

Auswide Bank (ASX:ABA)

Share Price: \$4.02

Sector: Financial Services

Market Cap: \$187.4m

FY24 Trading Update & Guidance

- ▶ **Guidance:** ABA's guiding to FY24 NPAT of \$10.9m - \$11.3m, with NIM of 144bps (1H24:150bps) and Home Loan growth of c.2% (1H24 Neg 4.2% annualised v FY23). No precise guidance for FY24 was previously tabled.
- ▶ **Operating Expenses:** ABA citing an increase of c.3% pcp for the ten months to April 2024, with ABA citing that ongoing focus on operating efficiencies have countered a high-inflation environment.
- ▶ **Fixed to variable conversion:** c.23% of ABA's home loan portfolio is expected to mature from fixed rates and migrate to higher market rates in FY25, supporting NIM.
- ▶ **Arrears and Capital:** Arrears +30 days were 0.24% of the loan book at 30 April 2024 (1H24: 14bps). ABA is guiding to a capital adequacy ratio of c.14.5% at FY24.

Our View

- ▶ **Overall:** The re-basing of earnings due to limited loan growth and competitive NIM pressure on both sides of the balance sheet, which was evident in 1H24, has extended into 2H24. We expected loan growth to recommence in 2H24, which has revised FY24 guidance of 2% pcp, which implies annualised loan growth in 2H24 of c4% versus 1H24. The issue here is around NIM and the ability of banks at the small end of the market to hold profitability in the current competitive environment. Whilst the guidance for FY24 NIM at 144bps is similar to 1H24 exit NIM, we had been reluctant to downgrade forecasts further (until now) due to an expectation that NIM would improve from the ongoing shift of the book from fixed to variable at higher spreads (now looking like an FY25 story), the relatively muted NIM contraction recently reported by major banks and the surprisingly healthy NIM recent reported by Bendigo & Adelaide Bank. Today's update shows that investors need to look to FY25 before any rebound in earnings, although the strength of earnings exhibited from FY21-23 is now a long way off. We expect that ABA will not be alone in feeling the current NIM-induced pain, which may ultimately force consolidation at the smaller end of the market. Whilst smaller mutual banks may prefer to stay in the mutual space, the reality is that many of these entities have entered the period of NIM compression with much higher cost ratios than ABA. Clearly, ABA's outlook will be challenging for a new CEO.
- ▶ **Changes to forecasts:** A material downgrade to FY24/25 underlying NPAT forecasts by 23%/16%, respectively, with a commensurate reduction in dividend payments. However, payout ratios will remain in the mid-70% range due to the current strength of capital and modest loan growth.

(A\$m)	FY23A	Previous	Revised	Previous	Revised
		FY24F	FY24F	FY25F	FY25F
Net Interest Revenue	89.2	74.3	69.4	82.7	77.9
Total Net Revenue	100.5	87.4	82.6	96.5	91.7
NPBT	35.9	22.7	17.9	28.7	23.9
Normalised NPAT	25.1	14.8	11.4	20.1	16.7
<i>Net Loan Growth</i>	14%	4%	2%	10%	8%
<i>NIM</i>	1.88%	1.60%	1.44%	1.76%	1.58%
<i>Diluted EPS (cps)</i>	55.6	32.0	24.7	43.3	36.1
<i>DPS (cps)</i>	43.0	23.0	18.5	31.0	27.0

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