

# Auswide Bank (ASX:ABA)

28 Feb 2022

1H22 Result

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

## 1H22 Results

### Highlights ([Page 2](#) & [Page 3](#))

- **Underlying NPAT:** \$13.1m (+14% pcp).
- **Interim dividend:** 21cps (1H21:19cps), payout ratio of 70% (1H21:70%) – equates to annualised yield of 6%+.
- **Net Interest Margin (NIM):** 1.99% (1H21:2.01%) with only 1bp shed vs FY21. 1H21 exit NIM of 1.97% cited.
- **Cost to Income (CTI):** 59.1% (1H21: 59.6%).
- **Loan loss provision expense:** Neg \$0.4m (1H21:\$0.7m) – provision reversal in 1H22 with loan arrears at historical lows. ABA retained a \$1m Covid19 loan loss overlay provision.

### Outlook ([Page 4](#))

- **Guidance:** No numerical guidance for FY22.
- **Targets:** 1) ROE to remain above 10%; 2) CTI to remain below 60%; 3) Continue managing the balance between loan growth and NIM; and 4) Maintain above system loan growth, focus on brokers, private banking and partnerships.
- **M&A:** ABA starting to hear noises around potential for further industry M&A, with sub \$1bn loan book mutuals struggling to build capital to invest in IT.

### Our view

- **Overall:** Very strong result, has found the balance between NIM management and loan/earnings growth. Multi-year targets around CTI and ROE have been achieved.
- **From here:** Management has proven its capacity to oversee a much larger entity, although acquisitions have been hard to find. Growth and yield appeal remain.

Share Price	\$7.07
Market Cap	\$305.3m
Book Value	\$269m
P/E Ratio <sup>1</sup>	11.5x
P/B Ratio	1.1x
Dividend Yield <sup>2</sup>	6%

1 - Based on 8% system growth of interest earning assets (\*Henslow research).  
2 - Based on annualised 1H22 interim dividend.

### Sensitivity ([Page 6](#))

FY22 NPAT sensitivity analysis is based upon annualised rates of growth in ABA's average interest earning assets (loan book) vs. 2H22 CTI scenarios – ABA expects to achieve above system loan growth in FY22 (which is now c8%).

	1H22	+4%	+6%	+8%	+10%	
<b>Avg Interest Earning Assets (A\$m)</b>						
	4,161	4,244	4,286	4,327	4,369	
<b>Cost To Income Ratio %</b>	62%	24.7	24.9	25.2	25.4	
	61%	25.3	25.6	25.8	26.1	
	60%	13.1	26.0	26.3	26.5	26.8
	59%		26.7	26.9	27.2	27.4
	58%		27.3	27.6	27.9	28.1
<b>FY22 NPAT (A\$m)</b>						

### Share Price



# 1H22 Result

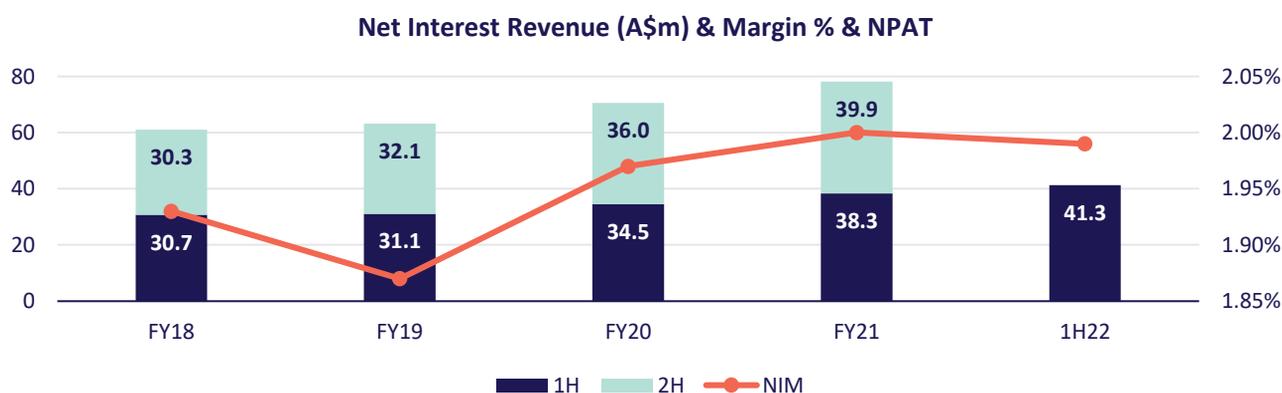
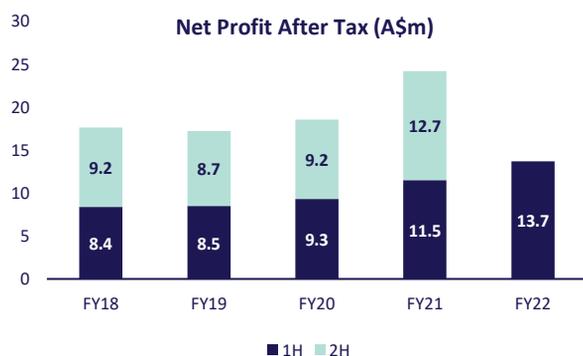
Record half-yearly result in 1H22 achieved at bottom of the interest rate cycle

## Profit & Loss

(A\$m)	1H21	1H22	%
Interest Income	57.0	53.4	-6%
Interest Expense	18.8	12.1	-36%
<b>Net Interest Revenue</b>	<b>38.3</b>	<b>41.3</b>	<b>8%</b>
Non-Interest Income	5.2	6.8	30%
<b>Total Net Revenue</b>	<b>43.5</b>	<b>48.1</b>	<b>11%</b>
Operating Expenses	26.3	28.8	10%
Loan Impairment Expense	0.7	(0.4)	n/a
<b>Net Profit Before Tax</b>	<b>16.5</b>	<b>19.7</b>	<b>19%</b>
Income Tax Expense	5.0	6.0	19%
<b>Reported NPAT</b>	<b>11.5</b>	<b>13.7</b>	<b>19%</b>
Norm. Adj (Post Tax)	0.0	(0.6)	n/a
<b>Normalised NPAT</b>	<b>11.5</b>	<b>13.1</b>	<b>14%</b>

### Ratios %

Net Loan Growth % pcp	9.2%	8.1%
Net Interest Margin %	2.01%	1.99%
Net Revenue Growth %	10.0%	10.6%
Opex Growth % - Ex Imp	3.4%	9.7%
Cost To Income Ratio %	59.6%	59.1%
Effective Tax Rate %	30.4%	30.3%



- **Underlying NPAT:** \$13.1m (+14% pcp).
- **Interim dividend:** 21cps (1H21:19cps) with payout ratio of 70% (1H21:70%) – equates to an annualised yield of 6%.
- **Net Interest revenue:** Growth in net interest revenue (+8% pcp) due to growth in loan book. Importantly, ABA has maintained the decline in interest income at a slower rate than funding costs.
- **Non interest Income:** \$6.8m (+30% pcp) although this included a \$1.3m refund of under-claimed tax. Without this one-off item, ABA still citing strong growth c5% pcp, in an industry where fee trends have declined post the Royal Commission.
- **Net Interest Margin (NIM):** 1.99% (1H21:2.01%) with only 1bp shed versus FY21. 1H21 exit NIM of 1.97% cited. ABA looks well placed to benefit in interest rate rises, with not needing to recover lost NIM. ABA's greatest current NIM pressure is at the front of their book due to competition in lieu of funding costs.
- **Cost to Income (CTI):** 59.1% (1H21:59.6%) based upon statutory accounts. Excluding the \$1.3m one-off tax credit in non-interest income the CTI was still sub 60%.
- **Loan loss provision expense:** Neg \$0.4m (1H21:\$0.7m) – provision reversal in 1H22, as loan arrears are at historical lows. Nonetheless, ABA has retained a previous \$1m Covid19 loan loss overlay provision due to economic uncertainty.

# Balance Sheet

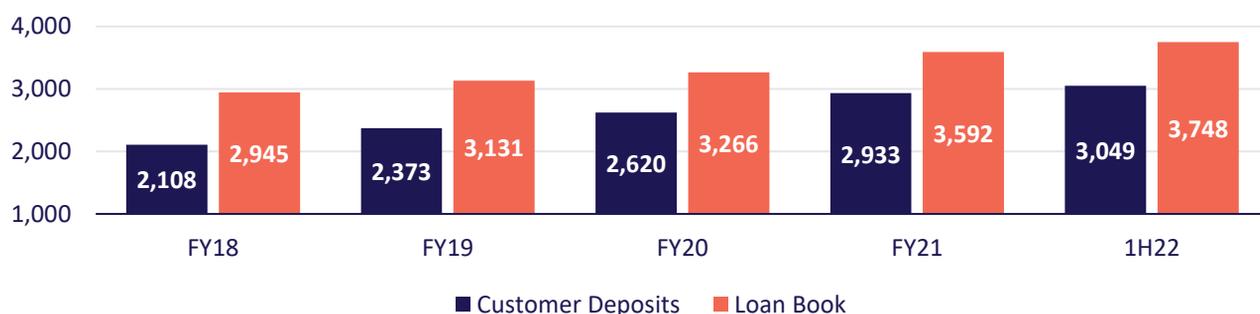
Balance sheet emphasises ABA as a deposit funded home loan bank

## Balance Sheet

(A\$m)	FY21	1H22
Cash	113	171
Due From Other Fin. Inst.	13	13
Financial Assets	399	379
Loans & Advances	3555	3718
Other Investments	1	1
PP&E	21	21
Deferred Tax Assets	3	0.0
Other Assets	3	8
Goodwill	49	46
<b>Total Assets</b>	<b>4156</b>	<b>4357</b>
Deps & Short Term Borrowings	3349	3568
Due To Other Fin. Inst.	151	151
Payables & Other Liabilities	19	16
Securitised Loans	334	306
Income Tax Payable	0.0	2
Deferred Tax Liability	1	0
Provisions	4	4
Subordinated Loans	42	42
<b>Total Liabilities</b>	<b>3899</b>	<b>4088</b>
<b>Net Assets</b>	<b>257</b>	<b>269</b>
Contributed equity	195	198
Reserves	16	21
Accumulated losses	46	51
<b>Equity</b>	<b>256.5</b>	<b>269.3</b>
Deposits/Net Loans %	94%	96%
Capital Adequacy Ratio %	13.3%	13.2%

- **Loan book:** \$3.75bn, currently at an annualised growth of 8.7% (1.2 times system). 10.1% annualised growth in 1H22 for its home loan lending, accounting for 96% of the book.
- **Geographic mix:** Very strong broker flows, which continues to increase the book weighting towards NSW and Victoria, annualised loan growth of 13%+ in both states for 1H22. At 1H22 30% of ABA's loan book is outside of Queensland compared to 21% in FY16.
- **Business lending:** Continues to be de-emphasised by ABA, in pursuant of their FY21 strategy – at 1H22 business loans only accounted for 2% of the book.
- **Professional Services Lending:** ABA's recent focus on HNW professional service customers, through partnership referrals, continues to grow at pace with the book at \$292m (FY21:\$220m).
- **Customer deposits:** \$3.05bn, currently at an annualised growth of 7.9%. Deposits equates to 75% of total funding (FY21:75.7%). Deposits to net loans at 1H22 is 96% (FY21:94%) which underlines ABA's position as a deposit funded home loan provider.
- **Other funding:** ABA continues to reduce its reliance on more expensive securitisation funding, down to 7.5% from almost 20% in FY16. The RBA Covid19 concession funding facility accounted for 3.7% of total funding at 1H22.
- **Provisioning:** Loan provisions to total loans at 1H22 is 0.22% (FY21:0.25%) following provision release in 1H22. ABA has retained its \$1m Covid19 overlay loss provisions, due to economic uncertainty. Loans in arrears at an historical low, at 0.2% of total loans vs 0.39% at 1H19 (pre-Covid19).
- **Capital adequacy ratio:** 13.2% (FY21:13.3%). DRP retained in respect of the 1H22 distribution with a 2.5% discount.

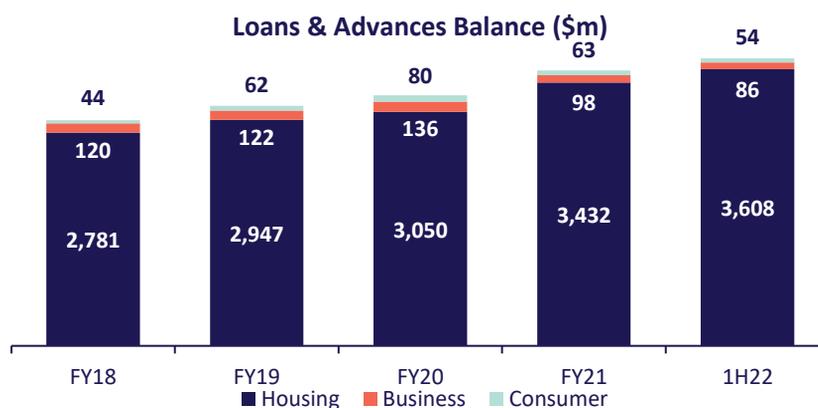
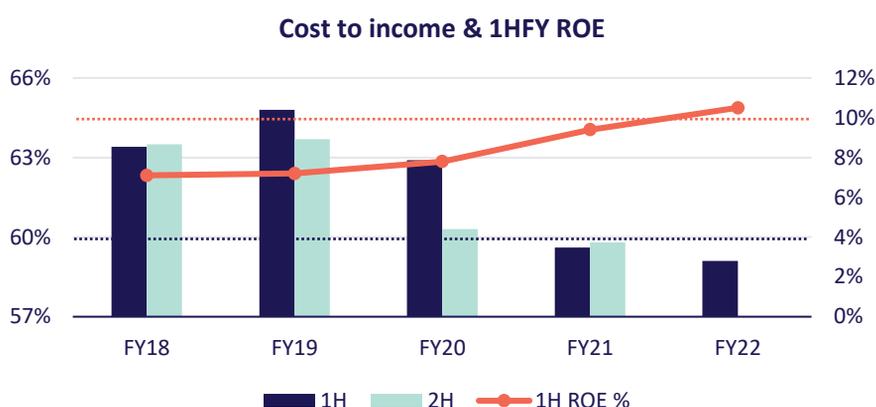
### Loan Book & Customer Deposits (A\$m)



# Outlook

## ABA's aim is to continue growing book above system whilst maintaining NIM and cost ratios

- **Guidance:** No numerical guidance for FY22 as is normal.
- **Targets:** 1) ROE to remain above 10%; 2) CTI to remain below 60% - ABA flagging today that a ratio of 57% is achievable in the future; 3) continuing to manage the balance between loan growth and NIM; and 4) maintain above system loan growth with focus on private banking and partnerships.
- **Digital strategy:** 1) Acquisition of business through partners such as mortgage brokers; 2) Enhance customer choice; 3) Digital uplift in terms of customer usage; and 4) Increased automation such as robotics.



	Loan Book Distribution				
	Loan Book (A\$m)			% Loan Book	
	1H21	2H22	Growth	1H21	2H22
SE Qld	1304	1446	11.0%	38.0%	39.0%
Other QLD	1143	1149	0.5%	33.4%	31.0%
NSW	460	524	13.8%	13.4%	14.1%
VIC	320	362	13.3%	9.3%	9.8%
Other AUS	199	225	12.6%	5.8%	6.1%
<b>Total</b>	<b>3427</b>	<b>3706</b>	<b>8.1%</b>	<b>100.0%</b>	<b>100.0%</b>

# Sensitivity Analysis

## ABA's key drivers remain as loan-book growth, NIM and costs

Sensitivity analysis is based upon various annualised rates of ABA's growth in average interest earning assets (loan book) vs. 2H22 CTI scenarios – ABA expects to achieve above system loan growth in FY22 (which is now 8%+) which would likely see a similar/stronger profit in 2H22 than 1H22 on an underlying basis – Noting this excludes the potential loan loss provision reversals in 2H22.

### Assumptions

- Net interest margin remain stable at 1.99%, as attained in 1H22.
- Cost to income ratio for FY22 modelled around 60%, at 1H22 levels.
- Bad debt expense at 2% of average interest bearing assets in FY22 (in line with history) despite a provision reversal in 1H22.
- Tax rate of 30%.

		Annualised Growth In Interest Earning Assets v 1H22 %					FY22 NPAT (A\$m)
		1H22	+4%	+6%	+8%	+10%	
		Average Interest Earning Assets (A\$m)					
Cost To Income Ratio %	62%	4,161	4,244	4,286	4,327	4,369	
	61%		24.7	24.9	25.2	25.4	
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	58%		26.7	26.9	27.2	27.4	
			27.3	27.6	27.9	28.1	

- 4% increase in annualised Interest Earning Assets:
  - NPAT ↑ \$ 0.3.
- 1% decrease of Cost to Income Ratio:
  - NPAT ↑ \$0.7m.

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