

Auswide Bank ABA

Recommendations

Rating	HOLD
Risk	Medium
Price Target	\$6.85
Share Price	\$6.48

Snapshot

Monthly Turnover	\$2.8mn
Market Cap	\$269mn
Shares Issued	42.2mn
52-Week High	\$6.49
52-Week Low	\$4.55
Sector	Financials

Business Description

Auswide Bank (ABA) is engaged in the provision of banking and financial services, focusing on the raising of funds on deposits and the provision of finance for housing over mortgages secured by residential property. ABA is based in Bundaberg in Queensland.

12-Month Price & Volume



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Disclosure

The author owns no shares in ABA.

Company Report

Positive jaws sighted in Wide Bay

1H20 result: 1) Normalised NPAT of A\$9.3m (+9.3% pcp) versus our forecast of A\$8.4m; 2) gross loan growth of 5.4% annualised; 3) net interest margin (NIM) of 1.95% (FY19: 1.87%); and 4) revenue growth of 9.5% pcp versus operating cost growth of 7.8% pcp, with cost-to-income ratio of 62.9% (1H19: 64.8%); and 5) interim dividend of A17cps (1H19: A16cps) with a payout ratio of 77.5%.

Key takeaways: 1) A very clean result characterised by strong loan growth relative to system of 2.4% annualised, improved NIM and good cost control relative to revenue growth – the 8bp improvement in NIM versus FY19 was the driver of the beat to our forecast; 2) adoption of new accounting standard AASB16 only had a nominal impact on the 1H20 result; 3) improved NIM attributed to easing BBSW wholesale funding costs in addition to a 12.6% annualised growth in deposits in 1H20; 4) credit environment remains benign with arrears relative to loan book cited as at a historical low at 1H20; 5) return on NTA for 1H20 of 9.7% versus medium-term strategic target of 10%; and 6) capital ratio remains strong at 13.03% (FY19: 13.79%) although the DRP will be reactivated from the 1H20 dividend to facilitate growth

Outlook: No numerical guidance for FY20, as is normal. In general, ABA is guiding to: 1) above system loan growth to continue; 2) target cost-to-income ratio of 60% by end FY22 remains; and 3) the trend in NIM improvement to continue in 2H20, despite prospect of a further rate cut – ABA cited higher 1H20 exit NIM than the 1.95% average for the half. ABA continues to look at M&A in banking and related fintech spaces in addition to further partnering opportunities. Early participation as a panel lender in the First Home Loan Scheme cited as encouraging at this stage.

Changes to forecasts: Increase to FY20 and FY21 EPS forecasts by 6% and 3% respectively based upon the higher 1H20 NIM than expected.

Investment view: HOLD retained with revised DDM valuation (prev. A\$6.27) and price target (prev. A\$6.25) of A\$6.85. The result would appear to frank the recent strong share price performance and the extensive re-engineering of the business. Third tier banks are clearly enjoying strong growth without the regulatory distraction encountered by the majors – we expect this to continue. Hold for yield, with any material share price weakness to be viewed as an opportunity.

Investment Summary

Year End: 30 June		2018 (A)	2019 (A)	2020 (E)	2021 (E)	2022 (E)
Revenue	\$mn	70	73	79	83	88
Reported Profit	\$mn	17.7	17.2	18.8	20.1	22.1
Adjusted Profit	\$mn	17.1	17.2	18.8	20.1	22.1
EPS (Reported)	¢	42.3	40.8	44.6	47.6	52.3
EPS (Adjusted)	¢	41.0	40.8	44.6	47.6	52.3
EPS Growth	%	6.3	-0.4	9.3	6.8	9.8
PER (Adjusted)	x	15.8	15.9	14.5	13.6	12.4
Dividend	¢	34.0	34.5	36.5	39.0	42.5
Yield	%	5.2	5.3	5.6	6.0	6.6
Franking	%	100	100	100	100	100

Financial Summary

Auswide Bank Ltd

Analyst	Nick Caley
Date	19-February-2020
Market Capitalisation (A\$m)	\$269
Share Price (\$A)	\$6.48
Year End	30 June

Rating	HOLD
Price Target	\$6.85
Valuation	\$6.85
Upside/(Downside)	6%
Risk	Medium

Profit & Loss (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Interest Income	128.9	136.4	132.3	139.9	149.0
Interest Expense	67.9	73.2	63.1	67.2	71.7
Net Interest Margin	61.0	63.2	69.3	72.8	77.4
Other Revenue	9.3	9.5	9.7	10.0	10.4
Bad & Doubtful Debts Expense	1.3	1.1	1.7	1.8	1.9
Other Expenses	44.6	46.9	50.3	52.4	54.5
Net Profit Before Tax	24.4	24.6	26.9	28.7	31.5
Income Tax Expense/(Benefit)	7.4	7.4	8.1	8.6	9.5
Minority Interests	0.6	0.0	0.0	0.0	0.0
NPAT - Reported	17.7	17.2	18.8	20.1	22.1
Normalisation Adjustments	-0.5	0.0	0.0	0.0	0.0
NPAT - Normalised	17.1	17.2	18.8	20.1	22.1
Balance Sheet (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Assets					
Cash	86.4	104.4	111.5	117.4	124.5
Due From Other Fin.Institutions	15.4	21.0	21.0	21.0	21.0
Accrued Receivables	5.3	0.0	0.0	0.0	0.0
Financial Assets	254.3	317.1	371.4	371.4	371.4
Loans & Advances	2,910.8	3,086.2	3,260.9	3,497.9	3,751.9
Other Investments	1.1	1.3	1.3	1.3	1.3
Property, Plant & Equipment	15.6	14.4	18.0	19.4	20.8
Deferred Tax Assets	4.6	6.5	9.0	9.0	9.0
Other Assets	8.5	4.5	3.2	3.2	3.2
Goodwill	48.3	48.1	47.9	47.9	47.9
Total Assets	3,350.3	3,603.4	3,844.2	4,088.5	4,351.1
Liabilities					
Dep.& Short Term Borrowings	2,446.8	2,802.6	3,085.4	3,322.5	3,576.4
Due To Other Fin.Institutions	0.0	0.0	0.0	0.0	0.0
Payables & Other Liabilities	26.0	39.1	22.5	22.5	22.5
Securitised Loans	607.2	490.4	460.5	460.5	460.5
Income Tax Payable	0.7	0.0	0.0	0.0	0.0
Deferred Tax Liability	1.9	1.8	1.7	1.7	1.7
Provisions	2.9	3.0	3.1	3.1	3.1
Subordinated Loans	28.0	28.0	28.0	28.0	28.0
Total Liabilities	3,113.5	3,364.9	3,601.2	3,838.3	4,092.2
Contributed Capital	191.6	191.9	193.4	196.6	200.0
Reserves	15.2	15.1	15.0	15.0	15.0
Retained Earnings	29.9	31.4	34.6	38.7	43.9
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	236.7	238.5	243.0	250.3	258.8
Book Value Per Share (cps)	562.2	565.5	576.1	593.2	613.5
NTA Per Share (cps)	447.5	451.4	462.6	479.7	500.0
Cash Flow (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash at Start	120.1	86.4	104.4	111.5	117.4
Cash Flow from Operations	38.3	35.6	-9.3	20.1	22.1
Cash Flow From Investing	-102.9	-237.4	-231.1	-238.5	-255.4
Cash Flow From Financing	30.8	219.8	247.6	224.3	240.5
Net Cash Flow	30.8	219.8	247.6	224.3	240.5
Other Adj	-33.7	18.0	7.1	5.9	7.2
Cash At End	86.4	104.4	111.5	117.4	124.5

Earnings	FY18A	FY19A	FY20E	FY21E	FY22E
EPS - Reported	42.3	40.8	44.6	47.6	52.3
EPS - Normalised	41.0	40.8	44.6	47.6	52.3
EPS Growth (%)	6%	0%	9%	7%	10%
DPS	34.0	34.5	36.5	39.0	42.5
Franking (%)	100.0	100.0	100.0	100.0	100.0
Payout Ratio (%)	83%	85%	82%	82%	81%

Valuation	FY18A	FY19A	FY20E	FY21E	FY22E
P/E (x)	15.8	15.9	14.5	13.6	12.4
Dividend Yield (%)	5.2%	5.3%	5.6%	6.0%	6.6%
Price/Book (x)	1.2	1.1	1.1	1.1	1.1
Price/NTA (x)	1.4	1.4	1.4	1.4	1.3
Price/Cash/Flow per Share (x)	7.1	7.7	-29.3	13.6	12.4

Growth	FY18A	FY19A	FY20E	FY21E	FY22E
Net Loan Growth (% pcp)	5%	6%	6%	7%	7%
Net Int. Margin Growth (% pcp)	6%	4%	10%	5%	6%
Exp.Growth - ex BDD(% pcp)	-1%	5%	7%	4%	4%
NPBT Growth (% pcp)	12%	1%	9%	7%	10%

Margins & Returns	FY18A	FY19A	FY20E	FY21E	FY22E
Net Interest Margin % (ex Int Free)	1.79%	1.74%	1.87%	1.89%	1.89%
Cost To Income %	63%	65%	64%	63%	62%
NPBT Margin %	35%	34%	34%	35%	36%
Effective Tax Rate %	30%	30%	30%	30%	30%
ROIC %	6%	6%	7%	7%	7%
ROE %	7%	7%	8%	8%	9%

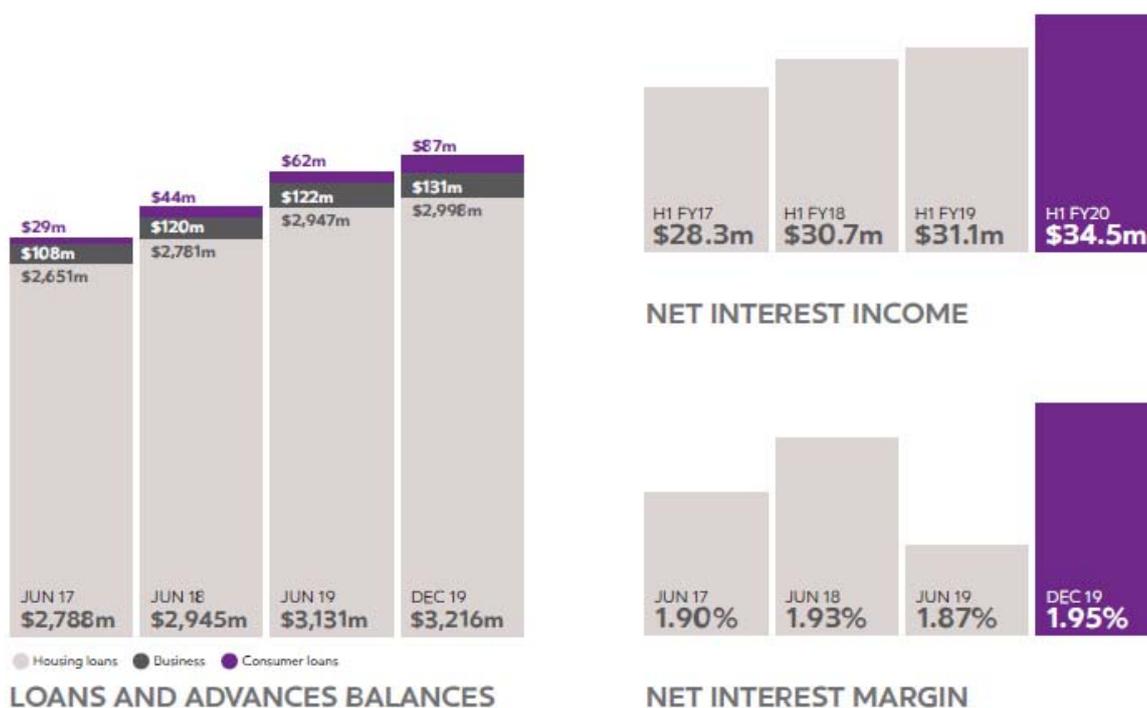
Operational Data	FY18A	FY19A	FY20E	FY21E	FY22E
Risk Weighted Assets A\$m	1,375	1,498	1,564	1,676	1,795
Total Capital Ratio %	14.9%	13.8%	13.7%	13.3%	12.9%
Loan Book A\$m	2,919	3,131	3,329	3,566	3,820
Deposits/Loans %	84%	91%	95%	95%	95%

Fig.1: ABA 1H20 result summary

	H1 FY20	H1 FY19	Change
NPAT (Consolidated)	\$9.256m	\$8.467m	↑ 9.3%
Loan Book ¹	\$3.216b	\$3.019b	↑ \$197m
Net Interest Revenue	\$34.516m	\$31.109m	↑ 10.9%
Net Interest Margin (bps)	195bps	188bps	↑ 7bps
Interim dividend per share (fully franked) (cents per share)	17.0c	16.0c	↑ 1.0c
EPS (cents per share)	21.9c	20.1c	↑ 1.8c
RONTA ²	9.7%	9.0%	↑ 0.7%
Cost to Income Ratio	62.9%	64.8% ³	↑ 1.9%
Capital Adequacy Ratio	13.03%	14.43%	↓ 1.4%
Deposits	\$2.523b	\$2.190b	↑ \$333m

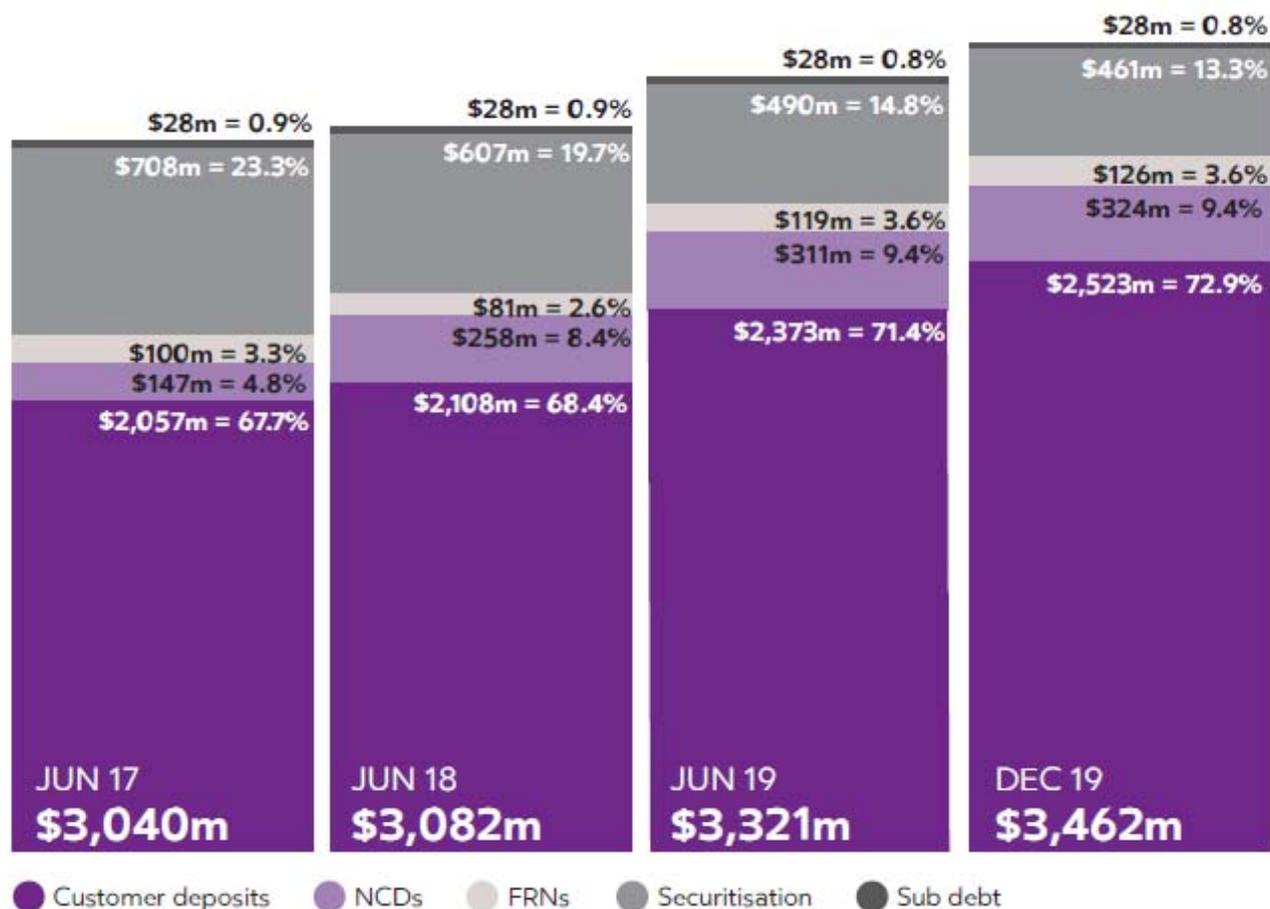
Source: Company reports

Fig.2: ABA loan book and NIM



Source: Company reports

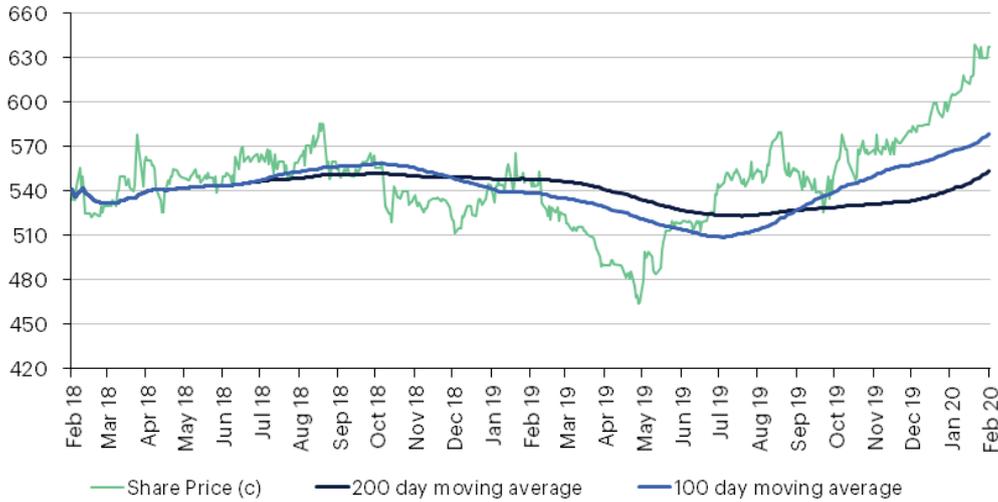
Fig.3: ABA funding mix



Source: Company reports

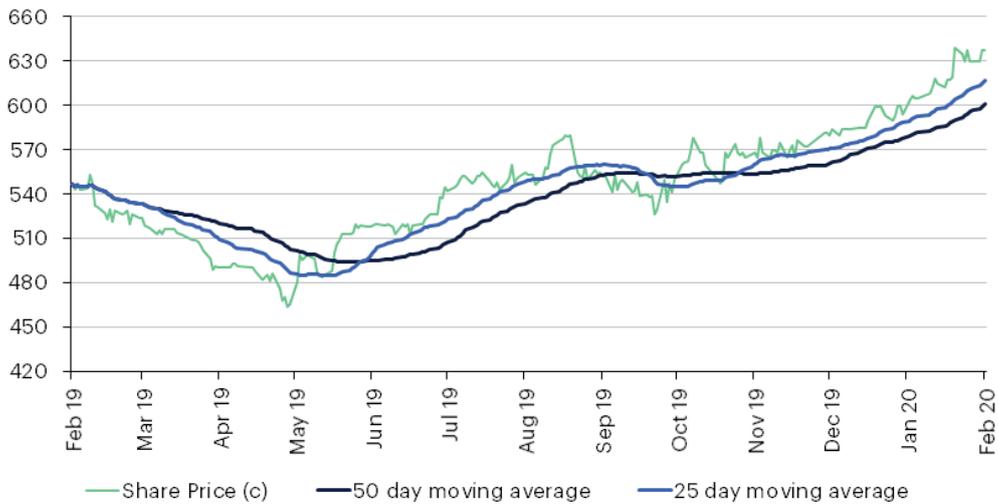
Appendix

Fig.4: Long term momentum indicators



Source: Iress

Fig.5: Short term momentum indicators



Source: Iress

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Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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