

Auswide Bank ABA

Recommendations

Rating	BUY
Risk	Medium
Price Target	\$6.75
Share Price	\$5.95

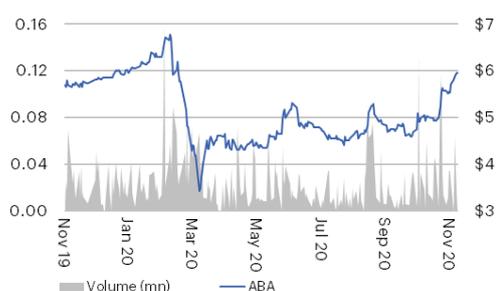
Snapshot

Monthly Turnover	\$3.8mn
Market Cap	\$254mn
Shares Issued	42.7mn
52-Week High	\$6.83
52-Week Low	\$3.30
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

Never enough good news

AGM update: After recently providing a 1Q21 trading update, ABA has provided a further update for the first four months of FY21 as part of its AGM commentary. In summary: 1) NPAT has increased to A\$7.4m (+33.7% pcp); 2) gross loan book has increased to A\$3.4bn (+7.9% pcp); 3) net interest revenue of A\$25.2m (+11.7% pcp); 4) net interest margin (NIM) of 199bps (191bps pcp); 5) deposits of A\$2.8bn (+15.2% pcp); and 6) only 1.5% of total loan book is now subject to active assistance post the advent of COVID-19.

Our comments: 1) loan growth: even after allowing for strong loan growth in 2H20, ABA's FY21 YTD loan growth versus FY20 is still 5.1%, or 15.3% on an annualised basis – we attribute this to the stimulus from historically low interest rates, ABA's addition to the Federal Government's First Home Owners Loan panel, embracing broker distribution, and emerging economic growth in regional Queensland; 2) although ABA is citing an FY21 YTD NIM of 1.99%, this was the same as in 2H20, with ABA also citing an even stronger exit NIM from FY20 – places ABA well to deal with the RBA's latest 15bp rate cut, particularly as the cut has not been passed through to its back book of variable rate mortgages; and 3) loan quality: although ABA has not cited FY21 YTD bad debt expenses, we presume its credit experience remains benign, due to the cited growth in NPAT.

Changes to forecasts: We have upgraded FY21 and FY22 forecasts by 9% and 10%, respectively, based on a combination of higher loan growth assumptions and a reversal of previous increases to bad debt charges which we now view as overly conservative. This also raises dividend forecasts – we assume that APRA dividend payout ratio constraints do not apply from FY21.

Investment view: BUY maintained with revised DDM valuation of A\$6.73 (prev. A\$5.80) and price target of A\$6.75 (prev. A\$5.80). The strength of ABA's FY21 YTD result makes for a sharp contrast to the lacklustre results recently delivered by the major and second-tier banks. We continue to like ABA in the current environment due to: 1) loan books are heavily biased to secured residential housing with generally conservative LVRs; 2) growth has been augmented by participation in the Federal Government's First Home Owners Loan panel; 3) we expect NIMs to hold; 4) expenses continue to decline relative to revenue; 5) capital ratio remains strongly positioned for growth; and 6) yield attraction.

Investment Summary

Year End: 30 June		2019 (A)	2020 (A)	2021 (E)	2022 (E)	2023 (E)
Revenue	\$mn	73	80	88	94	98
Reported Profit	\$mn	17.2	18.5	23.8	26.7	28.7
Adjusted Profit	\$mn	17.2	20.1	23.8	26.7	28.7
EPS (Reported)	¢	40.8	43.8	56.2	62.8	67.7
EPS (Adjusted)	¢	40.8	47.6	56.2	62.8	67.7
EPS Growth	%	-0.4	16.7	18.0	11.8	7.8
PER (Adjusted)	x	14.6	12.5	10.6	9.5	8.8
Dividend	¢	34.5	27.8	39.5	44.0	47.5
Yield	%	5.8	4.7	6.6	7.4	8.0
Franking	%	100	100	100	100	100

Financial Summary

Auswide Bank Ltd

Analyst	Nick Caley
Date	19-November-2020
Market Capitalisation (A\$m)	\$254
Share Price (\$A)	\$5.95
Year End	30 June

Rating	BUY
Price Target	\$6.75
Valuation	\$6.73
Upside/(Downside)	13%
Risk	Medium

Profit & Loss (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Interest Income	136.4	126.3	128.0	138.5	147.4
Interest Expense	73.2	55.7	50.8	55.9	60.4
Net Interest Margin	63.2	70.5	77.2	82.7	87.1
Other Revenue	9.5	10.0	10.5	10.9	11.3
Bad & Doubtful Debts Expense	1.1	3.8	1.7	1.5	1.2
Other Expenses	46.9	50.1	51.9	54.0	56.1
Net Profit Before Tax	24.6	26.5	34.1	38.1	41.0
Income Tax Expense/(Benefit)	7.4	8.0	10.2	11.4	12.3
Minority Interests	0.0	0.0	0.0	0.0	0.0
NPAT - Reported	17.2	18.5	23.8	26.7	28.7
Normalisation Adjustments	0.0	1.6	0.0	0.0	0.0
NPAT - Normalised	17.2	20.1	23.8	26.7	28.7
Balance Sheet (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Assets					
Cash	104.4	106.5	116.5	124.2	132.0
Due From Other Fin.Institutions	21.0	16.3	16.3	16.3	16.3
Accrued Receivables	0.0	0.0	0.0	0.0	0.0
Financial Assets	317.1	378.3	378.3	378.3	378.3
Loans & Advances	3,086.2	3,205.8	3,535.1	3,824.1	4,057.4
Other Investments	1.3	1.4	1.4	1.4	1.4
Property, Plant & Equipment	14.4	21.4	22.8	24.2	25.6
Deferred Tax Assets	6.5	9.1	9.1	9.1	9.1
Other Assets	4.5	3.3	3.3	3.3	3.3
Goodwill	48.1	47.6	47.6	47.6	47.6
Total Assets	3,603.4	3,789.5	4,130.2	4,428.3	4,670.8
Liabilities					
Dep.& Short Term Borrowings	2,802.6	3,018.5	3,347.8	3,636.8	3,870.1
Due To Other Fin.Institutions	0.0	49.8	49.8	49.8	49.8
Payables & Other Liabilities	39.1	25.6	25.6	25.6	25.6
Securitised Loans	490.4	420.7	420.7	420.7	420.7
Income Tax Payable	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	1.8	1.4	1.4	1.4	1.4
Provisions	3.0	3.3	3.3	3.3	3.3
Subordinated Loans	28.0	28.0	28.0	28.0	28.0
Total Liabilities	3,364.9	3,547.4	3,876.7	4,165.7	4,399.0
Contributed Capital	191.9	193.3	193.3	193.3	193.3
Reserves	15.1	14.4	14.4	14.4	14.4
Retained Earnings	31.4	34.3	45.8	54.8	64.0
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	238.5	242.0	253.5	262.5	271.7
Book Value Per Share (cps)	565.5	570.7	597.7	619.0	640.8
NTA Per Share (cps)	451.4	458.6	485.5	506.9	528.6
Cash Flow (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash at Start	86.4	104.4	106.5	116.5	124.2
Cash Flow from Operations	35.6	7.2	23.8	26.7	28.7
Cash Flow From Investing	-237.4	-184.0	-330.7	-290.4	-234.7
Cash Flow From Financing	219.8	178.9	316.9	271.4	213.8
Net Cash Flow	219.8	178.9	316.9	271.4	213.8
Other Adj	18.0	2.1	10.0	7.7	7.8
Cash At End	104.4	106.5	116.5	124.2	132.0

Earnings	FY19A	FY20A	FY21E	FY22E	FY23E
EPS - Reported	40.8	43.8	56.2	62.8	67.7
EPS - Normalised	40.8	47.6	56.2	62.8	67.7
EPS Growth (%)	0%	17%	18%	12%	8%
DPS	34.5	27.8	39.5	44.0	47.5
Franking (%)	100.0	100.0	100.0	100.0	100.0
Payout Ratio (%)	85%	58%	70%	70%	70%

Valuation	FY19A	FY20A	FY21E	FY22E	FY23E
P/E (x)	14.6	12.5	10.6	9.5	8.8
Dividend Yield (%)	5.8%	4.7%	6.6%	7.4%	8.0%
Price/Book (x)	1.1	1.0	1.0	1.0	0.9
Price/NTA (x)	1.3	1.3	1.2	1.2	1.1
Price/Cash/Flow per Share (x)	7.0	35.1	10.6	9.5	8.8

Growth	FY19A	FY20A	FY21E	FY22E	FY23E
Net Loan Growth (% pcp)	6%	4%	10%	8%	6%
Net Int. Margin Growth (% pcp)	4%	12%	9%	7%	5%
Exp.Growth - ex BDD(% pcp)	5%	7%	3%	4%	4%
NPBT Growth (% pcp)	1%	8%	29%	12%	8%

Margins & Returns	FY19A	FY20A	FY21E	FY22E	FY23E
Net Interest Margin % (ex Int Free)	1.74%	1.88%	2.02%	2.00%	1.98%
Cost To Income %	65%	62%	59%	58%	57%
NPBT Margin %	34%	33%	39%	41%	42%
Effective Tax Rate %	30%	30%	30%	30%	30%
ROIC %	6%	7%	8%	8%	9%
ROE %	7%	8%	10%	10%	11%

Operational Data	FY19A	FY20A	FY21E	FY22E	FY23E
Risk Weighted Assets A\$m	1,498	1,632	1,806	1,954	2,073
Total Capital Ratio %	13.8%	13.0%	12.5%	12.0%	11.8%
Loan Book A\$m	3,131	3,213	3,542	3,831	4,064
Deposits/Loans %	91%	94%	95%	95%	95%

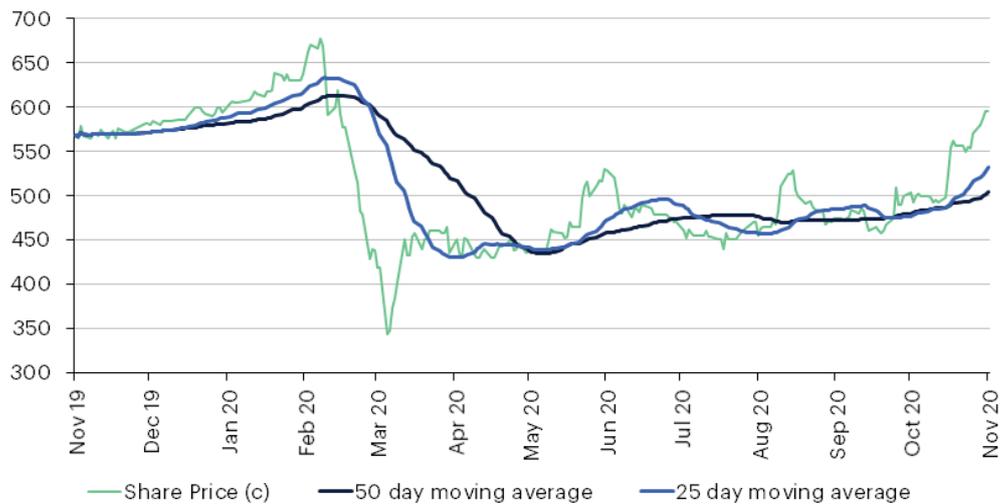
Appendix

Fig.1: Long-term momentum indicators



Source: Iress

Fig.2: Short-term momentum indicators



Source: Iress

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Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

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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Hold: 21%

Sell: 9%

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