

Auswide Bank (ASX:ABA)

29 Aug 2022

FY22 Result

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

FY22 Result & Outlook

FY22 Result

- **Underlying NPAT/Dividend:** \$25.0m (+3.3% pcp) with 2H22 DPS of 21cps making a total of 42cps for FY22 (FY21: 40cps), payout ratio based upon Statutory NPAT of 70% (FY21: 71%).
- **Revenue vs Expenses:** Revenue of \$94.4m (+6.7% pcp) vs OPEX (ex-credit charges) of \$57.7m (+8.3% pcp), expenses featuring an increase in employee costs to \$23.9m (+6.3% pcp). Cost to income ratio of 61.1% (FY21: 60.1%).
- **Loan book:** Gross loan book of \$3.86bn representing annualised growth of 7.3% pcp (0.9X system).
- **Net Interest margin (NIM):** Declined 6bp in FY22 to 1.94% (FY21: 2.00%) with a decline of 5bp in 2H22 attributed to a rise in funding costs and lower front book yields due to competition.

Outlook

- **FY23:** ABA targeting: 1) Loan book growth of 1.5-2X system growth in 1H23 following above system loan book growth for 1Q23; and 2) NIM trending above 2% in 1H23, driven by RBA cash rate increases and loan re-pricing.

Our view

- **The plan:** ABA has taken a deliberate decision to slow loan growth in 2H22 to preserve NIM and simultaneously reinvest in the business. As such its 2H22 NIM decline has been significantly less than peers. This places ABA in a very strong position to benefit from rising interest rates and participate in the looming industry-wide refinancing from fixed to variable loans.

Share Price **\$6.80**

Market Cap **\$296.0m**

Book Value **\$282.1m**

FY22 Price to Book **1.05x**

(A\$m)	FY22A	FY23F	FY24F
Net Revenue	94.4	101.7	110.6
NPAT	26.1	27.0	30.6
Net Loan Growth % pcp	7.7%	10.3%	8.2%
Net Interest Margin %	1.94%	2.02%	2.04%
Diluted EPS (cps)	57.8	63.1	71.5
DPS (cps)	42.0	44.0	50.0
PE	11.3x	11.0x	9.7x
DY	6.2%	6.5%	7.4%

Please note the debut of Henslow 2-year earnings forecasts for ABA. Henslow Ltd is acting as underwriter of Auswide Bank's 2H22 Dividend Reinvestment Plan.

NIM (bp)	Dec 21 Half	Jun 22 Half	FY22 NIM
Auswide	-1	-5	1.94%
MyState	-17	-12	1.67%
Suncorp Bank	-12	-2	1.93%
AMP Bank	-18	-21	1.32%
Bendigo Bank	-12	-5	1.74%
CBA	-17	-5	1.87%

Share Price



Outlook, Our View & Loan Book

ABA in strong position to benefit from rising interest rates

Outlook

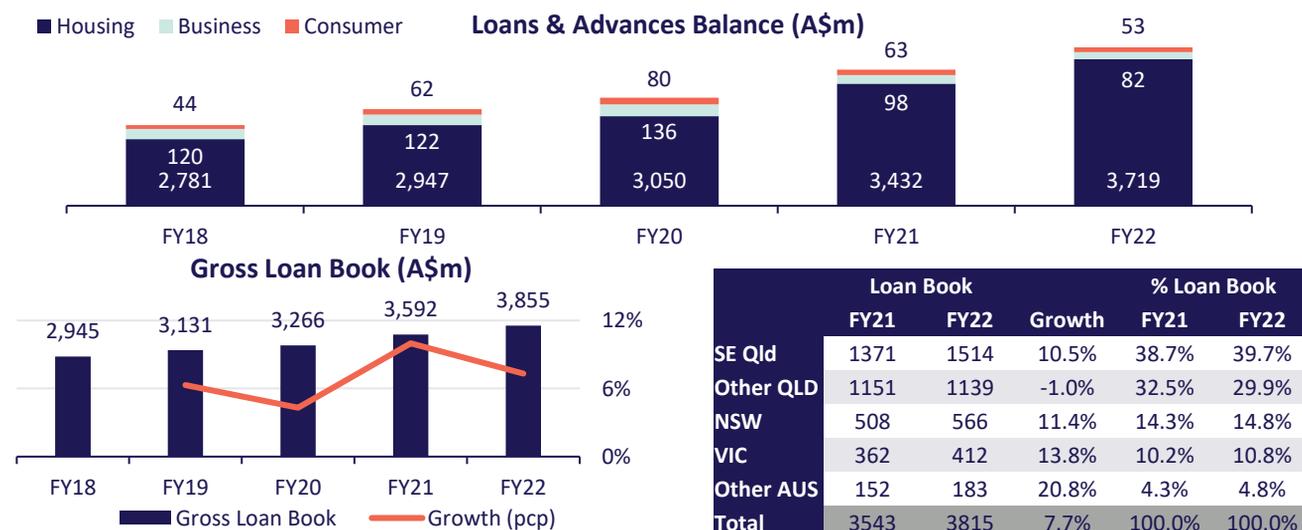
- **FY23:** No numerical guidance as is normal. ABA targeting:
 - **Loan book:** Growth in the range of 1.5-2X system growth in 1H23, following above system loan book growth for 1Q23. ABA noting that FY23 has started with record loan origination volumes, it being a net beneficiary of the active refinancing market.
 - **Net Interest margin:** trending above 2% in 1H23, driven by RBA cash rate increases and associated re-pricing. ABA noting that NIM has already trended back to c2% thus far in FY23.
 - **Industry loan refinancing:** ABA flagging the opportunity from industry-wide mortgage refinancing as fixed rate loans mature into higher rate variable products.
 - **Credit quality:** ABA starting FY23 with loan arrears at an historical low. \$0.5m of previous Covid19 credit overlay provision retained due to economic uncertainty.
 - **OPEX:** Continue to invest in technology with focus on end-to-end loan processing.
 - **ROE:** Annualised ROE in 1H23 expected to be in 9.5% - 10.0% range.

Our View

- **Overall:** A weaker 2H22 result than the very strong 1H22 result which increased underlying NPAT by 14% pcp. We attribute this to a combination of weaker NIM in 2H22 and increased investment. In response to elevated industry funding costs in 2H22, ABA has taken a conscious decision to restrict loan growth in 2H22 to preserve NIM with loan growth contracting from 1.2X system at 1H22 to 0.9X at FY22. This strategy compares starkly to a number of competitors, which have chased loan growth at the expense of NIM. ABA now looks well placed to resume higher lending growth with a strong starting NIM which will be enhanced by re-pricing as per NIM guidance for 1H23. Decision to underwrite 2H22 dividend reflects confidence in growth.

Loan Book

- **Loan book:** Gross loan book of \$3.86bn representing annualised growth of 7.3% pcp (0.9X system) with the home loan book of \$3.72bn (+8.3% pcp) which was nominally above system. ABA now has 30.4% of its loan book outside of Queensland (FY21: 28.8%). A double-digit loan growth was achieved in all eastern states with NSW (+11.5% pcp) and Victoria (+13.8% pcp) driven by private bank and broker distribution.

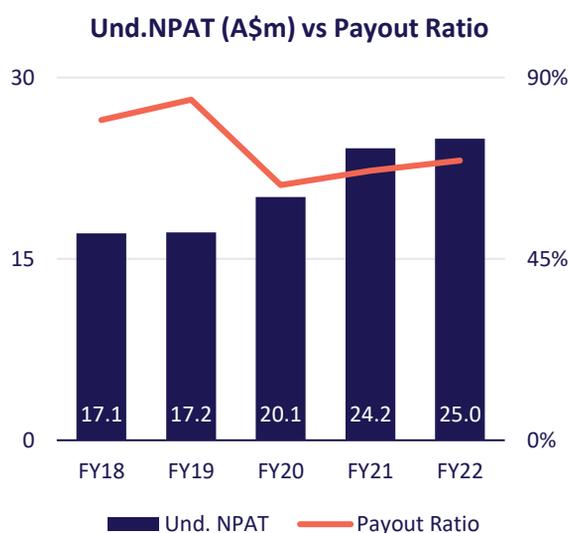


FY22 Results & Forecast

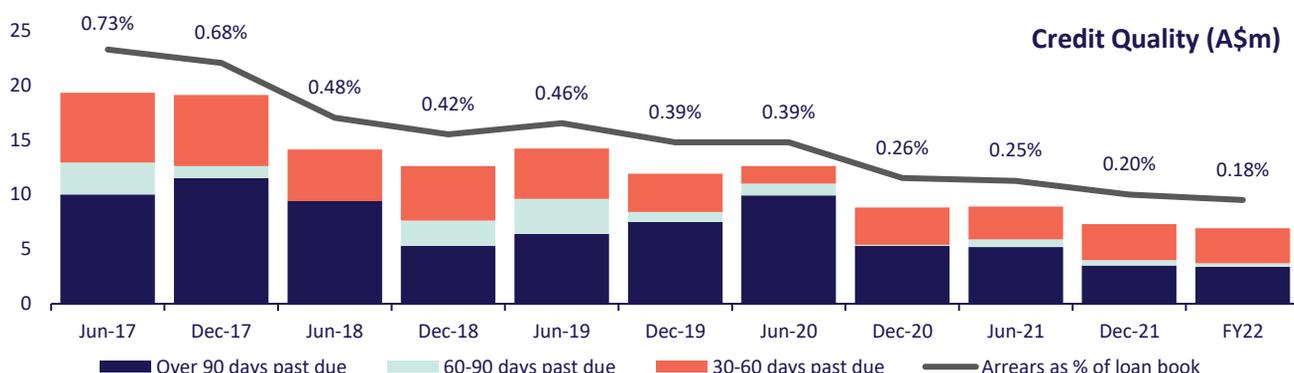
NIM preservation versus peers has been a key feature of FY22.

Profit & Loss

(A\$m)	FY20A	FY21A	FY22A	FY23F	FY24F
Interest Income	126.3	111.0	106.0	116.1	127.6
Interest Expense	(55.7)	(32.8)	(23.9)	(27.6)	(30.8)
Net Interest Revenue	70.5	78.2	82.0	88.5	96.8
Non Interest Income	10.0	10.4	12.4	13.2	13.8
Total Net Revenue	80.5	88.5	94.4	101.7	110.6
Opex	(50.1)	(53.2)	(57.7)	(62.3)	(66.0)
Loan Impairment	(3.8)	(0.6)	0.7	(0.8)	(0.9)
NPBT	26.5	34.7	37.5	38.6	43.7
Income Tax	(8.0)	(10.5)	(11.4)	(11.6)	(13.1)
NPAT	18.5	24.2	26.1	27.0	30.6
Adjustments (Post Tax)	1.6	-	(1.2)	-	-
Und. NPAT	20.1	24.2	25.0	27.0	30.6
<i>Net Loan Growth % pcp</i>	4%	11%	8%	10%	8%
<i>NIM% (ex Int Free Assets)</i>	1.97%	2.00%	1.94%	2.02%	2.04%
<i>Cost To Income Ratio %</i>	62.3%	60.1%	61.1%	61.2%	59.7%
<i>Diluted EPS (cps)</i>	47.6	56.8	57.8	63.1	71.5
<i>DPS (cps)</i>	27.8	40.0	42.0	44.0	50.0



- **Underlying NPAT/Dividend:** \$25.0m (+3.3% pcp) with 2H22 DPS of 21cps making a total of 42cps for FY22 (FY21: 40cps), payout ratio based upon Statutory NPAT of 70% (FY21: 71%) at the lower end of Board target range of 70-80%.
- **Revenue vs Expenses:** Revenue of \$94.4m (+6.7% pcp) versus OPEX (ex-credit charges) of \$57.7m (+8.3% pcp), with expenses featuring an increase in employee costs to \$23.9m (+6.3% pcp) and \$120k in costs associated with an M&A transaction which did not proceed. Additional headcount spend was in Risk/Compliance and IT. Cost to income ratio of 61.1% (FY21: 60.1%). Cost to income ratio of 61.1% (FY21: 60.1%).
- **Net Interest margin (NIM):** Declined 6bp in FY22 to 1.94% (FY21: 2.00%) with a decline of 5bp in 2H22 attributed to a rise in funding costs and lower front book yields due to competition.
- **Credit quality:** Loan book arrears fell for the 4th consecutive half to a record low of 0.18% of book (FY21: 0.25%). As such ABA reduced credit loss provisions in FY22 by \$714k (\$314k in 2H22) with the Covid19 overlay provision of \$1.0m reduced to \$0.5m.



Balance Sheet & Cash Flow

Capital ratio of 12.9% remains comfortably above ABA Board target of 12.50%.

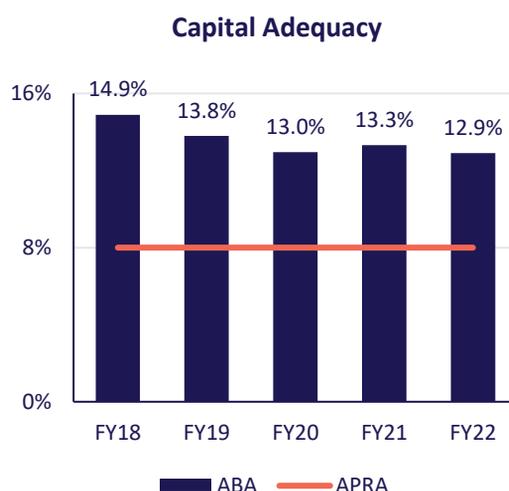
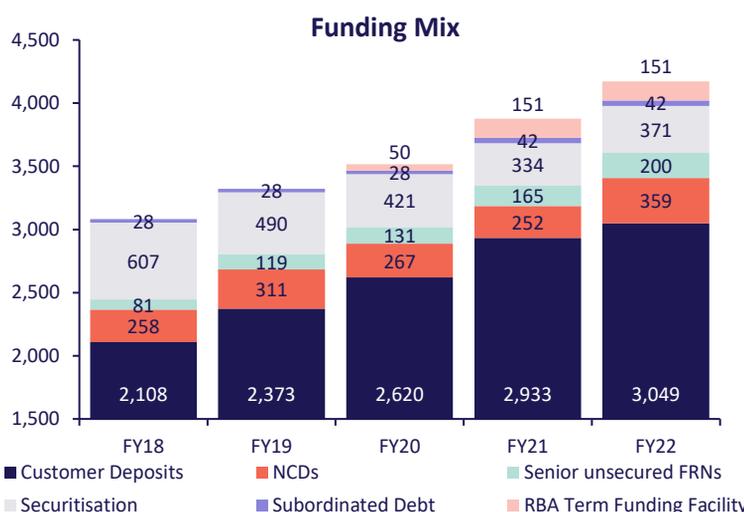
Balance Sheet

(A\$m)	FY21	FY22
Cash	112.6	178.5
Due From Other Financial Institutions	12.8	11.8
Financial Assets	398.8	412.1
Loans & Advances	3,555.0	3,827.6
Other Investments	1.4	1.4
Property, Plant & Equipment	21.3	20.6
Deferred Tax Assets	2.8	-
Other Assets	3.1	3.4
Goodwill	47.8	49.2
Total Assets	4,155.8	4,504.6
Deposits & Short Term Borrowings	3,349.3	3,617.3
Due To Other Financial Institutions	150.8	150.8
Payables & Other Liabilities	18.7	33.1
Securitised Loans	333.7	370.8
Income Tax Payable	-	0.6
Deferred Tax Liability	1.2	3.9
Provisions	3.6	4.0
Subordinated Loans	42.0	42.0
Total Liabilities	3,899.2	4,222.5
Net Assets	256.5	282.1
Contributed equity	195.2	199.8
Reserves	15.5	28.4
Accumulated losses	45.8	53.8
Equity	256.5	282.1

Cash Flow

(A\$m)	FY21	FY22
Interest Received	111.1	105.4
Borrowing Costs	(36.6)	(24.8)
Other Non Interest Income	10.2	14.0
Suppliers & Employees	(50.6)	(39.7)
Income Tax	(4.9)	(10.7)
Net Operating	29.2	44.2
Investment Securities	(20.7)	(13.2)
Amounts Due/From Financial Institutions	3.5	1.0
Loans	(349.9)	(271.1)
Other Investments	(0.0)	(0.0)
Payment for PP&E	(1.9)	(2.7)
Net Investing	(369.0)	(286.0)
Borrowings	430.3	266.6
Movement in Subordinated Loans	14.0	-
Amounts Due/From Financial Institutions	(87.7)	54.5
Capital Raised	(0.1)	1.1
Dividends Paid	(10.6)	(14.4)
Net Financing	345.9	307.7
Net change	6.1	65.9
Cash at beginning	106.5	112.6
Cash at end	112.6	178.5

- Funding mix:** ABA remains a retail deposit bank accounting for 73% of total funding at FY22. Repayment of concessional RBA Term Finance Facility related to Covid19 will be 4Q23.
- Capital:** Total capital ratio of 12.9% (FY21: 13.31%) remains unquestionably strong in terms of APRA's requirements (8%). Reduction from FY21 primarily due to loan book growth and dividend payments offset by retained earnings. ABA intends to fully underwrite its 2H22 dividend to position for further growth.



Sensitivity Analysis

Further rises in the RBA cash rate could provide further earnings upside.

- **Overview:** Table below shows NPAT against average interest earning assets (loan book) and Cost to Income ratio scenarios.
- **The Base:** FY22 Underlying NPAT of \$25m, Average Interest Earning Assets of \$4,230m and a cost to income ratio of 61%. We have increased average earning assets in 2% increments, between 2% to 10%. ABA expects to achieve 1.5X – 2X above system loan book growth in 1H23, this following above system loan book growth in 1Q23.
- **Potential upside:** 1) Further rises in the RBA cash rate and associated re-pricing could fuel further earnings growth subject to competitive forces; 2) Whilst we expect industry system loan growth to slow into FY23 as house prices have receded from a Covid19 peak, the industry-wide shift from fixed to variable rate loans through refinancing could create opportunity for ABA; and 3) Our sensitivity analysis excludes the potential for further loan loss provision reversals in FY23.

Assumptions

- **Net interest margin:** Assumption of 1.98% excluding the benefit of interest-free liabilities, which typically runs at 4bp. (FY22: 1.94%). ABA expecting NIM trending above 2% (including free fund benefit) in 1H23 with RBA cash rate increases and associated re-pricing in to support NIM into FY23.
- **Bad debt expense:** At 2bp of the average interest bearing assets in FY22 (in line with history).
- **Tax rate:** Assumed at 30%, which is consistent with history.
- **Dividends:** Payout ratio of 70% of EPS assumed after adjusting for the underwritten DRP from 2H22. Utilising a diluted weighted average share on issue of 43.2m

		+2%	+4%	+6%	+8%	+10%
		Average Interest Earning Assets (A\$m)				
		4,315	4,399	4,484	4,569	4,653
Cost To Income Ratio %	63%	24.8	25.2	25.7	26.2	26.7
	62%	25.4	25.9	26.4	26.9	27.4
	61%	26.1	26.6	27.2	27.7	28.2
	60%	26.8	27.3	27.9	28.4	28.9
	59%	27.5	28.0	28.6	29.1	29.7

- 2% increase in Interest Earning Assets:
 - NPAT ↑ approx. \$0.5m.
- 1% decrease in Cost to Income Ratio:
 - NPAT ↑ approx. \$0.7m.

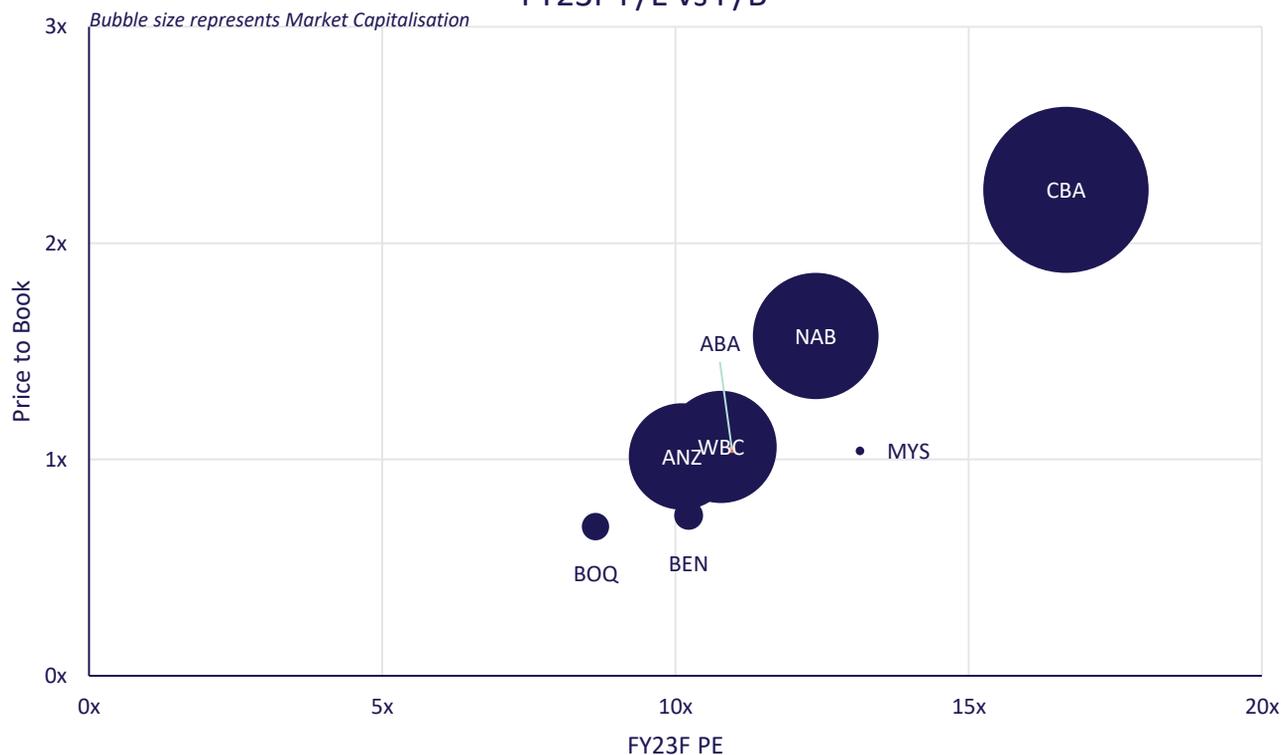
		+2%	+4%	+6%	+8%	+10%
		Average Interest Earning Assets (m)				
		4,315	4,399	4,484	4,569	4,653
Cost To Income Ratio %	63%	5.94%	6.06%	6.18%	6.29%	6.41%
	62%	6.11%	6.23%	6.35%	6.47%	6.59%
	61%	6.27%	6.40%	6.52%	6.64%	6.76%
	60%	6.44%	6.56%	6.69%	6.82%	6.94%
	59%	6.60%	6.73%	6.86%	6.99%	7.12%

- 2% increase in Interest Earning Assets:
 - Dividend Yield ↑ approx. 0.12%
- 1% decrease in Cost to Income Ratio:
 - Dividend Yield ↑ approx. 0.17%

Comparable Valuation

ABA trades at a discount to direct listed peer MYS despite superior profit growth.

FY23F P/E vs P/B



Source: Cap IQ & Henslow Analysis and Forecast

				NPAT			PE			Price / Book		Div Yield
Company name		SP	Mkt Cap	FY21A	FY22A/F	FY23F	FY21A	FY22A/F	FY23F	BV	TBV	%
ASX Peers												
ANZ	Australia & New Zealand	\$22.44	66,995	6,162	6,248	6,629	10.9x	10.7x	10.1x	1.0x	1.1x	6.3%
BEN	Bendigo and Adelaide	\$8.87	4,958	524	487	485	9.5x	10.2x	10.2x	0.7x	1.0x	5.9%
BOQ	Bank of Queensland	\$6.91	4,456	368	521	516	12.1x	8.5x	8.6x	0.7x	0.8x	6.2%
CBA	Commonwealth Bank	\$96.28	163,500	10,181	10,771	9,815	16.1x	15.2x	16.7x	2.2x	2.5x	3.9%
NAB	National Australia Bank	\$29.84	94,296	6,364	7,032	7,610	14.8x	13.4x	12.4x	1.6x	1.7x	4.8%
WBC	Westpac	\$21.27	74,361	5,458	5,368	6,901	13.6x	13.9x	10.8x	1.1x	1.2x	5.6%
MYS	MyState	\$4.22	447	36	32	34	12.3x	14.0x	13.1x	1.0x	1.3x	5.6%
Mean							12.7x	12.3x	11.7x	1.2x	1.4x	5.5%
ABA	Auswide Bank Ltd	\$6.80	296.0	24	26	27	12.3x	11.3x	11.0x	1.0x	1.3x	6.2%

Source: Cap IQ & Henslow Analysis and Forecast

Premium/(Discount) to Mean (4%) (8%) (6%) (12%) (8%) 14%

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