

Auswide Bank (ASX:ABA)

27 Feb 2023

1H23 Result

Long-established regional bank based in Bundaberg Queensland providing home loans, personal loans and credit cards.

1H23 Result Highlights

- **Underlying NPAT:** \$14.1m (+8% pcp versus adj 1H22 and +18% versus 2H22).
- **Dividend:** 22cps (1H22: 21cps), payout ratio 71% (1H22: 69%). Annualised dividend yield is 7.4%.
- **Revenue versus Expenses:** Net Revenue of \$52.1m (+8% pcp). OPEX (ex-credit charges) of \$32.7m (+13.4% pcp) – strong volume and margin growth.
- **Net Interest margin (NIM):** 2.02% in 1H23 versus 1.94% in 1H22 and 1.89% in 2H22.
- **Credit quality:** Benign credit experience remains - ABA reversed loan loss provisioning through the P&L by \$822k (1H22 reversal of \$400K). Actual bad debts in 1H23 only \$27K.
- **Loan book:** \$4.108bn, representing annualised growth of 13.1% (>2X system).
- **Deposits:** \$3.24bn at 1H23 (+12.4% on an annualised basis).
- **Outlook:** Target loan book size of \$6 billion by FY25, medium-term objective to achieve a cost-to-income ratio of less than 60%, continued investment in digital transformation and loan processing platforms, a target ROE in the 10% range, and a focus on M&A opportunities that deliver asset growth and scale over the next three years.
- **Our view:** 1H23 earnings growth is generally in line with our forecast, with the decision to pause loan growth in 2H22 preserving NIM and placing the bank well to grow the loan book in 1H23 – which it did. The new loan book target of \$6bn looks aggressive, despite traditional banking acquisition opportunities remaining elusive. Book value at balance date is \$294m (\$6.48 ps).

Share Price **\$5.93**

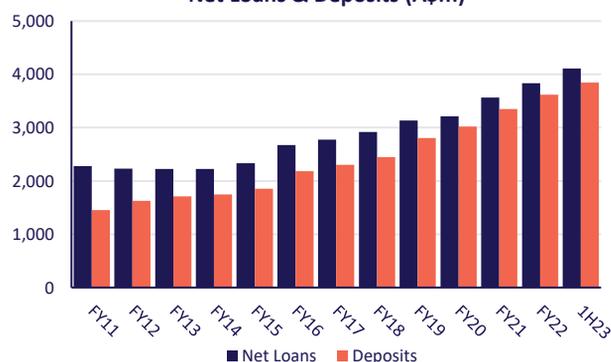
Market Cap **\$269.0m**

Book Value **\$293.7m**

1H23 Price to Book **0.92x**

(A\$m)	FY22A	FY23F	FY24F
Net Revenue	94.4	103.6	111.3
NPAT	26.1	27.0	29.9
Net Loan Growth % pcp	7.7%	14.1%	12.4%
Net Interest Margin %	1.94%	2.02%	2.02%
Diluted EPS (cps)	57.8	61.2	65.9
DPS (cps)	42.0	44.0	46.0
PE	10.3x	9.7x	9.0x
DY	7.1%	7.4%	7.8%

Net Loans & Deposits (A\$m)



Share Price



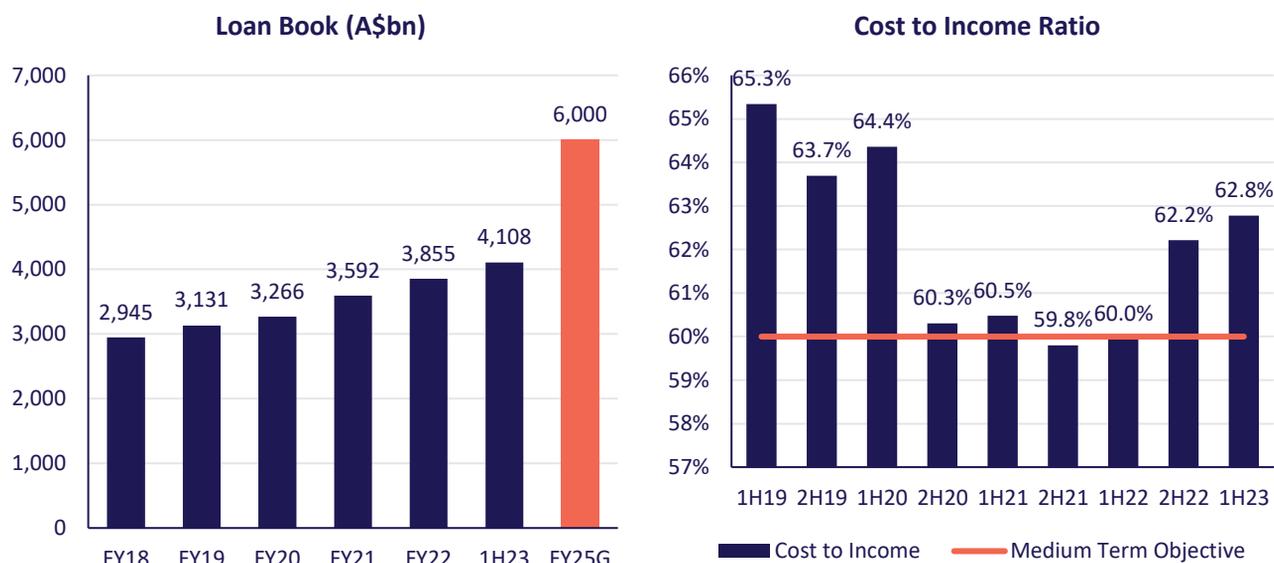
Source: CapIQ

Key Takeaways

New loan book target of \$6bn by end FY25.

Outlook

- **FY23:** No numerical guidance as is normal. ABA targeting:
 - **Loan book:** ABA has introduced a target loan book size of \$6bn by the end FY25, from the current book of \$4.1bn. This is an organic growth target.
 - **OPEX:** Medium term objective to achieve cost to income ratio of less than 60%. In the interim ABA intends to continue investing in its digital transformation and loan processing platform to reduce cost of business origination.
 - **ROE:** Target remains in the 10% range.
 - **M&A:** Continue to target M&A which delivers asset growth and scale opportunities over the next 3 years.



Our View

- **Overall:** Although generally in line with our forecast, it should be noted that ABA's 1H23 delivers earnings growth which cycles 14% pcp achieved in 1H22 and the 1H23 result is 18% higher than 2H22. ABA took a deliberate decision to pause loan growth in 2H22 to preserve NIM. This placed ABA well to grow the loan book in 1H23 and benefit from rising interest spreads. The new loan book target of \$6bn looks aggressive particularly when it is intended to come from organic growth. Acquisition opportunities in the banking market remain elusive which we attribute the reluctance of mutuals to come to the table. Mortgage market competition is currently intense with multiple institutions offering cash incentives for borrowers refinancing as a sizeable wave of loans shift from fixed to variable rates. ABA has achieved over 2X loan book growth in 1H23 without offering such incentives. Book value at balance date is \$294m (\$6.48 ps).

1H23 Results

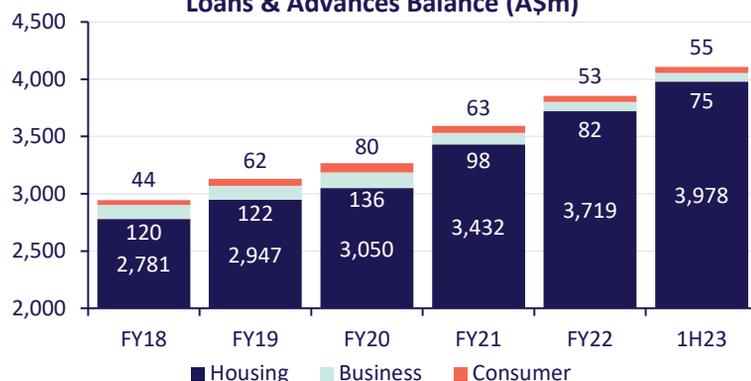
ABA has combined very strong loan growth and material NIM improvement

Profit & Loss

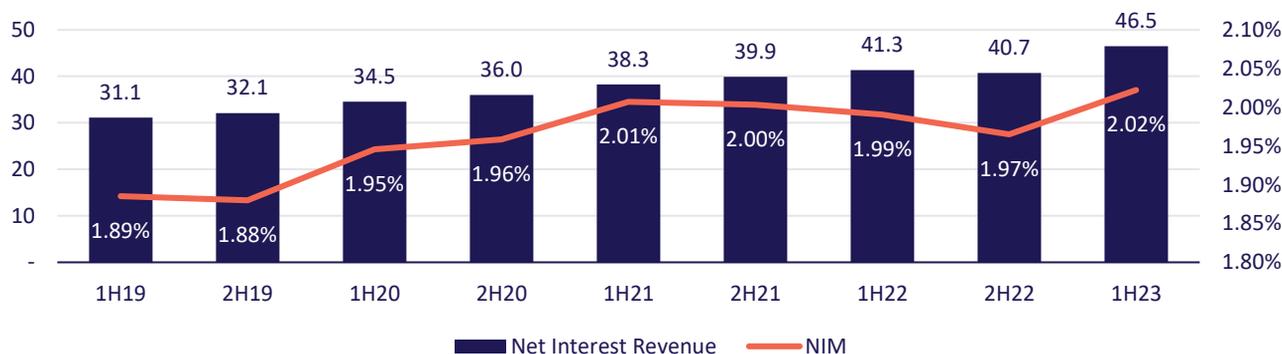
(A\$m)	1H22	2H22	1H23	pcp
Interest Income	53.4	52.6	82.3	54%
Interest Expense	(12.1)	(11.9)	(35.7)	196%
Net Interest Revenue	41.3	40.7	46.5	13%
Non Interest Income	6.8	5.6	5.6	(18%)
Total Net Revenue	48.1	46.3	52.1	8%
Opex	(28.8)	(28.8)	(32.7)	13%
Loan Impairment	0.4	0.3	0.8	106%
NPBT	19.7	17.8	20.2	3%
Income Tax	(6.0)	(5.4)	(6.1)	
Reported NPAT	13.7	12.4	14.1	3%
Adjustments (Post Tax)	(0.6)	(0.5)	-	
Normalised NPAT	13.1	11.9	14.1	8%
Net Loan Growth % pp	8%	8%	7%	
NIM % (ex Int Free Assets)	1.99%	1.97%	2.02%	
Cost To Income Ratio %	60.0%	62.2%	62.8%	
Diluted EPS (cps)	31.9	28.6	31.7	
DPS (cps)	21.0	21.0	22.0	

- **Underlying NPAT/Dividend:** \$14.1m (+8% pcp versus adjusted 1H22 and +18% versus 2H22) versus our forecast of \$13.9m. 1H23 DPS of 22cps (1H22: 21cps), payout ratio based upon Statutory NPAT of 71% (1H22: 69%) at the lower end of board target range of 70-80%.
- **Revenue versus Expenses:** Net Revenue of \$52.1m (+8% pcp) driven by loan growth and NIM improvement. OPEX (ex-credit charges) of \$32.7m (+13.4% pcp), with ABA citing increased investment in the business – staff and systems.
- **Net Interest margin (NIM):** Improved to 2.02% in 1H23 versus 1.94% in 1H22 and 1.89% in 2H22. ABA's net interest benefit from interest free assets and liabilities was 9bp in 1H23 (1H22: 1bp).
- **Credit quality:** Due to another period of benign credit experience, ABA reversed loan loss provisioning through the P&L by \$822k (1H22 reversal of \$400K). Loan book arrears fell for the 5th consecutive half to a record low of 9 pbs versus the previous record low of 18bps. Actual bad debts in 1H23 were only \$27K. ABA citing only 1 mortgage currently in possession and a total absence of hardship calls from borrowers.

Loans & Advances Balance (A\$m)



Net Interest Revenue (A\$m)



Balance Sheet & Cash Flow

1H23 annualised loan growth >2X system.

Balance Sheet

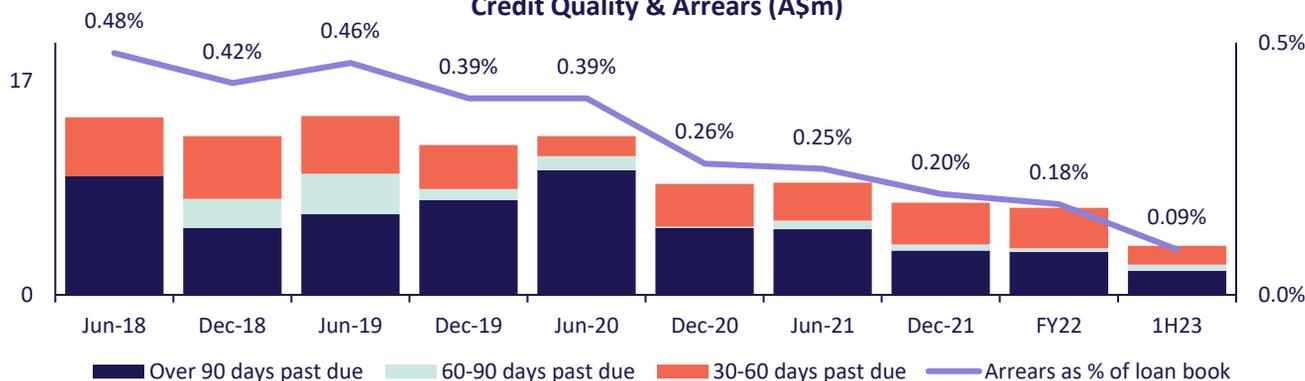
(A\$m)	FY22	1H23
Cash	178.5	265.4
Due From Other Financial Institutions	11.8	4.5
Financial Assets	412.1	429.9
Loans & Advances	3,827.6	4,080.0
Other Investments	1.4	1.4
Property, Plant & Equipment	20.6	19.2
Other Assets	3.4	3.7
Goodwill	49.2	49.5
Total Assets	4,504.6	4,853.6
Deposits & Short Term Borrowings	3,617.3	3,842.9
Due To Other Financial Institutions	150.8	150.8
Payables & Other Liabilities	33.1	20.6
Securitised Loans	370.8	495.6
Income Tax Payable	0.6	0.1
Deferred Tax Liability	3.9	3.7
Provisions	4.0	4.3
Subordinated Loans	42.0	42.0
Total Liabilities	4,222.5	4,559.9
Net Assets	282.1	293.7
Contributed equity	199.8	209.1
Reserves	28.4	25.8
Accumulated losses	53.8	58.8
Equity	282.1	293.7

Cash Flow

(A\$m)	1H22	1H23
Interest Received	53.0	78.6
Borrowing Costs	(13.2)	(27.1)
Other Non Interest Income	6.2	9.2
Suppliers & Employees	(30.4)	(56.9)
Income Tax	(5.0)	(5.8)
Net Operating	10.7	(2.1)
Investment Securities	19.9	(21.1)
Amounts Due/From Financial Institutions	-	7.3
Loans	(162.0)	225.6
Acquisitions	-	(245.2)
Other Investments	1.4	(0.0)
Payment for PP&E	(2.7)	(1.0)
Net Investing	(143.5)	(34.5)
Borrowings	217.6	123.4
Amounts Due/From Financial Institutions	(20.5)	-
Capital Raised	0.9	(0.0)
Dividends Paid	(7.2)	(0.0)
Net Financing	190.7	123.4
Net change	58.0	86.8
Cash at beginning	112.6	178.5
Cash at end	170.6	265.4

- **Loan book:** Gross loan book of \$4.108bn, representing annualised growth of 13.1% (>2X system) with the home loan book of \$3.98bn (+14% on an annualised basis). ABA has actively used brokers to drive loan growth in addition to additional loan writers in key markets. Growth is impressive given that ABA does not offer cashbacks for new loans.
- **Deposits:** \$3.24bn at 1H23 (+12.4% on an annualised basis), deposits to loans of 72% (FY22: 73%) with 1H23 loan growth nominally outpacing deposit growth.
- **Capital:** Total capital ratio of 12.90% (FY22: 12.90%) remains unquestionably strong in terms of APRA's requirements. Reduction from FY22 primarily due to loan book growth.

Credit Quality & Arrears (A\$m)



Forecasts

Modest changes to forecasts

Profit & Loss

(A\$m)	FY22	1H23	FY23F	FY24F	FY23FΔ	FY24FΔ
Net Interest Revenue	82.0	43.3	91.8	98.6	3.3	1.8
Non Interest Income	12.4	6.8	11.8	12.7	(1.4)	(1.1)
Total Net Revenue	94.4	50.1	103.6	111.3	1.9	0.7
Opex	(57.7)	(30.6)	(65.6)	(67.9)	(3.3)	(1.9)
Loan Impairment	0.7	(0.4)	0.6	(0.7)	1.4	0.2
NPBT	37.5	19.1	38.6	42.7	0.0	(1.0)
Income Tax	(11.4)	(5.7)	(11.6)	(12.8)	(0.0)	0.3
Reported NPAT	26.1	13.4	27.0	29.9	(0.0)	(0.7)
Adjustments (Post Tax)	(1.2)	-	-	-	-	-
Normalised NPAT	25.0	13.4	27.0	29.9	(0.0)	(0.7)
<i>Net Loan Growth % pcp</i>	8%	8%	14%	12%	384 bps	427 bps
<i>NIM % (ex Int Free Assets)</i>	1.94%	2.02%	2.02%	2.02%	-	(2 bps)
<i>Cost To Income Ratio %</i>	61.1%	61.1%	63.3%	61.0%	206 bps	130 bps
<i>Diluted EPS (cps)</i>	57.8	31.2	61.2	65.9	(1.9)	(5.5)
<i>DPS (cps)</i>	42.0	22.0	44.0	46.0	-	(4.0)

- **Forecasts:** We expect loan growth to continue in the double-digit territory for FY23/24 with ABA continuing to be a beneficiary of the abnormally high level of shift of fixed to variable rate mortgage loans in 2023. The caveat is the intense level of current competition in the domestic mortgage market and ABA's determination to maintain NIM around the 2% level. Cost to income ratios likely to be above the medium-term target of sub-60% through FY23/24 as ABA continues to invest in technologies which reduce its cost of loan origination. Dividend payout ratio expected to remain at c70%.

		Ave Interest Earning Assets (A\$m)				
		4,431	4,523	4,615	4,707	4,800
Cost To Income Ratio	65%	24.5	25.1	25.6	26.1	26.6
	64%	25.2	25.8	26.3	26.8	27.3
	63%	25.9	26.5	27.0	27.6	28.1
	62%	26.6	27.2	27.7	28.3	28.9
	61%	27.3	27.9	28.5	29.0	29.6

		Ave Interest Earning Assets (A\$m)				
		4,431	4,523	4,615	4,707	4,800
NPAT (A\$m)	65%	6.76%	6.90%	7.04%	7.19%	7.33%
	64%	6.95%	7.10%	7.24%	7.39%	7.53%
	63%	7.15%	7.29%	7.44%	7.59%	7.74%
	62%	7.34%	7.49%	7.64%	7.80%	7.95%
	61%	7.53%	7.69%	7.84%	8.00%	8.16%

- 2% increase in Interest Earning Assets:
 - NPAT ↑ approx. \$0.6m.
- 1% decrease in Cost to Income Ratio:
 - NPAT ↑ approx. \$0.7m.
- 2% increase in Interest Earning Assets:
 - Dividend Yield ↑ approx. 0.15%
- 1% decrease in Cost to Income Ratio:
 - Dividend Yield ↑ approx. 0.20%

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