-0.70	-0.52	-0.20	0.13
profit margin % on revenue	%	-200%	-15%	-10%	5%
<b>ABA Share of Profit before tax</b>	<b>\$m</b>	<b>-0.14</b>	<b>-0.33</b>	<b>-0.12</b>	<b>0.08</b>

Source: CCZ Equities

## AUSWIDE BANK LIMITED (ABA.AX)

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Publication Date: 30 Aug 2017

STOCK INFORMATION	Share Price (AUD)	\$ 5.60	Market Cap (AUD)	227.8m
Auswide (formerly WideBay Australia) is a regional bank based in Bundaberg QLD, with 23 branches spanning Eastern QLD from Cairns to the Gold Coast. The \$2.7b loan book principally comprises of housing loans, with a wide range of financial products (credit cards, insurance, travel cards, financial planning) offered through partners and associates. Purchase of YCU (Brisbane) settled in May 2016 for a combined cash and scrip cost of \$30.8m. BBB/A2 S&P rating. Auswide owns 63% of P2P lending company MoneyPlace	<b>Target Price (AUD)</b>	<b>\$ 5.85</b>	Shares on Issue	40.7m
	<b>Recommendation</b>	<b>BUY</b>	Year End	30-Jun
	1yr TSR Potential	10.2%		

RETURN ANALYSIS	2016A	2017A	2018E	2019E	2020E
<b>Adj EPS (AUD cps)</b>	<b>36.4</b>	<b>38.1</b>	<b>39.5</b>	<b>43.9</b>	<b>46.7</b>
Growth	2%	5%	3%	11%	6%
Shares on Issue (m)	40.2	40.7	40.7	40.7	40.7
<b>Reported EPS (AUD cps)</b>	<b>30.2</b>	<b>37.0</b>	<b>39.5</b>	<b>43.9</b>	<b>46.7</b>
<b>PE</b>	<b>15.4x</b>	<b>14.7x</b>	<b>14.2x</b>	<b>12.8x</b>	<b>12.0x</b>
PE - Banks	13.8x	13.8x	13.6x	13.1x	12.7x
PE Relative	11%	6%	4%	(2%)	(6%)
Dividend (AUD cps)	30.0	31.0	32.0	33.0	34.0
Franking	100%	100%	100%	100%	100%
<b>Dividend Yield</b>	<b>5.4%</b>	<b>5.5%</b>	<b>5.7%</b>	<b>5.9%</b>	<b>6.1%</b>
Payout Ratio	99%	84%	81%	75%	73%
CAR (ex MRM, board policy 13%)	14.3%	14.6%	14.5%	14.4%	14.4%
CAR (tier 1 incl MRM)	11.9%	12.2%	12.2%	12.2%	12.2%
Cost/Income (ex D&A)	64.7%	61.6%	60.4%	58.7%	58.1%
ROE (adj)	6.3%	7.0%	7.1%	7.7%	8.1%
Net Interest Margin (NIM)	1.91%	1.85%	1.84%	1.89%	1.91%
NIM (including capital)	1.78%	1.73%	1.72%	1.76%	1.78%
Book Value / Share	5.78	5.50	5.58	5.69	5.83
Price/Book x	0.97	1.02	1.00	0.98	0.96

VALUATION SUMMARY					
<b>Models (AUD/share)</b>		<b>DCF - Key Inputs</b>		<b>DDM - Key Inputs</b>	
P/Book (FY17/FY18)	\$ 5.85	WACC	10.6%	Retention Ratio	17.7%
DDM	\$ 4.09	Cost of Equity	11.0%	Expected Growth	1.4%
PE	\$ 5.86				
<b>Weighted Avg</b>	<b>5.85</b>	<b>PE - Key Inputs</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>
<b>Valuation Weighting</b>		Target PER relative	100%	100%	100%
P/Book	100%	Discount Rate	100%	98%	95%
DDM	0%	PV of EPS	5.26	5.37	5.73
PE	0%	PV of Dividend	0.31	0.31	0.31
		PE Valuation	5.58	5.68	6.04

PROFIT & LOSS (AUD'm)	2016A	2017A	2018E	2019E	2020E
<b>Net Interest Income</b>	<b>53.9</b>	<b>57.5</b>	<b>60.1</b>	<b>63.5</b>	<b>66.2</b>
<b>Fee Income</b>	<b>9.1</b>	<b>10.2</b>	<b>10.2</b>	<b>10.8</b>	<b>11.5</b>
Gross Income	63.0	67.7	70.3	74.3	77.6
Operating Costs	(40.8)	(41.7)	(42.4)	(43.7)	(45.1)
<b>EBITDA</b>	<b>22.2</b>	<b>26.0</b>	<b>27.8</b>	<b>30.7</b>	<b>32.6</b>
D&A	(1.7)	(2.0)	(2.0)	(2.1)	(2.1)
<b>EBIT</b>	<b>20.1</b>	<b>23.2</b>	<b>23.9</b>	<b>26.5</b>	<b>28.2</b>
Provisions	(0.6)	(1.0)	(1.0)	(1.0)	(1.1)
<b>Pre-Tax Profit</b>	<b>19.5</b>	<b>22.2</b>	<b>22.9</b>	<b>25.5</b>	<b>27.1</b>
Abnormals pre-tax	(2.5)	(0.6)	0.0	0.0	0.0
Tax	(5.9)	(6.7)	(6.9)	(7.6)	(8.1)
<b>Reported NPAT</b>	<b>11.3</b>	<b>15.0</b>	<b>16.1</b>	<b>17.8</b>	<b>19.0</b>
<b>Underlying NPAT</b>	<b>13.7</b>	<b>15.5</b>	<b>16.1</b>	<b>17.8</b>	<b>19.0</b>
Income Growth	3%	8%	4%	6%	4%
PBT (pre-provisions) Growth	3%	15%	3%	11%	6%
Underlying NPAT Growth	3%	14%	3%	11%	6%
Reported NPAT Growth	(15%)	33%	7%	11%	6%
Loans growth (decline) \$m	336.3	111.2	103.6	104.8	108.1
Loans growth %	14.4%	4.2%	3.7%	3.6%	3.6%

BALANCE SHEET (AUD'm)	2016A	2017A	2018E	2019E	2020E
Cash & Financial Assets	89.8	138.6	138.6	138.6	138.6
Loans	2,666.4	2,773.2	2,881.2	2,986.0	3,094.1
Other	237.9	291.9	292.0	292.0	292.0
<b>Current assets</b>	<b>2,994.1</b>	<b>3,203.7</b>	<b>3,311.7</b>	<b>3,416.5</b>	<b>3,524.6</b>
Fixed Assets	15.5	14.6	13.4	12.4	11.3
Intangibles	49.1	56.9	56.0	54.9	53.7
Other	13.7	14.8	14.8	14.8	14.8
<b>Non-Current Assets</b>	<b>78.3</b>	<b>86.3</b>	<b>84.2</b>	<b>82.1</b>	<b>79.8</b>
<b>Total Assets</b>	<b>3,072.4</b>	<b>3,290.0</b>	<b>3,395.8</b>	<b>3,498.6</b>	<b>3,604.4</b>
Deposits	2,183.9	2,304.6	2,358.6	2,436.4	2,516.8
Due to other FI's	639.2	729.6	778.2	798.5	819.0
Payables & other liabilities	0.0	0.0	0.0	0.0	0.0
Other	33.1	32.1	32.1	32.1	32.1
<b>Total Liabilities</b>	<b>2,856.2</b>	<b>3,066.3</b>	<b>3,168.8</b>	<b>3,267.0</b>	<b>3,367.9</b>
<b>Total Shareholder Funds</b>	<b>216.2</b>	<b>223.7</b>	<b>227.0</b>	<b>231.6</b>	<b>236.6</b>
Total Funds Employed	1,248.1	1,283.4	1,389.2	1,441.0	1,494.2
<b>Liquidity and leverage ratios</b>					
NTA per Share	4.17	4.07	4.17	4.31	4.47
new provisions/gross loans	(0.02%)	(0.04%)	(0.03%)	(0.04%)	(0.04%)
all provisions/gross loans	0.17%	0.13%	0.20%	0.20%	0.20%
loans/deposits	94%	92%	93%	93%	94%
Franking Cr \$m	13.75	21.39	21.56	21.97	22.50
Franking Cr/Share	0.37	0.53	0.53	0.54	0.55

CASHFLOW (AUD'm)	2016A	2017A	2018E	2019E	2020E
Net Operating Cash Flow	17.4	19.2	21.0	23.0	24.4
net change in deposits (loans)	18.2	49.6	(5.4)	(6.7)	(7.2)
PPE Capex	(3.6)	(1.0)	(1.0)	(1.0)	(1.1)
Software Capex	(1.3)	(1.0)	(1.0)	(1.0)	(1.0)
Acquisitions	(5.3)	(4.0)	0.0	0.0	0.0
Total Capex	(10.2)	(6.0)	(2.0)	(2.0)	(2.1)
Operating Cash / EBITDA	78%	74%	75%	75%	75%
Capex / D&A	2.9x	1.0x	1.0x	1.0x	1.0x

SEGMENT INFORMATION	2016A	2017A	2018E	2019E	2020E
Net Interest Income(AUD'm)	<b>53.9</b>	<b>57.5</b>	<b>60.1</b>	<b>63.5</b>	<b>66.2</b>
Growth	5%	7%	4%	6%	4%
Non-interest income(AUD'm)	<b>9.1</b>	<b>10.2</b>	<b>10.2</b>	<b>10.8</b>	<b>11.5</b>
Growth	(7%)	12%	0%	6%	6%
Loan Income	85.6%	84.9%	85.5%	85.4%	85.2%
Commissions & Fees	14.4%	15.1%	14.5%	14.6%	14.8%
Money Place share of Loan Book \$m		14.7	27.3	37.8	48.3
Money Place share of NIM \$m		0.52	1.44	2.13	2.80
Auswide share of PBT for 62.4% stake \$m	-	0.14	0.33	0.12	0.08

SUBSTANTIAL SHAREHOLDERS		Interims \$m	1H17	2H17
1. R E Hancock	5.4%	Net Interest Income	28.3	29.2
2. Australian Ethical Investment Ltd	5.5%	Fee Income	4.6	5.6
		Gross Income	32.9	34.8
		Provisions	-0.4	-0.6
		Adj NPAT	7.3	8.2
		Adj EPS (c)	18.0	20.2
		DPS (c)	14.0	17.0
		Loans \$m	2435.5	2666.4

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